Investment instruments: strengths and weaknesses
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Building up an investment portfolio

An investment is never entirely risk-free by definition. And there is no such thing as the ideal investment! This would provide an extraordinarily high yield without any risk at all. For this reason, every investor, depending on the yield strived for, must determine how much risk he or she is prepared to take and, once this risk profile has been determined, include different investment products in a balanced investment portfolio. However, risk is not the only decisive factor for the type of investment. The investment horizon or term, the availability of the capital, the yield and any taxes payable mean that every investment is different. There is also a need to take account of various factors.

The economy experiences periods of large-scale or small-scale growth and recession. Investments in the form of shares, bonds and liquid assets are influenced by these periods in different ways, so certain financial assets will perform better than others. The ratio between shares, bonds and liquid assets in a portfolio therefore has to be adapted on an ongoing basis. This is known as the spread.

To achieve a good spread, investors must know how much they should invest in shares, bonds and short-term deposits. They must also take account of the tax aspect and of future investments in order to be able to integrate them in the existing portfolio.

They must ask themselves which stock exchange, which shares and which economic sectors offer the best prospects and which currencies show potential to rise or fall in relation to their national currency. They will also have to ensure that their money is distributed over a sufficient number of markets and securities. In this way, a loss can be compensated for by a success.

This brochure is not designed to tell you what the best strategy or asset allocation is. There are of course too many personal factors to be taken into consideration to assess your risk profile. Our financial advisers will be pleased to provide you with further assistance in this.

What this brochure does do, however, is provide a brief introduction to various investment instruments offered by KBC Bank to its customers. For the sake of clarity, we have grouped these instruments according to the type of underlying asset: short-term fixed-income, long-term fixed-income, shares and so on. Then, for each category of investment instrument, we have set out the major features, strengths and weaknesses. You can use this as a basis for weighing up the risks attaching to the various instruments and for making your choice together with your financial adviser.
The risk attaching to an investment may come from various factors. The main risks are borrower risk, liquidity risk, market risk and the risk of an investment not generating a regular flow of income. A summary and definition of the possible risks is provided.

- **Market risk** is reflected by major interim price fluctuations. This could be due to exchange-rate fluctuations (currency risk), but also to interest-rate fluctuations (interest-rate risk) or stock-market fluctuations.
- **Borrower risk** (credit risk) is the possibility that a company or issuer will fail to fulfil its obligations. In most cases, this will be because of the borrower’s poor financial status or imminent bankruptcy.
- **Liquidity risk** is the risk that a security may prove difficult to sell prior to maturity.
- **Currency or exchange risk** is the risk that the value of an investment will be affected by changes in exchange rates.
- **Interest-rate risk** is the risk that the value of an investment will be affected by movements in market interest rates.
- **Inflation risk** is the risk that the value of an investment will be affected by a sustained increase in the general level of prices.
- **The risk dependent on environmental factors** is the risk that the value of an investment will be affected by environmental factors, such as change in the tax regime.

Spreading your bond portfolio over several issuers will reduce borrower risk considerably, while diversification over several currencies will reduce the currency risk you are exposed to. Interest-rate risk can be reduced in turn by including money market investments in the portfolio.

How much risk you ultimately decide to accept depends on a number of factors. One of these is how averse you are to risk. Other factors include your personal investment horizon, or the period for which your money may be tied up.

However, the general rule is that investors are only prepared to accept more risk if they can expect a higher return as a result. For this reason, the expected return on the various investment instruments is also dealt with in this brochure. This brochure has been written to help you better assess the opportunities and risks associated with the various investment instruments, and should help you with your future investment decisions.
MiFID
The Markets in Financial Instruments Directive (or MiFID) is a European Directive relating to a number of investment services in respect of financial instruments. It has been transposed into the national laws of EU Member States and came into effect on 1 November 2007.

MiFID aims to promote greater competition on the financial markets by removing obstacles to the cross-border movement of securities and by abolishing the monopoly of regulated stock exchanges. It also aims to further expand the protection rules for those customers trading in financial instruments.

One of the protection rules concerns the obligation to provide information. Customers must be sufficiently informed about the nature of and risks associated with the financial instruments on offer. KBC has provided this information in the past and will continue to do so in the future. This brochure Investment instruments: strengths and weaknesses has been updated to include MiFID products, but still also provides information on investment instruments in general. After all, KBC’s product range is not just limited to MiFID products.

The following is a complete overview of KBC’s main investment instruments and products, excluding dealing room products. For more detailed information, don’t hesitate to contact your investment adviser. He/she can also tell you which products are most suited to your personal risk profile.
I Deposits and short-term instruments

1.1 Legally regulated savings accounts

A Description

Savings accounts are savings instruments with no fixed term. They are denominated in euros.

Under current tax law, up to a certain amount of interest received is exempt from withholding tax (WHT). More information on the amount in question for the current income year can be found at www.kbc.be (search term: ‘tax measures’). For this exemption to apply, the legal requirements governing the interest calculation and withdrawals from savings accounts must be met.

Accrual and calculation of interest

The interest is made up of a base rate, plus a fidelity bonus.

The fidelity bonus may not exceed half the maximum base rate. The base rate and fidelity bonus are subject to change at any time if necessitated by market conditions. Savings accounts earn interest from the banking day following the deposit and cease to earn interest from the day of withdrawal. Interest is booked once a year (with 1 January as value date) or when the account is closed.

