

DESCRIPTION OF FINANCIAL INSTRUMENTS AND INVESTMENT RISKS

A. General

The services offered by Prochoice Stockbrokers cover a wide range of Financial Instruments. Every type of financial instrument carries its own characteristics and involves different and varied risks. Some Financial Instruments may not satisfy the demands of a particular client depending on the client's categorization either as retail or professional, or on the client's investment profile. The objective of this document is to provide our clients with concise information, in a comprehensible form, as well as with a general briefing concerning the risks connected with the various financial instruments in order for them to comprehend the general nature and risks contained therein.

In general, the investment risk implies the volatility of the return of an investment. The investment risk is defined as the possibility to earn or lose money from your investment. The relationship between return and risk is directly proportional, i.e. the achievement of a greater return requires the undertaking of a higher risk and vice versa. By reducing the variance of the total investment of your portfolio you will be able to reduce the investment risk without the expected proportional reduction in the returns. To achieve that, capital allocation and investment portfolio diversification is required. In turn, the diversification of your portfolio is achieved by selecting Financial Instruments from various sectors with different characteristics. At the same time, this constitutes a condition for the protection of your capital from the sharp fluctuations of the market and the achievement of a greater return.

The investors will have to be familiar with the risks involved concerning the financial instruments in question before deciding to engage in any type of investment activity. All types of investments are characterized by risk factors that can affect your money and the possible returns. In order to form a correct investment decision you will have to have comprehended the type of risk that affects your investment and have determined your own "risk tolerance". A factor which needs to be taken into account when determining your "tolerance" is the percentage of the total capital you are investing and its proportion to your income. Another issue you have to consider is your attitude under adverse market conditions, i.e. your reaction to a shock or to market inactivity. The price or value of an investment depends on the fluctuations in the financial markets which cannot be controlled by anyone. Previous returns are not an indication of future returns. Therefore, the relevant investment risks depend on various factors based on the financial instruments you will choose to invest in. The investors should not conduct investment transactions unless they are certain that they fully understand the nature and the scope of the risk, as well as the possible financial loss that they may suffer.

B. Description of Financial Instruments

1. Shares

A share is the participation in the ownership of a company. It is the unit in which the stock capital of a company is divided and it provides its holder with voting rights and the right to participate in the profits (dividends) which occur from the business the company conducts. The dividends are not guaranteed and a company has the option to decide not to pay dividends. By buying shares, the investor also aims to profit from future resale of the shares. But, the return on the investment is not guaranteed because the price of the share depends on the company's performance, the market's evaluation of the performance, the current economic situation both national and international, the relevant risk of the sector or/and the specific risk for the company.

Investing in shares also involves the risk concerning the payment of dividends and the potential loss of capital. In addition, dealing with shares in regulated markets does not provide guarantees concerning the liquidity of the shares (See "Liquidity Risk").

1.1 Share Warrants

Share Warrants are an alternative way of raising capital for an Issuer. It is the purchase of the right to buy a share in the future. The holder of the Share Warrant has the right but not the obligation to buy a specific number of shares at a predetermined price (exercise price) at specific dates until their maturity date.

Share Warrants do not offer dividends or any other income and if they are not used before their maturity date their value is lost, i.e. the cost of purchasing the right. Their trading price is directly connected with the share's price trend and their price fluctuation is, usually, greater (percentage) than that of the share. Share Warrants are considered high risk financial instruments due to the significant fluctuations of their value and are subjected to all the main risks.

1.2 Rights Issue

Listed companies choose to increase their stock capital by offering Rights Issues to their existing shareholders (in ratios). Rights Issues are usually listed in regulated markets and traded for a specific time frame. Rights Issues are considered high risk financial instruments and are subjected to all the main risks. If they are not exercised by their maturity date, their value is lost.

2. Bonds

Bonds are debt securities which represent the debt of the issuer to the investor. When an investor buys a bond, he effectively loans a monetary sum to the issuer of the bond, which in turn constitutes a debt that needs to be repaid at a specific date according to the relevant documentation of the issuance. If it is included in the terms of a bond, the debtor is obliged to

pay interest to the holder of the bond. The interest rate, the frequency and the amount of interest are defined in the relevant description of a bond. Bond issuers can be governments, banks, municipalities or companies. The return is determined as the difference between the real paid capital at the time of issue and the amount owed at maturity.

High return bonds are profit driven with the issuing company having a reduced credit rating as defined by international credit rating agencies e.g. Moody's Baa rating. They offer a coupon high enough to represent the increased risk to the investor. The basic risks that the bond holders dealt with were the risk of letter of credit, as well as risks due to the interest rates because, the price of a bond is inversely proportional to the movement of interest rates or/and the standardized credit-to-GDP gap. The bond holders also face the risks of insolvency and lack liquidity.

