



MEDIOBANCA
INTERNATIONAL (LUXEMBOURG) SA

**Information document on
Mediobanca International (Luxembourg) S.A.**

Version 10/2022



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Introduction

In accordance with the Article 47 and 48 of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU (“**MIFID II**”) of the European Parliament and of the Council as regards information about the investment firm and its services for clients and potential clients, Mediobanca International (Luxembourg) S.A. (hereinafter as the “**Bank**”) provides the following information to its client on activities carried out and services provided.

Name and address of the Bank and details of national competent authority

◆ Mediobanca International (Luxembourg) S.A.

4, Boulevard Joseph II

L-1840 Luxembourg

Tel. +352 267.303.1

Fax +352 267.303.08

In order to provide banking and investment services the Bank is authorized by:

◆ Commission de Surveillance du Secteur Financier (CSSF)

283, route d'Arlon

L-1150 Luxembourg

Tel. +352 26 25 1 – 1 (Switchboard)

Fax +352 26 25 1 - 2601

Communication between bank and client

If the language in which the client may communicate with the Bank is not stipulated by the contract, the client has the following options:

◆ English

◆ Italian

◆ French

The documentation is provided in English.

MiFID II stipulates that investment firms must record the communications regarding at least dealing on own account and the provision of client order services that relate to the reception, transmission and execution of client orders. Investment firms are also required to record orders issued by clients during face-to-face conversation; in such cases, the recordings are made in the form of written minutes or notes. The Bank has delegated its main Front Office activities¹ to Mediobanca S.p.A. (the “Parent Company”). The relevant phone or electronic

¹ With regard to investment services, activities and ancillary services listed in the annex I of MiFID II.



communications made by the Front Office team of the Parent Company are recorded and stored according to the Parent Company's internal procedures.

Further information can be found in the "Information document" available on Mediobanca S.p.A.'s website at the following link: <https://www.mediobanca.com/en/mifid.html> and on the Bank's website at the link: <https://www.mediobancaint.lu/en/mifid.html>

Methods of communication

The methods of communication depends on the agreement between the Bank and client.

Complaints

Customers may file a complaint to the Bank through one of the following means:

- ◆ registered letter with return receipt to: 4, Boulevard Joseph II, L-1840, Luxembourg;
- ◆ e-mail addressed to: mblux.compliance@mediobanca.com.

The Bank shall reply within one month, however if it is not possible to give an acknowledgment within the deadlines set by the procedure, the complainant shall be provided with information on the causes of the delay and the response time expected. If, following the analysis carried out by the Bank the complaint is deemed to be well-founded, the Bank shall communicate the actions it undertakes and the times of implementation. On the other hand, if the complaint is deemed to be unfounded, the Bank shall provide a clear and exhaustive explanation of the reasons for rejection as well as the necessary indications as to the right of recourse to the Regulator. The CSSF is the relevant Authority for receiving complaints from customers of financial professionals under its supervision and for intervening with these professionals with the aim of settling the complaints amicably.

If (i) within one month after having sent a complaint to the Bank, the Complainant has not received a satisfactory response nor an acknowledgement of receipt, (ii) the complaint is considered as admissible by the CSSF, the Complainant can file a request for out-of-court complaint resolution with the CSSF. Details regarding the out-of-court resolution can be found on the CSSF website (www.cssf.lu).

Further information can be found in the "Complaints" section available on the Bank's website at the following link: <https://www.mediobancaint.lu/en/complaints.html>

Information on the investment services offered

The Bank has been authorized by the CSSF to carry out banking activities pursuant to Article 2 of the Law of 5 April 1993. In particular, the Bank provides, at the date of this document, the following services:

proprietary trading of financial instruments: purchase and sale of financial instruments as a direct counterparty with Clients (only professional clients and eligible counterparties). Proprietary trading includes trading in over-the-counter (OTC) derivative financial instruments.



Compensation or deposit guarantee scheme

The Bank has adhered to the deposit guarantee scheme of the *Fonds de Garantie des Dépôts Luxembourg (FGDL)* which regroups all Luxembourg credit institutions (please refer to contact details below).

Limit of protection: EUR 100.000 per depositor per credit institution.

If you have several deposits with the Bank, all your deposits with the same credit institution are «aggregated» and the total is subject to the limit of EUR 100.000.

If you have a joint account with other person(s): The limit of EUR 100.000 applies to each depositor separately.

