

FINANCIAL INSTRUMENTS AND THEIR RISKS

This document presents an overview of the main financial instruments that Amundi uses in providing its investment services and the risks associated with these instruments. This document does not intend to provide an exhaustive list of all of the risks to which you may be exposed as a beneficiary of a Amundi investment service or by investing in one of its products.

This document is also not intended to substitute for any regulatory documents you may receive when you make an investment in a specific type of financial transaction or instrument.

Our objective is therefore to provide investors with a reasonable amount of information that will enable them to make an informed investment decision, by presenting the main types of risks to which each type of financial instrument or investment strategy may be exposed.

Therefore, to ensure that its customers are well informed, Amundi asks them, before making an investment decision and/or using an investment service, to become familiar with the risks presented herein.

In the first section of this document we present the general risks to which an investor in any type of financial instrument may be exposed. In the second section we present the main financial instruments by category and indicate the specific risks to which each may be exposed.

I- GENERAL RISKS

- **Capital-loss risk**

Capital-loss risk is the risk that an investor in any given financial instrument may lose some or all of the capital invested. It is therefore the risk that the investor might not recover all of his or her initial capital.

- **Currency risk**

Currency risk occurs when a financial instrument is priced in a currency other than the investor's currency. A decrease or increase in the exchange rate between these two currencies may therefore cause the value of a financial instrument denominated in a foreign currency to go up or down.

- **Leverage effect**

This is the risk incurred when exposure to a financial market or instrument exceeds the amount of capital invested. The use of derivative instruments may increase exposure to a given market beyond the initial capital investment. Therefore, if a derivative is used to gain or reduce exposure to an underlying asset, a respective decrease or increase in the underlying's value may amplify the investor's loss.

- **Liquidity risk**

Liquidity risk is the risk that the investor will not be able to buy or sell a sufficient

amount of a financial instrument rapidly and at a satisfactory price. Therefore, when a financial instrument lacks liquidity its value may drop significantly between the time a redemption order is placed and the order is executed.

- **Counterparty risk**

This is the risk that a counterparty to a transaction may default on its payment.

- **Foreign security risk**

Some financial instruments may be traded on foreign markets, and the foreign investment is therefore subject to this market's risks. For example, a financial instrument could be subject to a foreign jurisdiction that does not require that a supervisory authority oversee the market to protect investor interests.

- **Emerging market risk**

Investments made in an emerging country or in an issuer of securities that is registered or does business in an emerging country are often somewhat speculative. These investments are therefore riskier than those made in non-emerging markets.

The financial instruments traded in these countries may therefore be less liquid than the large-capitalization equities of the developed countries. Owning such securities may therefore increase risk, since market prices may drop more sharply and more rapidly than in the developed countries.

- **Settlement-delivery risk**

This is the risk that transactions involving financial instruments might not

be completed by the specified delivery date. In some markets, for example, settlement rules may prevent a large volume of transactions from being processed in a timely fashion. In such a case an investor may not be able to take full advantage of a market opportunity or may be exposed to a greater loss if the price of a security continues to decline between the intended and the actual delivery dates.

- **Arbitrage risk**

Arbitrage is an investing technique that consists in taking advantage of differences in observed or anticipated prices between some combination of markets, sectors, securities, currencies or financial instruments.

If an arbitrage trade is unsuccessful (i.e. a short position rises and/or a long position falls) a loss may occur.

II- RISKS ASSOCIATED WITH SPECIFIC FINANCIAL INSTRUMENTS

Any type of financial instrument may be exposed to the general risks described above. Certain types of instruments are also subject to specific types of risk.

1- Money-market and bond instruments

Money-market instruments are debt securities that generally have a maturity of less than one year.

A bond is a security that represents a borrower's commitment to the lender who makes funds available to the borrower. Therefore, bond investors in effect lend a sum of money to the bond

issuer that must be paid back by the specified maturity date. The borrower must also pay the lender interest, known as a coupon.

- **Credit risk**

This is the risk of a decline in the credit quality of a private-sector issuer of debt. A decrease in the borrower's credit-worthiness increases the investor's risk, since there is a greater probability that the debt issuer will default on its obligation. When the probability of default increases investors require a risk premium over the interest rate paid on government bonds, known as the "spread".

- **Interest-rate risk**

This is the risk that an interest rate will go up or down. A debt instrument's exposure to interest-rate risk is measured in terms of "duration", which expresses the change in the instrument's expected yield-to-maturity for a given change in the interest rate. The higher an instrument's duration, the more its yield will be affected by a change in interest rates.