2.1 Structured Bonds

Structured bonds provide the investor with the opportunity to have access to other financial products, especially shares, through an initial investment in bonds. The three most common types of bonds which provide access to stock capital are the following:

- a) Convertible Bonds: These bonds can be converted, at the demand of the holder, to shares of the issuing company. The maturity and conversion dates are defined in the bond's issuing terms. In addition, the conversion ratio is defined and the issuer is given the right to ask for prepayment. In the relevant issuing description, the protection clauses for the holder are also defined in detail.
- b) Exchangeable Bonds: These bonds provide their holder with the opportunity to exchange them with existing shares of a third company. The issuers of these bonds are companies that hold shares in other companies and they can, therefore, exchange them.
- c) Bonds Redeemable in Shares: These bonds are redeemed only in shares at the issuer's discretion. Their holder is exposed to the same risks as a shareholder.

The risks involved in all the aforementioned products are connected to the fact that they are structured. For as long as they are in the investor's possession, the investor is exposed to risks as well as to possible adverse fluctuations of the shares' value which are connected to said bond. After their conversion, exchange or redemption, the investors are exposed to the same risks associated with the shares.

3. Money Market Instruments

They are usually bonds with a maturity date up to one year (treasury bills) which are traded, mainly, in the local money markets. The investment risk concerns the liquidity, interest rate and credit margin risk.

4. Mutual Funds – UCITS (Undertaking for Collective Investment in Transferable Securities)

UCITS are a category of portfolios of collective open-end investments whose sole purpose is the investment of funds collected by investors in transferable securities and liquid financial assets. In other words, a UCIT is a collective investment of variable capital “pooled” by the investors. These common funds are managed by the Management Company and are safeguarded by the Trustee. The funds (assets) of a UCIT are divided into equal shares which belong to the investors in proportion to their shares. The share holders participate both in the profits and losses as well as in the expenses occurring during the management and investing of the UCIT’s assets.

a) The net value of a UCIT share is computed based on the UCIT’s assets minus its liabilities divided by the number of shares issued. A UCIT’s liabilities typically include the fees of the Management Company, the fees of the Trustee and other costs and expenditure concerning the managing and operation of a UCIT.

b) The price at which an investor will buy a UCIT share is the issue price (issue price= share net value + issue commission percentage)

c) The price at which the investor will redeem his shares is the share redemption price (redemption price= share net value - redemption commission percentage)

d) According to the UCIT’s Regulations, Memorandum and Articles of Association, a UCIT’s respective issue and redemption price may exceed or fall short of the share’s net value by the amount of the issue and redemption commission percentage respectively.

Mutual Funds are divided into categories depending on the types on investments they engage in. So, mutual funds are divided into domestic/international funds, equity funds, balanced funds, bond funds, money market funds. According to the category, each type carries the relevant risks and returns. The composition of each portfolio contains the risks of its form (dynamic, balanced or conservative). Investing in any type of mutual funds is indicatively linked with market, interest rates, credit and exchange rate risks.

5. Derivatives

Derivatives are contracts between two parties whose value is dependent upon the value of a relevant asset or indicator. The parties may participate in transactions in the money market or in an Over the Counter mutual agreement.

These products are called derivatives because they represent rights and financial commitments with an either variable value or with a value deriving from main assets or liabilities. There are several types of derivatives depending on the form of the main instrument (shares, bonds, money market instruments, interest rates or exchange rates, stock market indicators or essential goods etc.). There are several product combinations available to invest in and, therefore, the derivatives present different risk profiles. On one part, some present limited risk

and unlimited potential and on the other part some can expose you to, potentially, unlimited loss with limited profits.

Besides the product's structure, many of the risks related to derivative contracts stem from the fact that they are subjected to financial leverage, i.e. a substantial increase to their capital. This means that the investor may pay the price for a part of the total share (by paying a premium or through an initial deposit) to acquire and maintain a fraction of the share. But with derivative contracts, the actual exposure to market risks is far greater than the initial deposit or paid premium. In the case of derivatives, the market risks include exposure to the variations in the value of market parameters e.g. interest rates, exchange rates, share prices, stock market indicators or essential goods prices variations; but, it also includes exposure to variations in the price of the basic instrument or other factors such as instability or time value.