The fidelity bonus is awarded on amounts held in the same savings account for twelve consecutive months. The fidelity bonus is calculated each quarter. At the end of each quarter (with the value date being the first calendar day of the next quarter), you receive the fidelity bonus accrued in that quarter. The fidelity bonus is paid on 1 January, 1 April, 1 July and 1 October.

Bonuses are calculated on a LIFO (last-in-first-out) basis, assuming that the most recent deposits are withdrawn first.

Cash withdrawals

Legal regulations determine the ways in which account holders may have access to amounts held in savings accounts. These include (list given as an indication only):

- cash withdrawal; transfer – not by standing order – to an account in the name of the holder of the savings account;
- transfer to a savings account in the name of the spouse or of a family member up to and including the second degree;
- payment by the holder of the savings account of amounts due to the bank in respect of: loans or credit facilities granted by the bank or by a body which is represented by the bank, insurance premiums and costs relating to cash deposits, the purchase or registration of securities, safe-deposit box hire, and fees for securities deposited in a custody account.

- The bank may legally limit withdrawals to 1 250 euros per transaction or to a maximum of 2 500 euros per fortnight. If account holders plan to make sizeable cash withdrawals, they should contact the bank a few days in advance.


B Strengths

- Savings accounts are a very liquid investment instrument. In theory, savings account holders have immediate access to their money. Certain withdrawal conditions – for instance, a set notice period – may be imposed by law. But this is never more than a few days at most.
- Under current tax law, up to a certain amount of interest received is exempt from withholding tax (WHT). More information on the amount in question for the current income year can be found at www.kbc.be
A Description

Time deposit accounts are registered deposits in euros or foreign currency. Generally speaking, time deposit accounts are short-term (usually up to 12 months), but longer terms are not precluded. Customers invest an amount for a fixed term (of their choice) at a pre-agreed interest rate. In general, standard terms are 7, 14 or 21 days or one, two or more months. Time deposit accounts can be renewed for a standard period at the interest rate in force on the renewal date. Interest earned on time deposit accounts is only available at maturity at the earliest. It can be paid to the customer (for instance, into a current account or savings account) or capitalised in the time deposit account in the case of renewal. If interest is capitalised, it then earns interest in turn. Capitalisation of interest is not possible if there are interim maturity dates, even if the term exceeds 12 months or amounts to less than 7 days and even if the deposit is frozen or pledged. Under the present tax law, interest on time deposit accounts is subject to withholding tax. More information on the amount of withholding tax can be found at www.kbc.be (search term: ‘tax measures’).

Covered by MiFID? No.

1 USD, CAD, AUD, NZD, GBP, SKK, NOK, SEK, JPY, CHF, CZK, ZAR, DKK, HUF, PLN, TRY.
B Strengths

- Time deposit accounts offer a guaranteed return that is known in advance. For time deposits in foreign currency outside the euro area of course, the final return also depends on exchange rate trends, since they must be converted into euros.
- The longer the term of the account, the higher the interest rate usually is.
- The higher the amount invested, the higher the interest rate usually is.
- Time deposit accounts are particularly suitable for temporary investment, for instance pending an interest-rate rise or when a major purchase is planned. This is a very flexible form of investment. Companies often use this instrument for cash management purposes.

C Weaknesses

- Time deposit accounts are less liquid than savings accounts. Funds invested in time deposit accounts are in principle not available prior to maturity. However, it is possible to request your money early in certain cases, subject to payment of compensation for reinvestment (calculated according to market conditions).
- If the interest rate rises during the period of investment in a time deposit account, you will be unable to benefit from it.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, since time deposit accounts are opened at credit institutions which are closely supervised by the NBB. If a Belgian credit institution were to go bankrupt, there is a deposit protection scheme with compensation for depositors of a maximum 100 000 EUR per depositor.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low for time deposit accounts with a term of &lt; 1 year, and moderate for time deposit accounts with a term of &gt; 1 year. However, in principle, time deposit accounts will not be paid back prior to the contractually agreed maturity date.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for time deposit accounts in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low for time deposit accounts with a term of &lt; 3 years, moderate for time deposit accounts with a term of between 3 and 5 years, and high for time deposit accounts with a term of &gt; 5 years.</td>
</tr>
</tbody>
</table>
1.3 Treasury certificates

A Description

Treasury certificates are short-term debt securities issued by the Belgian Treasury. There is a primary and a secondary market in Treasury certificates. Treasury certificates, in principle involves securities with a term of 3 and 6 months or of 3 and 12 months, are put up for tender every two weeks. Investment in Treasury certificates and the liquidity of the market are ensured by primary dealers (including KBC Bank) and the recognised dealers who may only participate in an auction or issue via a syndicate.

Subscriptions on the primary market must be for at least one million euros and the smallest denomination is 100 000 euros. Terms are set at 3, 6 or 12 months on issue. Other entities that are exempt from withholding tax (financial institutions, companies, inter-municipal utilities companies) and individuals subject to withholding tax can purchase Treasury certificates through primary dealers on the secondary market. For those exempt from withholding tax, purchases are processed through an X account with the National Bank of Belgium (NBB), and for individuals subject to withholding tax, through an N account with the NBB. Individuals who are interested in these transactions are required to have a custody account, since Treasury certificates are book-entry securities (i.e. they are not available as paper securities). This means that holding and trading Treasury certificates may only take place via accounts.

And this involves relatively large amounts (the routine amount at present is at least 125 000 euros), although no explicit minimum has been set.

