

Information concerning Risks connected with Investments in Financial Instruments and Risk Disclosure Statement

Financial markets are subject to volatility and may move against your expectations and holdings. All securities transactions involve various types of risks. It is vital to study the characteristics of the different types of financial instruments before you make an investment since the opportunities and risks vary with different types of financial instruments and combinations. Prior to giving us any transaction order, it is very important that you familiarise yourself with the characteristics and risks of the transaction and review your financial ability to bear the losses that could ensue.

There is always a risk that the value of equities might fall drastically or those investments lose their value entirely. The value of bonds is dependent upon the ability of the issuer to repay its debt as well as on interest rate fluctuations. Furthermore, investments, which are denominated in a given currency, are subject to the risk that the value of that currency will change in relation to other currencies.

Past performance does not guarantee future performance. There is always a risk to lose an investment and there is no absolute protection against the risk of bankruptcy or insolvency of the issuer of securities and/or counterparty(ies) to structured, synthetic or derivative products.

Certain transactions involve greater risks than investing in equities or bonds. Trading in e.g. structured or synthetic products, reversed convertibles, reversed floaters, warrants or other derivatives as well as forward foreign exchange transactions may pose increased and more complex risks.

Leverage Effect

Financing investments with loans, which are, in turn, covered (or "collateralised") by securities will increase the risks. This is a method of investing used to boost returns because of the leverage effect of borrowing.

Please note – the description of financial instruments which follows is of a general nature. The terms and conditions applying to individual instruments may vary, and investors should always ensure that they investigate and become fully informed about the particular characteristics of the instruments in which they invest. The Bank will accept no liability whatsoever with regard to clients, who rely on what is stated below without considering each product on its own.

1. Financial instruments in general

Financial instruments, such as shares, bonds, units of collective investment schemes, custody certificates or other rights or obligations which are subject to trading in the capital markets, normally yield a positive return in the form of dividends (in the case of shares), or interest (in the case of bonds). In addition, the price (i.e. market value) of the financial instrument may appreciate or depreciate in relation to its price / market value at the time when the investment was made. In what follows, the word 'investment' also includes possible negative positions (negative holdings) in financial instruments - i.e. short selling by an investor of a security which the investor does not own, but has borrowed.

The total return on an investment is the sum of dividends/interest and any change in the market value of the financial instrument. Derivative instruments, such as options, forwards, etc., are issued based on a variety of underlying assets, including shares, bonds, commodities and currencies. Derivative instruments may be used to reduce the risk of an investment or to obtain additional yield. What every investor seeks, of course, is a positive total return on an investment - that is, an investment that yields a profit, preferably as large as possible. But there is also a risk that the net return of an investment becomes negative - that is, that the investment generates a loss. The risk of a loss varies with the financial

instrument. However, it is extremely important to understand that purchasing securities on this basis may lead to important losses on the investments if the market moves against your expectations and holdings. It is possible that the total liability may exceed the original investment. The risk will be increased should there be a cross-currency exposure where the loan and the securities are not in the same currency. If the value of the securities holdings decreases, you may be required to take certain actions such as providing additional collateral or selling existing holdings.

International, National and Political Risks

The economies of individual countries may differ from each other and issuers and/or investors are, in general, subject to varying regulations and legal systems. Accordingly, investing in foreign securities and, to a greater extent, in emerging markets may involve additional risks: Nationalisation, expropriation, confiscatory taxation, currency blockage, political changes, government regulations, political or social instability could all affect adversely the economy of a country or the investments made in such country.

The text below provides a brief information of risks associated with investments in certain financial instruments.

The financial market is constantly developing new financial instruments. The description below is thus not a comprehensive account of existing or possible forthcoming instruments. It is always necessary to study carefully the distinctive character of the financial instrument you are considering to choose for investment.

Should you wish to discuss any matter relating to the above, you are most welcome to contact your private banker.

Usually, the prospect of a profit is correlated with the risk of a loss. The longer the duration of an investment, the greater the prospect of a profit and the risk of a loss. In connection with investment, the word "risk" is sometimes used as an expression of both risk of loss and prospect of profit. In what follows, the word "risk" is however used only to denote risk of loss. There are different ways to reduce investment risks. It is usually considered safer not to invest solely in one or a few financial instruments, but to instead diversify the investment across several different financial instruments. These instruments should then provide a dispersion of risk, rather than producing a concentration of risks that may be realised simultaneously. When investing in financial instruments listed in a foreign denomination, there is also a foreign exchange risk.

Investments in financial instruments are associated with financial risks, as described in more detail below. The risk is assumed by the client, who therefore must seek advice from his/her financial service provider or asset manager about the conditions in the form of general conditions, which apply to the trading of such instruments and about the properties of the instruments as well as about the risks associated therewith. The client must also continuously monitor his/her investments in such instruments regardless of whether the client received individual advice at the time of making the investment. Information required to monitor holdings of investments, such as market prices etc., is available via public media, for instance newspapers, teletext and, in certain cases from financial services firms. Furthermore, the client should, with his/her own best interest in mind, be prepared to take swift action, where necessary, to close positions which unexpectedly develop negatively, or to provide additional collateral with regard to investments that have been financed by loans if the collateral has depreciated in value.

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The buying and selling of shares on regulated markets and other market venues constitutes a secondary market for the shares issued by a company. Efficient secondary markets - that is, markets in which it is easy to find buyers and sellers and where bids and prices of concluded transactions are continuously published in an environment of open information - are also beneficial to the listed companies, since it is easier for them to issue new shares to raise new capital.

