Alfa Capital Markets

Financial Instruments Description and Associated Risks

Year 2020

Alfa Capital Markets Ltd is registered in Cyprus and is regulated by the Cyprus Securities and Exchange Commission (License Number 387/20).

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DISCLAIMER

The information contained in this document is intended solely to inform you about the risks associated with the Financial Instruments described below, and to ensure that you're aware of their nature and risks so that you are able to make informed decisions.

Alfa Capital Markets Ltd (hereinafter referred as "the Company" or "we" or "us" or "our") does not intend to provide any investment, legal, financial, tax or other advice through this documentation, and you should not rely on this documentation as a recommendation to enter into a transaction with any of the Financial Instruments analyzed herein. Nothing in this documentation amends or supersedes the express terms of any transaction between you and us or any related governing documentation.

This document, accompanied with the Risk Disclosure of our Forex products, will be referred together as the Company's 'Risk Disclosures'. The Risk Disclosures shall constitute an integral part of our basic contract with you.

The information included in Risk Disclosures is not intended to constitute a comprehensive statement of all the risks to which investors might be exposed to and there may be other risk factors and other considerations that clients should take into account in relation to a particular investment. Please be aware that there is a risk of losing the entire value of your investment, or (in the case of certain derivative and other transactions and provided that no negative balance protection applies by virtue of any applicable legislation) being exposed to liability over and above the initial investment.

We are acting solely as an arm's length contractual counterparty in connection with the transactions you enter with us, and not acting as your advisor, representative and/or fiduciary. Despite any communications between you and us in connection with or with respect to the transaction with any financial instrument (before or after its settlement), the Company neither provides any guarantees, representations or warranties, nor accepts any liability whatsoever, for any actual financial results, intentions or expectations you may have in connection with the financial instrument or its conformity with any specific goals.

For the avoidance of doubt, this risk analysis provided herein does not cover Tax risk (i.e. the risk concerning with complexity of tax laws of the different countries applicable to the Client) but rather, provides some general information. Therefore, you should consider at your own risk any potential tax consequences arising from your investments. It is important to note that potentially the current interpretation of tax laws and practices may change and could have negative effects on you. The Company cannot provide any tax advice. You are advised to seek advice from independent tax advisors.

The information contained in this document has no regard to the specific investment objectives, financial situation, or particular needs of any specific recipient. It is suggested that you do not take any decisions to deal in financial instruments that you do not understand their nature and the extent of your exposure to risk. Consider your financial position, your risk appetite, your knowledge, your experience in the specific financial instrument and your investment objectives when making investment decisions. Notwithstanding any other provision herein, you may refer to your professional financial, legal and/or tax advisers for a full and comprehensive analysis of the economic and legal nature of the Instrument, as well as its tax and/or accounting impact. Neither the Company, nor any of its affiliates, directors, employees or agents accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information contained herein.

It is noted that the classification of risks for the different financial instruments may vary for different regions, and especially for individuals.

The information provided herein is about financial instruments and is based on the analysis made at a certain time period that is potentially subject to change. Changes should be considered market driven; the Company has no influence on these changes.

GENERAL

The Company, as a regulated European financial institution is applying restrictions for investors protection related to their exposure to risk taking into account the provisions of the applicable legislation and investors' client classification. However, investors should be informed that different financial instruments incorporate different levels of risk exposure, and based on their client classification, access to certain financial instruments (e.g. complex financial instruments) might not be granted.

Adverse market conditions in general, or negative events concerning particular entities and instruments, may lead to enormous changes in the value of financial instruments. Investors can lose a significant part of an investment, or the entire investment, or can be required to pay more money in cases they are trading on a margin.

BASIC TYPES OF RISKS

When investing in financial instruments you may be exposed to some or all of the risks described below:

Credit risk

Credit risk is the risk arising from the counterparty's inability or unwillingness to meet its contractual obligations normally due to a default and it is highly connected to settlement risk. This may result in a loss of the principal amount, investment opportunity, and market gains.

Settlement and pre-settlement risk: Settlement and pre-settlement risks arise when one of the two parties does not meet its obligations to pay or transfer securities to the other party. Settlement risk is the risk of loss of the principal amount; pre-settlement risk is the risk of the loss of the possible market opportunity.

Custody risk: Securities held under custody are subject to the law and market practices of the relevant country where they are held. If custodian becomes insolvent the claims priority is determined by the applicable law. For more information regarding the safekeeping of financial instruments please refer to our Terms of Business.

Issuer risk

Issuer's risk is the risk that the issuer becomes insolvent. A change in the credit and other ratings (e.g. downgrade) or lawsuits and claims against the issuer may result in a decrease in the value of the issuer's securities or in failure to redeem debt securities. Lower credit quality of an issuer may lead to greater volatility in the price, changes in liquidity and therefore challenges in selling the associated instrument.

Liquidity risk

Liquidity refers to the ability of market participants to buy or sell their securities at a specific time. Risk of low or no liquidity can result in a loss of an investment opportunity to buy or sell instruments at competitive prices.

Market risk

Market risk is the risk that the value of an investment will decrease due to movements in various market factors. Interest rate risk, currency risk and instrument price risk are the main market risk types.

Interest rate risk: Changes in interest rates may cause contrary effects to the value of an investment. Fixed income instruments are mostly affected by changes in interest rates and have adverse effect when interest rates increase. The buyer of a fixed income security or an instrument which is largely dependent on interest rates should strongly consider interest rate fluctuations.

Currency risk: Currency risk is a form of risk that arises from the change in the price of one currency against another. Whenever investors or companies hold assets or operate in different currencies, they face currency risk if their positions are not hedged. Currency risk arises also from financial instruments traded in currencies different than the investor's reporting currency, e.g. U.S government bonds bear high currency risk for a Russian investor.

