# INFORMATION

*on investment services and financial instruments*

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# 1) NEW LEGISLATION'S FRAMEWORK AND OBJECTIVES

The Directive 2004/39/EC on Markets in Financial Instruments was incorporated in Greek legislation with Law 3606/2007.
This Law is setting out the conduct of business rules of investment firms providing investment services or carrying out investment activities. Furthermore, it establishes the organizational requirements of the firms providing investment advices and the framework for a regulatory regime regarding the clients' orders execution in respect with the high quality execution in the regulated markets, aiming mainly at the investor's protection.
The provisions of the Law apply to Investment Firms, Brokerage Firms, and Intermediaries as well as to regulated markets and their designated operators. Furthermore, some of these provisions also apply to Mutual Funds Management Companies and to Credit Institutions, when such institutions provide one or more investment services or perform investment activities. The provisions of the Law do not apply to persons and legal entities set out in paragraph 4 of Article 3 of Law 3606/2007.

# 2) THE BANK AND ITS SERVICES

## *2.1 EUROBANK EFG*

EFG Eurobank Ergasias S.A. (hereinafter "the Bank" or "Eurobank EFG") is a European Organization that employs over 21.000 people and offers its financial instruments and investment services through its network of 1500 branches and points of sale as well as alternative sales channels.
The Bank's headquarters, in Greece, are located, at 8 Othonos Street, Athens and Eurobank EFG is regulated by the Bank of Greece.
In the wider area of Southeastern and Central Europe (New Europe), Eurobank EFG group ranks among the top banks in all countries where it has an established presence.
In Greece, the Eurobank EFG Group is the leader in consumer lending, mutual fund management, investment banking, equity brokerage and life insurance. It is also the largest lender to small businesses in the country and among the largest lenders to large domestic corporations of the private sector.

The Bank's contact details are:

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|---|---|
| Telephone: | +30 210 3337000 |
| Fax: | +30 210 32 33 866 |
| E-mail: | info@eurobank.gr |
| Web Site: | www.eurobank.gr |

## *2.2 Investment Services Offered*

In addition to purely banking services, the Bank may also provide investment services. The Bank is licensed to provide the investment services undermentioned; incorporating both services that are currently offered and services that may be offered in the future.

**Investment Services and Activities**

- Reception and transmission of orders on behalf of clients in relation to transactions on one or more financial instruments.
- Execution of orders on behalf of clients which includes buy or sell agreements of one or more financial instruments.
- Dealing on own account which includes trading against proprietary capital resulting in the conclusion of transactions in one or more financial instruments.
- Portfolio management which includes managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis.
- Provision of investment advice upon the client's request or upon the Bank's initiative.
- Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis.
- Placing of financial instruments without a firm commitment basis.

**Ancillary Services**

- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
- Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.
- Advice to company on capital structure, industrial strategy and related matters and advice and services relating to companies' mergers and acquisitions.
- Foreign exchange services where these are connected to the provision of investment services.
- Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.
- Services relating to underwriting.
- Investment services and activities as well as ancillary services of the type included under Article 5 of Law 3606/2007 related to the underlying of the derivatives included under section e to j and i of Article 5 of Law 3606/2007 where these are connected to the provision of investment or ancillary services.

## *2.3 Relationship and Communication with the Client*

The language in which the Bank communicates with its clients is Greek. Occasionally, when addressing to clients outside Greece or inside the country that do not comprehend the Greek language, the English language and terminology is used.
Upon the commencement of the collaboration with the client the Bank requests from the client to provide the required documents certifying his/ her identity .This information is retained in electronic or physical records, according to the Bank's procedures. More specifically, the minimum required information is the following:
For Individuals:
Last name, first name (and father's name), date of birth, nationality, citizenship, home address (current), work address (current), profession (current), type and number of document certifying the client's identity, country of primary professional activity, client's or company's characteristic (e.g. politically exposed person), tax identification number. For the records' retention, the production of the respective certifying documents is required.
For Legal Entities:
Registered headquarters, actual headquarters, business sector, country of primary business activity and board of directors' composition are required.
The client has to inform the Bank for any change that might occur in the aforementioned information.
Any communication initiated from the Bank, is based on the information received from the client and is considered accurate. Any related documentation dispatched to the client for his/her information is considered complete and acceptable from the client as far as it is based on the Bank's records and the most recent information received. The client may communicate with the Bank via phone, post, fax, e-mail (paragraph 2.1: Eurobank EFG) as well as in-person in one of the Bank's branches.
With respect to execution of orders, clients may submit their orders in writing, via phone, e-mail or fax. Eurobank EFG reserves any right to request the client's order confirmation via e-mail or fax in case that the order is placed orally. Additionally, the Bank informs the client that, for the protection of the mutual interests of both parties (Bank and client), any phone communication or correspondence (electronic or otherwise) and/or the use of web pages might be monitored and recorded. The Bank may proceed and carry through any instructions received from the client via phone. These orders' records constitute the official proof of these instructions without the need of any additional written consent of the client.

Reporting and Statements

The Bank informs the clients in respect with the services offered through specific reports or statements.

- Clients' Execution of Orders Confirmation (other than portfolio management transactions).

Regarding retail clients, the Bank must send the client a notice in a durable medium confirming execution of the order as soon as possible and no later than the first business day following execution or, if the confirmation is received from a third party, no later than the first business day following receipt of the confirmation from the third party.

The abovementioned confirmation includes all the information fields required by the Greek Law 3606/2007 and the relevant decisions of the Hellenic Capital Market Commission (HCMC).
In the case of a Professional client or an Eligible counterparty the content and the timing of the Bank's reporting is agreed with the client in accordance with the client's categorization and the respective Bank's acceptance.

- Clients' Transactions

The Bank should inform the client at the end of every calendar month, for all transactions executed during the current month. It should be emphasized that in cases of client's unavailability resulted from his/her responsibility, the Bank will make any possible effort to inform the client the soonest possible.

- Clients' Transactions

- Reporting in respect of portfolio management
  (Chapter 4: Portfolio Management - Reporting to client)

- Statements of client financial instruments

Every client, regardless categorization, receives at least once per year statements including all the funds and financial instruments that the Bank holds on their behalf.

## *2.4 Conflicts of Interest*

Eurobank EFG offers a wide range of investment and financial services such as portfolio management services, Private Banking and custodianship services, buying and selling of securities, corporate and investment banking as well as financial analysis).

In the frame of performing the above activities, conflicts of interest might appear:

- within the Bank or,

- among employees and/or other associated companies with Bank's clients or,

- among two or more clients.

The Bank is obliged to deal with these types of conflicts with consistency, responsibility and effectiveness.

Indicatively, specific conflicts of interest cases, such as the following, might appear:

- during the provision of investment advice or portfolio management services to clients, when transactions in specific financial instruments for which the Bank has an interest/participation in the issuing company are recommended/performed,

- from other Bank's business activities such as provision of financial services to other clients,

- in cooperation/relation with issuers of financial instruments,

- during the production of financial analysis in respect to financial instruments offered to the clients.

However, in some cases the control mechanisms and the processes established by the Bank might be inadequate to avoid possible cases of conflict of interest. Upon identification of such cases, the Bank will make the relevant disclosure to the client. On clients' side, they have to act accordingly, whether they accept or not this specific situation. In case a client wishes to receive additional information regarding the Conflicts of Interest Policy, a relevant request may be submitted.

## *2.5 Client Complaints Handling*

Eurobank EFG aims in the provision of integrated and effective services towards its clients. Focused on the excellent client service but also in full compliance with the Bank of Greece Governor's Act 2501/2002, welcomes and handles the complaints with transparency, reliability and effectiveness. Whether during the cooperation any problem arises, the Bank has designed its handling process and its possible responsive resolution.

