Terms of Business

Appendix F

Risk Warnings

Bank of Valletta

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Risk Warnings

1. General risks

1.1 Volatility of returns

The value of investments and the amount of income derived from them may go down as well as up. All investments can be affected by a variety of factors, including macro-economic market conditions such as the interest or exchange rate environment, or other general political factors in addition to more company or investment specific factors.

1.2 Liquidity and non-readily realisable securities

Some investments may be very illiquid, meaning that they are infrequently traded, and hence it may be difficult to sell them within a reasonable timeframe or at a price which reflects "fair" value. In extreme cases an investment may be non-readily realisable. This means that the investment is neither a government security, nor a listed investment, nor an investment that regularly trades on an exchange. In this case there may be no secondary market available, and it may be difficult to obtain any reliable independent information about the value and risks associated with such an investment.

1.3 Investment leverage, or gearing

Use of borrowing to invest increases both the volatility and the risk of an investment. This applies if a company has significant borrowings, or if an investment vehicle otherwise allows an investor to gain much greater economic exposure to an asset than is paid for at the point of sale. It also applies if an investor borrows money for the specific purpose of investing. The impact of leverage can be as follows:

a. movements in the price of an investment leads to much greater volatility in the value of the leveraged position, and this could lead to sudden and large falls in value;

b. the impact of interest costs could lead to an increase in any rate of return required to break even; or

c. a client may receive back nothing at all if there are significantly large falls in the value of the investment.

1.4 Foreign Exchange

Investments denominated in foreign currencies open up additional risks related to the relevant exchange rate. Movements in exchange rates may cause the value of an investment to fluctuate either in a favourable or unfavourable manner.

1.5 Tax and legal affairs

General

You have sole responsibility for the management of your tax and legal affairs including making any applicable filings and payments and complying with any applicable laws and regulations. We have not and will not provide you with tax or legal advice and we recommend that you obtain your own independent tax and legal advice tailored to your individual circumstances. The tax treatment of investment products can be complex, and the level and basis of taxation may alter during the term of any product. Prospective investors should therefore obtain professional tax advice appropriate to their own circumstances before investing.

FATCA

FATCA imposes a new reporting regime and, potentially, a thirty per cent (30%) withholding tax with respect to: (i) certain payments from sources within the US; (ii) so-called 'foreign pass-thru payments' made to certain non-US financial institutions that do not comply with this new reporting regime; and (iii) payments to certain persons that do not provide identification information with respect to interests issued by a participating non-US financial institution.

If we become subject to a withholding tax as a result of FATCA, your return may be affected. To the extent we suffer US withholding tax as a result of FATCA, we may take any action in relation to funds held in accounts with us in your name to ensure that such withholding is economically borne by you if your failure to provide the necessary information or to become a participating FFI (i.e. foreign financial institution) gave rise to the withholding.

Common Reporting Standard Risks

The OECD has developed a new global standard for the automatic exchange of financial information between tax authorities (the "**Common Reporting Standard**"), which is similar to FATCA. Malta is a signatory jurisdiction to the Common Reporting Standard.

The requirements for complying with the Common Reporting Standard may impose additional burdens and costs on us and our clients. Although we will attempt to satisfy any obligations imposed upon us by the Common Reporting Standard, no assurance can be given that we will be able to satisfy such obligations. Implementation of the Common Reporting Standard may require us to conduct additional due diligence and report upon accounts held with us by you if you are a reportable person in other participating jurisdictions. We may require certain additional financial information from you to comply with our diligence and reporting obligations under the Common Reporting Standard. If we are unable to obtain the necessary information from you, we may take any steps necessary to avoid resulting sanctions.