Instrument price risk: Financial instruments prices may undergo sharp price fluctuations due to general market conditions like news, elections, etc. or specific conditions related to the issuer. Price fluctuations, the frequency and duration of which can be unpredictable, may cause the risk of loss.

Volatility risk

Refers to the degree of (typically short-term) unpredictable changes over time in value of a certain variable. Historical volatility is derived from time series of past market data, and implied volatility (for Options) is the volatility implied from an option price using the Black-Scholes or a similar model. The higher the volatility of a security, the greater will be the change in the movement of the price of the security (upward or downward). Investing in more volatile instruments, more volatile markets, or high risk countries can result in higher potential gains and losses.

Political risk

A number of various factors such as national conflicts, racial and national tensions create political instability in a country. Political risk can drag down investment returns or even restrict the potential to withdraw or transfer capital from an investment. A country under international attention or sanctions for its actions or practices against money laundering, terrorist financing or for its acts against ethnic, social, or economic matters may cause uncertainty in respect of the securities or assets of an issuer directly related to that country. Such securities may be subject to confiscation, blocking, or restrictions on any transactions. Political risk is higher when investing in Emerging markets. For more information about emerging markets risks please refer to the "Emerging Markets risks" below.

Inflation risk

Inflation risk is the possibility that the value of an asset or income will decrease as inflation shrinks the purchasing power of a currency where the said income or asset are denominated. Inflation causes cash to decrease in value at some rate and does so irrespective of whether the cash is invested or not. The uncertainty over the future real value (after inflation) of your investment as well as that inflation will undermine the performance of the investment.

Emerging Markets risks

Emerging market risk is the risk arising from investments or transactions in instruments related or linked to business in emerging markets. Some of the factors that increase the risk when investing in emerging countries are the higher probability of currency devaluation, higher price volatility, less government supervision, legal and political instability, diverse settlement, clearing procedures, etc..

Investing in Emerging markets involves risks, including but not limited to the following:

- **Event risk:** On occasion, a country or region will suffer an unforeseen catastrophic event (for example, a natural disaster), which causes disturbances in its financial markets, including rapid movements in its currency, that will affect the value of instruments in, or which relate to, that country. Furthermore, the value of instruments and any income derived from it can be affected by global events, including events (political, economic or otherwise) occurring in a country other than the country in which the instruments are issued or traded.

- **Economic risk:** The economies of emerging markets countries are by nature in early or intermediate stages of development, and therefore more vulnerable to rising interest rates and inflation. In fact, in many countries, high interest and inflation rates are the norm. Rates of economic growth, corporate profits, domestic and international flows of funds, external and sovereign debt, dependence on international trade, and sensitivity to world commodity prices play a key role in economic development, yet vary greatly from country to country.

Businesses and governments in these countries may have a limited history of operation under certain market conditions. Accordingly, when compared with more developed countries, businesses and governments of emerging market countries are relatively inexperienced in absorbing certain market conditions and have a limited capital base from which to borrow funds and develop their operations and economy. In addition, the lack of an economically feasible tax regime in certain countries poses the risk of sudden imposition of arbitrary or excessive taxes, which could adversely affect foreign investors. Furthermore, many emerging market countries lack a strong infrastructure and banks and other financial institutions may not be well developed or well regulated. AII of the above factors, among others, can affect the proper functioning of the economy and have a corresponding adverse effect on the performance of instruments linked to a particular market.

Environmental and Climate Change risks

Some countries are more vulnerable to climatic and environmental changes than others, e.g. natural disasters. Extreme weather conditions and natural disasters can lead to social crises and may have an adverse effect on an investor’s returns as well as on economic conditions generally. Some countries may impose penalties on companies which are responsible for pollution which can include fines or assets confiscations. This in turn, can have an impact on an investor’s (e.g. shareholder, bondholder) rate of return.

Leverage (Margin Trading) risk

Leverage takes the form of a loan or other borrowings (debt), the proceeds of which are reinvested with the intent to earn at a greater rate of return compared to the cost of interest. Leverage allows greater potential returns to the investor that otherwise would not have been possible. The potential for loss is also greater in the event that the investment decreases in value, as the loan principal and all accrued interest on the loan will still need to be repaid.

Margin trading involves a higher degree of risk than ordinary trading. You should understand that while such trades may give a greater opportunity for profit, it is also of a higher degree of risk.

A client may use margin to purchase securities for which it does not have available cash. These activities could lead to shortfalls in the client’s account in the event of a market downturn. Margin trading is suitable **only for those clients who fully understand its nature and who can bear the responsibility and increased risk.**

The Company uses securities purchased on margin, as collateral for the loan provided to you. If the securities in your account decline in value, the Company will issue a margin call and in the case you will not provide additional collateral to bring your equity to the required level, the Company will close your position.

Operational risk

Operational risk refers to the risk of losses as a consequence of the employees’ non-compliance with the relevant policies that govern the organized markets, custodians, registrars, clearing or credit organizations in the course of settlement of transactions in securities or derivatives.

Legal and Regulatory risk: Non developed countries may not have the necessary legal and regulatory framework for the proper and efficient functioning of a capital market. This may include the absence of a Market regulator leading to non-tight legislation and limited investor protection and compensation schemes. On the other hand, countries with strict regulatory framework may be subject to on-going and substantial regulatory changes which make it impossible to predict what changes may occur in the future and how they will impact investment returns.

Technical risk: Technical risk is the risk of failure arising in the course of ordinary operation of trading systems and communication lines (defects and failure in the operation of equipment, IT software, power supply service etc.), that may hinder the transmission of orders or the execution of transactions in securities and/or derivative contracts and restrict the investor’s access to information about prices.

Tax risk

Tax risk is associated with the uncertainty arising from tax laws due to their complexity and different applicability per country. In addition, changes in the law may lead to new requirements regarding capital gains. Double tax treaties between countries can have positive impact on the capital market prices but there is no guarantee that such treaties will remain in place or that they will not be changed at some point.