Covered by MiFID? Yes. Complex instrument? No.

B Strengths

- Treasury certificates are a very liquid investment instrument due to the high volume in circulation. In addition, there is a secondary market in Treasury certificates.
- Treasury certificates are a risk-free investment due to the quality of the issuer.
- Transactions are settled quickly and easily thanks to the National Bank’s clearing system. This system was set up by the National Bank to provide for settlement of transactions on the primary and secondary securities markets. Its main purpose is to ensure the secure settlement of transactions in book-entry securities.

C Weaknesses

- Tenderers on the primary market only know later whether or not their tender has been accepted. If it is not accepted, the party concerned must seek an alternative investment.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Very low.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>None, due to the size of issues and organisation of trading by the National Bank of Belgium (NBB).</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None. Treasury certificates are denominated in euros.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low, due to the relatively short term to maturity (one year maximum) of the certificates.</td>
</tr>
</tbody>
</table>
1.4 Deposit certificates and commercial paper

A Description

Commercial paper is a collective name for short-term debt securities. The distinction between commercial paper and deposit certificates has to do with the issuer.

- **Commercial paper** is issued by large companies and specific governments. Companies which issue commercial paper must fulfil the relevant statutory financial requirements.

- **Deposit certificates** are issued by credit institutions. These debt securities may be denominated in euros or another currency. The securities are issued in book-entry form, so they must be held or traded via accounts.

As with Treasury certificates (see point 1.3), individuals can also trade on this market through the system of X/N accounts. In collaboration with the issuer, the financial institution sponsoring the issue will draw up a prospectus for each CP programme; this prospectus is submitted to the Banking, Finance and Insurance Commission for approval before it is distributed. Issuers must publish financial information at regular intervals.

Covered by MiFID? Yes. Complex instrument? No.

B Strengths

- The interest rate is usually higher than for Treasury certificates. The interest rate depends on the quality of the issuer. In the case of commercial paper, borrower quality is usually very high. Indeed, this market is reserved for larger companies which have acquired a certain degree of creditworthiness.

C Weaknesses

- The minimum amount that must be invested is high (250 000 euros for deposit certificates and 1 000 000 euros for commercial paper). This market is therefore mainly for professional and institutional investors. Individual investors wishing to invest smaller amounts in commercial paper can do so through collective investment instruments.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, moderate to high, depending on the rating. There is a credit risk although credit institutions which issue deposit certificates are closely supervised. Large companies issuing commercial paper must fulfil statutory financial requirements. The limited term of these securities also curtails borrower risk.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate, depends on the existence and efficiency of a secondary market. In contrast to Treasury certificates, trading on the secondary market is very limited.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low, since the term is usually limited to one year. Can be higher for securities with a term of more than one year.</td>
</tr>
</tbody>
</table>
1.5 Money-market funds

A Description

The term funds refers here to Undertakings for Collective Investment (UCIs). Please refer to point 5.2 (Investment funds) and 5.3 (Open-end investment companies (beveks)) for a general description.

These money market funds invest mainly in short-term (6 to 18 months) or very short-term (from a few days to 3 months) money market instruments, such as time deposits, Treasury certificates and commercial paper. The investment strategy is set out in the prospectus. Some money market funds invest in euros, others in foreign currencies. It is possible to opt for investments in several currencies: for example, strong currencies or high-yielding currencies.

Money market funds may be incorporated under Belgian or under Luxembourg law. They may issue capitalisation (growth) or distribution (income) units or shares. Holders of distribution shares are entitled to a periodic dividend. With capitalisation shares, dividends are added to the invested capital and reinvested. Under current tax law, withholding tax is levied on the dividends from distribution shares of beveks (Belgium) and sicavs (Luxembourg). More information on withholding tax can be found at www.kbc.be (search term: ‘tax measures’).

Since 1 January 2006, the holder has to pay 15% withholding tax on sale of the capitalisation shares of UCIs with a European passport which are more than 40% invested in debt instruments.

For charges and stock market tax, please refer to point 5.2.

B Strengths

- Because UCIs pool large amounts from investors, individuals investing in these money market funds may obtain a higher return.
- Through money market funds, individual investors can invest indirectly in instruments to which access would otherwise be difficult (e.g., Treasury certificates and commercial paper).
- These UCIs are a more liquid investment than other investment instruments, such as time deposits.

C Weaknesses

- Buying into the fund attracts charges. For capitalisation shares, a stock market tax is payable on selling and in some cases withholding tax is imposed (UCIs with a European passport which are more than 25% invested in debt instruments). For the distribution shares, withholding tax is payable on the dividends. More information on withholding tax can be found at www.kbc.be (search term: ‘tax measures’).
### D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, moderate to high, depending on the composition of the fund.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low, money market funds redeem shares at their net asset value. Due to the specific short-term nature of their investments, money market funds are generally a very liquid investment. However, there are entry and exit fees.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low, moderate to high. Only if there is a steep interest-rate rise can the net asset value drop briefly.</td>
</tr>
</tbody>
</table>
II Savings certificates, bonds and related securities

2.1 Savings certificates

A Description

Savings certificates are fixed-income securities issued by a credit institution. The credit institution repays the amount loaned at maturity. Depending on the type of savings certificate, payment of interest is guaranteed on fixed interest payment dates or when the customer wishes. Savings certificates are issued in euros. They usually have a renewable term of between 1 and 5 years, and are issued on tap.