1.6 Non-Independent Advisory Services

You acknowledge that our Non-Independent Advisory Services may not be suitable for all investors and that:

a. you should only commit sums to investments that you are willing and able to put at risk and should seek advice from us or a third party professional adviser about the level of commitment that is right for you before receiving a Non-Independent Advisory Service;

b. once you have committed Funds to an investment Account connected with an Advisory Service, you remain free to instruct us to withdraw the Funds at any time, subject to any limitations in the terms of your investments; and

c. you should seek advice if your financial circumstances change.

2. Investment specific risks

2.1 Equity Securities and Equity Funds

Ownership of an equity security represents a direct stake in the company concerned. Such an investment will participate fully in the economic risk of the company and its value can therefore fall as well as rise. The price volatility of equity markets can change quickly, and cannot be assumed to follow historic trends. In adverse market conditions, irrecoverable capital Losses could be incurred. In the worst case, a company could fail and, if this happens, its equity can become worthless. Equity securities are commonly used by investors seeking longer term capital growth. Examples of typical company characteristics which could heighten equity investment risks are:

a. a low market capitalisation;

b. a product set that is undiversified or reliance on single markets as a major source of income;

c. a significant reliance on borrowing as a source of finance;

d. a significant level of fixed costs to pay, irrespective of output, production or turnover levels;

e. major income sources which are seasonal or “cyclical” in nature; and

f. companies trading primarily in emerging markets, particularly during poor market conditions, or in countries where legal property rights may be difficult to enforce.

The equity of some smaller companies may trade in very small sums per share, and an investment into this kind of equity will usually involve a proportionately large difference between the market buying and selling price. The effect of this difference means that an immediate sale may realise significant Losses.

Other smaller companies may not be subject to the rules of a listing authority. Such companies are likely to be high risk ventures and may have an unproven trading history or management team. These equity shares may not be readily sold, and it could be difficult to realise or to value them independently due to the lack of a secondary trading market.

The risks involved in equity investment can often be managed through investment via diversified investment vehicles, or by investing directly in a wide range of different companies, industries, countries and currencies.

2.2 BOV Investment Funds

General

When providing Non-Independent Advisory Services, we will only provide advice in relation to the BOV Investment Funds. The BOV Investment Funds have been licenced relatively recently and therefore do not have a long track record which could be utilised as a basis for evaluating the potential performance thereof. You should also note that the BOV Investment Funds are licenced as contractual funds in terms of the Investment Services Act (Cap. 370 of the Laws of Malta) and have certain features which differentiate them from other types of Collective Investment Schemes. For instance, the BOV Investment Funds do not have legal personality and unit holder meetings will not be held (unless requisitioned by unit holders holding not less than fifty percent of the units in issue or unless determined by BOVAM). Further, units in the BOV Investment Funds do not carry voting rights.

You should also note that the BOV Investment Funds were established by means of the deed of constitution entered into between the Bank and BOVAM, BOVAM is the appointed investment manager of the BOV Investment Funds and the Bank is the appointed custodian of the BOV Investment Funds.

Fees

As the appointed investment manager of the BOV Investment Funds, BOVAM, which is a fully owned subsidiary of the Bank, is entitled to receive certain fees in respect of the management of the BOV Investment Funds, as further detailed in the offering supplement of each of said funds. In addition, in instances, one or more the BOV Investment Funds may invest predominantly in Collective Investment Schemes managed by BOVAM (the "**Target CISs**"). As a result, BOVAM will receive any management fees charged to the Target CISs as well as fees from the BOV Investment Funds (details of such fees are contained in the offering supplements of the BOV Investment Funds).

In respect of the performance of custody functions in respect of the BOV Investment Funds, the Bank is also entitled to receive a custody fee, which is currently calculated as a percentage of net asset value of the BOV Investment Funds. Therefore, you acknowledge and understand that the more capital invested in the BOV Investment Funds, the higher the custody fees received by the Bank from the BOV Investment Funds.

Payment of the foregoing fees to BOVAM and the Bank will reduce the net asset value per unit and therefore the value of your investment.

