This information sheet therefore only contains a general description of the nature and risks of derivatives, and is provided to you in pursuant to the Markets in Financial Instruments Directive (MiFID). It aims to support you in making informed decisions about investment and trading, but it does not constitute any advice to invest or trade in these derivatives. Please obtain professional advice when it deems necessary in relation to a trade in a derivative or any other Financial Instrument. The information in this sheet is updated on a regular basis. Please visit our website (www.crediteuropebank.com) for the latest version of this information sheet.

Unless defined otherwise, capitalised terms used in this information sheet shall have the meaning as described thereto in the 'Conditions for Services in Financial Instruments of Credit Europe'.

Please obtain specific information on the nature and risks of a specific Financial Instrument before making a decision to invest or trade in it.

Bonds

A bond is a security representing a loan to a company, government or a local authority. Generally interest is paid to a lender (a bondholder) and the amount of the loan (principal) is repaid at the end of the term (maturity date). The maturity of the bond, as well as the size, terms and conditions of repayment of principal and interest payments are determined in advance. The interest rate on bonds may be either fixed for entire duration or variable. The main benefit of investment in bonds is that bonds provide a regular stable income. The bonds issued by issuers with higher credit ratings (e.g. governments, successful corporations of good repute) will usually pay a lower rate of interest as a result of the perception that they are less risky.

Bonds may be issued in bearer or registered form and are usually traded on a trading venue or through a bilateral agreement (over-the-counter, OTC).

Bonds may involve risks including, but not limited to the following:

- *Issuer's solvency risk*: the issuer may become temporarily or permanently insolvent, resulting in its incapacity to repay the interest and/or the principal. The solvency of an issuer is subject to a whole range of fundamental factors. Furthermore, the market's assessment of the issuer's insolvency (credit risk rating) will influence the market price of the bond.
- *Interest rate risk*: market interest rate movements can push bond prices down as well as up. It means investors in bonds carry the risk of a fall in the prices of bonds if interest rates rise. The longer the duration of the loan and the lower the interest rate, the higher a bond's sensitivity to a rise in the market interest rates.
- *Re-investment risk*: if the market interest rates fall, the proceeds from a bond (interest payments or principal re-payment) can be invested at a lower rate than the bond originally provided.
- *Early redemption risk*: the terms and conditions of a bond issue may include a provision allowing early redemption of the bond if the market interest rates fall. Such early redemption may result in a change to the expected return.
- *Risks specific to bonds redeemable by drawing*: bonds redeemable by drawing have a maturity that is difficult to determine, so unexpected changes in the yield on these bonds may occur.
- *Liquidity risk*: when a bond is traded on a trading venue it is relatively easy to sell it. Unless otherwise provided transfers of registered bonds do not entail any formalities. However, transfers of bearer bonds are often subject to limitations.
- *Currency risk*: if bonds are denominated in a currency other than Euro, than the interest payments and the repayments of principle expressed in Euro terms are subject to risk caused by currency fluctuations.
- *Risks specific to certain types of bonds*: additional risks may be associated with certain types of bonds, for example floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, reverse convertible notes, indexed bonds and subordinated bonds

Convertible bonds are hybrid securities; they have characteristics and associated risks of bonds and of shares. A convertible bond can, for a certain period and against certain terms, be converted – by your choice or mandatory – into shares of in the issuing of another company or into cash.

For complete and detailed information on risks of investment in a particular bond, you are advised to consult the issuing company's foundation documents, as well as the prospectus of issue.

Derivatives

A derivative is a financial instrument, of which the price dependents on the value of underlying assets. The most common underlying assets include shares, bonds, commodities, currencies, interest rates and market indexes. The derivative itself is merely a contract providing parties with either a right or an obligation to buy or to sell a specified underlying asset on a specified date at a predetermined price. Derivates are usually traded on a regulated or an equivalent market or through a bilateral agreement (over-the-counter, OTC).

Apart from the risk attached to the underlying assets, the risk associated with a derivate also depends on the way it is settled and if it is contract is leveraged:

- The settlement can be physically or in cash. With a physical settlement the assets are delivered. So the receiver of the assets is not only subject to the risk of the derivative, but also to the risk of the asset.
- When a contract is leveraged, the party buying the derivative pays a premium which represents a part of the risk to acquire and hold a position of a derivative. This way one has the same rights as someone who acquire and hold the whole position of a derivative, against a limited investment. Besides the same rights, one is also exposed to the full risk attached to the position in the derivative. So with a leveraged contract there is a lower investment, but a proportionally higher risk.