Interest is subject to withholding tax. The rate under the tax law currently applying to savings certificates issued after 1 January 1996 can be found at www.kbc.be (search term: ‘tax measures’). Other rates may apply for earlier issues. Savings certificates are issued at par, i.e. at 100% of the nominal value. The capital is also repaid at par.

Both income and growth savings certificates are available. Interest is paid once a year on income savings certificates. In the case of growth savings certificates, interest is capitalised, i.e. it is added to the capital that was initially invested and in turn earns interest. Intermediate dates for capital repayment are also possible. Savings certificates usually run until maturity. However, it is possible to cash in savings certificates prior to maturity by presenting them to the issuing bank, selling them at a public auction or selling them privately to a third party. Selling savings certificates at public auction attracts relatively high charges. Generally speaking, it takes about ten days for the transaction to be carried out. In practice, most credit institutions redeem their own savings certificates at the customer’s request. The customer then receives the sale proceeds immediately. The redemption price is based on the remaining term to maturity of the savings certificate and the yield on government bonds (OLOs) on the secondary market. However, this also attracts charges.

Covered by MiFID? Yes. Complex instrument? No.

B Strengths

- Savings certificates offer a definite rate of return that is known in advance.
- Savings certificates are issued on tap, so investors can buy them at any time.
- There is an extensive range of savings certificates, so there is something to suit every investor’s taste.

C Weaknesses

- Savings certificates usually offer a lower rate of return than Belgian State loans. On the other hand, State loans usually have longer terms.
- Currency erosion: due to inflation, the capital at maturity may have less purchasing power than when the investment was made. The higher the inflation rate, or the longer the term of the savings certificate, the greater the risk of currency erosion. This is offset by interest if the nominal rate is higher than the average inflation rate during the term to maturity of the savings certificate.
### D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, since savings certificates are issued by credit institutions which are closely supervised by the NBB. If a Belgian credit institution were to go bankrupt, recourse could be had to a deposit protection scheme under certain conditions (only for savings certificates deposited in a custody account, inter alia), which would provide maximum compensation of 100,000 EUR per depositor.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate, the secondary market is not that well developed. Credit institutions usually redeem their own savings certificates. However, this does attract a charge.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low for savings certificates with a term of &lt; 3 years, moderate for savings certificates with a term of between 3 and 5 years, and high for savings certificates with a term of &gt; 5 years.</td>
</tr>
</tbody>
</table>

### 2.2 Certificates and time deposit accounts

#### A Description

Certificates are fixed-income investments which, like savings certificates, are issued by a credit institution.

Unlike savings certificates, certificates are not available on tap. They are issued periodically, in order to make the most of market opportunities. Certificates are therefore subject to specific conditions regarding term, the possibilities for sale free of charge before maturity and progressive interest rates. Income may be fixed or linked to an exchange rate, stock-market index, etc. In addition, there are issues of time deposit accounts in registered form, with the same possibilities. They offer tax-saving advantages to the investor. Under the present tax law, interest received is subject to withholding tax.

More information on withholding tax can be found at www.kbc.be (search term: ‘tax measures’).

#### B Strengths

- Certificates and issues of time deposit accounts make it possible for investors to take advantage of the conditions prevailing on the market. For each issue, formulas are offered that respond to market opportunities.

#### C Weaknesses

- Certificates and time deposit accounts are not issued on tap.
2.3 Subordinated certificates

A Description

Subordinated certificates are fixed-income investments issued by a credit institution. The credit institution repays the amount loaned at maturity. Issues are usually denominated in euros.

Depending on the type of issue, payment of interest due is guaranteed on fixed interest payment dates or at maturity. KBC Subordinated Certificates with income option pay investors interest annually. KBC Subordinated Certificates with capitalisation option add interest to the capital invested, so that the interest earns interest in its turn. The interest is invested at the same rate as the capital. The (capitalised) interest and the capital are paid out at maturity.

The minimum investment is 2 500 euros. The term of the investment is between 5 and 10 years. KBC Subordinated Certificates are issued on tap.

KBC Subordinated Certificates are securities with subordination features. Subordination means that, in a situation where there are numerous creditors against KBC Bank (e.g., in the case of bankruptcy) the subordinated creditor will only be paid back (capital and interest) after all other creditors (privileged and/or non-privileged).

Subordinated certificates are not guaranteed by the Beschermingsfonds voor Deposito’s en Financiële Instrumenten (Protection Fund for Deposits and Financial Investments).

Interest is subject to withholding tax. More information on the rate of withholding tax can be found at www.kbc.be (search term: ‘tax measures’). Investors are also liable for stock market tax on KBC Subordinated Certificates.

KBC Subordinated Certificates are issued at par, i.e. at 100% of the nominal value. The capital is also repaid at par.

KBC Subordinated Certificates generally run to maturity. Redemption prior to maturity is only possible by sale at a public auction (only for securities) or by private sale to a third party. The issuer itself may not redeem these investments (condition imposed by the FSMA).

Covered by MiFID? Yes. Complex instrument? No.