Reimbursement period in case of the Bank's bankruptcy: 7 working days

Currency of reimbursement: Euro (EUR).

General limit of protection: If a deposit is unavailable because a credit institution is unable to meet its financial obligations, depositors are repaid by a deposit guarantee scheme. This repayment covers a maximum of EUR 100.000 per credit institution. This means that all deposits with the same credit institution are added up in order to determine the coverage level. If, for instance, a depositor holds a savings account with EUR 90.000 and a current account with EUR 20.000, the client will only be repaid EUR 100.000. In some cases as defined by article 171, paragraph 2 of the Law of 18 December, 2015 on the recovery and resolution of credit institutions and investment firms, deposits may be protected up to a maximum of EUR 2.500.000.

Limit of protection for joint accounts: In case of joint accounts, the limit of EUR 100.000 applies to each depositor. However, deposits in an account to which two or more persons are entitled as members of a business partnership, without legal personality, are aggregated and treated as if made by a single depositor for the purpose of calculating the limit of EUR 100.000.

Reimbursement: The Fonds de Garantie des Dépôts Luxembourg (hereinafter as the "FGDL") is responsible for the said deposit guarantee scheme, (please refer to contact details below). The FGDL will repay your deposits (up to a maximal amount of EUR 100.000) within a maximum period of 7 working days. If you have not been repaid within these deadlines, please contact with the FGDL since the time to claim reimbursement may be barred after a certain time limit.

Further important information: In general, all depositors, whether private individuals or companies, are covered by the deposit guarantee scheme. Exceptions for certain deposits are stated on the website of the FGDL. The Bank will also inform you on request whether certain products are covered or not. If deposits are covered, the Bank shall also confirm this on the statement of account.

Contact:

Fonds de garantie des dépôts Luxembourg (FGDL)

283, route d'Arlon, L-1150 Luxembourg

Postal address: L-2860 Luxembourg

Tel. (+352) 26 25 1-1

Fax (+352) 26 25 1-2601



info@fgdl.lu

Further information can be found at: www.fgdl.lu.

Management of conflicts of interests

The Bank is required to take all appropriate measures to identify, prevent and properly manage conflicts of interest that may arise between the Bank and its clients or among two or more clients during the course of providing services by Mediobanca International. As required by the regulation in force, the Bank adopted the "Policy for managing of conflicts of interest" which describes the methods of identification, prevention and management of conflicts of interest, even potential, which, by impacting the Bank's capacity to act independently, could damage the interests of one or more of the Bank's clients. Correct and timely identification and management of conflicts of interest that may arise in the provision of services is, in addition to being necessary in order to comply with the aforementioned provisions of law, of fundamental importance for the protection of the interests of customers and to safeguard the Bank's reputation.

A summary of the Policy on conflicts of interest is available on the Bank's website at the following link: <https://www.mediobancaint.lu/en/mifid.html>.

Whenever requested by the client, further details on the Policy will be provided.

Financial instruments

Information on instruments and financial products

Bonds

By acquiring debt equities (the most common of which include bonds), clients become financial backers of the issuing company and are entitled to periodically receive the interest provided for by the regulation on issue and, at maturity, repayment of the loan capital. Interest may be paid periodically, during the lifetime of the security, or at maturity (**zero coupon**), in a fixed (**fixed-rate bonds**) or variable amount, depending on the trend of market rates (**variable-rate bonds**). When purchasing a bond, it is therefore essential to consider the level of reliability and solvency of the issuer. Depending on the issuer, bonds may be divided into:

- a) **government bonds**, i.e. financial instruments issued by national governments, whether in euros or in other currencies, which generally provide for the repayment of the nominal value at maturity and a coupon or zero coupon return. The risk of insolvency of these issuers coincides with the sovereign risk since they are public debt securities;
- b) **supranational bonds**, i.e. financial instruments issued by supranational entities that cannot be identified with a single country (such as the World Bank or European Investment Bank). The risk of insolvency of these issuers is generally low;
- c) **corporate bonds**, i.e. financial instruments issued by companies incorporated under private law (whether banks or industrial companies), distinguishing between:



plain vanilla bonds: these are bonds that grant the right to receive interest, based on pre-established terms, and at maturity repayment of the capital at the nominal value. They do not present any derivative component;