The nature and risks of the basic types of derivates – options, futures, forwards and swaps – are given below.

Options

An option is a contract sold by one party (the one writing the option) to another (the one buying the option):

- The option buyer pays a premium and obtains a right, but not an obligation, to buy (call option) or sell (put option) an underlying asset at a pre-determined quantity and price during a certain period of time or on a specific moment.
- The option seller / writer gets a premium and obtains a legal obligation to sell (call option) or buy (put option) the underlying asset at a pre-determined quantity and price during a certain period of time or on a specific moment.

Depending on the market price of the underlying asset on the exercise date, the option buyer will either decide to exercise his right to buy or to sell at a pre-deterermined price or to let the option lapse unexecuted. The option seller hopes that the price movement will be unfavorable for the option buyer and hence the option will remain unexercised. Then the option seller will benefit from the premium received.

Options may involve risks including, but not limited to the following:

- *Buyer's risk*: Buying options involves a limited risk. If the market price moves unfavorably against the predetermined price, a buyer can allow the option to lapse. The maximum loss is therefore limited to the premium, plus any commission or other transaction charges.
- *Writer's risk*: If you write an option, the risk involved is considerably greater than when buying options. Given that writing an option constitutes the legal obligation to buy or to sell at a predetermined price, the writer can bear unlimited loss, given that the market price of an asset can deviate unfavorably from the predetermined price. The benefits of writing an option are limited to a premium.
- *Price volatility risk*: Options have their own price which is partly based on actual price of underlying asserts and partly is influenced by expectations about its future developments. A relatively small movement in the price of underlying asset can lead to a proportionately much larger movement in the value of options.
- *Other risks*: Underlying assets can be represented by different securities and financial products (e.g. shares, bonds, futures, indices, interest rates, currency). In addition to the risks mentioned above, investment in options is subject to risks specific to underlying assets.

A warrant is a derivative security that gives the holder the right to purchase securities (usually shares) from the issuer at a predetermined price within a certain time frame. Unlike call options, warrants are issued and guaranteed by the issuer. Warrants are frequently attached to bonds or preferred shares as a sweetener, allowing the issuer to pay lower interest rates or dividends.

Futures & Forwards
A future contract entails an obligation for the buyer to purchase an underlying asset and the obligation of the seller to sell an underlying assets, such as a physical commodity or a financial instrument, at a predetermined future date and price. Some future contracts may call for physical delivery of the asset, while others are settled in cash.
Usually when the price of the underlying assets changes during the period to the exercise date, the difference between the pre-determined price and the market price is settled between the parties.

Futures may involve risks including, but not limited to the following:

- *Buyer's risk*: Buying futures involves a limited risk. The buyer must buy the assets at the pre-determined price, even when the market price moves unfavorably against the agreed-upon price.
- *Seller's risk*: selling futures envolves more risk than the risk of buying futures. As the market price of the assets may rise unlimited, the seller can bear unlimited loss as the seller has to sell the assets at the agreed-upon price.
- *Other risks*: Underlying assets can be represented by different securities and financial products (e.g. shares, bonds, futures, indices, currency). In addition to the risks mentioned above, investment in futures is subject to risks specific to underlying assets.

A forward is also a future contract, though it not traded on a regulated market.

Swaps
A swap is a contract by which parties exchange currencies (currency or exchange swap) or interest flows (interest rate swap).

The currency swap involves the exchange of principal and interest in one currency for the same in another currency. The arrangement is to swap currencies by establishing an interest rate, an agreed upon amount and a maturity date for the exchange

An interest rate swap is a bilateral agreement to exchange interest flows calculated on the basis of the underlying principal. The interest payments are effected at predetermined dates during the exercise period of the swap. There is no exchange of a principal. There are different variations on the interest rate swap, but in case of a standard interest rate swap, one party pays the fixed interest rate while the other party pays the variable interest rate on the principal. In other words, a variable interest payment commitment can be traded for a fixed interest payment commitment.

Swaps may involve risks including, but not limited to the following:

- *Interest rate risk*: uncertainty concerning interest rate movements means investors carry the risk that the interest develops differently than anticipated in the swap agreement.
- *Foreign exchange risk (with currency swap only)*: though the price at the reversal of the swap is determined, there is uncertainty concerning the exchange rate. This carry the risk that the exchange rate moves price moves unfavourably against the agreed-upon price.

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