5.1 Options

Options are derivative products that give the holder the right but not the obligation to buy (Call), or sell (Put) an underlying product (e.g. shares) while the counterparty undertakes the respective commitment. The price that the buyer of an Option is called to pay to the seller, in order to acquire the right but not the obligation to buy or sell the underlying product up until or at the maturity date, is called a premium. The payment is made to the seller whether the Option is exercised or not. Therefore, the maximum potential loss to the buyer of an Option is limited to the value of the premium while the potential loss to the seller on the other hand is unlimited. This is the reason why selling Options is so dangerous. The total value of the premium of an Option is defined by supply and demand and consists of the intrinsic value and the time (Premium = Intrinsic value + Time (extrinsic value)). Other risks related to Options are the risk of price variation, liquidity risk and interest rate risk. Options lose all their value if they are not exercised before their maturity date.

5.2 Futures Contracts

They are contracts concerning the buying or selling of a specific financial instrument at a specific future date and at a predetermined price. Futures are basically contracts between two parties who agree to conclude a specific transaction at a specific time in the future and at a specific price. Futures represent a future commitment and, in this financial instrument, all the terms of the future transaction, minus the transaction price which is defined by an agreement between the two parties (supply and demand) and it keeps changing following the trend of the share price, are specified in detail (quantity of shares of the specific company, transaction date etc.). Other risks related to futures contracts concern the risk of price fluctuation, liquidity risk and interest rate risk.

5.3 Swaps

In general, a Swap is a contract in which the two contracting parties swap currency flows or interest rate flows. Swaps are divided into categories based on their type: the two most common types of Swaps are currency Swaps and interest rate Swaps. Currency Swaps consist of a double transaction in currency during which one party sells to the other, in cash, an amount in currency and, as counterparty, buys an amount in a different currency. The parties are committed to redeem the amounts upon the expiry date of the contract, increased or decreased accordingly, based on the difference between the interest rates between the two investments, provided that the Swaps have equivalent terms for each currency. The basic risk for this type of Swaps is related with interest rates and exchange rates. Other related risks are the indirect foreign currency interest rates, liquidity and the counterparties.

The second type of Swap is a contract in which the parties “swap” percentages of exchange rates. In other words, they agree to pay, at specific time intervals, amounts that correspond to different interest rates on a given principal. The main risks concern interest rates and the counter party risk.

5.4 Contracts for Difference

Contracts for Difference are transactions connected to shares in which the possession of the shares themselves is not necessary. They are short-term contracts that stem from agreements between the parties and reflect the performance of a particular share or indicator. Just like in the case of the shares, potential profits or losses are defined by the difference between the buying and selling price of the financial product.

5.5 Structured products

A structured product is a financial instrument in the form of a security or contract and is designed to meet the needs of the client. These products are described by one or more characteristics:

- a) The return is defined according to a main instrument based on a combination of basic instruments (interest rates, corporate capital, indicators etc.) or based on a mathematical formula
- b) They are the result of financial leverage
- c) Characteristics that are agreed between the parties e.g. clauses for settlement or security deposit
- d) They are products which do not allow previous official requests of official stock prices from various credit institutions
- e) There is no secondary market or there is no liquidity in the secondary market.

Each structured product has its own risk profile. Due to the large number of probable combinations, it is not possible to describe in detail the risk for every structured product. Before engaging in any transactions concerning structured products, the client will have to be briefed concerning the product's specific characteristics and the risks involved, in order to make informed investment decisions, bearing in mind the conditions and the special characteristics of the particular product.

5.6 Repos/Reverse Repos

The term "Repos" comes from the phrase "Repurchase Agreements". A Repo transaction concerns the sale of title deeds from a Financial Organization to a client with a simultaneous agreement that after a specific time period, the original seller, i.e. the Financial Organization, will repurchase the title at a predetermined price. The price of every Repo repurchase transaction includes the return of the investment (interests), computed based on the interest rate agreed between the two parties and for the time period the agreement is valid.

A Reverse Repos agreement is an opposite transaction of a Repurchase Agreement. Both of these contracts carry the risk of the counterparty.

C. General Risks

Besides the specific risks related to each particular financial product as mentioned above, there exist risks of a general nature that apply to all types of financial instruments. The risks described below can affect every form of investment and are referred to as general risks.

1. Market risks

These risks stem from the fluctuations in the value of the market indicators such as interest rates, exchange rates, share prices, credit spreads, essential goods' prices or variations in volatility. Investments in financial instruments face the risk of losing part or the entirety of their principal in case of an unexpected variation in prices. The various forms of market risks are the following:

2. Interest rate risks

Interest rate risk is connected with adverse variations in interest rates. Interest rate risk also contains the risk of holding cost. The holding cost is positive or negative if the financing cost of the asset is higher or lower, respectively, from the interest received. Therefore, the holding cost for a loan with a floating interest rate may increase in case the interest rates increases. The interest rates variations may expose the holder of financial instruments to the risk of capital loss but, the level of the risk depends on the type of the financial instruments.