Some countries may impose tax levies, duties, or charges in the profits from the trading of assets. Global tax regulations and country specific tax regulations change and it is the obligation of the investor to be informed for any such changes. **The Company does not and will not provide any tax advice. Investors are advised to seek for an independent tax advice.**

Third Party risk

The client’s financial instruments or funds may be held by a third party on the Company’s behalf. In such circumstances, the Company is not liable for the acts, omissions or insolvency of any third party. Consequently, if a third party becomes insolvent, there may be some risk to the client's financial instruments or funds if all or part of the client's financial instruments or funds held by such third party are not delivered to the Company’s order, by the third party's insolvency official.

The client's financial instruments or funds may be held in an omnibus account by the third party, and there is a risk that the financial instruments or funds could be withdrawn or used to meet obligations of other persons, or that the balance of assets held by the third party does not reconcile with the quantity which the third party is required to hold, and the Client may not in such circumstances receive their full entitlement of financial instruments or funds.

In some jurisdictions it may not be possible to identify separately the financial instruments or funds which a third party holds for clients from those which it holds for itself or for the Company, and there is a risk that the client's financial instruments or funds could be withdrawn or used to meet the obligations of the third party, or lost altogether if the third party becomes insolvent.

An account containing the client's financial instruments or funds may be subject to the laws of a non-EEA jurisdiction, and in such case the client's rights in relation to those financial instruments or funds may be different from the client's rights to financial instruments and/or funds held in an account subject to the laws of an EEA jurisdiction.

The Company may use a third Party in a country which is not an EEA state and where the holding and safekeeping of financial instruments and holding of funds is not regulated. The Company will only do so when the nature of the financial instruments and/or funds of the services provided to the Client connected with those financial instruments and/or funds requires them to be deposited with such a third Party or where the client has requested the Company in writing to deposit financial instruments and/or funds with a third Party in the relevant non-EEA state.

Where any of the client's financial instruments or funds are held with a third party (including a depository), such third party (or any person to whom the holding of the client's financial instruments or funds is delegated) may have a security interest, lien, right of set-off, or similar rights over the client's financial instruments or funds to the extent permitted by applicable legislation. Where the client's financial instruments or funds are held by a third party (or any person to whom the holding of the financial instruments or funds is delegated), and such third party or other person has a security interest, lien, right of set-off, or similar rights over the client's financial instruments or funds, the client is exposed to the risk that such third party or other person may exercise such rights over the client's financial instruments or funds and reduce the amount of the client's financial instruments or funds even where the Client has not breached any of its obligations.

RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

Below, there is a detailed description of financial instruments offered by the Company. The risks that are more commonly associated with those instruments are disclosed individually whereas, risks related to other factors such as political risk, tax risk and inflation risk are consolidated in “Risks related to external factors”.

It should be noted that during stressful market conditions, various instruments’ characteristics (e.g. volatility, liquidity) may worsen. Complexity level is graded as 1 or 2, 1 is for non-complex instruments and 2 for complex instruments. By complexity we understand the degree of financial sophistication of the instrument. Complex instruments require from the investor a background in finance in order to understand the nature of the instrument or of the combination of instruments and its risks. The Company is not obligated to update this document or inform clients in the event of market volatility that creates stress in the market. This document has been prepared to analyze the risk associated with investments in the below financial instruments while the markets are not experiencing any stress or abnormal conditions.

Each financial instrument has been selected with great caution in order to fit the relevant target category of clients whom it is assigned to. Retail clients are required to be very cautious on their investment decisions and take into account the below warnings and information. Retail clients should invest in non-complex instruments and Professional clients have the option according to their signed agreements to invest in instruments such as derivatives. Retail clients who meet the conditions to be treated as professional clients should pay attention to the complexity and sophistication of each financial instrument as by agreeing to be treated as professional clients they waive some of the protections offered to Retail clients. Prior to applying for a trading account, the clients should consider carefully whether investing in a specific Financial Instrument is suitable for them in light of their financial knowledge, experience and financial situation and objectives.

1. EQUITIES (Shares and Depositary Receipts)

Shares represent an interest in the share capital of a company. The extent of an investor's ownership in a company depends on the number of shares held in comparison to the issued number of shares. Owning shares in a company provides an opportunity to participate in the company's profit and performance, in the form of dividends and capital growth. Individual shares and stock markets can be volatile, especially in the short-term. Some shares are likely to be more volatile than others. This depends on, among other things, the business, geographic location, and the size of the company.

Equities can be separated in two categories, common stocks and preferred stocks. Common stocks have voting rights compared to Preferred stocks which they do not. Common stockholders are at the bottom of the priority ladder of ownership structure, and in the event of liquidation, common shareholders have rights to a company's assets only after bondholders. Preferred shareholders and other debt holders are paid in full. Common stocks may or may not pay dividends while preferred stocks pay a specific stream of dividends.

American depositary receipts (ADRs) are certificates held in a U.S. bank that represent a certain number of shares traded in another country. Global depositary receipts (GDRs) are certificates held in a bank in one country that represent a certain number of shares traded in another country.

In order to issue ADRs / GDRs, the company has to go through the listing procedures of the US/ European exchange. These procedures include a more detailed disclosure from the issuer compared to what is normally required for local listing. Therefore, companies issuing ADRs and GDRs are generally more transparent, thus allowing investors to make more informed investment decisions.

Bearer shares are stock certificates which are the property of whoever happens to be in possession of it at any given time (no record of ownership or transfers is kept by the company’s share register).

In case of registered shares, records are kept of who owns the equities, and of the transactions involving transfer of ownership (in a company's share register).