Alternative ways for problems' submission are the followings:

- informing the responsible client service executive or the Branch director,
- communicating with Europhone Banking (available 24 hours per day, 365 days per year),
- sending e-mail to info@eurobank.gr,
- mailing a letter addressed to "EFG Eurobank Ergasias S.A., Customer Care, P.O. Box 190 50, Athens".

Regardless the submission method, the Bank's executives will promptly process the complaint by adhering to the current procedures. Related information is available in the document named "Are you happy with our services?" which is accessible in every Bank's branch.

Regardless the reception method, the Client Relationship Division, which is responsible for the coordination and supervision of the client complaints management organization-wide, ensures direct and proper response. At the same time, the Division collects and processes the complaints, aiming at the improvement of service quality.
It is noted that the defined by the Bank complaint management and resolution time is 10 business days. When more time is required for the completion of the Bank's activities regarding complaints handling, the client will be notified accordingly. In case of unsatisfactory response after being re-registered by the client in a written form, the case is reexamined. In such case, the abovementioned Division, after relevant research for the complaint, pronounces the Bank's final decision.
It is the Bank's priority and desire to take advantage of the opportunities that arise from the honest and well-intentioned communication with its Clients. For this purpose, aiming at the continuous growth and client satisfaction, Eurobank EFG is always willing to discuss, develop trust and long lasting client relationships.

### 2.6 Costs and Charges

Costs, commissions, fees and other charges, regarding the financial instruments and investment services the Bank offers, are announced according to the Bank's current price policy and the legislative/ tax provisions that are in effect and are available to the client upon request.

### 2.7 Inducements

Eurobank EFG, in the process of providing investment or ancillary services, may receive or pay fees, commissions or other non-monetary benefits from/ to other companies of the EFG Group or any third party with which it cooperates for the execution of transactions.
The reception or payment of fees, commissions or other non-monetary benefit has no effect on the client's interests and on achieving the best possible result with regard to his investment preferences.
The Bank, upon the client's request, provides detailed information regarding the fees/commissions or other non-monetary benefits that might exist and relate to the investment or ancillary services/ instruments the Bank offers.

### 2.8 Data Protection and Confidentiality of Information

The Bank ensures confidentiality regarding information received from its clients and protection from intentional or unintentional disclosure of such information to unauthorized persons. To accomplish and constantly comply with the aforementioned, the Bank has established policies and procedures whose effectiveness and proper implementation are checked at regular time intervals.

## 3) CLIENT CATEGORIZATION

Eurobank EFG categorizes its clients into: a) "Retail", b) "Professional" and c) "Eligible Counterparties" based on the information gathered for the client's financial instruments/ investment services. The characteristics of these three categories are depicted in the figure below:

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| **Eligible Counterparties** | For the services of:<br>- execution of the orders<br>- dealing on own account<br>- reception and Transmission of orders<br>the Bank's professional clients may be treated as Eligible Counterparties with the respective exemption of the Bank from its specific obligations as these are defined in Article 30 of the Law 3606/2007. |
| **Professional Clients** | Professional client is the client who possesses the experience, knowledge and expertise to make his/her own investment decisions and properly assesses the risks these decisions may incur (Article 6, p.1, Law 3606/2007). |
| **Retail Clients** | Retail client is a client who cannot be categorized as professional. The Retail client performs transactions in financial instruments on its own behalf and not for another counterparty (Article 2, p.8, Law 3606/2007). |

### 3.1 Clients' Management per Category

Each client is managed by Eurobank EFG according to the category he/she belongs to and the respective requirements prescribed by the Law 3606/2007. Therefore, retail clients receive a higher level of information, always in accordance with what is required by the Law 3606/2007 and the relevant decisions of the Hellenic Capital Markets Commission (HCMC), since the Bank assumes that these clients possess less knowledge and experience in specific financial instruments/services. **The different treatment per client category relates mainly to the following: (a) the information communicated to the client, (b) the assessment of appropriateness and suitability of the investment service/financial instrument provided to the client, (c) the reports sent to the client regarding the investment service/product offered and (d) the manner in which execution of orders is performed achieving the best possible result for the client.**

#### 3.1.1 Eligible Counterparties

Eligible Counterparties are considered as the clients to whom only the following investment services are offered: execution of orders, reception and transmission of orders and dealing on own account. This category of clients receives a lower level of protection compared to professional clients. The Bank is not obliged to offer pre-contractual information to eligible counterparties, according to the article 30 of the Law 3606/2007. However, the Bank has some limited obligations regarding the reports confirming the execution of their transactions as well as regarding the time when these reports are sent. Similar to professional clients, eligible counterparties are considered to possess the required experience and knowledge as well as direct access to information relevant to money and capital markets instruments and therefore, the assessment of appropriateness is not deemed necessary (paragraph 3.3: Assessment of Suitability and Appropriateness). The Bank is not obliged to execute orders on behalf of Eligible Counterparties on terms that are most favorable to them.

#### 3.1.2 Professional Clients

Professional clients receive a lower level of protection in comparison with retail clients. More specifically, the Bank is obliged to offer pre-contractual information regarding (a) client categorization and the right to request a different categorization, (b) summary of the financial instruments and services offered, (c) summary of the best execution policy, (d) safeguarding of client financial instrument and funds (only in case this is performed by a third party on behalf of Eurobank EFG).
Additionally, the Bank has limited obligations regarding the reports sent to clients for the execution of their orders or for portfolio management. Finally, given the fact that the knowledge and experience of the professional clients may be assumed to be satisfactory, the assessment of appropriateness (paragraph 3.3: Assessment of Suitability and Appropriateness) is not performed while for the assessment of suitability (paragraph 3.3: Assessment of Suitability and Appropriateness) only the collection of data regarding client's investment objectives and financial situation is required. When the investment service consists in the provision of investment advice, the professional clients that belong to one of the categories of case (a) of paragraph

1 of Article 6 of Law 3606/2007 are assumed to be able financially to bear any related investment risks consistent with their investment objectives.

### 3.1.3 Retail Clients

Retail clients are considered as those clients who do not fulfill the criteria to be treated as professionals or eligible counterparties and receive the highest level of information. The Bank is obliged to inform the retail client, before the provision of any investment services, about the following: (a) the types and characteristics of financial instruments and possibly the associated risks, (b) safeguarding of financial instrument and funds by Eurobank EFG on behalf of retail clients, (c) costs and associated charges, (d) summary of the best execution policy and (e) the reports/ notifications the Bank is sending to the client, their timing and frequency. More specifically, periodic reports are sent to the clients whose portfolio is managed by the Bank, that include all the activities of portfolio management performed for them, unless these reports are provided by a third party.
Additionally, the statements and reports sent to retail clients are more detailed than those sent to other categories of clients.

## 3.2 Change of Client Category

According to the Law 3606/2007, clients have the right to request, in writing, a change of their categorization on the condition that they fulfill certain requirements and criteria. The possibilities for category change are the following:

- Retail client may change category and become Professional:

The retail client should fulfill the criteria specified by the Law 3606/2007. In any case this category change is possible after the Bank's appropriate assessment of the client's capability, experience and knowledge and only if the Bank is convinced that the client is able to make investment decisions fully understanding the potential risks.

- Professional client may change category and become Retail:

The professional client who considers that he does not possess sufficient knowledge and experience to assess and manage the risks associated with his investments, has the right to request to be treated as retail client in order to receive a higher level of protection. A relevant contract is signed upon the Bank's agreement to the client's request.

