

STERLING INTERNATIONAL BROKERS LIMITED

RISK DISCLOSURE STATEMENT

The statement below does not outline every possible risk in every product. You should not deal in any of the products listed below unless you have an understanding of the product, how it is traded and the exposures and risks involved. You should also satisfy yourself that the product is suitable for you taking into consideration your financial position, investment objectives and risk appetite. Not all the products listed below are suitable for all investors.

If you do not fully understand these factors, then please obtain independent financial advice.

1. Equities

Equities or shares are instruments representing a shareholding in a company. The shareholder benefits from ownership rights determined by national law and the company's articles of association. Equities are usually traded on recognised investment exchanges (such as stock markets) but can also be traded 'Over the Counter' (OTC) and through a Multilateral Trading Facility (MTF).

Risks involved in equity transactions may include:

- Market risk: Share prices are subject to supply and demand and consequently prices will rise and fall.
- Company risk: A shareholder is a part-owner of a company. Profits and losses may increase or decrease the value of shares. Company failure would negatively affect the value of the shareholding and in extreme cases may mean a total loss of the investment.
- Dividend risk: Dividend payments may be made according to the profitability and policy of the company. Dividends are usually taken into consideration when calculating the investment yield, however it should be noted that dividends may be reduced or not made at all.

2. Fixed Income Securities (Bonds)

Bonds are negotiable instruments in government or corporate debt. Bonds are issued for various periods and usually paid at maturity. Interest payments may vary and for example may be fixed for the total term until maturity or varied according to benchmark reference rates such as LIBOR/PIBOR

Risks involved include:

- Credit risk: The value of the bond is determined by the quality of the credit and the likelihood of default. Therefore exposures to governments such as UK Gilts are likely to incur less credit risk than instruments issued by small companies with poor credit ratings.
- Insolvency risk: The issuer may become insolvent resulting in its inability to pay interest when required or redeem the bond at maturity.
- Interest Rate risk: Movements in interest rates are due to economic factors and are not always predictable. Fixed income securities carry the risk that bond prices will fall if interest rates rise. The lower the rate of interest the higher the exposure to rising interest rates.
- Additional risks are attached to certain other types of securities for example, floating rate notes (FRNs), foreign currency, convertible, indexed, subordinated and zero bonds. You should not purchase such securities unless you are certain that you fully understand all the associated risks.

3. Warrants

A warrant is a time-restricted right to subscribe for shares and other securities which is exercisable against the issuer of the underlying security. Trading in warrants can be volatile. A relatively small movement in the price of the underlying security results in a disproportionate movement in the price of a warrant. It is essential to understand that the right to subscribe is restricted in time which means that if the purchaser fails to exercise this right within the limited time period then the investment becomes worthless. A covered warrant is a right to acquire shares or other securities which is exercisable against a party other than the issuer of the underlying security.

4. Derivatives

Contracts for Difference (CFDs)

Contracts for difference are contracts the purpose of which is to secure profits or avoid losses by reference to fluctuations in the value or price of property of any description typically including (amongst others) the value or price of an index, security, interest rate (including interest rate swaps), currency value (including currency swaps), commodity and energy price. CFDs may not rely on physical delivery of the property and may be settled in cash.

Futures

A futures contract is an obligation for the purchase of an asset at a future date at a price which is fixed when the contract is made. Futures contracts employ gearing or leverage to increase the investor's exposure against a smaller initial investment. Futures trading can lead to large losses (potentially in excess of the total of your deposit margin) as well as gains and consequently they carry a high degree of risk.

Margin

Futures are margined contingent liability transactions which will mean that the investor may be required to make a series of payments (known as margin) against the purchase price instead of paying the whole purchase at the outset of the contract. When the contract is opened, an initial margin (deposit margin) will be required and from time to time the investor may be called upon, sometimes at short notice, to provide additional margin which in certain circumstances may be substantial. A failure to provide such additional margin within the time required may result in the trade being closed at a loss and the investor will be liable for any resulting deficit.

'Leverage' or 'Gearing'

Leverage or Gearing enables an investor to enter into trades with a comparatively modest deposit margin in terms of the overall value of the contract. However, this will mean that a relatively small adverse movement in the underlying market can have a disproportionately dramatic effect on the investor's position which may in certain circumstances result in the loss of the entire margin and leave the investor liable for any other losses sustained on the position

Contingent liability transactions are usually traded on or under the rules of a recognised or designated investment exchange but can be traded OTC which may involve a degree of greater risk e.g. due to the lack of a clearing house which acts as a central counterparty.

Options

An option is a contract which confers on the buyer the right, but not the obligation, to buy or sell an underlying asset at a given price on or before a given date. The right to buy is known as a call option and the right to sell is known as a put option.

You can either buy or sell option contracts. Buying option contracts carries less risk than selling (writing) options; this is because if the price of the underlying asset moves against you, you can allow the option to lapse and only lose the premium that you paid to the seller (writer) of the option plus any associated fees and transaction charges. However, if for example you buy a call option on a futures contract (or other contingent liability contracts) and during the life of the contract you exercise the option to acquire the futures at a given price then this will expose you to the risks associated with futures trading (see above).

The risks involved with writing options may be substantial. You may be requested to pay margin payments (see above) and you may be exposed to the payment of losses far in excess of the premium obtained for selling the option. When writing an option you accept a contractual obligation to sell or buy the underlying asset if the option is exercised against you. This may involve you in selling or buying at a price (the exercise price) which may be way below or above the prevailing market price of the asset.

5. OTC Derivatives

OTC derivative transactions, for example interest rate swaps, are not conducted on-exchange and therefore are traded on a non-transferable basis. Generally OTC markets carry a high degree of liquidity in 'vanilla' type of instruments. However, trading in complex or illiquid OTC markets can lead to increased risks because it may be difficult to close out or hedge your position by taking out an exact and opposite contract.

6. Emerging Markets

Investing in non fully-developed markets (emerging markets) is generally characterised as being riskier than investing in mature markets in developed countries. Therefore investments in emerging markets are only suitable for sophisticated professional investors who understand and are able to bear the risks involved.

Emerging markets may be highly illiquid and may be influenced by a number of factors including, but not restricted to, uncertain political, legal, economic, accounting, tax, exchange control and investment restriction requirements.