Statement on Financial Instruments and Related Risks

PART I : INTRODUCTION

This notice cannot disclose all the risk and other significant aspects associated with different types of investments, but is intended to give you information on and a warning of the risks associated with them so that you are reasonably able to understand the nature and risks of the services and of the specific types of investment being offered and, consequently, to take investment decisions on an informed basis.

You should not deal in these or other products unless you understand the nature of the contract you are entering into and the extent of your exposure to risk. You should also be satisfied that the product and/or service is suitable for you in light of your circumstances and financial position and, where necessary, you should seek appropriate advice in advance of any investment decisions.

Risk factors may occur simultaneously and/or may compound each other resulting in an unpredictable effect on the value of any investment.

All financial products carry a certain degree of risk and even low risk investment strategies contain an element of uncertainty. The types of risk that might be of concern will depend on various matters, including how the instrument is created or drafted. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments or become involved in any financial products you should be aware of the following points:

PART II : PRODUCTS AND INVESTMENTS

Set out below is an outline of the risks associated with certain generic types of Financial Instruments, which should be read in conjunction with Parts III and IV below.

1. SHARES, EQUITY INSTRUMENTS

A risk with equity is that the company must both grow in value and make adequate dividend payments or the price will fall. The company, if listed or traded on-exchange, will then find it difficult to raise further capital to finance the business, and the company's performance will deteriorate vis a vis its competitors, leading to further reductions in the share price. Ultimately the company may become vulnerable to a takeover or may fail.

Shares have exposure to all the major risk types referred to in Part III below. In addition, there is a risk that there could be problems in the sector that the company is in. And, if the Company is private, i.e. not listed or traded on an exchange, or is listed but only traded infrequently, there is also a certain amount of liquidity risk, whereby shares could become very difficult to dispose of.

2. WARRANTS

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

The right to subscribe which a warrant confers is invariably limited in time with the consequences that if the investor fails to exercise this right within the pre-determined time-scale then the investment becomes worthless.

A warrant is potentially subject to all of the major risk types referred to in Part III below.

You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a covered warrant). For these instruments, see 6.3 below.

3. MONEY –MARKET INSTRUMENTS

A money-market instrument is a borrowing for a period, generally no longer than six months, but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend (or advance) it to the borrower. Unlike in an overdraft, the borrower must specify the exact amount and the period for which he wishes to borrow. Like other debt instruments (see 4 below), money-market instruments are exposed to the major risk types in Part III below, including credit and interest rate risk.

4. DEBT INSTRUMENTS/BONDS/DEBENTURES

All debt instruments are potentially exposed to the major risk types in Part III below, including credit risk and interest rate risk. Debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to such facts as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. When interest rates rise, the value of corporate debt securities can be expected to decline. Fixed-rate transferable debt securities with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities.

5. UNITS IN COLLECTIVE INVESTMENT SCHEMES

Collective investment schemes and their underlying assets are potentially exposed to all of the major risk types referred to in Part III below.

There are many different types of collective investment schemes. Generally, a collective investment scheme will involve an arrangement that enables a number of investors to "pool" their assets and have these professionally managed by an independent manager. Investments may typically include gilts, bonds and quoted equities, but depending on the type of scheme may go wider into derivatives, real estate or any other asset. There are risks on the underlying assets held by the scheme and investors should, therefore, check whether the scheme holds a number of different assets, thus spreading its risk. Subject to this, investment in such schemes can reduce risk by spreading the investor's investment more widely than may have been possible if he or she was to invest in the assets directly.

The reduction in risk is achieved because the wide range of investments in a collective investment scheme reduces the effect that any one investment can have on the overall performance of the portfolio. Although, therefore, seen as a way to spread risks, the portfolio price can fall as well as rise.

6. DERIVATIVES, INCLUDING OPTIONS, FUTURES, SWAPS, FORWARD RATE AGREEMENTS, DERIVATIVE INSTRUMENTS FOR THE TRANSFER OF CREDIT RISK, FINANCIAL CONTRACTS FOR DIFFERENCES

6.1 Derivatives Generally

A derivative is a financial instrument derived from an underlying asset's value; rather than trade or exchange the asset itself, an agreement is entered into to exchange money, assets or some other value at some future date based on the underlying asset. There are many types of derivative, but options, futures and swaps are among the most common. An investor in derivatives often assumes a great deal of risk, and therefore investments in derivatives must be made with caution, especially for smaller or less experienced investors.