- Eligible counterparty may change category and become Retail or Professional:

The eligible counterparty that he/she considers that does not possess sufficient knowledge and experience to assess and manage the risks associated with his/her investments and wishes to receive a higher level of protection, may request to be categorized as professional or retail. A relevant contract is signed upon the Bank's agreement to the client's request.
If the Bank confirms that a Professional Client or Eligible Counterparty does not fulfill the requirements for this specific category, it may classify him/ her in another category (Professional/ Retail Client) and inform him/ her accordingly.

## 3.3 Assessment of Suitability and Appropriateness

In order to protect its clients, the Bank performs tests to assess whether the offered services or financial instruments are suitable and appropriate for its clients and meet their needs and investment objectives. At the same time it checks whether the client, to whom a specific financial instrument/service is offered, possesses the necessary knowledge and experience to comprehend the risks potentially associated with the transactions on that financial instrument.

**Assessment of Suitability**
In the provision of investment advice and portfolio management services, Eurobank EFG recommends or performs a transaction, only if it judges that this transaction is in accordance with the client's investment objectives. In parallel, the client should be able to bear financially the relevant investment risks as well as to have the knowledge and experience in order to comprehend the risks associated with the proposed transaction or with the management of his portfolio. For this purpose, the Bank requests information from the client which will enable the Bank to properly assess the proposed transactions. In case the client does not furnish the necessary information, the Bank will not be able to provide the abovementioned services.

**Assessment of Appropriateness**
In the provision of investment services (other than Investment Advice and Portfolio Management) and financial instruments, Eurobank EFG is obliged to assess the appropriateness of these instruments and services for the specific retail client (Appropriateness Test). The Bank should assess if the client possesses the necessary knowledge and experience in relation to the specific financial instrument/service. For this purpose, the Bank requests

information regarding the knowledge and experience of the client which will confirm that he is able to comprehend the risks associated with the specific financial instrument (e.g. derivative)/investment service. In case the client does not provide the necessary information or the Bank judges, based on the information available, that a specific financial instrument/investment service is not appropriate for the client's knowledge and experience, it will warn him accordingly.μέσο/υπηρεσία.

**Exemption from the assessment of appropriateness in the provision of "Execution Only" services**

Under the reception, transmission and execution of orders contract, the Bank offers investment services which include only the execution of clients' orders or the reception and transmission of orders with or without ancillary services, on non-complex financial instruments as per Law 3606/2007 ("execution only" services).

The Bank notes that it may offer such investment services to its clients without performing the Appropriateness Test provided all of the following conditions are met:

(a) The above services relate to shares admitted to trading in a regulated market, money market instruments, bonds, UCITS and other non-complex financial instruments.

(b) The service is provided at the initiative of the client or potential client.

(c) The client has been clearly informed that in the provision of the specific service the Bank is not required to assess the appropriateness of the financial instrument offered or service provided and that therefore he/ she does not benefit from the rules relating to enhanced information on the instrument/ service.

(d) The Bank takes all measures to identify and address conflict of interest incidents.

The Bank, considering the above, informs the retail clients who have signed the reception, transmission and execution of orders contract that for non-complex financial instruments, will be offering "execution only" services and as a result it will not be performing the Appropriateness Test.

## 4) DISCRETIONARY PORTFOLIO MANAGEMENT

Eurobank EFG also offers Portfolio Management services. The Bank ensures that each client's portfolio is in accordance with his investment objectives, financial situation, knowledge and experience (Suitability Test).

Eurobank EFG manages the client's portfolio at its discretion, without the need to communicate with the client for each transaction, provided it meets the previously agreed limits and restrictions for each type of portfolio. In certain cases the Bank abides by specific directions given by the client, as specified in the contract.

Since February 1st, 2005 the Bank has officially (through a contact) assigned 100% of the management of its clients' portfolios to its subsidiary company "Eurobank EFG Asset Management".

The Bank, based on its experience in the Greek and International money and capital markets, offers investors the ability to allocate the investment risk, enriching their portfolios with a number of financial instruments that are available in Greek and International markets.

The Assessment of Suitability (paragraph 3.3: Assessment of Suitability and Appropriateness) determines the type of portfolio that is suitable for each client. Each type of portfolio invests in specific financial instruments with determined percentage limits per type of portfolio and in specific currency. The Bank classifies each portfolio type in categories depending on the level of risk the client undertakes. The financial instruments by investment category that may be included in the portfolio are the following:

- Cash Equivalents, Debt and Related Instruments: Repos, Reverse Repos, Time Deposits, Debt Instruments of Greek Public Sector, of Bank of Greece, or of international organizations and of other, high quality (at least BBB-), issuers, Units of Mutual Funds and Derivatives.

- Stocks & Related Instruments: Listed shares (or shares that will be listed in the near future), warrants or covered warrants, Units of Mutual Funds and Financial Derivatives.

The types of financial instruments that can be included in each type of portfolio, the allocation limits by investment category, as well as the types of the transactions, are specified in the Portfolio Management Contract that has been drawn between the client and Eurobank EFG. Moreover, the contract may include other portfolio objectives, the level of risk and every special restriction imposed by the client. In addition, a specific benchmark for each type of portfolio may be selected against which the performance of the client's portfolio will be compared.

**Portfolio Valuation**

All the financial instruments included in the client's portfolio, are valuated on a daily basis according to the method and policies that Eurobank EFG follows.

Specifically, for the valuation of listed shares and derivatives, the closing prices, officially announced in each regulated market, are used. Debt Instruments are valuated according to the Bloomberg Generic price (BGN) which is published by the Bloomberg electronic data bank. When the BGN price is not available, the Bank tries to provide, on a weekly basis, an indicative valuation price from a reliable source. If this is not possible, the valuation

price remains constant throughout the financial instrument's lifetime and is equal to its issue price.
To valuate Mutual Funds units, the net price is used, calculated on a daily basis and published by the Mutual Fund Management Company.

**Reporting to Clients**

Eurobank EFG provides its clients essential information concerning the execution of their orders on a regular basis. Monthly statements are dispatched to the clients, in which the movement of their liquid funds is presented for the duration of the respective reporting period, as well as a report containing the portfolio valuation on the last business day of the month. Moreover, reports are dispatched to each client on a quarterly basis, containing (among other information) the portfolio valuation, the performance of the portfolio compared to the benchmark (if a benchmark has been specified) for the period the particular report refers to, as well as the confirmations of the transactions performed in the context of portfolio management for the specific time interval.
More specifically, Retail clients may opt to be informed, immediately and not periodically, for the transactions that are performed as part of the portfolio management and consequently receive the confirmations of these transactions for each executed transaction.

**Note**

To obtain additional information relating to the portfolio management contracts, the available types of portfolios, the currency of choice, the level of undertaken risk, potential benchmarks and fees, the client may visit the internet address www.eurobank.gr.