3. Price risk

The prices of the investment products can exhibit unpredictable variations causing the risk of losses. The prices fluctuate on the short-term, medium-term and long-term without a definite determination of these periodic cycles. This constitutes part of the risk.

4. Foreign exchange risk

A foreign exchange risk is present when the value of a basic instrument has been computed or is connected with a currency indicator which is different from the investor's currency. An increase or decrease in the exchange rates can cause, depending on the case, a rise or fall in the value of the financial instrument when its value is expressed in a foreign currency.

5. Interest rate spread risk

Interest rate spread risk constitutes the difference that exists between a predetermined reference interest rate (e.g. euribor) and the real interest rate of a bond and it depends on the credit rating of the bond's issuer. The risk stems from the downgrading of the credit rating of the issuer which will lead to an increase to the interest rate spread and a decrease to the current value of the bond.

6. Leverage risk

Leverage is the degree at which an investor undertakes an investment risk greater than his capital. The main characteristic of leverage is that relatively small variations in the price of the underlying securities can lead to extensive losses or profits. Investing through leverage can prove to be extremely dangerous because the investor may lose an amount greater than the invested principal.

7. Inflation risk

It is the loss of the principal's real value, which stems from a greater than expected increase in inflation.

8. Prepayment risk

In the case where the type of a bond gives the issuer the ability to recall and prematurely redeem the bonds, the prepayment risk is that which stems from an unfavorable price for the investor at which his bonds are recalled and redeemed.

9. Specific risk

It is the risk from variations in the value of an asset due to factors that concern only the particular asset as opposed to the general market risk which reflects a general price trend in the capital market.

D. Investment risks

They reflect the volatility of the return on an investment. The relationship between return and risk is directly proportional, i.e. achieving greater returns requires the undertaking of greater risks and vice versa.

1. Liquidity risk

Liquidity risk is the risk that an asset will not be bought or sold quickly enough. The liquidity of a market depends on the way it is organized (centralized or over the counter transactions) and on the main instruments. The buying or selling of a common product may be easy but, there might be greater difficulties where specialized products are concerned. The liquidity risk usually concerns investment products with low marketability.

2. Instability/Volatility risk

It is a risk connected with the movement of specific values of a security. Volatility is high when the security is affected by wide variations in a relevant time period (e.g. on a daily basis for some products or for longer periods for some others). The instability/volatility risk is calculated based on the average difference between the highest and lowest values of a financial instrument at a given time period.

3. Default risk

It is the possibility of the inability to fulfill a commitment undertaken by issuing bonds or the minimizing of the price of a corporate share due to bankruptcy.

4. Operational risk

Operational risk is the risk which stems from losses due to insufficient or incomplete internal procedures, employee inefficiencies or system inefficiencies or from external events. The risk covers human errors, fraudulent behavior and deception, IT systems inefficiencies, employee management problems, trade disputes as well as external events such as accidents, fires, flooding etc.

5. Custody risk

In certain markets, especially in “emerging” markets, the regulations and settings concerning custody matters are possibly less developed as far as the investors’ protection is concerned compared to markets in which strict custody regulations are applied. In these markets, assets that are held by a sub-custodian, in cases where a sub-custodian is needed, may be exposed to risks related to the sub-custodian’s inability to properly fulfill his duties or to his bankruptcy. The risk becomes greater when the market does not provide a compensation system for the investors or when, in the case where such a system exists, the investor is not covered by the protection of the system.

6. Systematic risk

It is the risk that concerns a potential inability of a member of the economic system to fulfill its economic obligations and which might lead to a corresponding inability of other “connected” members of the system, finally leading to a complete collapse of the system.

E. Other risks

1. Force majeure

Beyond the aforementioned risks, the case of force majeure is a risk related with industrial or natural disasters or decisions which the regulatory authorities or bodies make and result in e.g. suspension of the listing of a financial instrument. The cases of force majeure are not the responsibility of either the issuer or the market. But these facts, when they happen on a large scale, may affect the issuer’s ability to fulfill its commitments or the market’s operation.

2. Regulatory or Legal risk

The risk of the government (or other relevant authorities) imposing new taxation or imposing other legal commitments or limitations to securities already bought by the investor. It covers risks which stem from government decrees that alter or affect the initial form of the investment product (taxation laws, market operation laws etc.). Investments in products in emerging markets are usually more risky than the respective investment in the developed markets. Such investment moves require a careful analysis of the various risks.