1.1 Trading venues

"Market venue" usually means a regulated market, a multilateral trading facility platform (MTF) or a systematic internaliser and venues where, OTC (over-the-counter)-trading facilities are provided by investment services companies.

1.1.1 Regulated Markets

Various financial instruments may be traded on regulated markets. With regard to shares, only shares of public limited companies may be listed and traded on a regulated market, and requirements are imposed on companies listed on such markets, among other things relating to the company's size, distribution of ownership, business history and financial disclosures. As to European markets, a list of regulated markets is maintained by the European Commission and is available at <http://mifidatabase.cesr.eu>

1.1.2 Multilateral Trading Facility (MTF)

An MTF is a regulated trading system that is organised and provided by a stock exchange or a financial services company. Generally, the requirements imposed on issuers of financial instruments listed at a MTF are lower than the requirements imposed by regulated markets.

1.1.3 Systematic Internalisers

A systematic internaliser is a financial services firm that, on an organised, frequent and systematic basis trades on its own account outside of a regulated market or MTF by executing orders from customers. A systematic internaliser is obliged to continuously publish quotes to buy and sell liquid shares listed on a regulated market or MTF in which the firm is a systematic internaliser.

1.2 Different types of risks

The risk evaluation that should take place when you, as a client, make an investment and also continuously during your holding period contains a number of different risk concepts and other factors to consider and appraise in total. Some of the most commonly used risk concepts are described in brief below.

Market risk – the risk that the market as a whole, or the part in which you as a client have invested, depreciates.

Credit risk – the risk that the issuer of a financial instrument or other counterparty is unable to pay.

Price volatility risk – the risk that large fluctuations in the market value/price of a financial instrument negatively influences the value of the investment.

Price risk – the risk that the market value/price of a financial instrument depreciates.

Tax risk – the risk that tax legislation and/or tax rates are indistinct or subject to change.

Currency exchange risk – the risk that a foreign currency to which a holding is related (for instance fund units in a fund, which invests in US securities listed in US Dollars) depreciates.

Leverage effect risk – the risk that the design of a specific derivative instrument multiplies the impact of changes in the market value of the underlying asset.

Legal risk – the risk that relevant laws and regulations are unclear or are subject to change.

Company specific risk – the risk that a specific company performs worse than anticipated or suffers set-backs, which negatively affects the value of financial instruments related to that company.

Industry specific risk – the risk that a specific industry performs worse than anticipated or suffers set-backs, which negatively affects the value of financial instruments related to that industry.

Liquidity risk – the risk that the client is unable to sell a financial instrument at a particular point in time because of low turnover and lack of demand.

Interest risk – the risk that a financial instrument in which a client has invested depreciates in value due to changes in interest rates.

Settlement risk – the risk that a counterparty does not deliver a financial instrument or its value in cash as per the trade agreement after the other party has already paid or delivered security herefore per the trade agreement.

2. Shares and share related instruments

2.1 Shares and limited companies

Shares in limited companies entitle the holder to a share of the company's share capital. Generally, if the company is profitable, it will pay dividends to its shareholders. Shares also entitle the holder to vote at shareholders' meetings – the highest decision-making body of the company. Generally, the more shares in the company the holder has, the greater the entitlement to the company's share capital, votes and dividends. However, depending on the kind of share, the entitlement to votes may vary. There are two kinds of limited companies: limited companies, and public limited companies; only the latter may list their shares on a regulated market or similar market venue.

2.2 Share price

A share's price is to a large degree a reflection of the collective assessment of the market regarding the company's future prospects. Movements in the price of a share are primarily the consequence of changes in investors' perception of the company's prospects to generate future profits. The impact of market developments, economic trends, technology, legislation, competition and other factors determine the demand for a company's products and services, and are therefore a fundamental cause of changes in the price of its shares.

Prevailing market interest rates also have a decisive effect on the price of a company's shares. Rising interest rates will result in higher yields on new issues of interest-bearing securities, and this will normally put downward pressure on the price of publicly traded shares and previously issued interest-bearing instruments. This is because the yield on new issues of interest bearing instruments is proportionately higher than yields generated by shares and already issued interest bearing financial instruments. Additionally, share prices are negatively impacted, because the cost of a company's debt will increase with rising interest rates, decreasing its profit margin.

Also other factors directly related to the company, such as changes in its management and organisation, production disturbances etc. may have a material impact on the company's future prospects of generating profits in both the short and long term. In a worst case scenario, the company may perform so poorly that it has to be declared bankrupt, in which case its share capital, i.e. the shareholders' joint capital, is the first resource used to cover the company's debts. This could very well consume the entire share capital, rendering the company's shares without value.

A company's shares may be listed on more than one market venue, in more than one country, with the share price at each market affecting the other through arbitrage activities. Price movements in a share may also result from price movements in other companies' shares, if the companies are active within the same sector. This influence may also apply to companies operating in different countries. Market participants have different needs concerning investments of cash (liquid funds) and regarding raising of cash. Additionally, they often hold different opinions about how a share's price should develop. These differences, which also include differences of opinion of how the company's value should be determined, contribute to

the simultaneous existence of both buyers and sellers of financial instruments. However, if market participants generally agree on how a share's price is expected to move, there will be pressure from many market participants to either buy or sell the share. A larger number of market participants selling, rather than buying, a share will cause a fall in the share's price, while a larger number of market participants buying a share, rather than selling, will cause the price to increase.