B Strengths

- KBC Subordinated Certificates offer a guaranteed return. In addition, the fixed income is higher than for other fixed-income term investments (e.g., savings certificates, time deposit accounts).
- There are no subscription or redemption fees for
C Weaknesses

- Currency erosion: due to inflation, the capital at maturity may have less purchasing power than when the investment was made. The higher the inflation rate, or the longer the term of the subordinated certificate, the greater the risk of currency erosion. This is offset by the interest if the nominal rate is higher than the average inflation rate during the term of the subordinated certificate.
- Higher borrower risk because of the subordination feature.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Moderate, although Subordinated KBC Certificates are issued by a credit institution which is closely supervised by the NBB. Subordinated investments are not covered by the deposit protection scheme in the event of the bankruptcy of the credit institution, and are only redeemed once all other creditors have been repaid.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>High, early redemption is only possible by sale at a public auction (only for securities) or by private sale to a third party. The issuer itself may not redeem these investments (condition imposed by the FSMA).</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low for certificates with a term of &lt; 3 years, moderate for certificates with a term of between 3 and 5 years, and high for certificates with a term of &gt; 5 years.</td>
</tr>
</tbody>
</table>

2.4 State Notes and classic State loans in euros

A Description

A bond is an acknowledgement of debt. Bonds are issued to represent participation in a long-term loan. The holder of a bond receives annual interest and the principal is repaid at maturity.

The Belgian State is the largest bond issuer in Belgium. These bonds are denominated in euros. State bonds held by individual investors are in book-entry form. State Notes are fixed-income securities in euros, issued by the Belgian State. They are intended for individual investors. Unlike savings certificates, they are not issued on tap, but investors can subscribe four times a year.

The following types of State Notes are currently available:
- State Note with a term of 5 years with a fixed interest rate;
- State Note with a term of 8 years with a fixed interest rate;
- A formula with a term of 5 years with a fixed interest rate, which may be extended for a further 2 years at the same interest rate at the request of the investor (known as the 5/7 State Note);
- The 3-5-7-formula: a more flexible formula, based on an adjustable interest rate, often coupled with a guaranteed minimum yield. The exact terms and conditions vary from one issue to another.

The coupon and maturity of the State Note are fixed in advance by the Minister for Finance. The exact yield is
only determined some days prior to issue, taking account of conditions prevailing on the market. The issue price of State Notes is thus not necessarily the same as their face value. State Notes may be issued above or below par (100%) in order to be more in line with the market conditions prevailing at the time of issue. In the case of an issue at par, the issue price is equal to the face value.

With an issue below par, the issue price is lower than the face value. The difference between the two is the issue premium. This in fact offers investors a higher yield. In the case of an issue above par, investors pay more than the face value for the bond. A bond issue may also provide for a redemption premium, in which case investors recoup more than 100% of the invested capital at maturity. However, Belgian State loans seldom offer a redemption premium.

The conditions of issue also stipulate whether or not the bond can be redeemed before maturity. For example, redemption before maturity is possible for lottery loans. A drawing schedule is established on issue. The lottery loans drawn stop yielding interest from the drawing date. In addition, there are also loans with put option which entitle bondholders to demand redemption before maturity on payment date before maturity established on issue.

Example: S/7 State Note 2003/2010 (ISIN code BE0000954819), maturing on 4 March 2010 and possible date for early payment on 4 March 2008.

State Notes and State bonds are listed on the stock exchange. Charges and levies apply for trading on the secondary market. Interest is subject to withholding tax. The rate for issues after 1 January 1996 can be found at www.kbc.be (search term: ‘tax measures’).

The bonds may be accompanied by a call option, as a result of which the State can redeem the loan before maturity at a fixed price and on a fixed date. This possibility is used if the market rate is significantly lower than the bond rate. For lottery loans, there is a risk of having to reinvest at the time of the lottery at less favourable terms and conditions.

Covered by MiFID? Yes. Complex instrument? No.

**B Strengths**

- Definite yield, known in advance. Generally, slightly higher than for savings certificates.
- Reliable guarantee. The issue, yield and redemption conditions are determined in advance and guaranteed by the issuer, i.e. the State.
- Good negotiability. The secondary market is quite liquid.

**C Weaknesses**

- It is only possible to subscribe to State bonds and State Notes a certain number of times a year when new securities are issued. But they can always be bought and sold on the secondary market. If market interest rates rise, the price of existing State bonds and State Notes on the secondary market will go down.
- Currency erosion: since State bonds generally have a comparatively long term to maturity, the purchasing power of the invested capital will diminish due to inflation. The higher the rate of inflation and the longer the term to maturity, the greater the currency erosion. This may be offset by the nominal interest rate, if this is higher than the average inflation rate over the life of the State bond or State Note.
### D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Very low.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low, due to listing on the stock exchange. But liquidity is lower than for OLOs (see 2.5).</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None, since State bonds and State Notes are denominated in euros.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low for State Notes and State loans with a term of &lt; 3 years, moderate for State Notes and State loans with a term of between 3 and 5 years, and high for State Notes and State loans with a term of &gt; 5 years. Investors will incur a loss if market interest rates are higher than the nominal bond rate when it is sold on the secondary market. But investors will realise a gain if the market rate is lower than the bond rate.</td>
</tr>
</tbody>
</table>

### 2.5 OLOs (linear bonds) in euros

#### A Description

Linear bonds are fixed-income securities. They are always in book-entry form and are usually first issued via syndicate and then sold by the Belgian Treasury at auction.

Linear bonds are mainly intended for institutional investors. Each category of bonds with the same interest rate and the same maturity date comprise one ‘line’. OLOs in any one line can be issued at various times - and therefore at different issue prices - but are mutually replaceable (i.e. ‘fungible’) for trading purposes on the secondary market.