Derivatives have high risk connected with them, predominantly as there is a reliance on further assets; this is unpredictable. Options or futures can allow a person to pay only a premium to bet on the direction in an asset's price, and while this can often lead to large returns if right, it would lead to a 100% loss (the premium paid) if wrong. Options or futures sold "short" (i.e. without the seller owning the asset at the time of the sale) may lead to great losses if the price of the derivatives rises significantly.

If a derivative transaction is particularly large or if the relevant market is illiquid (as may be the case with many privately negotiated off-exchange derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price.
On- exchange derivatives are subject, in addition, to the risks of exchange trading generally. Off-exchange derivatives are contracts entered into with a counterparty and, like any contract, subject to credit risk and the particular terms of the contract (whether one-off or a master agreement) should be considered in all cases.

Derivatives can be used for speculative purposes or as hedges to manage other investment risks. In all cases the suitability of the transaction for the particular investor should be considered.

You should therefore ask about the terms and conditions of the specific derivatives and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of the underlying of a futures contract and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or Clearing House to reflect changes in the underlying asset.

Normal pricing relationships between the underlying asset and the derivative may not exist in all cases. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to assess "fair" value.

The points set out below in relation to different types of derivative are not only applicable specifically to these derivatives but are also applicable more widely to derivatives generally. All derivatives are potentially subject to the major risk types in Part III below, especially market risk, credit risk and any specific sector risks connected with the underlying asset.

6.2 Futures /Forwards/Forward rate agreements

Transactions in futures or forwards involve the obligation to make, or take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The “gearing” or “leverage” often obtainable in futures and forwards trading means that small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much large movement in the value of your investment, and this can work against you as well as for you. Futures and forwards transactions have a contingent liability, and you should be aware of the implications of this, in particular margining requirements: these are that, on a daily basis, with all exchange-traded, and most OTC off-exchange, future and forwards, you will have to pay over losses incurred on a daily basis. If you fail to, the contract may be terminated. (See further 1 and 2 of Part IV below.)

6.3 Options

There are many different types of options with different characteristics subject to the following conditions.

Buying options; Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you must acquire the future. This will expose you to the risks described under “futures” and “contingent liability investment transactions”.

Writing options; If you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position (as explained in 6.2 above) and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercise against you, however far the market price has moved away from the exercise price.

If you already own the underlying asset which you have contracted to sell (known as “covered call options”) the risk is reduced. If you do not own the underlying asset (known as “uncovered call options”) the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full detail of the applicable conditions and potential exposure.

Traditional options; certain firms under special exchange rules write a particular type of option called a “traditional option”. These may involve greater risk than other options. Two-way prices are not usually quoted and there is no exchange market on which to close out an open position or to affect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.

Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

6.4 Contracts for differences

Certain derivatives are referred to as contracts for differences. These can be options and futures on indices, as well as currency and interest rate swaps. However, unlike other futures and options (which may, depending on their terms, be settled in cash or by delivery of the underlying asset), usually these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option as referred to in 6.2 and 6.3 above. Transactions in contracts for differences may also have a contingent liability.

6.5 Swaps

A swap is a derivative where two counterparties exchange one stream of cash flows against another stream.

A major risk of old off-exchange derivatives, (including swaps) is known as counterparty risk. If a party, A, wants a fixed interest rate loan and so swaps a variable rate loan with another party, B, thereby swapping payments, this will synthetically create a fixed rate for A. However, if B goes insolvent, A will lose its fixed rate and will be paying a variable rate again. If interest rates have gone up a lot, it is possible that A will struggle to repay.

The swap market has grown substantially in recent years, with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardised swap documentation. As a result, the swap market has become liquid but there can be no assurance that liquid secondary market will exist at any specified time for any particular swap.

7. COMBINED INSTRUMENTS

Any combined instruments, such as a bond with a warrant attached, is exposed to the risk of both those products and so combined products contain a risk which is greater than those of its components generally.

PART III : GENERIC RISK TYPES

1. GENERAL

The price or value of an investment will depend on fluctuations in the financial markets outside of anyone's control. Past performance is no indicator of future performance.

The nature and extent of investment risks varies between countries and from investment to investment. These investment risks will vary with, inter alia, the type of investment being made, including how the financial products have been created or their terms drafted, the needs and objectives of particular investors, the manner in which a particular investment is made or offered, sold or traded, the location or domicile of the Issuer, the diversification or concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer), the complexity of the transaction and the use of leverage.

