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RISK BROCHURE

Market in Financial Instruments Directive (MiFID)

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Characteristics of Securities and Specific Risk Attached thereto

As securities institutions are obliged to point this out to their clients, there are risks attached to all forms of investing. The risks depend on the investment, which could be more or less speculative. In general, an investment with a higher expected return entails bigger risks.

Investors in foreign securities should bear in mind that the government policy in the country concerned could have consequences for the value of the investment. In addition, investments in foreign securities entail a currency risk.

The characteristics of the securities which may be traded on behalf of clients and the specific investment risks involved are outlined below.

1. Shares

Shares are participations in the share capital of a company. From a financial point of view, shareholders may consider themselves owners of a part of a business's capital.

Shares may be registered or bearer shares. Both involve risk-bearing capital. The value could decrease to nil in case of a bankruptcy. Value trends depend mainly on expected and actual operating results, as well as on the dividend policy of the company concerned. Shareholders qualify for dividends only after all other finance providers have received the return they are entitled to. Furthermore, shares are exposed to the risk that their value fluctuates due to market volatility.

The risks of a share could thus be rather diverse, depending on factors such as developments in the company, the quality of its management and the market risk.

2. Bonds

Bonds are debentures of loans issued by governments or private institutions. The institution that has issued the bond will in general pay an agreed interest rate and will redeem the principal on an agreed date (maturity date).

There are special forms of bonds with specific types of interest payment, redemption means, kinds of issue and/or borrowing conditions. The return on the bond could for instance be made dependent on the applicable rate of interest (such as inflation-linked bonds). There are also bonds on which no interest is paid (zero bonds). The return on these bonds is obtained from the difference between the issue price and the subsequent redemption price.

Investing in bonds also entails risks. The price of a bond generally depends on the rate of interest, which means that price fluctuations may occur. The second major determinant of a bond's risk level is its time to maturity. The longer the time to maturity, the more risky it is to hold the bond. The solvency of the issuing institution is also important. If the issuing institution goes bankrupt, the bondholders are deemed unsecured creditors of the issuing institution, unless a special security has been stipulated on behalf of the bondholder.

3. Convertible Bonds

The convertible bond (also called "convertible") is a bond that under certain conditions (mostly on request of the investor) can be exchanged for shares at the conversion price during the conversion period.

A convertible bond has the characteristics of both a bond and a share. The risks involved are therefore similar to the risks attached to these securities.

4. Options

An option is a contract under which the party providing the option (the "writer") sells its counterparty the right to buy (for a call option) an underlying instrument, such as a package of shares or a fixed amount of gold during or at the end of an agreed period or to sell (called a "put option") the underlying instrument at a previously fixed price or in accordance with a previously agreed price calculation method. The counterparty usually pays a premium to the writer for this right. The premium amounts to only a fraction of the underlying value. This means that any price fluctuation in the underlying instrument leads to bigger profits or losses for the holder of an option (this is known as "leverage").

Usually, the option can be traded between times: it is possible to buy and sell both call options and put options. The counterparty of a call option is the writer (seller) of the call option and the counterparty of a put option is the writer (seller) of the put option. The premium that must be paid depends on factors such as the trend in the value (price) of the underlying instrument.

4.1 Buying Options

An option (contract) gives the buyer the right (not the obligation) to buy (call options) or sell (put options) a certain amount of an underlying instrument (for instance bonds or an amount of dollars) at a previously agreed price during or at the end of a certain period. Hence the purchaser need not use the option. The purchaser pays a premium for this right.

The purchaser of an option runs the risk of losing the premium (but the loss is limited to the amount of the premium).

4.2 Selling or Writing Options

A writer of an option is obliged (as opposed to entitled) to deliver the underlying instrument (writer of a call option) or to buy it (writer of a put option) at the agreed price. Option writers receive a premium for accepting this duty to deliver or to receive.

A difference is made between covered and naked writing options. Covered writing is understood to mean writing a call option on an underlying instrument that the writer owns (the client is able to deliver). In the case of naked writing, the writer does not own these instruments, but must deliver them at the currently applicable price. Writing put options is also considered naked (since the writer is obliged to buy the underlying instrument if the buyer of the option wants to use his/her right). Writers must keep a certain amount of cash in a margin account to ensure that they can meet their obligations.

The writer of an option can incur unlimited losses. A distinction should be made here between covered and naked writing options. Covered writing call options could for instance protect the portfolio against a decrease in value of the portfolio. On the other hand losses on naked writing options could in principle be unlimited. Careful consideration should be given to whether such a transaction is suitable for the client, given the client's financial position and investment objective.

5. Warrants

A warrant represents the right for a fixed period to buy a number of shares or bonds (or in some cases a certain number of foreign currencies) at a previously fixed price from the company that has made them available. A warrant looks like an option in that a warrant represents a right with respect to the business involved.

The risks attached to warrants could be compared with the risks attached to the purchase of call options.

6. Forward and Futures Contracts

A forward contract constitutes an obligation (not a right) to buy or sell a certain amount of a given underlying (such as currencies, goods or commodities) at a fixed price with forward delivery. A forward contract may be bought or sold. The buyer of a forward contract (also called holder of a long position) accepts the obligation to take receipt of the agreed amount and to pay for it.

The seller (holder of a short position) has a duty to deliver. In general, the parties involved do not intend to actually receive or deliver the goods or financial instruments. The forward business has a high degree of leverage. When a forward contract is entered into, only a small part of the real value need be paid. A small price fluctuation could therefore lead to big losses (or profits).

Losses on forward contracts and on options on forward contracts could be considerable. The loss is not necessarily limited to the deposit. Under certain market circumstances it could be difficult or even impossible to close/liquidate a position. Losses will not be limited in that case. A "stop-loss" or "stop-limit" order does not necessarily limit such losses. Careful consideration should be given to whether such a transaction is suitable for the client, given the client's financial position and investment objective.

Futures are standardized, exchange-traded forward contracts. They bear the same risks as forward contracts.

7. Hedge Funds

Hedge funds are mostly private investment funds that seek above-average returns through superior portfolio management involving the use of different investment strategies. The primary compensation is a percentage of the profits. Because hedge funds are mostly private investment funds, they are usually not registered with or regulated by supervisory authorities and are typically open to only a very limited range of qualified investors.

The risks involved in investing in hedge funds include low or no liquidity, the absence of regulatory supervision, the substantial level of leverage on hedge funds' investments, and short sales of securities with unlimited risk exposure.

In general the same risks apply to funds of hedge funds. Potential investors in (funds of) hedge funds must be aware that such investments involve a high degree of risk, including the risk of total loss of the investment.

8. Other

It is impossible to describe all the characteristics of securities and the related risks in one brochure. If the characteristics of the securities to be invested in deviate from the above description, the client must be informed in writing, upon request, about these deviating characteristics and specific investment risks. Moreover, if securities are traded on behalf of the client that are not described above, the client must be informed in writing, upon request, of the characteristics of these securities and the specific risks involved.

When choosing investments, clients must carefully consider which securities fall within their investment objective. Risks are attached to all forms of investing to a greater or lesser extent. In particular writing naked options and forward contracts (and options on forward contracts) can be very risky. Clients should only trade in these risky investments if they are prepared to bear the potential losses and are fully aware of the risks.

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