A share's turnover (that is, the number of shares bought and sold in a particular period), also has an effect on its price. A high turnover will decrease the difference, also known as the spread, between the price that buyers are prepared to pay (bid price) and the price that sellers are asking for (selling price). A share with a high turnover, in which large amounts may be turned over without a significant influence on the price, is highly liquid, and is therefore easy to buy and sell. Companies listed by regulated markets as having the highest turnover are generally perceived to be highly liquid. During the course of a day, or for longer periods of time, shares may experience a varied price stability, as measured by the share's volatility - that is, the magnitude and frequency of changes to the share's price in relation to its average price over the period.

The prices at which a share has been bought and sold, such as the high/low/last price paid during the day, together with details of the final purchase/sale quotes and the cash turnover, are published in most major newspapers, teletexts and at various websites maintained by the market operators, financial services firms and other public media. The freshness of such data may vary with the channel and the manner of publication.

2.3 Different lists

Regulated markets and other market venues usually list shares on different lists. The list on which a company's shares appear will depend upon its share capital, distribution of ownership, business history and amount of information on its financial strength and activities. The shares with the highest turnover may also be included on a separate list. Shares on lists with high requirements and high turnover are generally perceived to entail a lower risk than shares on other lists.

2.4 Kinds and class of shares

Shares may be either preferred shares or common shares. In the case of a company's bankruptcy, the holders of its preferred shares are entitled to reimbursement after the holders of bonds and other debt instruments have been reimbursed, and before the holders of its common shares.

Shares may also be issued in classes, denoted by a letter, starting with A. A share's class is often related to the voting rights tied to that share, where shares of class A entitle the holder to more votes than a holder of a class B share, and so on. The purpose of issuing shares of different classes is usually to preserve the influence of the original, founding, shareholders by entitling them to more votes than shareholders who acquired their shares in subsequent issues of other classes.

2.5 Nominal price, splits and reverse splits

A share's nominal price represents its share of the company's share capital. The sum of all of a company's shares multiplied by the share's nominal price is the company's share capital. At times, the company may wish to alter the nominal price, for example because the share's market price has risen sharply. By dividing each share into two or more parts, a process known as a split, the nominal price and the market price is lowered proportionately. The share-holders' assets, however, remain the same, but are distributed over a larger number of shares of a lower nominal value and with a reduced market price.

Conversely, a reverse-split may be performed if a share's price has sharply dropped. In such an instance, two or more shares are combined into one share. A shareholder's assets remain unaffected however, although distributed over a smaller number of shares of higher nominal value and with an increased market price.

2.6 Market introduction, privatization and takeovers

A market introduction means that a company's shares are introduced to the stock market and listed on a regulated market or other market venue for the first time. The public is then usually offered the opportunity to subscribe to (purchase) shares in the company in what is known as its initial public offering, IPO. This usually involves the sale of shares in a pre-existing company, which has not previously been traded publicly and which desires to increase the distribution of its ownership and ease the purchase and sale of its shares. If the company is owned by the government, the market introduction is called a privatization of the company.

A takeover is when an investor, group of investors or another company makes an offer to buy the shares owned by the existing shareholders in a company. If the party making the offer receives 90% or more of the share capital of the company subject to the takeover, the investor may (depending on the law in the relevant jurisdiction) "squeeze-out" the remaining shareholders which have not accepted the offer - that is, force them to sell their shares, although they are entitled to adequate compensation. The compensation is decided through arbitration.

2.7 Issues of new shares

A company that wants its business to grow often requires additional share capital. Additional capital may be acquired through an issue of new shares. Often, existing shareholders are issued with rights to purchase such newly issued shares before they are offered to the market. The amount of such rights issued to each existing shareholder is relative to the existing shareholder's current shareholding in the company. Buyers of new issues of shares must pay a set price, often lower than the market price, for the new issue. As soon as the subscription rights, which often command a value in the market, have been exercised, the market price of the share will often fall to an average of the market price before the rights expired and the price at which the shares were issued under the new issue. At the same time, each shareholder's number of shares held will increase according to the number of rights exercised. Shareholders not wishing to exercise their rights may often sell their rights on the market venue where the company is listed, during the period (usually a week or two), during which the rights may be exercised. At the expiration of that exercise period, the rights expire and become obsolete and without value - accordingly, any shareholder that fails to either sell or exercise its rights has lost the opportunity to benefit, and ends up with a lower proportionate ownership of the company.

If the assets of a company have appreciated in value, this will be reflected by an increase in its reserves, in which case it may transfer some of the surplus to its share capital by issuing bonus shares. When bonus shares are issued, they are distributed to each existing shareholder in proportion to the number of shares held. Through the issuing of bonus shares, the shareholder's number of shares increases, but the shareholder's share of the company's share capital remains unchanged. The market price of a company's share decreases after an issue of bonus shares, but the value of the shareholder's holding is unchanged due to the increase in the number of shares. Another manner of a company increasing its share capital is by using its reserves to increase the nominal value of its shares, following which shareholders hold an unchanged number of shares with an unchanged market price.

A company may also make a targeted issue of new shares - that is, offer newly issued shares to a targeted group of investors without offering them by way of rights to existing shareholders. A company may also issue new shares to acquire other companies, businesses or other non-monetary assets. Both of these issues result in the dilution of current shareholders' voting rights and their share of the company's share capital, but neither the number nor market value of their shares changes as a result of this exercise alone.

2.8 General information regarding equity-related instruments

Closely related to shares are equity index-linked bonds, custody certificates (or depositary receipts), warrants, stock and stock index options, forwards, swaps and other futures.

2.8.1 Equity index-linked bonds are bonds the yield of which is tied to a stock index or even the value of a specific share. If the index increases, the yield on the bond does too. If the index decreases, the yield on the bond may drop to zero. Being a bond, however, the initial nominal amount of the investment is repaid at the end of the bond's maturity, provided the issuer is solvent.