Due to uncertainty of cash flows, equities are difficult to value. Equity prices can change significantly due to trends in entire market or market segment (general or systemic risk) or due to events concerning one particular entity (specific or non-systemic risk) or sector. Investing in equities may lead to losing a significant part of an investment, the entire investment or you might be required to pay more (e.g. in margin trading: when stocks are used as collateral for margin trading and the value of investor’s portfolio decreases to the level that a margin call is issued. Thus the portfolio’s value has decreased and the investor has to pay the margin call).

Liquidity in equities markets and individual stocks changes over time. Closing positions during low liquidity periods may lead to losses, since it may not be possible to close positions at profitable prices when few market participants are willing to buy/sell stocks.

Emerging market companies are generally less transparent, and emerging markets are more volatile than developed ones. Investing in equities of emerging markets involves a high degree of risk. In emerging markets however, an investor can also find blue chip stocks (as opposed to 2nd or 3rd tier stocks and illiquid stocks) that demonstrate higher liquidity and more information disclosure by the issuing company.

1.1 Equity: Developed markets

Financial commitments and other additional obligations:	N/A in general; margin call in case of margin trading
Volatility:	High
Leverage (and its effects):	N/A
OTC product:	Both OTC and exchange traded
Complexity level:	1

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to high (Low for exchange transactions; for OTC transaction that involve settlement risk for the counterparty it can range from low to high.)
Liquidity risk/Limitations on the available market	Low to High depending on the issue
Currency risk	Low
Interest rate risk	Low
Market risk (price change)	High
Risk related to external factors	High

1.2 Equity: ADR, GDR

Financial commitments and other additional obligations:	N/A in general; margin call in case of margin trading
Volatility:	High
Leverage (and its effects):	N/A
OTC product:	Both OTC and exchange traded
Complexity level:	1

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to high (Low for exchange transactions; for OTC transaction that involve settlement risk for the counterparty it can range from low to high.)
Liquidity risk/Limitations on the available market	Low to High depending on the issue
Currency risk	Low
Interest rate risk	Low
Market risk (price change)	High
Risk related to external factors	High

1.3 Equity: Emerging markets

Financial commitments and other additional obligations:	N/A in general; margin call in case of margin trading
Volatility:	High
Leverage (and its effects):	N/A
OTC product:	Both OTC and exchange traded
Complexity level:	1

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to high (Low for exchange transactions; for OTC transaction that involve settlement risk for the counterparty it can range from low to high.)
Liquidity risk/Limitations on the available market	Low to High depending on the issue
Currency risk	Low
Interest rate risk	Low
Market risk (price change)	High
Risk related to external factors	High

Other than the above information provided per equity type, investing in equities also involves the following risks:

- ***Dilution risk:*** Dilution is a reduction in the ownership percentage of a company caused by the issuance of new shares. If an existing shareholder does not participate in the new share issue and depending on the issue price his/her investment could decrease in value.
- ***Dividend risk***: the dividends mainly depend on the issuing company's earnings and on its dividend policy. In cases of low profits or losses, dividend payments may be reduced or not paid at all.

2. BONDS

A bond is a debt instrument issued for a period of time for which the issuer is obliged to pay the holder of the bond interest (coupon) payments at pre-specified points in time and principal at maturity. Government (sovereign) bonds are bonds issued by governments of various countries and Municipal bonds are bonds issued by local governments (e.g. region, city). Bonds can be issued by financial institutions (e.g. banks, insurance companies) or by corporations (non-financial institutions) called corporate bonds.

Sovereign debt securities are subject to significant risk that some political, diplomatic, social, or economic circumstances may result in certain countries that issue lower-quality debt securities, being unable or unwilling to make principal or interest payments as these become due.

Bearer bonds are bond certificates which are the property of whoever happens to be in possession of it at any given time (no record of ownership or transfers is kept by the issuing company's bond register).

In case of registered bonds, records are kept of who owns the bonds, and of the transactions involving transfer of ownership (in the issuing company's bond register).

Bonds are generally low-volatility instruments (e.g. they are a lot less volatile than equities). Bond prices are mostly affected by changes in the structure and level of the interest rate curve and by the market's view of the credit risk of the issuer (credit spread). Bonds credit quality can vary significantly among issuers, depending on their industry, profitability of business, debt burden and other circumstances. Generally, bonds are more sensitive to interest rate risk compared to equities and derivative instruments (with the exception of derivatives that have bonds or interest rate sensitive instruments as underlying, e.g. bond futures and options, interest rate futures and options, forward rate agreements, swaps).

Credit risk of a bond is the possibility that the issuer will fail to make timely payments of interest or principal. A bonds' credit quality varies significantly, depending on the credit quality of the issuer. High-yield (or junk) bonds have a higher risk of default (or other credit event) compared to low-yield bonds. Credit quality of a bond can change from time to time. Low credit quality can affect the bond's liquidity and make it more difficult to buy or sell.

Companies based or established in emerging markets are generally less transparent, and emerging markets are more volatile than developed ones. Investing in bonds of emerging markets (corporate, municipal and sovereign) involves a high degree of risk. On the other hand, emerging markets also offer to investors high-quality bonds (as opposed to junk bonds) of higher liquidity, lower spreads and with more information disclosed by the issuer.

Some bonds include optionality, for example, the right of bondholder to sell to the issuer (puttable bonds) or the right of the issuer to buy back the bonds (callable bonds) at certain times and at certain prices, or to convert the bonds into shares at pre-specified prices (convertible bonds). Such optionality can affect the bonds' price as well as the prices' volatility.

Bond coupons can be fixed percentages of notional or they can be floating amounts (linked to inflation, for example, or some other reference rate plus a spread). Depending on the coupon type, bonds can have different price patterns.