structured bonds: these are bonds that differ from plain vanilla bonds in that their repayment and/or return are indexed to the price trend of other assets such as shares, government bonds, interest rates, currencies, commodities, units or shares in UCIs, indices or baskets or derivative contracts relating to the aforesaid assets. In particular, they are characterized by the incorporation of derivative instruments into a fixed- or variable-rate debt security. They therefore have a derivative component and are more complex instruments characterized by a higher risk connected with the uncertainty of the return that requires a suitable assessment by the investor;

convertible bonds: these are bonds that may be converted, at the investor's choice and in predetermined periods, into shares (known as converted shares) in the company issuing the bonds themselves or in a third party company. Following conversion, the investor will hold an equity security;

d) **subordinated bonds**, i.e. financial instruments generally issued by credit institutions and investment companies subject to prudential monitoring by the competent authority for which the right of repayment, in the event of the issuer's insolvency, is subordinate to the repayment of the other unsubordinated bonds of the same issuer (see also the information provided in section E.1.1 with regard to the so-called bail-in in this respect). The risks associated with this type of instrument are interest risk, credit spread risk and issuer risk. For large issuers and for states, the level of reliability is mainly represented by the rating, i.e. by an opinion expressed by specialist, independent agencies. In the case of structured bonds, besides the risks mentioned above, liquidity risk (as it might not be possible to trade these instruments in trading venues) and the risks connected with the derivative component contained should be carefully assessed. In the case of convertible bonds, besides the risks mentioned above, the price risk relating to the converted share should also be taken into consideration. In the case of subordinated bonds, besides the risks mentioned above, the risk associated with the type of subordination should also be assessed.

Derivatives

Definition

The term "derivatives" indicates the main characteristic of these products: their value depends from the trend of the value of an asset or from the future occurrence of an objectively observable event (the underlying asset). The ratio, which may be determined by mathematical functions, that links the value of the derivative to the underlying asset, constitutes the financial result of the derivative, known as the pay-off.

Derivatives are divided into:

- a) derivatives traded in trading venues;
- b) derivatives not traded in trading venues, i.e. Over the Counter (OTC).

The risks associated with derivative financial instruments are mainly those relating to the underlying instruments or, potentially, the entire range of financial risks. For a correct



determination of the associated risks, it is important to be aware of the specific characteristics of each derivative instrument.

Forward contract

A forward contract is an agreement between two parties for the delivery of a given quantity of a certain underlying asset at a price (delivery price) and on a date (maturity date) fixed in advance. The underlying assets may be of various types: a) financial assets, such as shares, bonds, currencies, derivative financial instruments, etc.; b) commodities, such as oil, gold, wheat, etc. The buyer of a forward contract (i.e. the party undertaking to pay the delivery price at maturity to receive the underlying assets) opens a long position, while the seller (i.e. the party undertaking to deliver the underlying asset at maturity to receive the delivery price) opens a short position. The variations in value of the underlying asset determine the risk/return profile of a forward contract, which may be summarised as follows:

for the buyer of the contract, i.e. the party that has to buy a certain commodity at a certain date and at a price already fixed in the contract, the risk is represented by the depreciation in the commodity. In this case, in fact, it would be forced to pay the price already fixed in the contract for a commodity whose market value is lower than the price to be paid: if the buyer were not bound by that contract, it could be more advantageous to buy the commodity on the market at a lower price. For the opposite reason, if the underlying asset appreciates in value, it will make a profit, as it will pay a fixed price for a commodity that is worth more;

for the seller of the contract, i.e. the party selling a certain commodity at a certain date and at a price already fixed in the contract, the risk is represented by the appreciation in the commodity. The contractual undertaking, in fact, forces it to sell the commodity at a lower price than the price it would make on the market. On the other hand, it will make a profit if the underlying asset depreciates in value since, thanks to the contract arranged, it will sell the commodity at a higher price than the market price.

The contract may be executed at maturity with:

- ◆ the actual delivery of the underlying commodity by the seller to the buyer following payment of the delivery price: in this case, it constitutes a physical delivery;
- ◆ payment of the difference in cash between the current price of the underlying asset, at maturity, and the delivery price indicated in the contract. This difference, if positive, will be returned by the seller to the buyer of the contract, and vice versa if negative: in this case, it constitutes a cash settlement.

Futures

Futures, like options, belong in the derivatives category. They are forward contracts in which two parties make a firm commitment (which is not the case with options) to buy or sell a given quantity of an underlying asset at a predetermined price on a specified date in the future (the expiration date). One characteristic of futures contracts is their high level of standardisation (contract amount, predetermined expiration, tick size, exact definition of the eligible underlying, etc.).