## 5) SAFEGUARDING OF CLIENTS' FINANCIAL INSTRUMENTS OR FUNDS

EFG Eurobank provides safeguarding services for its clients. The service is provided through the Bank for the Greek market or through third party custodians for foreign markets.
The Securities Services Division is the designated Unit regarding the safeguarding of Greek Market Securities.
The Bank provides services in relation with the opening and keeping of financial instruments accounts. As far as the Greek market is concerned, the Athens Exchange listed instruments are kept in the name of the final beneficiary. Regarding the Greek Government Bonds (GGBs), the clients' securities are kept in client accounts, in Bank of Greece, other than the ones where the Bank's own GGBs are kept.
Moreover, the Bank performs on behalf of its clients, cash and financial instrument settlements such as: Stocks, Bonds, Mutual Funds, Derivatives, Margin Call etc. Such settlements are also required in various corporate actions, such as distribution of dividends and coupons, dividend reinvestment, representation in General Assembly, participation in capital increase, participation in initial public offering, receipt of bonus shares, reduction of nominal value of stocks, Tender Offer, etc.
Regarding foreign financial instruments, the Bank deposits its clients' instruments in a third party residing in a country outside the European Economic Area (EEA) only in case the third party is subject to a regulatory framework and monitored in the particular country, with respect to the holding and custody of financial instruments. The Bank does not deposit financial instruments on behalf of its clients in a third party residing in a country outside the EEA, if the country's authorities do not regulate the holding and custody of financial instruments on behalf of other parties, unless one of the following conditions is met:

a. the nature of the financial instruments or of the investment services connected with those instruments requires them to be deposited with a third party in that third country,
b. where the financial instruments are held on behalf of a professional client, that client requests the firm in writing to deposit them with a third party in that third country.

In order for the Bank to use third parties for depositing the financial instruments given for safeguarding purposes, it selects and assigns the third party custodian through a specific internal process, considering the required criteria and conditions. The Bank deposits the foreign financial instruments in third party custodians under its own name but on behalf of and at the expense and responsibility of its clients while all risks related to these actions are undertaken by the latter.
Moreover, regular controls/reevaluations are in place for every existing custodian and for the possession and safeguarding of financial instruments in order to timely recognize potential dysfunctions and to guarantee the unhindered provision of the expected services. The financial instrument accounts are checked and monitored on a regular basis in accordance with the clients' directions.
The Bank applies detailed processes (certified) for the reconciliation of financial instrument accounts between its systems and the third party custodians' systems and/or the settlement systems.
The detailed obligations of custody and clearing services provided to the clients are described in the relevant custody contracts.
The Bank ensures that the clients' financial instruments, which are safeguarded by a third party custodian or kept in a settlement system, are separated from financial instruments that are held by the Bank for its own account.

## 6) INSURANCE COVERAGE POLICY

The Bank minds for the purchase and the annual renewal of insurance coverage related to "professional liability" towards its clients and third parties in general.

More specifically, the Bank and its subsidiaries are covered for the liability that arises from actions, mistakes and/ or omissions made by the Bank or its operators or third parties that act on its behalf as well as from the provision of financial and professional services, as described in detail in the insurance contract.

## 7) FINANCIAL INSTRUMENTS

Eurobank EFG trades on behalf of its clients, on transferable securities and derivatives in regulated markets, such as the Athens Exchange as well as in other regulated markets in foreign countries. In addition, the Bank offers other financial instruments that are not traded in regulated markets. Overall, the vast variety of financial instruments provided by the Bank may cover every investor's diversified needs, indicatively capital preservation and income growth, hedging and speculation.

All financial instruments available to investors are composed of complex and non-complex ones, based on the terminology of the Law 3606/07 that incorporated in the Greek legislation the EU Directive 2004/39/EC (hereinafter "MiFID").
In the non-complex financial instruments or products, the following are included:

- Money market instruments, meaning classes of instruments which are normally dealt in on the money market, such as treasury bills, certificates of deposit, commercial papers, excluding the instruments of payments.
- Equities admitted to trading on a regulated markets or on equivalent third country markets (hereinafter listed equities).
- Bonds or other forms of securitized debt, with no embedded derivatives.
- Undertakings for Collective Investments in Transferable Securities (UCITS) units.
- Other non-complex financial instruments according to the legislation that is currently in effect.

The financial instruments that do not fall in the abovementioned categories are considered complex.
Both complex and non complex financial instruments are described in the next sections.
**Eurobank EFG clearly informs the client that, when providing the services of order execution or reception and transmission of orders in relation to one or more non-complex financial instruments mentioned above, the Bank is not required to assess the suitability of the financial instrument or service offered or provided in relation to the client's respective knowledge and experience in each of those financial instruments and that therefore clients do not benefit from the corresponding protection of the relevant conduct of business rules set out in Article 25. par. 5 of Law 3606/07. The above services are offered to clients on their own initiative and, consequently, clients should make their own assessment in respect of an investment in these financial instruments and the risks associated with such an investment.**

### *7.1 Money Market Instruments*

Money market instruments are short term instruments with maturity that is typically one year or less. These instruments offer a high degree of liquidity to investors and pay interest on the invested principal.

Indicatively, money market instruments include the following:

- Certificates of Deposit: Certificates of Deposit are instruments that are typically issued by commercial banks and have maturity that ranges from one month to five years. These instruments have a specific, predetermined maturity and typically a fixed interest rate. Certificates of Deposit are intended to be held by the investors until maturity, upon which the invested principal is returned to the investor along with the accrued interest.
- Treasury Bills: Short term government debt instruments issued by central banks, usually on discount basis, guaranteed by the country's government and mature at par in one year or less (e.g. Greek Government Notes or U.S. T-Bills). Their interest rate usually

depends on their maturity as well as the credit rating of the issuing state.

- Commercial Papers: Issued by states and private corporations at a discount or at par in order to finance their working capital needs, with maturity of typically up to 365 days. They have a specific principal and maturity; they are transferable and traded in secondary markets. These instruments are usually issued by large corporations which maintain a high enough credit rating by Credit Rating Agencies.

- Bankers' Acceptance Notes: Short term money market instruments issued by corporations whose principal and interest payments are guaranteed by a banking institution.

- Repos: Repurchase Agreements equivalent to time deposits with bonds as collateral.

In case these instruments are not held until maturity the investor may lose part of the invested principal.

## *7.2 Listed Equities*

Equities constitute units of ownership of a corporation and investors who own shares have certain rights, such as the right to vote at the stock holders' General Assembly meetings and to participate in the company's profits, should the firm decide to distribute dividends.
Eurobank EFG offers its clients the opportunity to invest in equities of companies that are listed in regulated markets. The prices of these equities are determined based on the markets' supply and demand.
The capital of a company organised as a société anonyme is divided into shares that may be bearer (unregistered) or registered and are incorporated in securities encompassing one or more shares. In Greece, according to the current legislation, for specific company categories, such as banks, insurance and telecommunication companies, shares have to be registered.
The main categories of equities are Common Stock and Preferred Stock.

- Common Stock: This is the most common form of equity. In most cases, owners of common stock have the right to vote in the shareholders' General Assembly meetings as well as to receive dividends when distributed by the company.

- Preferred Stock: Owners of preferred stock have under specific conditions the special privilege to receive dividend before ordinary shareholders according to the specific terms of the company's charter. Moreover, preferred stock may be issued as convertible to common stock according to the terms of the company's charter. However, preferred stock does not entail voting rights at the shareholders' General Assembly meetings.

Corporations are typically classified based on their capitalization (i.e. the product of the stock trading price times the total number of outstanding shares). For instance, in the Athens Exchange (ATHEX) listed companies are classified as High, Medium, and Low Capitalization companies.
Listed shares can also be classified according to the market segment of the company's core business.
In every regulated market, there are determined certain main indices the composition of which reflects the performance of shares included in those indices in a represntative manner. For instance, shares that are listed in the Athens Exchange, which have a high trading activity and belong to one of the aforementioned sectoral categories (e.g. telecommunications) are included in indices such as the FTSE 20 index for high capitalization companies, the FTSE 40 index for companies of medium capitalization and the FTSE 80 index for low capitalization companies.
Other categories of shares that are listed in the Athens Exchange are shares with special trading characteristics and shares that are under surveillance. These categories include shares of companies that exhibit significant variation in the nature of their business and/or their financial results.
In ATHEX, listed portfolio investment firms («AEEX») comprise a separate share category. These are actually closed-end funds, whose shares are listed in regulated markets. The price of these shares exhibits similar behavior to the price of other listed shares and is determined by demand and supply. As a result, they may trade above or below their net asset value.