2.8.2 Custody certificates (sometimes known as Depositary Receipts) are a substitute for foreign shares, entitling the holder to the same rights as it would have if it held the actual share. Custody certificates are traded, just as shares, and their price movements normally follow the price movements on the foreign market venue where the underlying share is listed.

2.8.3 Convertible bonds are interest bearing financial instruments which, during a specified time period, may be converted into shares or other securities, sometimes for a fee. The yield of the convertible, that is its coupon, is usually higher than the dividend yield on the alternate share for which it may be exchanged. The price of the convertible follows

movements in the price of the underlying share, but is expressed as a percentage of the nominal value of the convertible.

2.8.4 There are many kinds of stock options. Call options entitle the holder to, within a specified period of time, purchase a previously issued share at a pre-defined price. Put options, on the other hand, entitle the holder to sell shares at a pre-defined price, within a specified period of time. For each acquired option there is an issued option; the risk for the acquiring party is that the option will decrease in value, or reach maturity without value – and in the latter case, the premium which has been paid for the option will be lost without generating any return. The issuer of an uncovered call option is, unless other measures are taken, exposed to a risk which may be unlimited.

The difference between issuing an uncovered and a covered call option is that in the latter case, the issuer holds the underlying instrument for the duration of the contract. By doing so, the issuer converts the financial risk into an opportunity cost. The potential monetary loss of the issuer is then limited to the difference between the cost of the underlying asset at the time of issuing the option, and the price stipulated in the contract reduced by the premium paid for the option.

The most extensive trading in stock options takes place on market venues, where, trading with equity index options also occurs. These index options result in profits and losses settled in cash as dictated by movements in the underlying index.

The market prices for options normally follow the price movements of the underlying asset.

Often, options with a longer maturity are referred to as warrants. These may be used to buy and sell shares, or may in other instances be settled in cash if there is a change in the underlying share's price. Subscription warrants for shares may within a specified time frame be used to apply for corresponding issues of new shares.

2.8.5 An equity forward is an agreement between two parties where both parties are obliged to buy respectively sell, or otherwise settle in cash, a share at an agreed price at a future date. Future contracts are similar in their set-up, but are continuously settled in cash between issuer and holder.

2.9 Short sale

An investor which expects a particular share's price to drop and which is seeking a positive return may perform a short sale. Selling short involves selling a financial instrument, such as a share, which one does not own at the time; this is done by borrowing the instrument from a holder of the relevant instrument. This loan of the security will then be repaid at a specific date by buying the same instrument in the market and returning it to the lender. The return on the transaction depends on the development of the price of the security involved: if it falls below the price at the outset of the transaction, the return is positive; if it rises, the return is negative.

2.10 Securities Lending

By entering into a securities lending transaction, the lender forgoes any and all rights associated with ownership of the securities lent, including but not limited to any right to dividends, voting rights and similar, for the period during which the securities are lent. The borrower will however, under normal circumstances, be obligated to forward or otherwise compensate the lender for any dividend or benefit of corporate actions.

In settling a securities lending transaction, the lender is entitled to reacquire the securities lent, alternatively receive their cash equivalent or the proceeds of redemption. Upon the borrower's insolvency or other cause of default, the lender's right to return of the securities is limited to any collateral the borrower has provided.

2.11 Suspension of trading

A situation may occur in which a position held by an investor cannot be closed due to the suspension of trading in response to rapid price movements, in either direction, in an instrument. Events such as the suspension of trading limit the effectiveness of providing stop-loss instructions and similar arrangement which are designed to limit the adverse impact of afore-mentioned rapid price movements, which may, in such an event, not be possible to execute.

2.12 Stabilisation

From time to time we may enter into transactions with you in securities which are the subject of stabilisation. In the interest of ensuring that markets for newly issued securities do not fluctuate heavily in the first days after their introduction, financial regulators have passed certain regulations which, provided the prescribed requirements are observed, permit the manager(s) of an issue to stabilise the price of the securities involved by repurchasing them in the market. This activity can result in the price of the relevant security being temporarily higher than it might otherwise be at that moment. However, given the nature of new issue markets, the fact of stabilisation does not indicate the true underlying demand for a share – which may only become apparent once the period immediately after the introduction has passed and any stabilisation activity has ended.

Further information relating to options and warrants is provided in the section relating to derivatives below.

3. Funds

When investing in a fund, an investor places capital with a fund management company (which in turn invests the capital in various financial instruments), and is in turn issued with shares in the fund. The exact composition of the fund - that is, the nature of the instruments in which it invests, such as shares, bonds or a mix thereof - is determined by the fund's constituent rules, which are set out in its prospectus. Usually, the investor may exchange its shares in the fund for a cash amount reflecting the value of the fund's holdings. The terms on which this may be done are also set out in the fund's prospectus. Before investing in a fund, clients are strongly recommended to carefully review the fund's prospectus and annual report.

When investing in financial instruments, risk diversification theory requires that the investment be spread over several instruments. The fact that a particular share decreases in market value is not uncommon. By investing in several companies in several markets, the risk associated with a single company or market may be mitigated by diversification.

The number of shares required to effectively mitigate risks associated with individual instruments varies by market. It may require substantial investments to create a portfolio sufficiently diversified across both companies and markets. Funds, by investing in either or both bonds and shares, lower the capital requirements to the individual investor to achieve diversification. Many funds have limits on the relative portion of its capital that may be invested in a single company – and, as a result, it follows that funds generally achieve risk diversification. There are however many kinds of funds with varying associated risks. For example, some funds invest solely in particular markets, geographic areas and so forth. In order to understand an individual fund's investment strategy, the investor must carefully study the fund's prospectus and annual statements, in which the fund's investment strategy and composition are specified. These documents are available from the fund's management company or its custodian.