If, on the expiration date, the price of the asset underlying the contract is higher than the specified price, the buyer of the contract realizes a gain. If it is lower, the buyer generates a loss. The reverse is true for the seller of the contract. Like most of derivatives, futures have a leverage effect insofar as the capital invested is less than the price of the corresponding



asset, which has a multiplier effect on the asset's rate of return. The trade-off is a much higher risk on invested capital. Most contracts are settled in cash on their last day of trading. Futures rarely go to physical delivery on the expiration date. Buying these products requires sound knowledge of their underlying mechanisms, as well as regular monitoring.

Swaps

In swaps, two parties agree to swap payment flows (also known as cash flows) at certain dates. Payments may be expressed in the same currency or in different currencies and the amount thereof is determined in relation to an underlying asset. Swaps are OTC (over-the-counter) contracts and, therefore, not traded in trading venues. The underlying asset may be of various types and considerably influences the characteristics of the contract which may, in practice, take different forms. It is precisely the variation in the value of the supply that generates the risk/return profile: the party that is bound by a supply whose value has depreciated compared to the initial value (and therefore compared to the consideration) will make a profit and vice versa.

At maturity of the contract, the contractual financial obligations may be extinguished by crediting/debiting a sum equal to the profit/loss deriving from the position matured (cash settlement) or with the physical delivery/withdrawal of the underlying asset (physical delivery).

The two most commonly used types of swaps are interest rate swaps and foreign exchange swaps.

Options

An option is a contract that attributes the right, but not the obligation, to buy (call option) or sell (put option) a given quantity of (underlying) assets at a pre-fixed price (strike price) by a certain date (expiry or maturity), in which case it constitutes an American option, or the achievement thereof, in which case it is a European option. The asset underlying the option contract may be: a) a financial asset, such as shares, bonds, currencies, derivative financial instruments, etc.; b) a commodity, such as oil, gold, wheat, etc.; c) an event of varying types.

The buyer, following payment of a sum of money known as the premium, buys the right to sell or buy the underlying asset. The seller receives the premium and, in return, is required to sell or buy the underlying asset on the buyer's request. Execution of the contract for certain types of options may be effected: with actual delivery of the underlying asset, which is known as physical delivery; with the delivery of the difference in cash between the current price of the underlying asset and the strike price (cash settlement). Buying an option is a highly volatile investment and there is a very high probability that the option will be of no value at maturity. In this case, the maximum loss for the investor is given by the premium paid plus the commission paid to the intermediary. The sale of an option generally gives rise to a higher risk as the losses that may be sustained by the seller, in the event of an unfavorable market trend, may be potentially unlimited.

Certificates

Certificates are derivative financial instruments traded in trading venues that replicate the trend of the underlying assets, with or without leverage effect. They are divided into:



- ◆ **protected/guaranteed equity instruments:** these are instruments that allow a client to bid on the increase (or decrease) in the underlying assets by protecting the capital invested against possible decreases (or increases). The level of protection is defined at the time of issue of the product, so as to offer total protection (100%) or partial protection of the capital invested (e.g. 90%, 80% or lower). The protection threshold therefore establishes the minimum amount of capital invested that may be recovered or, conversely, in the event of partial protection, the maximum amount of capital invested that may be lost;
- ◆ **conditionally protected equity instruments:** these are instruments that allow a client to bid on the increase in the underlying assets and at the same time protect the capital invested (but only if the underlying assets do not reach the protection barrier) and, for some types of certificates, allow a profit to be made even in the event of small decreases. These are therefore investment products for which the efficacy of the protection mechanism is subject to the underlying assets not reaching a certain barrier level. This barrier is fixed at the time of issue below the level of the underlying assets, generally at 30% or 40%;
- ◆ **unprotected equity instruments:** these products allow the bearers to invest in a specific underlying asset, being exposed to the performance achieved by it, whether downwards or upwards, proportionately or more than proportionately. The assets underlying these certificates are usually indices, commodities, baskets and more generally underlying assets not easily achievable by an individual investor with a direct investment;
- ◆ **leverage instruments:** also known as leverage certificates, these may be bull or bear. Bull leverage certificates are financial instruments that allow the investor to assume a bullish position on the underlying assets by using just a portion of the value requested to buy them. Bear leverage certificates are financial instruments that allow the investor to assume a bearish position on the underlying assets: buying a certificate with bear leverage is financially equivalent to selling the underlying assets short and simultaneously placing a deposit with the issuer equal to the amount corresponding to the strike price, for a period coinciding with the residual life of the certificate.