By issuing bonds in the same line at various intervals, the State seeks to increase the extent of the debt in each line, thereby enhancing the depth of the market (negotiability and efficient pricing).

Depending on the market conditions and its borrowing requirement, the Treasury will set a limit price for the auction of OLOs. Direct subscription to the securities sold at the auctions will be centralised by the primary dealers and the recognised dealers. Subscription on the primary market must be for a minimum of 10 million euros and multiples of 1 million. The Treasury sets a limit price. All offers which exceed this limit price will be honoured. Offers subject to the limit price imposed by the Treasury can be reduced proportionally. In that case, the reduced amounts are rounded up to the tranche of 1 million immediately above, with a minimum of 10 million euros per offer. The auctions are held on the fourth Monday every two months. This schedule is only indicative; the Treasury can change it at any time.

However, anyone can buy or trade OLOs on the secondary market. Transactions are exempt from withholding tax for those parties not liable to such tax. At present, lines of linear bonds are in circulation with maturities of between 0 and 30 years. OLOs approaching maturity are still actively traded. OLOs are not available in paper form.

They are book-entry securities and are therefore held and traded through accounts. Individuals can trade in OLOs through the system of X/N accounts (see point 1.3). No stock market tax is due for transactions on the primary market, but it is for transactions on the secondary market if they take place via the stock exchange (for private individuals).

Covered by MiFID? Yes. Complex instrument? No.
**B Strengths**

- Definite yield, known in advance. The yield is generally slightly lower than that on standard State bonds and State Notes, due to the higher liquidity.
- Linear bonds are a very liquid investment. They are easily negotiable on the secondary market. There is a significant volume of each line of linear bonds in circulation.

**C Weaknesses**

- The OLO market is not intended for individual investors. Individuals can only purchase OLOs on the secondary market, which entails higher costs. It is possible to buy and sell OLOs on the secondary market for amounts in excess of 1 000 euros.
- Currency erosion: since OLOs generally have a comparatively long term to maturity, the purchasing power of the invested capital will decline due to inflation. The higher the rate of inflation and the longer the term to maturity, the greater the currency erosion. This may be offset by the nominal interest rate, if this is higher than the average inflation rate over the life of the OLO.

**D Risks**

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Very low.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>None, negotiable on the secondary market.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low for OLOs with a term of &lt; 3 years, moderate for OLOs with a term of between 3 and 5 years, and high for OLOs with a term of &gt; 5 years. The price of a bond on the secondary market varies with interest-rate fluctuations. Investors may incur a loss if the bond is sold prior to maturity.</td>
</tr>
</tbody>
</table>

### 2.6 Corporate bonds in euros

**A Description**

Bonds issued by a private company are certificates representing a long-term debt issue by the company concerned. The quality of an issuer is assessed by specialist firms – rating agencies – which evaluate the default risk on the basis of a range of criteria. These include the company’s business, its financial structure, the country’s financial and economic situation, and the sector in which the company is active. Rating agencies use a scale from AAA (prime debtors) through AA, A, BBB, BB and so on to C (very low).

Companies with a rating of AAA to A inclusive are considered to be of good quality, or ‘investment grade’. If a bond loan offers an unusually high yield, this is generally to offset a low credit rating, which is also reflected in the debtor having a lower rating. In other words, high-yield bonds entail a higher risk. Bonds offer interest that is calculated on the nominal value and payable on the predetermined payment dates. The interest rate and payment date of the coupon are set at the time of issue.

Most bonds may be redeemed at maturity. Sometimes, bonds may be redeemed prior to maturity. This may occur by the issuer buying them back on the stock market or by lottery (in the case of lottery loans) or
through the exercise of a call option (see point 2.5). But these possibilities must be stipulated at the time of issue. Ordinary bonds have a fixed maturity and offer a fixed rate of interest throughout their life. There are variations to ordinary bonds, the most important of which are considered in point 2.7.

Corporate bonds may be subordinated, which means they will only be redeemed after ordinary debts and bonds have been redeemed and just before payment is made to shareholders. Interest is subject to withholding tax. The rate for issues after 1 January 1996 can be found at www.kbc.be (search term: ‘tax measures’). Other rates may apply for earlier issues.

Bonds may have a call option, meaning the issuer can redeem the loan early at a fixed price and on a set date. This option is resorted to if the market rate at that time is lower than the bond rate.

Covered by MiFID? Yes. Complex instrument? Not usually.

**D Risks**

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, moderate to high. Depends on the quality of the issuer. The higher the rating, the lower the risk. Firms active in this market usually have a good reputation, but rating agencies are not infallible and sometimes make mistakes, which does not occur in the case of Belgian State bonds.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate to high. The Belgian market in bonds of this kind is still limited. The higher the amount of the issue, the lower the risk.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low for loans with a term of &lt; 3 years, moderate for loans with a term of between 3 and 5 years, and high for loans with a term of &gt; 5 years. The price of a bond on the secondary market varies with interest-rate fluctuations. Investors may incur a loss if the bond is sold prior to maturity.</td>
</tr>
</tbody>
</table>

**B Strengths**

- Definite yield, known in advance. The yield on corporate bonds is usually higher than that on State bonds and savings certificates, to make up for the higher credit risk.
- Negotiable on the secondary market.