2.1 Developed markets sovereign bonds

Financial commitments and other additional obligations:	N/A in general; margin call in case of margin trading
Volatility:	Low in general. In case of declining credit quality can increase to medium or high
Leverage (and its effects):	N/A
OTC product:	Both OTC and exchange traded
Complexity level:	1

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low in most cases
Liquidity risk/Limitations on the available market	Low
Currency risk	Low
Interest rate risk	Medium
Market risk (price change)	Medium
Risk related to external factors	Medium

2.2 Emerging markets sovereign

Financial commitments and other additional obligations:	N/A in general; margin call in case of margin trading
Volatility:	Medium to High
Leverage (and its effects):	N/A
OTC product:	Both OTC and exchange traded
Complexity level:	1

RISK PROFILE	
Risk type	**Rating**
Credit risk	Medium to High
Liquidity risk/Limitations on the available market	Medium
Currency risk	Medium
Interest rate risk	Medium
Market risk (price change)	Medium
Risk related to external factors	Medium

2.3 Municipal bonds

Financial commitments and other additional obligations:	N/A in general; margin call in case of margin trading
Volatility:	Low to Medium
Leverage (and its effects):	N/A
OTC product:	Both OTC and exchange traded
Complexity level:	1

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High (depending on credit quality of municipality)
Liquidity risk/Limitations on the available market	Low to High (depending on market)
Currency risk	Low
Interest rate risk	Medium
Market risk (price change)	Medium
Risk related to external factors	Medium

2.4 Corporate bonds

Financial commitments and other additional obligations:	N/A in general; margin call in case of margin trading
Volatility:	Low to Medium
Leverage (and its effects):	N/A
OTC product:	Both OTC and exchange traded
Complexity level:	1

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High (depending on credit quality of issuer)
Liquidity risk/Limitations on the available market	Medium
Currency risk	Medium
Interest rate risk	Medium
Market risk (price change)	Medium
Risk related to external factors	Medium

Other than the above information provided per bond type, investing in bonds also involves the following risks:

- ***Call Risk***: The risk that the bond will be paid off before its maturity date. Investors face call risk whereby the issuer retires all or part of the issue before maturity date. This is usually done when interest rates have fallen substantially since the issue date.
- ***Prepayments Risk***: The risk that the bond will be paid off before its maturity date. Issuers face prepayment risk whereby the investor demand all or part of the issue before maturity date. This is usually done when interest rates have risen substantially since the issue date.
- ***Reinvestment Risk***: The risk resulting from the fact that proceeds received from the issuer may not be able to be reinvested in such a way that they earn the same rate of return as the invested funds that generated them.
- ***Inflation Risk***: The risk that the purchasing power of the cash flows received from a bond (interest and principal) will decline over time because of inflation.
- ***Headline Risk*****:** The risk that stories in the media will hurt the issuer's business and its ability to pay interest and principal as and when they fall due.
- ***Sanction Risk***: The risk that the issuer is unable to pay interest and principal as and when they fall due because of the imposition of Sanctions by governments and other international organizations.
- ***Capital Controls Risk***: The risk that the issuer is unable to pay interest and principal as and when they fall due because of the introduction of capital controls in the country where the bond is issued or the issuer is generating its income.
- ***Regulatory Risk*****:** The risk that the issuer is unable to pay interest and principal as and when they fall due because of changes in local or international regulations.
- ***Insolvency Risk:*** The risk that the issuer becomes temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the bond. The solvency of an issuer may change according to changes specific to the issuing company, the issuer's economic sector and/or the countries concerned, as well as political

developments with economic consequences. The deterioration of the issuer's solvency will influence the price of the securities that it issues.

3. OPTION CONTRACTS

An option gives the buyer the right, but not the obligation, to buy (call option) or to sell (put option) an agreed amount of underlying asset at a predetermined cost (strike) on a specific date (European type option) or up to a specific date (American type option). The buyer of the option pays a premium to the seller for entering the option contract. Options are priced using statistical models and assumptions and as such options transactions involve pricing risk; the risk that these models and formulas do not accurately reflect and correctly use all the relevant parameters

Transactions with options are considered to be more complex than transactions with other instruments (e.g. equities, bonds, indices, etc.). Investors should make sure they have sufficient market expertise before undertaking transactions with options.

Buying an option usually involves less risk than selling an option because if the underlying asset moves against you, you simply do not exercise the option and you lose only the premium plus any commission or other transaction charges.

Writing an option (put or call) involves greater risk as you may be liable for margin to maintain your position and the loss may be well in excess of the premium received. By writing an option, you are liable to purchase or sell the underlying asset if the option is exercised against you no matter how far the market price of the underlying instrument has moved from the exercise price. If you already own the underlying asset which you have contracted to sell ('covered option') the risk is reduced. If you do not own the underlying asset the risk can be unlimited ('uncovered option').

Options can be used either as hedging or speculative instruments. As hedging instruments, options are purchased to decrease exposure to certain types of market moves. Hedging a position does not mean that the risk is fully eliminated; some residual risk remains even after a hedge has been put in place. As speculative instruments, options are sold to gain premium or bought to speculate on possible price moves.

Options are classified into different styles according to their exercise rights. The vast majority of options are European and American. European options can be exercised only on expiration date while American options can be exercised at any time before expiration date. These two styles of options have a similar payoff and they are referred to as “Vanilla” or “Plain Vanilla Options”. Options with payoff calculated in a different way are named as "exotic” options. There are some more exercise styles, which are not so commonly used as Bermuda option, Asian option, etc. All descriptions below are for plain vanilla options.

3.1 Equity option

Option underlying is a stock and exercise style is European or American.

Financial commitments and other additional obligations:	For sold options: Buy or sell the underlying in case the option is exercised; possibly margin calls during the life of the option
Volatility:	Low to high depending on option parameters
Leverage (and its effects):	Medium
OTC product:	Both OTC and exchange traded
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on the counterparty for the buyer of the OTC contract Low for the buyer of the exchange traded contract
Liquidity risk/Limitations on the available market	Medium to High
Currency risk	Low
Interest rate risk	Low
Market risk (price change)	Low to High, depending on option parameters
Risk related to external factors	High

3.2 Commodities option

Option underlying is a commodity and exercise style is European or American.