Warrants and covered warrants

Warrants are negotiable financial instruments that grant the holder the right to subscribe for, buy or sell, at or by the maturity date, a certain quantity of financial instruments (generally shares). Covered warrants are derivative financial instruments issued by a financial intermediary granting the buyer the right to buy (covered warrant call) or sell (covered warrant put) an underlying asset at a pre-established price (strike price) at (or by) a pre-fixed maturity date.

Complex financial instruments/products

In general, complex instruments/products are characterized by:

- ◆ optional elements (relating to one or more risk factors), conditions or mechanisms for amplifying the trend of the underlying assets (leverage effect) in the form of determining the pay-off of the financial product; and/or
- ◆ limited observability of the underlying assets (e.g. proprietary indices, portfolios of securitized loans, assets not traded on transparent markets) with the resulting difficulty in valuing the instrument; and/or



- ◆ illiquidity (e.g. an instrument not traded in any trading venue) or difficulties in liquidation of the investment (e.g. lack of institutional counterparties on the market, high costs of release, barriers to exit).

Financial products of very high complexity are the following:

- i. financial products deriving from loan securitization transactions or transactions involving other assets (e.g. Asset Backed Securities);
- ii. financial products for which, upon the occurrence of certain conditions or on the issuer's initiative, the conversion into shares or reduction in the nominal value is provided for (e.g. Contingent Convertible Notes, products classifiable as Additional Tier I pursuant to Article 52 of EU Regulation no. 575/2013 (known as CRR));
- iii. credit-linked financial products (exposed to a third party credit risk);
- iv. derivative financial instruments not traded in trading venues, for non-hedging purposes;
- v. structured financial products, not traded in trading venues, whose pay-off does not render full return of the capital invested by the client at maturity certain;
- vi. financial products with pay-offs linked to the indices that do not observe the ESMA guidelines of 18 December 2012 on ETFs;
- vii. perpetual bonds;
- viii. alternative UCIs;
- ix. structured financial products, traded in trading venues, whose pay-off does not render full return of the capital invested by the client at maturity certain;
- x. financial products with leverage greater than 1;
- xi. UCITS referred to in Article 36 of EU Regulation no. 583/2010 (i.e. structured UCITS providing investors with a pay-off, on certain pre-established dates, based on an algorithm and linked to the return, to the development of the price or to other conditions of financial assets, reference indices or portfolios, or UCITS with similar characteristics) as well as class III or V policies with similar characteristics.

General risks associated with investments in financial instruments

To assess the risk deriving from an investment in financial instruments, the following aspects must be borne in mind: the variability in the price of the financial instrument; the liquidity; the currency in which it is denominated; the degree of complexity of the financial instrument; the other factors that constitute a source of general risks.

Before investing in financial instruments, the investor must obtain information from the Bank on the nature and risks of the transactions that are being considered. The investor must only close a transaction if he has properly understood the nature and level of exposure to risk involved. To that end, the Bank makes the relevant documentation available to Clients before closing a transaction.

Volatility of price

Specific and generic risk:

Both for equity securities and for debt securities, the risk may be ideally broken down into two components: the specific risk and the generic (or systematic) risk. The specific risk depends on the issuer's particular characteristics and may be substantially reduced by dividing the investment into securities issued by different issuers (portfolio diversification), while the



systematic risk represents that part of variability of the price of each security that depends on the market fluctuations and cannot be eliminated by diversification. The systematic risk for equity securities traded on an organised market originates from the market changes in general; changes that may be identified in the movements of the market index. The systematic risk of debt securities originates from fluctuations in market interest rates that affect the prices (and therefore the returns) of securities to a greater extent the longer the residual life (the residual life of a security at a certain date is represented by the period of time remaining between that date and the time of its repayment).