**C Weaknesses**

- Limited liquidity and little possibility for diversification. The market in domestic corporate bonds issued by private companies is not very well developed.
- Currency erosion: the purchasing power of the invested capital will diminish due to inflation. The higher the rate of inflation and the longer the term to maturity of the bond, the greater the currency erosion. This may be offset if the nominal interest rate is higher than the average inflation rate over the life of the bond.
2.7 Eurobonds

A Description

A Eurobond is a bond loan issued on the capital markets of two or more countries at the same time. The currency of issue may be a currency other than that of the debtor’s country. The debtor may be a State, local government or private company. The issue is underwritten by an international banking syndicate and sold to investors, who generally reside outside the debtor’s country and the country in whose currency the issue is denominated.

Eurobonds may be subordinated, which means in the ranking of creditors they will only be redeemed after ordinary debts and bonds, but before payment is made to shareholders. This distinction is important if the issuer encounters payment difficulties.

There are some special categories of Eurobond (see also point 2.8):

- Eurobonds with flexible choice of currency denomination: an exchange parity - usually between two currencies - is fixed for the entire term of the loan. The issuer may choose the currency at the time of issue and generally also on redemption, on the basis of the fixed exchange parity.
- Floating-rate Eurobonds (FRNs - floating-rate notes): interest is regularly set for the next period (e.g., every six months for a consecutive six-month period) on the basis of a reference rate on the international money market plus a fixed margin.
- Zero-coupon Eurobonds: Eurobonds that do not pay annual interest, but capitalise it until maturity. The issue price is the nominal value, discounted on the basis of the issue date and the fixed interest rate. For instance, a zero coupon bond of 100 euros at 10% for 10 years will have an issue price of 38.55%. Conversely, we could say that an investment of 38.55 euros today at compound interest of 10% over 10 years would be worth 100 euros.
- Step-up loans: Eurobonds for which different coupons are determined in advance for various periods in the life of the loan. Coupons go up in the later years. For instance, 3% for the first two years, 6% for years three and four and 9% for the last two years.
- Perpetuals: bonds with no fixed maturity date, fixed coupons and no redemption of capital.
- Eurobonds with a call or put option: the issuer (call) or investor (put) has the right to demand early redemption (see point 2.4).

Eurobonds may be issued and/or redeemed at par, above par or below par. Please refer to point 2.4 for further details. Withholding tax is payable on the coupons and bonuses at the rate prevailing in the country of collection. The rate for issues after 1 January 1996 can be found at www.kbc.be (search term: ‘tax measures’). Other rates may apply for earlier issues.

Bonds may have a call option, meaning the issuer can redeem the loan early at a fixed price and on a set date. This option is resorted to if the market rate at that time is lower than the bond rate.

Covered by MiFID? Yes. Complex instrument? Not usually.

B Strengths

- Interest and redemption price fixed in advance (except for FRNs and perpetuals).
- Diversification. Since Eurobonds are foreign currency investments, they offer the possibility of spreading the currency risk.
- Eurobonds may be easily bought or sold on the secondary market, depending on the issue.
### D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, moderate to high. Depends on the quality of the issuer, which is assessed by the rating agencies. The higher the rating, the lower the risk. Ratings may be revised - up or down - during the term of a loan.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Depends on the size of the issue and existence and efficiency of the secondary market in the securities. The liquidity of the secondary market varies from currency to currency, but also depends on the size of the issue and the quality of the debtor. The liquidity of a Eurobond may change over time. A downgrading (= higher borrower risk) could make it more difficult to sell a Eurobond. Subordinated loans entail a higher risk.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro. In principle, there is an inverse relationship (especially in the long term) between the interest rate and the stability of the foreign currency. A currency with a higher interest rate than another tends to fall in value against that currency.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low for bonds with a term of &lt; 3 years, moderate for bonds with a term of between 3 and 5 years, and high for bonds with a term of &gt; 5 years. The price of a bond on the secondary market varies with interest-rate fluctuations. Investors may incur a loss if the bond is sold prior to maturity. This is the case if the nominal bond rate is lower than the market rate for paper in the same currency that is of comparable quality and has the same remaining term to maturity. If it is lower, investors will realise a gain. The longer the bond’s remaining term to maturity and the lower the coupon, the higher the interest-rate risk. The interest-rate risk is therefore very high for zero coupon bonds.</td>
</tr>
</tbody>
</table>

### C Weaknesses

- There is not always an efficient secondary market for Eurobonds. It is difficult to trade Eurobonds in certain currencies (for instance, AUD and NZD), or those from less well-known debtors or from smaller issues.
- Investing in foreign currency involves risks and charges.
2.8 Convertible bonds, bonds cum warrant and equity-linked bonds

A Description

A convertible bond is a bond which may, at the request of the holder, be converted into shares in the company concerned, within a certain period and at conditions determined in advance. If the company issues different classes of share, the types of share to which the bonds can be converted must be specified.

Subordinated convertible bonds may also be issued. These are bonds which, if the issuing company is wound up or in other cases (bankruptcy, for instance), will be subordinate to the claims of all present and future creditors. The conversion price - i.e. the price at which bonds may be converted into shares - is fixed in advance and is not affected by changes in the price of the underlying shares. The conversion price is generally expressed as the nominal value of the bond divided by the number of shares to which holders are entitled when they exercise their conversion right.

With automatically convertible bonds (ACBs), investors have a choice between conversion and redemption of the bond loan, but if they opt for conversion, their bonds must be converted on a predetermined date. However, investors may opt for early conversion. There are also mandatory convertible bonds (MCBs). The difference between these bonds and ACBs is that they are redeemed for shares in a company other than the issuing company.