Initial Public Offering - IPO
One of the fundamental conditions for admitting a company's shares to the official listing on a regulated market is that the shares are distributed to a large number of shareholders. To comply with this term, candidate companies in cooperation with the underwriting banks/investment firms engage in the process of an initial public offering. The initial public offering terms (number of shares to be admitted to trading, number of shares to be distributed through the IPO, optimal number of shares each investor may apply for, share price spread, etc) are described in the IPO prospectus, which is submitted for approval to the market regulator.

Opening Price, Closing Price and Automatic Volatility Control Mechanism
Most international stock exchanges have a methodology for determining the opening and closing price of shares. They also have a mechanism for

controlling share price volatility.
In the Athens Exchange for instance, the share's opening price is the price of its first trade (which is derived either at the opening auction or when the first trade occurs). If there is no transaction involving the particular share then no opening price is set.
The calculation of the closing price depends on the share's category. For instance, the closing price of a share that is traded according to the continuous automatic matching method and belongs to the category of high capitalization is determined by an auction procedure which takes place after the completion of the regular trading session. If no transactions took place during the trading session, the closing price will be the same as the opening price (which is normally the closing price of the previous day).
When the price of a listed share during the normal trading session changes over a certain predetermined limit the Automatic Volatility Control Mechanism is activated and alters the normal trading procedure for this particular share.
The purpose of this mechanism is to prevent the listed shares' extreme price volatility; thus investors' adequate information regarding market movements is ensured leading to transaction security and enhancement of the investors' protection.
The above mechanism is used by a large number of international stock markets as well as by the ATHEX.

**Investment Risks**
Equity investments may be subject to some of the following risks: market risk, liquidity risk, issuer risk, exchange rate risk, systemic and non-systemic risk. Therefore, equity investments may be regarded as not having guaranteed performance, since the investor's invested principal may suffer losses.
There are two special cases which entail leverage risk for the investor:

- The first case refers to the three-day margin service, under which the Bank lends funds to the investor by using his portfolio as collateral for 3 days in order for him to buy shares. The loan's duration is 3 days, starting at the day of the shares purchase. The risk faced by the investor is the potential loss of his/her portfolio due to a decrease in the shares' price during the 3-day period.

- The second case refers to the unlimited margin account service, under which the investor takes a loan from the Bank to buy shares using his/her portfolio as collateral. As a result, the profits/losses of the investor may be greater compared to the profits/losses he would have if he/she invested without borrowing.

## *7.3 Bonds, Other Debt Securities and EMTNs*

A Bond is a security, whose issuer (borrower) has the obligation to pay the investor (lender) the nominal (initial) value of the investment at maturity as well as payment of interest at specified intervals until maturity. The investor by purchasing bonds aims to benefit from the collection of interest and/or a possible increase in the bond's price in the secondary market.

With respect to the issuing entity, bonds may be classified in the following categories:

- Government Bonds: bonds which are issued by governments or their respective debt management organizations (e.g. Greek Government, U.S. Government). In this way, governments cover part of their borrowing needs.

- Supranational Bonds: Bonds issued by supranational organizations (e.g. the European Investment Bank (EIB)).

- Corporate Bonds: Bonds issued mainly by banks, utility companies and other corporations.

- Municipal Bonds: Bonds issued by local government bodies (e.g. municipalities).

Besides the issuer, the main characteristics of bonds are:

- Face Value / Nominal Value: the initial amount of the security that the issuer promises to pay back to the investor at maturity. The interest payments are based on the face value of the bond.

- Price: The price of a bond is quoted based on 100, which corresponds to its face value. When the price of a bond is higher than its nominal value, i.e. above par (or above 100), the bond is traded at a premium. When the price of a bond is less than its nominal value, i.e. below par (or below 100), the bond is traded at discount. Based on the above, the following prices can be identified:

- Issue Price: The price at which investors buy the bond from the bond's issuer at its issue date.
- Buying Price: The price at which the investor buys the bond.
- Selling Price: The price at which the bond holder sells the bond.
- Redemption Price: The amount which the investor receives by the issuer at maturity.

- Issue Date: The date the bond is issued.
- Maturity Date: The date at which the bond matures.
- Interest Rate/ Coupon: It is the interest rate based on which the bond's interest payment is calculated for a specific period of time (usually a month, quarter, semester, or year). It is expressed as a percentage over the bond's nominal value. The coupon, which is specified when the bond is issued, may be fixed or floating.
- Accrued Interest: This is the interest that has been accumulated since the previous coupon payment, which is owed by the issuer but not yet payable to the the bond holder.
- Fair Value: This is the total sum of the present values of all future cash flows of the bond (coupons plus face value at maturity).
- Yield to Maturity: The return the investor will enjoy if he/she holds the bond until maturity. It is expressed as a percentage.
- Quoted Margin (this is a feature of floating rate bonds): The Quoted Margin is the fixed percentage by which the bond's coupon exceeds the reference rate. For instance, if a floating rate bond has a coupon rate of LIBOR + 2%, the 2% is the bond's quoted margin, specified when the bond is issued and is usually fixed to maturity. The Quoted Margin may also be expressed in basis points and not as a percentage rate, where 100 basis points correspond to 1%.
- Discount Margin: In floating rate bonds, the discount margin expresses the margin of the bond with respect to the reference interest rate, based on the bond's current price, the quoted margin and the bond's remaining time to maturity. The discount margin varies throughout the bond's lifetime based on the aforementioned factors.
- Status of the bonds: The priority by which the claims of the bond holders are satisfied in case the issuing company is liquidated.
    - Senior Debt Instruments
    - Subordinated Debt Instruments, which are distinguished in the following categories:
        - Tier 2 Capital comprising of: .
            - Lower Tier 2 Capital; and
            - Upper Tier 2 Capital
        - Tier 1 Capital comprising of:
            - Lower Tier 1 Capital; and
            - Upper Tier 1 Capital.
- Credit Rating: It refers to the rating of the bonds according to the credit risk that they represent, which is basically associated with their issuer. Credit Rating Agencies estimate the credit risk of bond issuers such as governments, financial institutions, corporations. In particular, Credit Rating Agencies collect and analyze information from various sources which relate to the issuer of the securities, the market segment in which the issuer operates, the issuer's overall financial situation, the nature of the bond and in general the ability of the issuer to meet the undertaken obligations towards the bond holder. The ratings have to be assessed by the investors, who have to weigh the potential risks of default or a decline in the bond's market price. Due to the large variety of bond types, for instance short-term or long-term bonds representing senior or subordinated debt, different bond issues by the same issuer may have a different rating. The three best known Credit Rating Agencies that are active at an international level use the following ratings:

- Standards & Poor's and Fitch:
  Long term credit ratings: AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C, RD, D.
  Short term credit ratings: F1+, F1, F1-, F2, F3, B, C, D.

- Moody's Investors Service:
  Long term credit ratings: Aaa, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3, Ba1, Ba2, Ba3, B1, B2, B3, Caa1, Caa2, Caa3, Ca, C.
  Short term credit ratings: P-1, P-2, P-3, NP.

It should be noted that the price of a bond is affected to a large extent by its credit rating and by any changes in its credit rating which occurs before maturity of the bond.