2.3 Life Assurance Products

Life assurance bonds are a form of insurance contract which provide both an element of insurance in the case of the death of the covered person or persons in addition to having an ongoing value as an investment (as opposed to expiring worthless at the end of a defined period or term).

Life bonds are issued by insurance companies, and an investment will be subject to the ability of the insurance company to repay the sums owing to an investor when they fall due for payment. This means that the creditworthiness of the insurance company is important, much in the same way for any other bond.

In some cases, the returns available from a life bond are linked directly to a specific pool of assets held by the insurance company. In other cases, the returns could be linked more generally to the profits of the company in general, which reduces the overall transparency of returns.

If you wish to invest in a life bond, you will be presented with specific information about the type of contract, its terms and more general information about the insurer and its financial strength. Please refer to this documentation for specific details about the policy and a more detailed description of the investment risks.

2.4 Structured Products

"Structured products" is the generic phrase for products which provide economic exposure to a wide range of underlying asset classes. The level of income and/or capital growth derived from a structured product is usually linked to the performance of the relevant underlying assets. However, the potential return from your structured product may be different to that which may be achieved by the underlying assets. Certain structured products provide capital protection such that an investor will not have economic exposure to performance of the underlying assets below a certain level. Other structured products may put your capital at risk (these are sometimes known as Structured Capital At Risk Products or SCARPs).

Similar to bonds and debt instruments, most structured products strategies are exposed to the credit rating of the product issuer, meaning that repayment could be at risk if the issuer is not able to repay the sums due under the terms of the product. However some products may include a guarantee to mitigate these potential credit risks. Investors should be aware that the return of capital invested at the end of the investment period is not guaranteed, and therefore investors may get back less than was originally invested.

Investors should understand both the nature of the underlying assets and extent of their economic exposure to those assets. In some cases, structured products may offer high income or a high level of participation to the capital growth experienced by the underlying assets. These products generally do not incorporate capital protection, and any that is provided is dependent on a financial index or basket of indices meeting certain conditions during the product life (such as a minimum value). Such products generally include leverage (i.e. borrowing or agreeing to incur potential liabilities in an attempt to boost investment returns), and their value can be subject to sudden and large falls if the conditions which may be required for capital protection to apply fail to subsist.

Investors should review product term sheets and other literature carefully for details of any factors which might impact on how the payoff from a product may change with different economic or market conditions. In particular, where the payoff from a product incorporates conditional protection, if the protection barrier is breached the capital value of an investment will be exposed to the full risk of the underlying assets.

Investors should be aware that early redemption or secondary market purchase could result in a capital loss, even where the product terms protect or guarantee return of the nominal amount purchased. These products may also not be readily realisable, which means that it may be difficult to liquidate or sell a product of this type.

Investors in products which have either conditional or no capital protection should only invest in them if they are prepared to sustain a total or substantial loss of the money they have invested, plus any commission or other transaction charges.

Alternative investments may be used by some clients to further diversify the investment risks present within their portfolio of assets. These investments are very bespoke in nature and may involve unique or unusual risks as a result of providing alternative sources of return for a portfolio. It is important that you understand the properties of the type of assets before making such an investment.

Many alternative investments are structured as unregulated funds. This means that standards of operation, administration and management are determined privately by the operator of the fund, rather than by force of regulation.

It is important to understand that it may be difficult to liquidate or sell an investment of this type, or to identify an independently determined fair valuation for an interest in this kind of vehicle. In addition you may not be protected by certain regulatory protections or compensation schemes in the event that a scheme operator acts unlawfully and causes a loss to you when managing fund assets. Such risks can be mitigated through the performance of extensive due diligence prior to investment, or through investment via a professionally managed fund of funds.

Investors should only invest in these products if they are prepared to sustain a total or substantial loss of the money they have invested, plus any commission or other transaction charges.