3.1 UCITS and non-UCITS funds

Funds can also be divided into UCITS and non-UCITS funds. UCITS is an EU regulation which has strict requirements on, among other things, a fund's investment strategy and risk diversification. A fund which is authorized under the UCITS Directive anywhere within the EEA may be marketed and sold within all member states of the EEA. Non-UCITS funds, also known as non-traditional funds (e.g. hedge funds), are funds that in some way deviate from the UCITS Directive. It is important that the client, prior to making any investment in a fund, acquires information regarding the fund's characteristics and governing regulation. Such information can be obtained in the fund's prospectus. The fund's management company is required to proactively offer the prospectus to potential investors.

Hedge funds are free to invest in any asset class, market (including emerging markets) and may leverage their capital through loans and other means, such as through investing in derivatives to increase potential yields. They may therefore assume a greater risk than UCITS funds. Unlike many UCITS funds, hedge funds may on the other hand yield a positive return even during sharp declines in the market.

The investment strategies of hedge funds are often high-risk. Due to leverage, a small movement in the market can lead to a major gain, but any losses will also be magnified sharply. The entire amount of a client's investment can, under certain circumstances, be lost. It is not uncommon that available information concerning a non-traditional investment is limited. Moreover, many investment strategies are highly complex and difficult to understand. Changes in strategy that could lead to a substantial

increase in the level of risk are often virtually overlooked by investors, or are accorded too little attention or noticed too late.

The liquidity and tradability of non-traditional investments can vary a great deal. Hedge fund issues and redemptions often occur on a monthly, quarterly or annual basis, although fixed holding periods lasting many years are not unusual. Provisions regarding trading frequency and holding periods may change frequently and rapidly. Liquidations of funds can stretch over many years.

3.2 Offshore funds

Many funds in this category are domiciled in a tax advantageous overseas jurisdiction, which earns them the name offshore funds. They are frequently subject to less stringent legislation and supervision, which in turn offers poorer investor protection. Problems or delays may also arise in the settlement of buy and sell orders for units in such funds. There is no guarantee that an investor's legal rights will be enforceable.

3.3 SIFs

A certain kind of funds called SIFs (Specialised Investment Funds) domiciled in Luxembourg, may be associated with higher risk than UCITS for example. The SIFs are subject to a less restrictive regulatory regime. The creation of a SIF does for example not need to be approved by the CSSF in advance even though an authorisation file must be submitted to the CSSF within one month following the creation of the SIF.

A SIF may invest in almost any type of assets and may apply any type of investment strategy. The SIF law permits a greater flexibility with regards to investments and valuation of assets and also to the frequency of NAV calculation and price of the units. As a consequence issue and redemption of units must not necessarily be made at the NAV per share of the day.

To invest in a SIF the investor must be a well-informed investor that are deemed to be more knowledgeable of the investments and risks involved. A well-informed investor is either an institutional investor, a professional investor or an investor who in writing adheres to the status of a well-informed investor and invests a minimum amount in the fund of EUR 125 000 or the equivalent in another currency.

3.4 Subscription of units in certain funds

When investing in funds and more specifically in hedge funds, it may happen that the delivery of the fund units takes place at a later point in time, typically 4 to 6 weeks after the subscription and payment. This is due to the fact that the definitive fund unit price is sometimes calculated several weeks after the receipt of the subscription order.

Settlement risk may arise where the fund is not able to honour its obligation to deliver the units as contractually agreed whereas the subscription payment has already been done by the purchaser. In this context the purchaser may also not be able to obtain reimbursement of its expenses.

4. Interest bearing instruments

4.1 General information related to interest bearing financial instruments

An interest bearing instrument is a claim on the issuer of a loan. The yield is normally an interest rate paid to the holder of the instrument. There are different kinds of interest bearing instruments, depending on the issuer of the instrument, the collateral the issuer has provided for the loan, its maturity and the details of how and when interest is to be paid. The interest (coupon) is normally paid on a yearly basis. For some loans, the interest is paid only once, at the end of the loan's maturity. The latter kind of bond is called a zero-coupon bond.

Another kind of interest payment involves the instrument being sold at a discount instead of, or in addition to, interest being paid. At the time of sale, the issuer sets the price of the instrument by discounting the loan, including the interest payments not being made over the life of the bond, to calculate a net present value. The net present value is less than the nominal amount to be received at the instrument's maturity date, and the difference between the two thus represents the aggregate interest paid at the maturity of the bond. The potential purchaser can discount this aggregate terminal interest payment over the life of the bond, and thus calculate its equivalent compound interest rate – enabling the investor to compare its investment merits with non-discounted instruments. Bank certificates and government bonds are typically discounted in this way.

Yet another form of interest bearing financial instruments are lottery bonds, in which case the interest payments are randomly distributed among the investors, some receiving payments and some not. There are also interest bearing financial instruments and other forms of investment where the interest is protected against inflation and the investment therefore has a guaranteed real interest rate.

4.2 Risks and factors affecting the market value of interest bearing instruments

The risks associated with interest bearing instruments consist of the potential changes to the market value of the instrument due to changing market interest rates before the instrument reaches maturity, and of the risk of default by the issuer. Therefore, instruments on which the repayment at maturity is fully covered by secured collateral are considered less risky than loans without collateral. In general, it can be said that the risks associated with interest bearing instruments is considered to be lower than the risks associated with shares.