Financial commitments and other additional obligations:	For sold options: Buy or sell the underlying in case the option is exercised; possibly margin calls during the life of the option
Volatility:	Low to high depending on option parameters
Leverage (and its effects):	Medium
OTC product:	Both OTC and exchange traded
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on the counterparty for the buyer of the OTC contract Low for the buyer of the exchange traded contract
Liquidity risk/Limitations on the available market	Medium to High
Currency risk	Low
Interest rate risk	Low
Market risk (price change)	Low to High, depending on option parameters
Risk related to external factors	High

3.3 Currency option

Option underlying is a currency and exercise style is European or American.

Financial commitments and other additional obligations	For sold options: Buy or sell the underlying in case the option is exercised; possibly margin calls during the life of the option
Volatility	Low to high depending on option parameters
Leverage (and its effects)	Medium
OTC product	Both OTC and exchange traded
Complexity level	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on the counterparty for the buyer of the OTC contract Low for the buyer of the exchange traded contract
Liquidity risk/Limitations on the available market	Low
Currency risk	High
Interest rate risk	High
Market risk (price change)	Low to High, depending on option parameters
Risk related to external factors	High

3.4 Index option

Option underlying is an index and exercise style is European or American. The cost of the index option is expressed in basis points of the chosen index.

Financial commitments and other additional obligations:	For sold options: Buy or sell the underlying in case the option is exercised; possibly margin calls during the life of the option
Volatility:	Low to high depending on option parameters
Leverage (and its effects):	Medium
OTC product:	Both OTC and exchange traded
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on the counterparty for the holder of the OTC contract Low for the holder of the exchange traded contract
Liquidity risk/Limitations on the available market	Low to high depending on index and option parameters
Currency risk	Low
Interest rate risk	Low
Market risk (price change)	Low to High, depending on option parameters
Risk related to external factors	High

4. FRA, FORWARDS, FUTURES, SWAPS

Forward positions allow investors to take positions economically equivalent to positions in underlying assets, yet do not require full up-front payments. Such leverage creates credit risk for the counterparty. Futures (being exchange traded forwards) are structured to minimize credit risk. Futures have limitations due to their standardization (e.g. choice of expiry dates, contract sizes). Liquidity in these instruments can change significantly due to changes in market factors (e.g. prices of underlying, supply and demand changes for commodities).

4.1 FRA (Forward Rate Agreement)

A Forward Rate Agreement is an over-the-counter financial contract in which one party pays a fixed interest rate, and receives a floating interest rate equal to a reference (or underlying) rate plus a spread. FRA determines a rate, a notional value, a start date and a termination date. Payments between parties in FRAs are netted.

The difference between fixed and floating rates multiplied by the notional and by the time period between the start and the termination dates gives an amount paid on the termination date.

Entering a FRA can lead to losses (in case the party has to make the payment at termination date) and to lost profits (in case the other party has to make the payment and fails to do so).

Financial commitments and other additional obligations:	Margin payments and payouts based on contract structure
Volatility:	High
Leverage (and its effects):	High
OTC product:	Yes
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on the counterparty
Liquidity risk/Limitations on the available market	Low
Currency risk	Low
Interest rate risk	High (depending on tenor and volatility of reference rate)
Market risk (price change)	N/A
Risk related to external factors	Medium

4.2 Forwards

Forwards are non-standardized agreements to buy or sell an asset (security or currency) at a certain price at a certain future time. Open forward contracts are contracts that do not have a specific time for delivery of the asset; it can be anytime within the life of the contract or otherwise agreed.

4.2.1 Currency Forward (Fixed and Open)

Financial commitments and other additional obligations:	Margin payments and payments or deliveries of assets based on contract structure
Volatility:	Medium to high, depending on underlying currency pair, margin parameters and interest rates
Leverage (and its effects):	Medium to high, depending on individual forward parameters
OTC product:	Yes
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on counterparty
Liquidity risk/Limitations on the available market	Medium, bespoke transactions with generally very liquid assets (currencies)
Currency risk	High
Interest rate risk	High
Market risk (price change)	High
Risk related to external factors	Medium

4.2.2 Equity Forward (Fixed and Open)

Financial commitments and other additional obligations:	Margin payments and payments or deliveries of assets based on contract structure
Volatility:	Medium to high, depending on underlying asset, margin parameters and interest rates
Leverage (and its effects):	Medium to high, depending on individual forward parameters
OTC product:	Yes
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on counterparty
Liquidity risk/Limitations on the available market	High, bespoke transactions with securities that might have limited liquidity
Currency risk	Low
Interest rate risk	High
Market risk (price change)	High
Risk related to external factors	High

4.2.3 Bond Forward (Fixed and Open)

Financial commitments and other additional obligations:	Margin payments and payments or deliveries of assets based on contract structure
Volatility:	Medium to high, depending on underlying asset, margin parameters and interest rates
Leverage (and its effects):	Medium to high, depending on individual forward parameters
OTC product:	Yes
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on underlying bond and counterparty
Liquidity risk/Limitations on the available market	High, bespoke transactions with securities that might have limited liquidity
Currency risk	Low
Interest rate risk	High
Market risk (price change)	High
Risk related to external factors	High

4.3 Futures

A futures contract is a legally binding agreement between two parties to sell or purchase in the future a specified quantity of the underlying asset at a specified price. The price at which the contract is traded is determined by relative buying and selling interests on a regulated exchange. Futures contracts may be settled either by physical delivery of the underlying security or through cash.