The below risk types could have an impact on each type of agreement:

2. LIQUIDITY

The liquidity of an instrument is directly affected by the supply and demand for that instrument. Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to intended amount, but market conditions may make it impossible to execute such an order at the stipulated price. In addition, with the off-exchange products, unless the contract terms so provide, the counterparty does not have to terminate the contract early or buy back the product.

3. CREDIT RISK

Credit risk is the risk of loss caused by borrowers, bond obligors, or counterparties failing to fulfil their obligations or the risk of such parties' credit quality deteriorating.

4. MARKET RISK

4.1 General

The price of investments goes up and down depending on market supply and demand, investor perception and the prices of any underlying or allied investments or, indeed, sector and economic factors. These can be totally unpredictable.

4.2 Foreign markets

Any foreign investment or investment with a foreign element can be subject to the risks of foreign markets which may involve different risks from the home market. In some cases the risks will be greater. The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

4.3 Emerging markets

Price volatility in emerging markets, in particular, can be extreme. Price discrepancies can be common and market dislocation is not uncommon. Additionally, as news about a country becomes available, the financial markets may react with dramatic upswings and/or downswings in prices during a very short period of time. Emerging markets generally lack the level of transparency, liquidity, efficiency and regulation found in more developed markets. For example, these markets might not have regulations governing manipulation and insider trading or other provisions designed to "level the playing field" with respect to the availability of information and the use or misuse thereof in such markets. They may also be affected by political risk. It may be difficult to employ certain risk management practices for emerging markets investments, such as forward currency exchange contracts or derivatives.

5. CLEARING HOUSE PROTECTIONS

On many exchanges, the performance of a transaction is "guaranteed" by the exchange or clearing house. However, this guarantee is usually in favour of the exchange or clearing house member and cannot be enforced by this client who may, therefore, be subject to the credit and insolvency risks of the firm through whom the transaction was executed. There is, in any event, no clearing house for traditional options, nor normally for off-exchange instruments which are not traded under the rules of an exchange.

6. INSOLVENCY

The insolvency or default of the firm with whom you are dealing, or of any brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent or, indeed, investments not being returned to you. There is also insolvency risk in relation to the investment itself, for example of the company that issued the bond or of the counterparty to the off-exchange derivatives (where the risk relates to the derivative itself and to any collateral or margin held by the counterparty).

7. CURRENCY RISK

In respect of any foreign exchange transactions and transactions in derivatives and securities that are denominated in a currency other than that in which your account is denominated, a movement in exchange rates may have favourable or an unfavourable effect on the gain or loss achieved on such transactions.

The weakening of a country's currency relative to a benchmark currency or the currency of your portfolio will negatively affect the value of an investment denominated in that currency. Currency valuations are linked to a host of economic, social and political factors and can fluctuate greatly, even during intra-day trading. Some countries have foreign exchange contracts which may include the suspension of the ability to exchange or transfer currency, or the devaluation of the currency. Hedging can increase or decrease the exposure to any one currency, but may not eliminate completely exposure to changing currency values.

8. INTEREST RATE RISK

Interest rates can rise as well as fall. A risk exists with interest rates that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could impact negatively on other products.

9. REGULATORY / LEGAL RISK

All investments could be exposed to regulatory or legal risk.

Returns on all, and particularly new, investments are at risk from regulatory or legal actions and changes which can, amongst other issues, alter the profit potential of an investment. Legal changes could even have the effect that previously acceptable investment becomes illegal. Changes to related issues such as tax may also occur and could have a large impact on profitability. Such risk is unpredictable and can depend on numerous political, economic and other factors. For this reason, this risk is greater in emerging markets but does apply everywhere. In emerging markets, there is generally less government supervision and regulation of business and industry practices, stock exchanges and over-the-counter markets.

The laws and regulations governing investments in securities may not exist in some places, and where they do, may be subject to inconsistent or arbitrary application or interpretation and may be changed with retroactive effect. Both the independence of judicial systems and their immunity from economics, political or nationalistic influences remain largely untested in many countries. Judges and courts in many countries are generally inexperienced in the areas of business and corporate law. Companies are exposed to the risk that legislatures will revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that a foreign investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in foreign courts.

10. OPERATIONAL RISK

Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can impact on all financial products, but in particular for holders of shares, which equate to a part of the ownership of the company. Business risk, especially the risk that the business is run incompetently or poorly, could also impact on this. Personnel and organisational changes can severely affect such risks and, in general, operational risk may not be apparent from outside the organisation.