The phrase **"alternative investments"** can cover a very wide range of investment products, and the major classes of these products are set out below:

a. Hedge Funds

Hedge funds are investments which, in contrast to conventional "long only" funds, will employ a wide variety of different trading strategies in order to produce returns. The type of strategies and investments envisaged by a hedge fund will be a key determinant of how risky the investment will be. Strategies may range from lower risk absolute return funds up to high risk or speculative funds which make use of extensive leverage in an attempt to make maximum gain from their investment strategy.

Investments undertaken by hedge funds may be narrowly based around a specific type of asset or trading strategy, and the returns experienced by investors in these funds may be adversely affected by very specific market or industry circumstances. It is therefore important to understand the type of strategy and investment to be used in any hedge fund prior to investment.

b. Private Equity and Private Equity Funds

Private equity funds commonly invest in any form of equity or company that is not openly traded via a public investment exchange. The companies concerned will therefore raise finance privately and will not be subject to stringent listing rules or filing requirements as a result. This factor means that private equity funds may invest in a wide range of unlisted companies. They may be small start-up companies with little or no proven track record, and range up to firms which are of a significant size with a long and established trading history. A number of attributes of private equity investment give rise to unique risk factors such as:

i. non-transferable investments, or a long "lock up" period during which the investment cannot be sold. Even if a buyer is found, it may not be possible to sell and any sale which is permitted may not occur at a price which reflects fair value;

ii. the committed capital may be drawn down during a capital commitment period. Investors must be capable of making payments to satisfy the capital calls made throughout the commitment period;

iii. a focused portfolio of investments, which could lead to exposure to an undiversified economic exposure to the underlying assets;

iv. possible use of significant leverage or borrowing, which amplifies possible risks;

v. a possible lack of scrutiny or accountability of management to shareholders for decisions they make; and

vi. distributions are generally made in cash, however if a fund is unable to sell its interest in a private company, it may distribute minority interests in these companies to fund investors.

It is important that you are familiar with the terms of, and risks associated with, any fund that you invest in.

c. Property or Property Development Funds

Investment in real property or property funds involves a number of risks particular to this class of asset. Notably fixed property is immovable and might not be easy to sell or to value independently. As a result of the illiquid nature of property it may take time to realise any investment made even when participating in a property fund. There is no guarantee that the underlying properties will remain occupied, or that they might not incur significant maintenance or restoration costs which may impact on the returns available. All property is subject to local risks which may be unique in nature, which may be caused by factors such as the prevailing legal, economic, environmental or political circumstances.

Investors in property development funds face additional risks related to the successful completion of the development project both on time and according to budget. Even if a project is successfully completed, there is no guarantee that properties will either be sold or tenanted at the intended cost or timeframe.

Commercial property is also subject to risks related to the type of use associated with the property, and the prosperity of the local or national economy relevant to the tenants and their business.

Returns available from property funds may also be affected by leverage where borrowing is used to finance either construction or purchase.

In order to maintain fairness and equity between unitholders remaining in and unitholders leaving a fund, in exceptional circumstances, there may be delay switching or encashing all or part of unit holding in the funds for typically up to one month or, in the case of units of a fund which invests directly or indirectly in buildings or land, for up to six months. If there is delay, the switch or encashment will generally use the unit prices that apply on the day on which the switch actually takes place.

d. Commodities Linked Products

Commodity based investments may be impacted by a variety of political, economic, environmental and seasonal factors. These relate to real world issues that impact either on demand or on the available supply of the commodity in question. Their value can fall as well as rise, and in some cases may be mean reverting in nature. Investment into commodities is often achieved either via a structured product over a commodities index or basket of different commodities, or by using a commodity derivative. Please refer to the risk disclosures for each of these products for further information.

2.5 Debt Securities and Fixed Income Funds

The value of debt investments (or "bonds") can generally be expected to be more stable than that of equity investments. However, in some circumstances, particularly when interest rate expectations are changing, the value of most bonds is also volatile. The most common use of a bond is to provide a reliable yield, or source of income until maturity. For example, the value of a bond can be adversely affected by a number of factors, such as:

a. the issuer's credit rating, which reflects their ability to repay the amounts payable when they fall due;

b. the market expectations about future interest and inflation rates;

c. amount of interest payable (the coupon);

d. the length of time until the debt falls due for repayment; or

e. the seniority of a bond within the capital structure of a company, and the quality of any security available.