Indicatively, bonds include the following types:

- Zero-Coupon Bonds: These bonds are issued at a discount and do not provide interim interest payments, but only the payment of their face value at maturity.

- Fixed Coupon Bonds: In this case, the interest rate is specified at a fixed rate when the bond is issued and remains fixed until maturity.

- Floating Rate Bonds / Notes - FRN: FRNs have a coupon that is reset periodically with respect to the reference interest rate (e.g. Euribor, Libor). The reference rate as well as any possible spread, which is added to or subtracted from the reference rate, is specified when the bond is issued. The interest that the investor receives in each interest period depends on the fluctuation of the reference rate. If at the coupon reset date the index has decreased, then the coupon will decrease accordingly.

- Callable Bonds: When a callable bond is issued, it is specified in its issue terms that the issuer has the right to "call" it at specific future dates, i.e. repay it prior to its maturity. For instance, if interest rates are significantly decreased with respect to the bond's coupon, then the issuer can exercise the call right at the price and the date specified when the bond was issued.

- Puttable Bonds: When a puttable bond is issued, it is specified in its issue terms that the bond holder has the right to demand that the issuer repays it at a predetermined price and at dates prior to its maturity date. For example, if the interest rate is significantly increased with respect to the bond's coupon, then the bond holder can exercise the put right at the price and the date specified when the bond was issued.

- Convertible Bonds: Convertible bonds offer the investor the right to convert them to other securities of the same issuer, usually equities. The conversion right may be exercisable at specified future dates and conversion ratio between the bond and the other underlying security and according to predefined procedures.

- Structured/Complex Bonds: Bonds, whose return and/ or the capital payment at maturity are not predefined but depend on certain underlying securities, indices or other factors. Structured/ complex bonds can be classified according to the following characteristics:

  - Capital Guarantee at Maturity: (a) 100% capital guarantee at maturity, (b) Partial capital guarantee at maturity and, (c) Non capital guarantee at maturity.
  - Type of underlying financial instrument: (a) Equities or indices, (b) Interest rates, (c) Exchange Rates, (d) Commodities, (e) Mutual funds or hedge funds, (f) Other instruments (freight rates, indices relating to climate changes, emission allowances, inflation rates or other official economic statistics etc.) and (g) Combination of two or more underlying financial instruments.
  - Maturity: (a) Up to 1 year, (b) 1 – 2 years, (c) 3 – 5 years and (d) Over 5 years.

Notes relating to investments in Bonds: (a) The possibility that an issuer will not be able to pay the investor the initial principal and/ or the coupons (credit risk), which is the case when the issuer goes bankrupt, cannot be eliminated.
(b) Usually when interest rates increase, the price of the bonds decreases. Additionally, usually fixed coupon bonds, with long maturities and low coupons are more sensitive to interest rate variations than those with shorter maturities and higher coupons.
(c) Bond investments may lead to the loss of a portion of the invested capital amount, when the investor sells them prior to their maturity date.
(d) The prices of structured bonds in the secondary market are affected also by the underlying securities, which may lead to the loss of up to 100% of

the invested principal (in case of structures bonds with no capital guarantee) as well as of the return.

**Other Securities**
This category includes the following securities:

- Hybrid Notes: Securities that combine the characteristics of other financial instruments. The investor may receive dividend, like owning a share, but the note may behave in the secondary market like a fixed income security. These notes are subordinated debt securities and belong to the category of Basic Own Funds (Tier 1 Capital).
  Hybrid Notes may, for instance, pay a specific amount of dividend at regular intervals, like a fixed income security, but may simultaneously include terms that give the issuer the right to omit some payment (like in preferred shares) in case of objectively specified economic difficulties.
  It is rather often that hybrid notes do not mature (perpetual notes), like equities, or have really distant maturities dates (e.g. 100 years), but the issuer has the right to buy them back at predetermined dates (call right of the issuer).
  Investments in hybrid notes entail capital and/ or yield loss risk.

**EMTN (Euro Medium Term Notes)**
Eurobank EFG issues debt instruments (bonds and securities) with a medium to long term maturity through the Euro Medium Term Notes (EMTN) Program of EFG Hellas plc and EFG Hellas (Cayman Islands) Limited which are guaranteed by Eurobank EFG. This program has the approval of Luxembourg's Financial Sector Supervisory Commission (Commission de Surveillance du Secteur Financier).
Securities issued through the EMTN Program may be classified to one of the above mentioned categories according to the characteristics of the issue.

### *7.4 Mutual Funds*

A Mutual Fund is a pool of assets that includes transferable securities, money market instruments and cash whose individual assets belong indivisibly to more than one unit holders, according to the number of units each one holds. Mutual Funds are not legal entities, have no maturity and the unit holders are represented in and out of court in relation to their legal dealings arising from management and their rights in the fund assets by the manager (the Mutual Fund's Management Company).
The Management Company is responsible for managing the fund according to the fund's investment objectives and policy.
The mutual fund's future performance cannot be determined in advance. The value of the fund's portfolio may increase or decrease as it depends on the market characteristics and volatility as well as emerging current conditions. The mutual fund's net assets, the number of units, the net value of each unit, and its sale and redemption price are calculated every business day and are published in the daily press two business days later by the Management Company.

There are various categories of mutual funds. The most common are:

- Money Market Funds: Money Market Funds primarily invest in money market instruments and secondarily in debt instruments.

  Bond Funds: Bond Funds invest mainly in government and corporate bonds and secondarily in money market instruments.

- Equity Funds: Equity Funds invest mainly in shares listed in domestic or foreign regulated markets.

- Balanced Funds: Balanced Funds combine investments in debt instruments and stocks.

- Funds of Funds: Funds of Funds invest in units of other funds. Funds of Funds are "baskets" of funds whose main objective is high diversification in terms of investment instruments (e.g. bonds, stocks) as well as geographical dispersion.

- Special Type Funds: Special Type Funds are long-term funds which are characterized by the use of derivatives. Through this strategy, they offer capital and yield guarantee at maturity through a mechanism of assessing the course of an underlying instrument (e.g. basket of stocks/bonds, index or basket of indices). Due to their exposure to derivatives they are considered to entail high risk.

- Absolute Return Funds: This type of Fund follows the interbank market interest rates aiming at achieving a return higher than the money market instruments' return while having certain objectives regarding its variance. Usually, investment vehicles in these Funds are debt instruments, money market instruments and derivatives.

- Exchange Traded Funds: The units of this type of Funds are listed and traded in regulated markets. Typically, their portfolio structure tracks a stock index such as the S&P 500 or a market sector such as energy, technology, commodities (gold, oil etc).

- Commodity Funds: Commodity Funds are Funds of alternative types of investments. This type of Fund is active in the commodities market by using derivatives which have commodities or commodities indices as their underlying assets. Their performance depends on the course of the underlying instruments.

According to their investment profile, investors should carefully select the funds they decide to invest in.
It is the Fund's Management Company responsibility to decide and choose the financial instruments in which the fund invests. The Law 3283/2004 and relevant Decisions of the Hellenic Capital Markets Committee (HCMC) specify those financial instruments, their respective participation shares in the fund's portfolio and other obligations. The mutual fund's objective, category, investments restrictions, degree of portfolio risk exposure as well as charges are described in the fund's charter.

### 7.5 Structured/Complex Products

Structured/ Complex Products consist of a number of financial instruments that have different payment terms and risk characteristics. Structured/complex products can be indicatively classified according to the following characteristics:

- Capital guarantee at maturity: (a) 100% capital guarantee at maturity, (b) Partial capital guarantee at maturity and (c) No capital guarantee at maturity.