The prices at which existing instruments trade in the secondary markets and the demand from investors seeking newly issued instruments are used on a daily basis to determine the interest rates at which newly issued instruments of both short (less than a year) and long duration are brought to market. The prices and interest rates set in the capital market are affected by the investors' perception of the long and short term outlook for inflation, business cycles, interest rate developments (domestic as well as international) and other factors. Central banks also intervene in the market through market operations designed to steer macro-economic variables according to a set agenda, which may include attempting to meet targets for inflation, money growth, or other indicators. The financial instruments traded in capital markets (government bonds, government and corporate debt certificates and real estate bonds) are often traded in very large denominations (multiples of millions).

If market interest rates are rising, the market price for issued financial instruments which carry a fixed interest rate will fall, since new instruments will be issued at a higher interest rate than is paid on instruments already in issue. Conversely, if market interest rates fall, issued interest bearing instruments with fixed interest rates will appreciate in value. Instruments on which interest rates are reset will not be affected in the same way, although there may be a marginal effect depending on the length of time to the next interest-rate reset.

Loans issued by governments and municipalities are often perceived as risk free in terms of default, although there is always some risk; the same is true of bonds which they issue. Other issuers of bonds must often either provide collateral in the form of other financial instruments or assets, or offer a yield that is at a premium above the notional "risk-free" government yield, in order to offset the higher risk involved.

Some bonds, such as debentures, have a lower priority of repayment. These instruments are therefore associated with a higher risk should the issuer have difficulties repaying the loan.

Additional risks may be associated with certain types of bonds, e.g. floating rate notes, reverse floating rate notes, zero bonds, foreign currency bonds, convertible bonds, indexed bonds, subordinated bonds, etc. For such bonds, the investor is advised to consider carefully the risks referred to in the issuance prospectus and not to purchase such instruments before being certain that all risks are fully understood.

In the case of subordinated bonds, investors are advised to enquire about the ranking of the debenture compared to the issuer's other debentures. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after repayment of all higher ranked creditors.

In the case of reverse convertible notes, there is a risk that the investor will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

5. Structured products

Structured products combine different kinds of financial instruments, of which at least one is a derivative, which are provided to clients in the form of a single product to produce specific investment characteristics. Common characteristics of structured products are caps and floors to potential losses and yields. They are also used to separate market related yield from industry and company specific yield, giving investors the opportunity to narrow their risk exposure. There is a multitude of structured products available on the market today. Some structured products are

produced to accommodate risk adversity, whereas others entail a higher risk than the underlying instruments individually. More detailed information regarding the risks associated with a specific product can normally be found in the product's prospectus. An investor purchasing such a security in the primary market is normally given the product's prospectus when the product is issued. Investors in secondary markets – that is, regulated markets and other venues trading previously issued financial products - are not automatically provided with the product's prospectus, and should therefore be sure to obtain it before taking an investment decision.

With structured products, buyers can only assert their rights against the issuer. Hence, in addition to the market risk, particular attention needs to be paid to issuer risk. Clients therefore need to be aware that, as well as any potential loss they may incur due to a fall in the market value of the underlying investment, a total loss of their investment is possible if the issuer should default. Market makers, who in most cases are the issuers themselves, normally guarantee that structured products are tradable, although liquidity risks cannot be excluded.

6. Derivative and short sales – potential high yields but also high risks

Derivative instruments, such as options, forwards, futures etc., are issued with many different kinds of underlying assets, including shares, bonds, commodities and currencies. Although short sales are not a kind of financial instrument but a particular kind of investment in a financial instrument, they are included here, since the associated risks are similar to the risks associated with investing in derivative instruments.

6.1 General information regarding derivatives

Investing in derivative instruments and the short sale of financial instruments involves assuming a particular risk, unlike "at sight" investments made directly in the underlying asset. Investing directly in the underlying instruments, may, in a worst case scenario, result in a loss of no more than the entire investment. In the case of some investments in derivatives and short sales, the investor could potentially lose the entire investment and take on additional obligations (i.e. the equivalent of debt) as well. Another characteristic of derivative instruments is that changes in the instrument's market value are generally swifter and sharper than changes in the case of at sight instruments. It is therefore necessary that investors in derivative instruments not only fully understand the risks involved, but that they are also constantly prepared to take swift action to avoid severe losses if the market develops unfavourably.

6.2 Different purposes and uses of derivative instruments

Derivative instruments are contracts (agreements) which are tied to underlying assets or indicators, such as financial instruments, currencies, commodities or price indexes. Such instruments may be used to counter an unfavourable movement in the price of an asset (also known as hedging). They may also be used to boost the yield of an investment, using less capital than would be required to produce the same yield in an investment in the underlying asset (also known as highly-g geared investment). Last but not least, derivative instruments may be used to take advantage of price discrepancies between different markets (arbitrage).

The basis of an investment decision in derivative instruments is the expectation of a specific future development in the price of the underlying asset over a certain period of time. The investor should therefore have a clear picture of the expected market movement. In addition, the investor must have a clear understanding of the purpose of the investment (that is hedging, highly-g geared investing or arbitrage). Only when these preconditions are fulfilled is it possible for the investor to choose the derivative instrument or combination of instruments with the appropriate risk profile.

6.3 Different kinds of derivative instruments

6.3.1 An option is an agreement between two parties under which the issuer is obliged to buy or sell the underlying asset at a pre-agreed price, to the purchaser of the option. The holder pays a fee (premium) to the issuer upon concluding the agreement, and thereby acquires a right, but not an obligation, to call on the exercise of the option under the agreement. There are two kinds of options. An American option entitles its holder to exercise the option at any time of its duration, whereas a European option may only be exercised at the end of its duration.