Issuer risk:

For investments in financial instruments, one has to assess the solid equity position of the issuing companies and their economic prospects taking into account the characteristics of the sectors in which they operate. One has to consider that the prices of equity securities reflect the average expectations of market operators on the prospects of a profit made by the issuing enterprises at any time. With regard to debt securities, the risk that the issuing companies or financial entities are unable to pay the interest or repay the capital loan is reflected in the amount of interest that these bonds guarantee for the investor. The higher the perceived risk of the issuer, the higher the interest rate the issuer will have to pay the investor. To assess the suitability of the interest rate paid by a security, one must take into account the interest rates paid by issuers whose risk is considered to be lower, particularly the return offered by government bonds, with regard to issues with the same maturity.

Interest risk:

With regard to debt securities, the investor must take into account the fact that the actual measurement of interest is constantly adapted to the market conditions by variations in the price of the securities themselves. The return on a debt instrument will only be close to that incorporated into the security itself at the time of purchase if the security itself is held by the investor to maturity. If the investor needs to release the investment before the security matures, the actual return could be different from that guaranteed by the security at the time of purchase. In particular, for securities providing for the payment of pre-defined interest that may not be altered over the term of the loan (fixed-rate securities), the longer the residual life the greater the variability in the price of the security itself in relation to variations in the market interest rates. For example, consider a zero coupon security – a fixed-rate security that provides for the payment of interest in a single instalment at the end of the period – with a residual life of 10 years and a return of 10% per annum; the increase in market rates by one percentage point gives rise to a reduction in price of 8.6% for the aforesaid security. It is therefore important for the investor, in order to assess the suitability of his investment in this category of securities, to check when he may need to release the investment.

Risk diversification:

As pointed out, the specific risk of a particular financial instrument may be reduced by diversification, i.e. by subdividing the investment into several financial instruments. Diversification may prove costly and difficult to implement for an investor with limited assets, however. Investors may achieve a high degree of diversification at low cost by investing their funds in units or shares of collective investment undertakings (mutual investment funds, variable-capital investment companies (SICAV) or fixed-capital investment companies (SICAF)). These undertakings invest the funds paid in by savers among the various types of securities provided for by the regulations or investment programmes adopted. It should be



pointed out that investments in these types of financial instruments may be risky, however, owing to the characteristics of the financial instruments in which they plan to invest (e.g. funds only investing in securities issued by companies operating in a particular sector or in securities issued by companies domiciled in certain States) or owing to an insufficient diversification of investments.

Liquidity

The liquidity of a financial instrument consists of its ability to be converted quickly into cash without impairment. This depends firstly on the characteristics of the market on which the security is traded. In general, with other conditions being equal, securities traded on markets are more liquid than securities not traded on those markets, since the supply and demand for securities is largely carried on those markets and therefore the prices recorded thereon are more reliable as indicators of the actual value of the financial instruments. Several types of financial instruments are liquid not owing to the existence of a secondary market but owing to the fact that the party managing them or acting as the client's counterparty at the time of liquidation assumes specific contractual obligations to buy back the product or to convert the product itself into cash at objectively defined prices, without penalisation and with predetermined timing (e.g. mutual open-ended investment funds, bonds for which the issuer assumes the obligation to buy them back from the client under predefined conditions). One should therefore take into consideration the fact that the release of illiquid products and the performance of transactions outside the organised markets may cause higher risks to be assumed by the investor, taking into account the difficulties in selling in reasonable periods and/or the possibility of selling at a price that does not represent the actual value of the product itself, or penalisation in economic terms in general.

Currency denomination

If a financial instrument is denominated in a currency other than the investor's reference currency, typically the euro for an Italian investor, in order to assess the overall risk of the investment one has to take into account the volatility of the exchange rate between the reference currency (euro) and the foreign currency in which the investment is denominated, as the trend of exchange rates may condition the overall result of the investment and may also result in significant losses of the capital invested. This is particularly true for the currencies of the so-called emerging countries, which are typically more volatile.

General risks associated with investments in derivatives

Derivative financial instruments are characterised by a very high risk that cannot be assessed by the investor due to the complexity thereof. Investors must therefore only close transactions in such instruments after understanding the nature and the degree of exposure to the risk involved. One should consider that, in general, trading in derivative financial instruments is not suitable for many investors. Once the risk of the transaction has been assessed, the investor and the intermediary must check whether the investment is suitable for the investor, particularly with regard to asset position, investment objectives and experience in the field of investments in derivative financial instruments. Several risk characteristics of the most common derivative financial instruments are illustrated below.