- **High-yield securities risk**

Money-market and other fixed-income instruments and the entities that issue them are rated by credit-rating agencies. The risk associated with an investment in a given instrument may vary with this rating. Therefore, investments in securities with low or no credit rating, or that are issued by issuers with a low rating (known as "high-yield" securities), must be considered speculative and therefore particularly risky.

2- Equities

Equities (also known as shares) are securities that represent a fraction of their issuer's equity capital. Each shareholder is entitled to a share of the company's earnings that is proportional to the amount of shares held and is paid out in the form of an annual dividend.

- **Volatility risk**

This is the risk associated with the tendency of an equity's price to vary. The more this price varies, the more volatile the equity is and the greater the investor's risk.

- **Small-cap / mid-cap risk**

Since the volume of listed small and mid-cap shares that is available for trading is smaller than the corresponding available volume of listed large-cap equities, the prices of small and mid-cap equities may be subject to sharper drops.

3- Collective investment schemes (UCITS and investment funds)

A collective investment scheme (CIS) is an investment vehicle that receives funds from investors that it generally invests in financial assets. Some CIS are said to "co-ordinated", which means they are UCITS (i.e. Undertakings for Collective Investment in Transferable Securities), as defined in amended European Directive 85/611.

- **Discretionary risk**

The management company of a UCITS or other investment fund may make investment decisions based on its expectations of the performance of various financial markets and/or securities. There is therefore a risk that the fund may not always be invested in the best-performing markets or securities. The fund may therefore not meet its investment objective and its net asset value may decline.

4- Derivative instruments

Derivative instruments (or just "derivatives") are contracts that are used to buy or sell, at a fixed date and an agreed price, a specified quantity of a financial instrument, or to swap cash flows at a fixed date. Derivatives may be firm contracts or options, and traded on a regulated market or over-the-counter. They are called derivatives because their value is derived from an underlying asset and varies with this asset's price. Such financial instruments may be used to gain exposure to a given asset or to hedge the risk of this exposure. In the latter case there may be a risk that the hedge thus obtained is insufficient. Derivatives traded in over-the-counter markets are exposed to counterparty risk.

- **Futures risks**

A futures contract requires delivery of an underlying asset at a specified date and according to specific terms. Quantities, delivery dates and payment terms are standardized in futures contracts.

The underlying asset is delivered at the agreed price at the end of the contract. Investors in futures are therefore exposed to a relatively large risk since they may be required to deliver an underlying asset at a price that is higher than the value initially determined in the contract (if they are the seller), or receive an asset whose price has declined relative to this value (if they are the purchaser). Since the price of the underlying may be quite different from the initial futures price, the amount of the loss may be considerable.

- **Options risks**

The buyer of an option acquires the right to purchase from (call option) or sell to (put option) the option seller a given amount of an underlying asset at a predetermined price, or to receive the difference between the option exercise price and the underlying price, either at a specified date (in the case of a European option) or any time before the option expires, in the case of an American option.

When a security contains an option component, its value also depends on such parameters as volatility and the risk-free interest rate.

The buyer of a call or put option assumes a risk that is strictly limited to the option premium, which is the price paid for the option. The option seller on the other hand assumes the risk that the buyer will exercise the option if the exercise price is less than or greater than the underlying price, in the case of a call or a put option respectively. If the purchaser exercises his option, the option seller is exposed to a large capital-loss risk that cannot be known in advance, since it will be the difference between the exercise price and the price

of the underlying asset when the option is exercised.

- **Swap risks**

A swap is an over-the-counter contract between two parties who agree to exchange streams of cash flows for a specified period. These flows may be linked to a variety of assets, including interest rates (interest-rate swap), currencies (currency swap) or the performance of some financial benchmark or economic indicator, such as a stockmarket index, volatility or inflation (performance swap). The credit-default swap (CDS) is a special kind of swap designed to transfer the credit risk on an underlying debt from the protection buyer to the protection seller.

Parties to a swap are exposed to counterparty risk and, depending on the type of swap, to credit, currency, volatility, interest rate and/or some other risk.

- **Risks associated with asset-backed and mortgage-backed securities (ABS & MBS)**

The risk that arises from an investment in an ABS or MBS is a credit risk (as defined in the section above on money-market and bond instruments) that depends mainly on the quality of the underlying asset, which may be a bank loan, mortgage or some other type of debt or receivable. These instruments are based on complex arrangements that may involve legal risk and specific risks related to the characteristics of the underlying assets.