6.3.2 A warrant is a special kind of put or call option. A warrant usually has a duration of a year or longer, and entitles, but does not oblige, its holder to buy or sell a certain share or basket of shares at a predetermined price at a particular date. When a warrant is exercised, the exercising party will either

pay for, and take delivery of, the share(s) in question, or (which is the usual case where an index is involved) be involved in a net cash settlement. In a net cash settlement, if the market price of the share or basket of shares at the end date, is higher than the price stipulated in the warrant, the warrant holder receives the difference between the stipulated price and the market price. If the market price of the share or basket of shares is equal to or less than the price stipulated in a warrant to buy, the warrant expires without value. The reverse is true for a warrant to sell. Normally, it is not the intention of the warrant issuer to purchase the underlying share or basket of shares and the contract is thus normally settled in cash in those instances where the warrant would otherwise be exercised.

6.3.3 Forwards and futures are agreements under which the parties involved conclude an agreement involving both the right and obligation to buy, and sell respectively, the underlying asset at a predetermined price. In the case of a forward, the underlying asset is either delivered physically, or any profits and losses are settled in cash. In the case of futures, profits and losses are monitored on a daily basis for the duration of the contract period, which may have consequences for any collateral which has been provided as security under the contract (for which see further below). Forwards can only be settled on the end date, whereas futures may normally be settled (i.e. "closed out" with the counterparty) at any time before the end date.

6.3.4 A swap agreement is an agreement between parties to swap streams of payments, such as a fixed interest rate for a floating interest rate (interest rate swap) or interest payments in different currencies (currency swap), for a duration of time. There are different combinations of interest rate and currency swaps.

6.3.5 Selling short means selling a financial instrument, such as a share, which one does not own at the time; this is done by borrowing the instrument from a holder of the relevant instrument. This loan of the instrument will then be settled at a specific date by buying the same instrument in the market and returning it to the lender. The return on the transaction depends on the development of the price of the security involved: if it falls below the price at the outset of the transaction, the return is positive; if it rises, the return is negative.

6.4 Standardised instruments and OTC-derivatives

Derivative instruments can be both standardised and non-standardised. The distinguishing characteristic of standardised instruments is that the terms of the contract are always the same, and the instrument is normally traded on a market venue on which prices are continuously published.

Non-standardised contracts are those which are individually negotiated between two parties. Such contracts are usually referred to as OTC-instruments (over the counter). Banks and other financial intermediates may provide "tailored" swap agreements and other OTC-derivatives, such as options and futures, to their customers.

6.5 Characteristic properties of derivative instruments

6.5.1 Leverage

The value of a derivative instrument is dependent both on movements in the underlying asset's price, and on the remaining duration of the contract. Depending on the characteristics of the instrument, a movement in the price of the underlying asset will often result in a larger movement in the price of the derivative contract. The relative change in price of the derivative is therefore often larger than the change of the underlying asset. This is known as the leveraged effect, and it may lead to higher yields on the invested capital than the same amount invested in the underlying asset would have produced. A successful investment may quickly multiply the invested capital several times. Conversely, the leveraging effect may work to the investor's disadvantage, resulting in a larger loss on the derivative instrument than would have been the case for an investment in the underlying asset. If the price of the underlying asset develops differently than expected, the entire invested capital may be lost. The potential for profit and loss varies with the derivative contract's set-up and use.

The duration of derivative instruments may vary from very short periods to several years. This affects the leverage effect, and therefore also the risk associated with the investment. For example, price movements are most often the largest for instruments when only a short period of their duration remains.

6.5.2 Risks of losing more than the invested capital

There are basically two types of investment: those with limited and those with unlimited risk. The purchase of equities or options involves limited risk. At worst the entire amount of the capital invested is lost. On the other

hand, there are certain types of derivatives that can require an additional outlay of capital over and above the original investment, in the form of margin payments (for which see further below). The amounts involved in this obligation can be many times the original level of the investment.

Unlimited risk is particularly associated with:

- writing an unlimited uncovered call option
- writing a put option or
- forwards and futures.

If, in such cases, an investor wishes to limit or reduce the level of risk, it is recommended to take special precautions at the time you make the investment (especially by hedging against potential losses using forwards or futures). In the case of options, the amount of risk is determined by whether the investor buys or issues the option. The holder, that is the buyer, can elect to buy or sell the underlying asset at a certain price. The issuer, on the other hand, has an obligation to buy or sell the underlying asset if the holder makes such an election. This implies that the holder of the option will, at most, lose the premium paid for the contract. In other words, if the price of the underlying asset is less (more) than that stipulated in a call (put) option at the end of the contract's duration, the holder will not exercise the option and will thus forfeit only what was paid for the contract at the outset. The holder could not however, in any situation, make a loss greater than the premium paid at the outset of the contract.

The situation is different for the issuer of an option, future or forward. The issuer of such a contract is obligated to buy or sell the underlying asset at the agreed price. This implies that an issuer of a call option is obligated to sell the underlying asset at the agreed price, regardless of the market price of the underlying asset at the time when the option is exercised. Equally, the issuer of a put option is obligated to buy the underlying asset regardless of the market price, should the holder choose to exercise the option. The issuer therefore stands to lose much more than the premium received at the outset of the contract. Since, theoretically, there is no upper limit for the market price of an asset, the issuer of an uncovered call option is taking a risk of loss that is, theoretically, unlimited.

An investor making a short sale assumes the same risk as the issuer of an uncovered call option. The investor who has sold the borrowed shares is obliged to return them regardless of the market price of the share at the agreed date. The potential loss is therefore unlimited in this case too.