Futures

Leverage effect: transactions in futures involve a high degree of risk. The amount of the initial margin is lower (by a few percentage points) than the value of the contracts and this produces the so-called "leverage effect". This means that a relatively small movement in market prices will have a proportionately greater impact on the funds deposited with the intermediary: this result may be unfavourable or favourable to the investor. The margin initially paid, as well as further payments made to maintain the position, may consequently be lost completely. If the market movements are unfavourable to the investor, he may be called upon to deposit further funds at short notice in order to keep the position in futures open. If the investor fails to make the additional payments requested within the specified period, the position may be sold at a loss and the investor will owe any other liabilities arising.

Orders and strategies aimed at reducing the risk: several types of orders aimed at reducing losses within certain predetermined maximum amounts may prove ineffective as particular market conditions could make it impossible to execute such orders. Investment strategies that use combinations of positions, such as "standard combined positions", could also have the same risk of individual "long" or "short" positions.

Options

Transactions in options involve a high level of risk. Investors intending to trade in options must first understand the functioning of the types of contracts which they intend to trade in (put and call).

Purchase of an option

Purchasing an option is a highly volatile investment and there is a very high probability that the option will reach maturity without any value. In this case, the investor will have lost the entire sum used to buy the premium plus commission. Following the purchase of an option, investors may, for "European" options, maintain the position to maturity or perform an opposite transaction, or, for "American" options, exercise it before maturity. Exercising the option may give rise either to the payment of a difference in cash or to the purchase or delivery of the underlying assets. If the option relates to futures contracts, exercising the option will give rise to the assumption of a position in futures and the related obligations concerning adaptation of the guarantee margins. An investor considering purchasing an option relating to an asset whose market price is very different from the price at which it would be advisable to exercise the option (deep out of the money) should consider the possibility that exercise of the option for a profit is remote.

Sale of an option

Selling an option generally involves the assumption of a much higher risk than the risk involved in purchasing it. In fact, even if the premium received for the option sold is fixed, the losses that may be borne by the seller of the option may be potentially unlimited. If the market price of the underlying assets moves unfavorably, the seller of the option will be required to adapt the guarantee margins in order to maintain the position assumed. If the option sold is an "American" one, the seller may be called upon at any time to settle the transaction in cash or to buy or deliver the underlying assets. If the option sold relates to futures contracts, the seller will assume a position in futures and the related obligations concerning adaptation of the guarantee margins. The seller's exposure to the risk may be reduced by holding a position on



the underlying assets (securities, indices or other) corresponding to that with regard to which the option was sold.

Transactions on derivative instruments executed outside trading venues

Intermediaries may perform transactions on derivative instruments outside of trading venues (regulated markets, multilateral trading systems, organised trading systems). The intermediary to whom the investor applies could also act as the Client's direct counterparty (i.e. act on its own behalf). For transactions performed outside of trading venues, it may prove difficult or impossible to sell a position or to assess the actual value thereof or to assess the actual exposure to risk. For these reasons, these transactions may involve the assumption of higher risks. The rules applicable to these types of transactions could therefore be different and provide less protection for the investor. Before performing these types of transactions, investors must obtain all significant information on them, the rules applicable and the resulting risks.

Swaps

Swap contracts involve a high degree of risk. There is no secondary market and no standard form for these contracts. There are, at the most, standardised Contract models that are usually adapted in detail to each individual case. For these reasons, it might not be possible to terminate the Contract before the agreed maturity, without incurring high charges. On arranging the contract, the value of a swap is always nil, but it may quickly assume a negative (or positive) value depending on how the benchmark to which the Contract is linked moves. Before signing a Contract, investors must be sure that they have properly understood how and how quickly the variations in the benchmark are reflected in determining the differences they will have to pay or receive. In certain situations, investors may be called upon by the intermediary to pay guarantee margins even before the date for the settlement of differences. For these contracts, it is particularly important that the transaction counterparty has a solid asset position since, if the Contract gives rise to a difference in favour of the investor, such a difference can only actually be received if the counterparty is solvent. If the Contract is arranged with a third party counterparty, the investor must obtain information on the third party's standing and ensure that the intermediary will assume liability if the counterparty becomes insolvent. If the Contract is arranged with a foreign counterparty, the risks of correct performance of the Contract may increase depending on the rules applicable to each particular case.



Certificate of delivery of the information document

(to be kept by the Intermediary)

I certify that, before signing the contractual documentation on the products and services offered by the Bank, I have received a copy of this Information Document.

Place and date _____

First name and last name _____

Signature of the client/potential client _____