Futures trading is speculative and highly volatile. Price movements for futures are impacted by, among other things, government trade, fiscal, monetary and exchange control programs and policies, weather and climate conditions, changing supply and demand relationships, national and international political and economic events, changes in interest rates and the psychological emotions of the market place. None of these factors can be controlled by the Company.

Futures trading can be highly leveraged. The low margin deposits normally required in futures trading permit an extremely high degree of leverage. A relatively small price movement in a futures contract may result in immediate and substantial loss or gain to the Client. Futures trading may be illiquid depending on the contract.

Futures (on index, precious metals, commodities, fuel etc.)

Financial commitments and other additional obligations:	Margin required by exchange
Volatility:	High
Leverage (and its effects):	High
OTC product:	No
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low
Liquidity risk/Limitations on the available market	Low to High depending on contract and exchange
Currency risk	Low to High depending on contract
Interest rate risk	Low to High depending on contract
Market risk (price change)	High
Risk related to external factors	High

4.4 Swaps

Swap contracts are OTC contracts where counterparties agree to exchange a series of cash flows according to specified terms. Usually each cash flow comprises one leg of the swap, one cash flow is generally fixed and the other is floating. These cash flows are based on a benchmark interest rate, a currency exchange rate or index price.

4.3.1 Credit Default Swap

In a credit default swap (CDS) contract, a protection buyer pays a premium (periodic or upfront) to the protection seller, in exchange for a protection against a credit event experienced by a reference entity (i.e. the underlying credit).

A CDS contract does not eliminate credit risk entirely; it decreases exposure to the references' entity credit risk and takes new exposure to the seller of CDS. If there is a high correlation between the default risk of the reference entity and the CDS seller, such credit protection becomes less valuable. Also, if the protection seller defaults, the protection becomes worthless.

The protection seller, in case the protection buyer fails to pay the premium, can be exposed to MTM (mark-to-market) risk, if the seller terminates the contract and enters into a new contract, selling protection to a new counterparty.

It is important that reference entities and credit events have precise definitions, so that no legal risks arise from uncertainties in identifying credit events.

Financial commitments and other additional obligations:	Margin payments (if applicable to specific swap)
Volatility:	Medium
Leverage (and its effects):	Medium
OTC product:	Yes
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	For the seller: Low to High, depends on the risk of the reference entity. For the buyer: Low in most cases depends on the risk of the protection seller and its correlation with the risk of reference entity
Liquidity risk/Limitations on the available market	Medium to high (depends on reference entity, term, etc.)
Currency risk	N/A
Interest rate risk	Medium
Market risk (price change)	Medium
Risk related to external factors	High

4.3.2 Total return swap

A swap is an agreement in which one party makes payments based on a reference rate, either fixed or floating, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. In total return swaps, the underlying asset, referred to as the reference asset is usually an equity index, loans, bonds, etc. Total return swaps allow the party receiving the total return to gain exposure and benefit from a reference asset without actually having to own it.

Total return swaps combine both credit and market risk.

Financial commitments and other additional obligations:	Margin payments (if applicable to specific swap)
Volatility:	High
Leverage (and its effects):	Medium
OTC product:	Yes
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High, depending on the counterparty
Liquidity risk/Limitations on the available market	Medium to High, depending on underlying rates
Currency risk	Low
Interest rate risk	Medium
Market risk (price change)	High
Risk related to external factors	High

4.3.3 Cross Currency Swap

A cross currency swap (or a currency swap) is an OTC derivative product and it takes the form of an agreement between two parties to exchange interest payments and principal on loans denominated in two different currencies. In a cross-currency swap, a loan's interest payments and principal in one currency would be exchanged for a loan of equivalent value and interest payments in a different currency.

Financial commitments and other additional obligations:	Margin payments (if applicable to specific swap), exchange of scheduled payments
Volatility:	High
Leverage (and its effects):	Medium
OTC product:	Yes
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High, depending on the counterparty
Liquidity risk/Limitations on the available market	Medium to High, depending on underlying currencies and rates
Currency risk	High
Interest rate risk	High
Market risk (price change)	High
Risk related to external factors	Medium

5. REPOS

A repurchase agreement (REPO) is a money market instrument that works as a short term loan. In a repo transaction one party sells an asset to another party at a price at the start of the transaction and commits to repurchase the asset from the second party at a different price in the future or in the case of an "open repo" on demand (no fixed maturity date). The seller pays a rate called the "repo rate" when buying back the securities (difference between price paid by the buyer and the price he receives at the end in his return of the cash, return quoted in percentage). A reverse repo (RRP) is the reverse of a repo trade, the buyer of the securities agrees to sell them back at a higher price at a specific future date.

If the seller of the assets defaults the buyer can sell the asset to a third party to offset the losses from credit risk. However, the value of the assets will fluctuate and the liquidation of collateral in response to an event of default can be delayed by unexpected operational and legal problems, so collateral does not exactly work as a substitute of credit risk.

As a result, transactions with Repos incorporate mainly credit risk, interest rate risk and liquidity risk depending on the counterparty, the instrument, and the collateral. Generally, repo and reverse repo transactions incorporate also possible risks that can arise from the securities that are traded under the repo agreement.

5.1 Repos on Equities

Financial commitments and other additional obligations:	Margin payments and payments or deliveries of assets at maturity
Volatility:	Medium to high, depending on underlying asset, margin parameters and interest rates
Leverage (and its effects):	Medium to high, depending on individual forward parameters
OTC product:	Yes (exchange versions available in certain cases)
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on counterparty
Liquidity risk/Limitations on the available market	High, bespoke transactions with securities that might have limited liquidity
Currency risk	Low
Interest rate risk	High
Market risk (price change)	High
Risk related to external factors	High

5.2 Repos on Bonds

Financial commitments and other additional obligations:	Margin payments and payments or deliveries of assets at maturity
Volatility:	Medium to high, depending on underlying asset, margin parameters and interest rates
Leverage (and its effects):	Medium to high, depending on individual forward parameters
OTC product:	Yes (exchange versions available in certain cases)
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on underlying bond and counterparty
Liquidity risk/Limitations on the available market	High, bespoke transactions with securities that might have limited liquidity
Currency risk	Low
Interest rate risk	High
Market risk (price change)	High
Risk related to external factors	High

6. STRUCTURED PRODUCTS

Structured product is generally a pre-packaged investment strategy based on derivatives where the underlying can be a single security, a basket of securities, indices, commodities etc. The risks associated with many structured products, depend on each products' individual characteristics.