- Type of underlying financial instrument: (a) Equities or indices, (b) Interest rates, (c) Exchange Rates, (d) Commodities, (e) Mutual funds or hedge funds, (f) Other financial instruments (freight rates, indices relating to climate changes, emission allowances, inflation rates or other official economic statistics etc.) and (g) Combination of two or more underlying instruments.

- Maturity: (a) Up to 1 year, (b) 1–2 years, (c) 3–5 years and (d) Over 5 years.

- Structured/ complex products may take the form of a bond or a deposit.

The prices of the structured/ complex products are affected by the underlying instruments, which may lead to the loss of up to 100% of the invested principal (in case of structured products with no capital guarantee).
A specialized structured product offered by the Bank is the following:

- Dual Currency: This is an investment product that has a short maturity and consists of:

    - A time deposit
    - An option on an exchange rate (e.g. the EUR/USD), which the investor sells to the Bank.

At maturity, the investor collects a higher interest on the invested currency ("investment currency") compared to a simple time deposit but simultaneously the Bank maintains the right to pay off the initial investment in the second currency ("alternative currency") at maturity at a predefined strike price. The Dual Currency product guarantees the interest on the investment currency amount, but does not guarantee the principal amount at maturity.
In any case, the interest is paid in the principal currency ("investment currency"), while the currency in which the pay off is delivered depends on an exchange rate (e.g. EUR/USD), as it is shaped in the spot market at maturity with regard to the exercise price of the transaction. This instrument entails the risk of a significant loss of the invested capital.

### 7.6 Derivatives

Derivatives are financial instruments whose value is based on, derived from or follows the value of other underlying assets, the so-called "underlying instrument". Indicative underlying instruments may be exchange rates, interest rates, equities, bonds, stock exchange indices, commodities, other instruments (e.g. freight rates, climate variables, emission allowances, inflation rates or other official economic statistics etc.), assets or credits. The derivative contract specifies the rights and obligations of the parties with respect to their mutual debts, which are calculated on the basis of the value of the underlying instrument at a predetermined future date or at regular intervals. The main types of derivatives are futures, forwards, options and swaps.

The main uses of derivatives are:

- Hedging
  Those who invest in derivatives may aim at hedging existing or future risks, which may arise from other investments or other undertaken obligations (e.g. an investor on the Athens Exchange Equities Market, who wants to reduce the market risk that derives from price downward trend, may open an offsetting hedging position on the Derivatives Market.)

- Speculation
  Derivatives investors may aim at generating profit (speculation). In this context, they use financial instruments according to their expectations about market performance to generate profit while also undertaking the relevant risk. A significant characteristic of derivative instruments is that they allow investors to hold positions whose value is a multiple of the amount invested (leverage) accompanied by the corresponding increase in the undertaken risks.

- Arbitrage
  Derivatives investors may aim at generating profit without taking any risk, by taking advantage of short-term discrepancies in market prices, i.e. possible differences in prices of the same financial instrument in two or more different markets (arbitrage). Arbitrage requires the execution of several transactions within a limited timeframe, and therefore only investors who have a deep knowledge of the markets and have direct access to trading systems and extremely low or zero transaction costs can engage in it.

Two fundamental characteristics that differentiate derivatives are their trading venue and the settlement type.

### *7.6.1 Futures*

Futures are bilateral contracts whereby the purchase or sale of a security at a specific quantity at a specific future date for a specific price is agreed. Futures are exchange traded derivatives instruments, i.e. products with standard terms that are listed in regulated markets. They are used for hedging, speculation and arbitrage.
Every regulated derivatives market has a clearing house, whose mission is the clearing of derivative transactions and the assurance that both counter-parties will fulfill the obligations that derive from those transactions. The clearing house of the Athens Derivatives Exchange is the Athens Derivatives Exchange Clearing House (ADECH).
The risk associated with these instruments is considerably high.

Some fundamental terms relating to futures are:

- Contract Size: The quantity of the underlying instrument covered by a futures contract. For instance, in the Athens Exchange the contact size for an equity future is 100 shares.

- Expiration Date: The date on which the contract expires.

- Price of the contract: The trading price of the contract, i.e. the price at which the future is bought/sold.

- Settlement price: The price published by the clearing house at the close of each trading session.

With respect to the underlying instrument, futures can be classified into the following types:

- Index futures: futures whose underlying instrument is a stock exchange or financial index.

- Equity futures: futures whose underlying instrument is a listed stock.

- Currency futures: futures whose underlying instrument is a currency exchange rate (currency pair).

- Bond futures: futures whose underlying instrument is a bond.

- Commodity Futures: futures whose underlying instrument is a commodity.

A future contract involves the following margins:

- Margin: The Margin constitutes the amount the clearing house demands as collateral in case the investor cannot meet his/her obligations derived from the daily settlement.

- Initial margin: The amount demanded by the clearing house when a transaction takes place.
- Variation Margin: In case the value of the assets used as initial margin is under a predetermined limit, the derivative contract holder is obliged to deposit the amount of the difference (margin call); otherwise the clearing house will proceed to the liquidation of the contract.
- Mark-to-Market and Daily Settlement Process: to minimize losses due to breaches of obligations by the investors, futures are marked-to-market daily. The daily profits or losses are credited or debited to the investor's account.

As far as futures traded on the ATHEX Derivatives Market are concerned, the Athens Derivatives Exchange Clearing House (ADECH) calculates the investors' initial margins and the additional margins that arise from daily settlement using the RIVA (Risk Valuation) calculation algorithm. ADECH also defines a minimum (independent from the valuation of the outstanding positions) account balance per final client (transaction/settlement code).

### *7.6.2 Forwards*

Forwards are bilateral contracts which relate to the purchase / sale of a specified quantity of a security at a specified time in the future and at a specified price. Forwards are similar to futures, their main difference being that forwards are not traded on regulated markets but are over-the-counter instruments.
As a result, forwards, unlike futures, do not have standardized features, but are flexible instruments that can be customized to meet the investors' needs. Forwards do not have a standard contract size, maturity, margin account or daily mark-to-market. The price at which the underlying instrument is bought/sold is the forward rate of the instrument at the time the contract is drawn. When the forward is created it has a zero value and therefore there is no monetary exchange between the seller and the buyer.
Forwards are used for hedging, speculation or arbitrage purposes and have the same risks as futures with the addition of counterparty risk due to the fact that they are traded outside a regulated market and there is no clearing house.

With respect to the underlying financial instrument, forwards can be classified to the following types:

- Index forwards: forwards whose underlying instrument is a stock exchange or financial index.
- Equity forwards: forwards whose underlying instrument is a listed stock.
- Currency forwards: forwards whose underlying instrument is a currency exchange rate (pair of currencies).
- Bond forwards: forwards whose underlying instrument is a bond.
- Forward Rate Agreements (FRAs): forwards whose underlying instrument is a reference rate, such as EURIBOR, LIBOR, etc.
- Commodity forwards: forwards whose underlying instrument is a commodity.

Currency forwards are typically used by investors that need to manage exchange rate risk, such as corporations that borrow in foreign currency, import-export companies, companies that have capital inflows from abroad in foreign currency and shipping companies with expenses in Euros and revenues in US Dollars.
The most widely used currency forwards are:

- Forward: An agreement that secures a fixed exchange rate on a predetermined future date.
- Flexible Forward: A forward whose execution date is open.