The factors which are likely to have a major impact on the value of a bond are the perceived financial position of the issuer and changes to market interest rate expectations. Bonds issued by major governments or supranational bodies tend to be lower risk investments, while the risks of other debt securities (such as those with emerging market or corporate issuers) can vary greatly. For example, if an issuer is in financial difficulty, there is an increased risk that they may default on their repayment obligations. In this event, little or no capital may be recovered and any amounts repaid may take a significant amount of time to obtain.

2.6 Malta Stock Exchange and Prospects MTF Traded Investments

Investments that can be traded on the Malta Stock Exchange are limited and lack liquidity and this may have an adverse effect on the market price of securities quoted thereon and the ability to buy or dispose of particular securities at any particular time. Investing in securities admitted to Prospects MTF (which is operated and regulated by the Malta Stock Exchange, "Prospects") carries a number of additional risks including: (a) issuers may have only been recently incorporated with no trading record or history of operations; (b) it's unlikely that Prospects' issuers will seek the credit rating of an independent rating agency; (c) Prospects may be a less liquid market than the Malta Stock Exchange and/or other regulated markets.

3. Other risk factors associated with FX Contracts

3.1 Risk disclosure statement for trades in foreign exchange

This brief statement should be read in conjunction with the risk warnings stated in the rest of Schedule 2, above. This statement does not disclose all of the risks and other significant aspects of trading foreign exchange. In consideration of the risks, you should enter into such transactions only if you understand the nature of the contracts and the contractual legal relationship into which you are entering and the extent of your exposure to risk. Transactions in foreign exchange are not suitable for many members of the public. You should carefully consider whether transacting is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

a. Effect of "leverage" or "gearing"

Transactions in foreign exchange carry a high degree of risk. The amount of initial margin may be small relative to the value of the foreign exchange contract so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit; this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with us to maintain your position. If the market moves against your position and/or margin requirements are increased, you may be called upon to deposit additional funds on short notice to maintain your position. Failing to comply with a request for a deposit of additional funds within the time indicated may result in closure of your positions by us on your behalf and you will be liable for any resulting loss or deficit.

b. Risk-reducing orders or strategies

The placing of certain orders (e.g. "stop-loss" orders, where permitted under local law, or "limit" orders), which are intended to limit losses to certain amounts, may not be adequate if market conditions make it impossible to execute such orders, e.g. due to illiquidity in the market. Strategies using combinations of positions, such as "spread" and "straddle" positions may be as risky as taking simple "long" or "short" positions.

c. Your risk acknowledgement

Where you use us to enter into FX Contracts, you acknowledge that:

i. trading and investments in leveraged as well as non-leveraged FX Contracts is highly speculative, may involve an extreme degree of risk and is appropriate only for persons who, if they trade on margin, can assume risk of loss in excess of their margin deposit;

ii. price changes in the underlying currency may result in significant losses;

iii. losses may substantially exceed your margin deposit;

iv. when you direct us to enter into any FX transaction, any profit or loss arising as a result of a fluctuation in the value of the currency will be entirely for your account and risk;

v. you warrant that you are willing and able, financially and otherwise, to assume the risk of trading in speculative investments;

vi. you are aware of the fact that, unless it is otherwise specifically agreed, we will not conduct any continuous monitoring of the transactions already entered into by you whether individually or manually. We cannot be held responsible for the transactions developing differently from how you might have presupposed and/or to your disadvantage;

vii. guarantees of profit or freedom from loss are impossible in investment trading; and

viii. you have received no such guarantees or similar representations from us, an introducing broker, or representatives hereof or any other entity.

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