6.5.3 Margin requirements related to derivative contracts and short selling shares

An investor assuming an obligation by issuing an option, entering a future or forward contract or short selling shares is normally obliged, when entering into such a business agreement, to provide collateral to cover the obligation. As the underlying asset appreciates or depreciates in value, the collateral requirement to cover the position also changes. Additional collateral may therefore be required on short notice. The leveraging effect therefore also applies to the collateral requirement.

In the case of failure by a party to provide collateral, the counterparty normally has the right to terminate the agreement (i.e. close the position) immediately, to limit its potential losses. Pursuant to the contract, the counterparty normally seizes the collateral provided, such as pledged financial instruments, and sells it on the market, normally without consulting the owner, using the proceeds of the sale to cover any losses it has incurred. An investor must therefore carefully monitor the effect of price movements on its collateral obligations, in order to avoid an involuntary closing of the position.

Risk Disclosure Statement

This statement does not disclose all the risks and other significant aspects of the transactions. The customer is advised to carefully study the terms and conditions of the relevant transaction and seek independent financial, tax, legal or other advice, as appropriate, before entering into any transaction.

(In this statement, words importing the singular shall include the plural and vice versa and words importing a gender shall include every gender.)

1. For the purpose of this statement "transactions" include all transactions undertaken by the Bank on behalf of the Customer involving all types of securities i.e. shares, bonds, equity-linked bonds, mutual funds, etc. and are applicable to forward contracts, swaps, options and other derivative transactions involving foreign exchange, precious metals and other commodities, interest rates, securities, market indices and any combination of these, including any structured products incorporating any or a combination of the preceding.

2. The Customer acknowledges the following:

- a) Participation in a transaction involves a certain degree of risk, which can be substantial due to the volatile nature of financial markets.
- b) The Bank has drawn the Customer's attention to such risks.
- c) The Customer will consult his advisers and seek independent advice on the nature of such transactions and carefully consider whether the kind of transaction is appropriate in the light of his financial circumstances.
- d) By entering into any transaction with the Bank, the Customer makes his own assessment and relies on his own judgement in relation to all investments or trading or other decisions in respect of such transactions, and accepts all risks associated therewith, and any losses suffered as a result of entering into such transactions.
- e) The Customer carries the burden of risk involved in any transaction and the Bank is not responsible for any losses whatsoever arising from the transactions.

3. The Customer acknowledges and accepts, that the Bank is obliged to give advice or make recommendations only within its area of competence and skills and it may do so on request by the Customer or otherwise. Any such advice or recommendations if given or made, the Customer acknowledges and agrees that it so given or made without any

responsibility on the part of the Bank and on the basis that the Customer will nevertheless make his own assessment and rely on his own judgement.

4. The Customer accepts that, when the Bank undertakes a transaction on behalf of the Customer, the Bank or some other person connected with it may have an interest, relationship or arrangement that is material in relation to the transaction concerned. The Customer further acknowledges and agrees that when the Bank undertakes a transaction for the Customer, the Bank or a person connected with it could be dealing as principal for its own account or as an agent for the purpose of completing a transaction on behalf of the Customer.

5. The Customer accepts that the Bank from time to time, and in appropriate cases, furnish the Customer with term sheets, annexures, supplements and any other material setting out the material terms, associated obligations, underlying assumptions, pricing basis, sensitive analysis to illustrate the impact of market movements on the proposed financial transaction (in particular, the profit and loss which the Customer may be exposed to with fluctuations in market rates) and/or such other information regarding the said transaction as the Bank may think relevant. The Customer acknowledges that any analysis which may be provided are for the purpose of illustration only and are not to be treated as the Bank's view on how the market will move in the future.

6. The Customer further acknowledges that any term sheets, annexures, supplements and any other material in relation to information on transactions as referred by the Bank from time to time constitute a part of the "Information concerning Risks connected with Investments in Financial Instruments and Risk Disclosure Statement" which is provided by the Bank to the Customer. The Customer confirms that it will take all necessary steps to study and fully understand the relevant term sheets and associated documents before executing any specific transaction. The provision of such term sheets and any associated documents shall not, however, absolve the Customer from his obligation in taking all such steps and making all such enquiries as may be necessary or desirable to ensure that the Customer full understands the transaction concerned.

7. By entering into any transaction with the Bank, the Customer confirms that he has read and fully understood the "Information concerning Risks connected with Investments in Financial Instruments and Risk Disclosure Statement" provided by the Bank and all product term sheets, annexures, supplements and any other material pertaining to the transaction, which the Bank provides from time to time.



By signing below, I/we confirm that I/we have read and fully understood the statement on "Information concerning Risks connected with Investments in Financial Instruments" provided by the Bank and the terms and conditions of the "Risk Disclosure Statement".

- I/we further undertake that prior to entering into any transaction, I/we have read and fully understood:
- a) The term sheets, annexures, supplements and any other material pertaining to the transaction which the Bank provides to the Customer from time to time;
- b) The nature of the transaction and the terms and conditions governing the said transaction; and
- c) The Bank's margin requirements, if applicable.

I/We further declare and acknowledge that in entering into any transaction, I/we have decided to do so based on my/our personal judgment, and independent of any advice or recommendation of the Bank. I/we will fully calculate and accept the risk involved in my/our underlying obligations under the said transaction.

I/We further acknowledge that this undertaking will be applicable to all existing and future accounts with the Bank.

Customer: Individual Joint

Account No: _____

Place, date: _____

Signatures

Signature

Print Name

1. _____

2. _____