### *7.6.3 Options*

Options are bilateral contracts that convey to one of the contracting parties the right (but not the obligation) to purchase or sell the agreed underlying security at a specified price (strike price) at a future point in time within a specific hour or deadline at a premium simply by making a unilateral declaration

to the other party, on condition that such unilateral declaration is actually made.
Indicatively, the underlying instruments may be commodities, currencies, interest rates, stock exchange indices etc. Options are used for hedging, speculation and arbitrage purposes.
The risk that is undertaken by the buyer is limited to the loss of the premium. The seller of the option on the other hand, undertakes significantly high risk.
Options are derivatives that may be exchange traded (listed), i.e. financial instruments that have standardized terms (standardized contracts) and are traded in a regulated market; or, over-the-counter (OTC), i.e. instruments that are traded outside regulated markets and they are designed by a financial institution to match the particular needs of every client.

Some of the fundamental terms relating to options are the following:

- Strike Price: The price at which the buyer of a call or put option may choose to exercise his/her right to buy or sell the underlying financial instrument, respectively.

- Expiration Date: The date when the option expires (i.e. the last date on which the option can be exercised).

- Settlement Date: The date on which the contract is settled, either via physical delivery (i.e. by exchange of the underlying instrument for cash) or via cash settlement (i.e. a cash transfer to the options buyer), and is usually two business days after the option expiration date.

- Contract Size: The quantity of the underlying instrument which the contract relates to.

- Premium: The cost of acquiring the call or put option.

Depending on the type of the underlying financial instrument, options may be classified into the following categories:

- Index option: An option whose underlying instrument is a stock exchange index.

- Equity option: An option whose underlying instrument is a listed stock. In the Athens Derivative Exchange only American style equity options are available.

- Currency option: An option whose underlying instrument is an exchange rate (pair of currencies).

- Interest rate option: An option whose underlying instrument is a reference rate, such as EURIBOR, LIBOR, etc.

- Commodity option: An option whose underlying instrument is a commodity, such as gas, oil etc.

The Bank also offers financial instruments that are composed of positions in options. These instruments address companies' needs for managing foreign exchange risk. Companies that may have such needs are companies with loan obligations in foreign currency, import-export companies, companies with capital inflows in foreign currency and shipping companies that have expenses in Euro and revenues in Dollars. The most widely used are the following:

- Forward Plus

- Knock-out Forward

- Knock-out Forward Plus

- Zero Cost Collar

- Target Profit Forward

- Accumulator Forward

- Cancellable Forward

Additionally, the Bank offers financial instruments that are composed of several positions in options that cover companies' needs for managing interest rate risk. Companies with loan obligations may have those needs. Some of the most widely used are the following:

- Interest Rate Cap
- Interest Rate Collar
- Interest Rate Knock-out Collar
- Swaption
- Interest Reduction

### *7.6.4 Swaps*

Swap is a bilateral contract by which the parties agree to exchange one stream of cash flows against another stream based on a predetermined nominal amount of a specific currency at predetermined periodical dates until the maturity date of the contract.
Swaps are OTC instruments and are usually used for hedging, speculation or arbitrage. The risk associated with these instruments is significantly high.

Swaps are distinguished in the following main categories:

- Interest Rate Swaps: Swaps involving the exchange of interest rates used for interest rate risk hedging.
- Currency Swaps: Swaps involving two different currencies that are offered for hedging foreign exchange and interest rate risk.
- Commodity Swaps: Swaps whose payments are based on the return of indices on commodities and are offered for hedging from commodities' price volatility.
- Freight Rate Swap: Swaps whose payments are based on freight rate indices for transporting goods by sea.

Some of the instruments offered by the Bank and included in the Interest Rate Swaps category are the following:

- Floating to Fixed Interest Rate Swap
- Forward Starting Interest Rate Swap
- Variable Swap
- In Arrears Swap
- Quanto Swap
- Range Accrual Swap
- Multiplier Swap
- Cancellable Swap
- Floating to Floating or Basis Swap

## 8) ORDERS INVOLVING LISTED FINANCIAL INSTRUMENTS

All trading orders of listed financial instruments are entered in special trading systems of regulated markets. It should be remarked that not all the types

of orders are available in all regulated markets. The investor should be informed whether the type of the order that he/ she wishes to place, is supported by the system of the regulated market, in which he/she wishes his/her transaction to be executed.
The buy/sell orders of financial instruments should specify several items of information, such as the financial instrument, the number of units, the price, the client's trading account etc.

With respect to price, the order may be:

- Market Order: it is the order which specifies the desired quantity of financial instrument units but does not specify the minimum or maximum price limit, at which the transaction will be executed. This order is executed immediately at the current market price.
- Limit Order: it is the order which specifies precisely the desirable quantity and price (higher price for buy orders, lower price for sell orders) of the financial instrument and is valid until the end of the trading day.
- At the Open Order: it is the order which specifies the desirable quantity of the financial instrument, but sets as desirable price the opening trading price of the instrument.
- At the Close Order: it is the order which specifies the desirable quantity of the financial instrument, but sets as desirable price the closing price of the instrument during the trading period.

With respect to the duration of the order, the following order types exist:

- Rest of the Day: an order that is valid only for the current session.
- Good till date: an order that is valid until a particular date.
- Good till cancelled: an order that is valid until its cancellation.

A Specific Condition is the additional term of the order, which should be met in order for the system to allow the transaction to be executed (such as stop, fill or kill condition, etc.)

## 9) INVESTMENT RISKS

Historical returns of the various financial instruments do not ensure future performance. Every investment on any financial instrument is exposed to one degree or another, to all or some of the following risks:

- Systemic Risk: It is the risk of a change in the value of a financial instrument due to specific market-related factors.
- Non-Systemic Risk: Non-systemic or specific risk is the risk of a change in the value of a financial instrument due to specific factors that influence the issuer of the instrument (issuer's financial results, market sector).
- Market Risk: It is the risk of unfavorable changes in general market factors such as interest rates, stock and index prices, exchange rates, commodity prices, changes in volatility.
- Interest Rate Risk: The risk derived from unfavorable changes in interest rates and their consequent effect on the present value of an investment's future cash flows.
- Inflation Risk: The loss of the real value (buying power) of capital due to a larger than expected increase in the level of inflation.
Portfolio Management Risk: It is the risk that depends on the investment strategy that is being followed or on the ability of the portfolio manager to act according to the best portfolio management practices.
- Credit Risk: It is the risk of loss due to the possibility that the counterparty will not meet his/her contractual obligations.
- Early Redemption Risk: Some types of bonds give the issuer the right to recall and redeem them before their maturity date. The risk originates from the possibility that the bonds will be recalled at an unfavorable price for the investor.

- Foreign Exchange Risk: The risk originating from unfavorable changes in the exchange rate of the currency at which the financial instrument is valued.

- Liquidity Risk: The risk of not being able to liquidate a financial instrument within a reasonable time at a price close to its current market price. Financial instruments that historically present large marketability entail low liquidity risk (e.g. US T-Bills).

- Legal Risk: The risk that financial instruments contracts do not include detailed and clear information on the financial instruments' characteristics and value at maturity. This may happen in over-the-counter transactions whereas in regulated markets transactions the legal risk is almost eliminated.

- Operational Risk: The risk originating from factors such as people, systems and processes. For example, the risks of a client's order being executed incorrectly or not in timely manner by the broker, or the risk of having the trade – matching system or derivatives settlement system broken down.

- Basis Risk: The risk of deviation between the prices of derivatives and the prices of their underlying financial instruments due to the exchange market conditions or rules imposed by the derivatives or underlying instruments market regulators.

**The markets in which the various financial instruments are traded are subject to considerable fluctuations and the Bank can not guarantee specific returns.**