Because the return paid on structured products at maturity is tied to the performance of the underlying asset and can be variable, it is possible that the income may be zero or significantly less than what the client could have earned from an ordinary, interest-bearing debt security. The return on structured products, if any, is subject to market and/or other risks related to its underlying asset.

Some structured products impose limits and barriers that affect their return of profitability. With barriers, a structured product may not offer any return if a barrier is broken or breached during the term of the structured product. Conversely, some structured products may not offer any profit unless certain thresholds are achieved. Some structured products impose maximum income limits so even if the underlying assets generate a return greater than the stated limit, clients do not realize that excess return.

Past performance of an underlying asset class is not indicative of the profit and loss potential on any particular structured product. Structured products also may have participation rates that describe a client's share in the return of the underlying assets. Participation rates below 100% mean that the client will realize a return that is less than the return from the underlying assets.

Structured products are OTC products so all risks connected with OTC are applicable to the structured products. Structured products are unsecured debt obligations of the issuer. As a result, they are subject to the risk of default.

6.1 Structured Notes

A structured note is a debt obligation that contains an embedded derivative component that adjust the security's risk/return profile. The return performance of a structured note will track both that of the underlying debt obligation and the derivative embedded within it. This type of note is a hybrid security that attempts to change its profile by including additional modifying structures, therefore increasing the security's potential returns.

Financial commitments and other additional obligations:	N/A
Volatility:	Low to High
Leverage (and its effects):	Low to High
OTC product:	Yes
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on the issuer
Liquidity risk/Limitations on the available market	High
Currency risk	N/A
Interest rate risk	Low to High
Market risk (price change)	Low to High
Risk related to external factors	Low to High

6.2 Promissory Notes

A promissory note is a financial instrument that contains a written promise by one party to pay another party a definite sum of money either on demand or on a specified future date. A promissory note typically contains all the terms pertaining to the indebtedness of the issuer, such as the amount, interest rate, maturity date, date and place of issuance, and issuer's signature.

Financial commitments and other additional obligations:	N/A
Volatility:	Low to High
Leverage (and its effects):	Low to High
OTC product:	Yes
Complexity level:	2

RISK PROFILE	
Risk type	**Rating**
Credit risk	Low to High depending on the issuer
Liquidity risk/Limitations on the available market	High
Currency risk	N/A
Interest rate risk	Low to High
Market risk (price change)	Low to High
Risk related to external factors	Low to High

Summary Table of Financial Instruments (not exhaustive) Traded by Alfa Capital Markets Ltd with their Associated Risks											
Financial Instruments	**Financial commitments and other additional obligations**	**Volatility**	**Leverage (and its effects)**	**OTC product/ exchange traded**	**Complexity level**	**Credit risk**	**Liquidity risk/ limitations on available market**	**Currency risk**	**Interest rate risk**	**Market risk**	**Risk related to external factors**
Equity: developed markets	possible	H	N/A	Both	1	L to H	L to H	L	L	H	H
Equity: ADR, GDR	possible	H	N/A	Both	1	L to H	L to H	L	L	H	H
Equity: emerging markets	possible	H	N/A	Both	1	L to H	L to H	L	L	H	H
Developed markets sovereign bonds	possible	L	N/A	Both	1	L	L	L	M	M	M
Emerging markets sovereign bonds	possible	M to H	N/A	Both	1	M to H	M	M	M	M	M
Municipal bonds	possible	L to M	N/A	Both	1	L to H	L to H	L	M	M	M
Corporate bonds	possible	L to M	N/A	Both	1	L to H	M	M	M	M	M
Equity option	possible	L to H	M	Both	2	L to H	M to H	L	L	L to H	H
Commodities option	possible	L to H	M	Both	2	L to H	M to H	L	L	L to H	H
Currency option	possible	L to H	M	Both	2	L to H	L	H	H	L to H	H
Index option	possible	L to H	M	Both	2	L to H	L to H	L	L	L to H	H
FRA (Forward Rate Agreement)	possible	H	H	OTC	2	L to H	L	L	H	N/A	M
Currency Forward	Yes	M to H	M to H	OTC	2	L to M	M	H	H	H	M
Equity Forward	Yes	M to H	M to H	OTC	2	L to H	H	L	H	H	H
Bond Forward	Yes	M to H	M to H	OTC	2	L to H	H	L	H	H	H
Futures (on index, precious metals, commodities, fuel etc.)	yes	H	H	Exchange	2	L	L to H	L to H	L to H	H	H
Credit Default Swap	possible	M	M	OTC	2	L to H	M to H	N/A	L	M	H
Total return swap	possible	M	M	OTC	2	L to H	M to H	N/A	M	M	H
Cross currency Swap	Possible	H	M	OTC	2	L to H	M to H	H	H	H	M
Repos on Equities	Yes	M to H	M to H	OTC	2	L to H	H	L	H	H	H
Repos on Bonds	Yes	M to H	M to H	OTC	2	L to H	H	L	H	H	H
Structured Notes	N/A	L to H	L to H	OTC	2	L to H	H	N/A	L to H	L to H	L to H
Promissory Notes	N/A	L to H	L to H	OTC	2	L to H	H	N/A	L to H	L to H	L to H