PART IV : TRANSCTIONS AND SERVICE RISKS

1. CONTINGENT LIABILITY INVESTMENT TRANSACTIONS

Contingent liability investment transactions, which are margined, require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If you trade in futures, contracts for difference or sell options, you may sustain a total loss of the margin you deposit with your firm to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a lost and you must be responsible for the resulting deficit. Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when you entered the contract.

Save as specifically provided by the local regulator, your firm may only carry out margined or contingent liability transactions with, or for you, if they are traded on or under the rules of a recognised or designated investment exchanges. Transactions which are traded elsewhere may be exposed to substantially greater risks.

2. COLLATERAL

If you deposit collateral as security with your firm, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral, depending on whether you are trading on a recognised or designated investment exchange (see 3 below), with the rules of that exchange (and the associated clearing house) applying, or trading on another exchange or, in deed, off-exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets which you deposited, and may have to accept payment in cash. You should ascertain from the firm how your collateral will be dealt with.

3. OFF – EXCHANGES TRANSACTIONS

Some regulators have categorised certain exchanges as recognised or designated investment exchanges. A list of these exchanges can usually be found on the regulators website. Transactions which are traded elsewhere may be exposed to substantially greater risks.

4. LIMITED LIABILITY TRANSACTIONS

Before entering into a limited liability transaction, you should obtain from the firm a formal written statement confirming that the extent of your loss liability on each transaction will be limited to an amount agreed by you before you enter into the transaction.

The amount you can lose in limited liability transactions will be less than in other margined transactions, which have no predetermined loss limit. Nevertheless, even though the extent of loss will be subject to the agreed limit, you may sustain the loss in relatively short time. Your loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial

5. COMMISSIONS

Before you begin to trade, you should obtain details of all commissions and other charges for which you must be liable. If any charges are not expressed in money terms (but, for example, as a percentage of contract value), you should obtain a clear and written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. In the case of futures, when commission is charged as a percentage, it will normally be as a percentage of the total contract value, and not simply as a percentage of your initial payment.

6. SUSPENSIONS OF TRADING AND GREY MARKET INVESTMENTS

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

Transactions may be entered into:

(a) a security whose listing on an exchange is suspended, or the listing of or dealings in which have been discontinued, or which is subject to an exchange announcement suspending or prohibiting dealings; or
(b) a grey market security, which is a security for which application has been made for listing or admission to dealings on an exchange where the security's listing or admission has not yet taken place (otherwise than because the application has been rejected) and the security is not already listed or admitted to dealings on another exchange.

There may be insufficient published information on which to base a decision to buy or sell such securities.

7. DEPOSITED CASH AND PROPERTY

You should familiarise yourself with the protections accorded to you in respect of money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property, which had been specifically identifiable as your own, will be pro-rated in the same manner as case for purposes of distribution in the event of a shortfall.

8. STABILISATION

Transactions may be carried out in securities where the price may have been influenced by measure taken to stabilize it.

Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. Regulations allow stabilisation in order to help counter the fact that, when a new issue comes on to the market for the first time, the price can sometimes drop for a time before buyers are found.

Stabilisation is carried out by a "stabilisation manager" (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilizing manager follows a strict set of rules, he is entitled to buy back securities that were previously sold to investors or allotted to institutions which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.

The Stabilisation Rules:

(a) limit the period when a stabilising manager may stabilise a new issue;

(b) fix the price at which he may stabilise (in the case of shares and warrants but not bonds); and

(c) require him to disclose that he may be stabilising but not that he is actually doing so.

The fact that a new issue or a related security is being stabilized should not be taken as any indication of the level of interest from investors, nor of the price at which they are prepared to buy the securities.

9. NON –READILY REALISABLE INVESTMENTS

Both exchange listed and traded and off-exchange investments may be non-readily realisable. There are investments in which the market is limited or could become so. Accordingly, it may be difficult to assess their market value and/or to liquidate your position.

10. STOCK LENDING

The effect of lending securities to a third party is to transfer title to them to the borrower for the period that they are lent. At the end of the period, you get back securities of the same issuer and type. The borrower's obligation to transfer equivalent securities is secured against collateral. Lending securities may affect your tax position.

11. STATEGIES

Particular investment strategies will carry their own particular risks. For example, certain strategies, such as "spread" position or a "straddle", may be as risky as a simple "long" or "short" position.