Convertible bonds are therefore an investment instrument between bonds and shares. They are standard bonds accompanied by a warrant which gives holders the right to subscribe to one or more shares in the same company within a predetermined period and at conditions fixed in advance. The bonds and warrants are traded and listed separately on the stock exchange. In this they differ from convertible bonds. Upon conversion, the convertible bond ceases to be a bond and becomes a share. When the warrant is exercised, the holder acquires a share and the bond will continue to run.

There are various types of equity-linked bonds. Depending on its specific characteristics, this investment instrument is more like an indirect investment in shares than a fixed-income investment. The coupon yield is lower than the market yield, often even considerably lower. To offset this, the redemption price of the bond is linked to a benchmark stock market index (for instance, the BEL 20). Investors usually have the benefit of capital protection, which means they always recoup their initial investment. Investors therefore share in gains in the index to which the bond is linked, but not in possible losses. The link to the rise in the stock market index over the term to maturity of the bond may be 100% or less (e.g., only 75% of the increase in the index).

The interest portion of these loans is subject to withholding tax. The rate for issues after 1 January 1996 can be found at www.kbc.be (search term: ‘tax measures’). Any capital gain upon conversion of a convertible bond or exercise of the warrant linked to a bond is exempt from tax. In the case of equity-linked bonds, however, the capital gain obtained from the link between the redemption price and the share index is taxable at maturity.

Covered by MiFID? Yes. Complex instrument? Yes.
**B Strengths**

- Depending on the formula, holders have the advantage of a fixed (minimum) yield.
- These instruments entitle investors to benefit from the rise in the price of a share or share index, but do not require them to share in any loss. This does not apply to ACBs.

**C Weaknesses**

- The interest paid to investors is lower than the yield on ordinary bonds.
- Although there is a secondary market, these bonds are usually not easily negotiable.

**D Risks**

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, moderate to high. Depends on the quality of the issuer, which is assessed by the rating agencies. The higher the rating (e.g. AAA), the lower the risk.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate. This risk can be higher, since the secondary market in investments of this kind is generally limited.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low for convertible bonds with a term of &lt; 3 years, moderate for convertible bonds with a term of between 3 and 5 years, and high for convertible bonds with a term of &gt; 5 years. These investment instruments are more subject to interest-rate risk than Eurobonds. This is due to: &lt;br&gt;• the lower coupon yield than for comparable standard bonds; &lt;br&gt;• the sensitivity to interest rates of shares (see 3.1) and the conversion right obtained or the negotiable warrants (see 6.3).</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Low, moderate or high, as the price of these investment instruments is influenced by the volatility of the underlying share price.</td>
</tr>
</tbody>
</table>
2.9 Reverse convertibles

A Description

Reverse convertibles owe their name to the fact that their features are the reverse of those of a standard convertible bond (see point 2.8.). It is the issuer rather than the investor which has the option of redeeming the loan in cash or shares at maturity at the price agreed at the time of issue.

Issuers will take the latter option if shares are quoted below the conversion price at maturity. To offset this risk of a capital loss, investors receive a high rate of annual interest (standard convertible bonds: a low rate).

Reverse convertibles may also be linked to a stock market index. If the index does not go down in value during the term to maturity of the reverse convertible, investors will recoup 100% of their capital. In addition, they will receive a high annual interest rate. On the other hand, if the index is lower at maturity than at the start, investors will receive 100% of their capital at maturity less the percentage by which the index has gone down. In that event, the loss is (partially) offset by the high coupon.

Covered by MiFID? Yes. Complex instrument? Yes.

B Strengths

• Holders of reverse convertibles receive a high coupon for a relatively short investment period.

C Weaknesses

• There is a risk of a (possibly sizeable) capital loss if the share price or the underlying index falls.
• These bonds are not easily negotiable on the secondary market.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, moderate to high. Depends on the quality of the issuer, which is assessed by the rating agencies. The higher the rating (e.g. AAA), the lower the risk (see also 2.6).</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>High, since the secondary market in investments of this kind is generally limited.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Moderate. the interest-rate risk is lower than for other bonds, due to:</td>
</tr>
<tr>
<td></td>
<td>• the investment period (usually between 1 and 5 years);</td>
</tr>
<tr>
<td></td>
<td>• the high coupons.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Low, moderate to high, since investors will suffer a capital loss in the case of negative, underlying share-price volatility.</td>
</tr>
</tbody>
</table>
2.10 Bond funds

The term ‘funds’ refers here to Undertakings for Collective Investment (UCIs). Please refer to point 5.2 (Investment funds) and 5.3 (Open-end investment companies (beveks)) for a general description.

2.10.1 Equity funds without capital protection

A Description

Bond funds may exist either as ‘beveks’ (open-end investment companies) or investment funds. They invest mainly in ordinary bonds. The advantage for investors is that, in exchange for a limited investment, they can gain access indirectly to a diversified bond portfolio. The investment strategy is set out in the bond fund’s prospectus.

The investment strategy may, for instance, place restrictions on the choice of currency, debtor or maturities of the bonds in which investment is made. The bond fund’s currency policy may be that it can only invest in one specific currency or in a limited number of currencies. Other funds may be able to diversify without restriction across a number of currencies.

In terms of maturities, a distinction is made between short, medium and long maturities within the bond portfolio. In order to manage borrower risk, many bond funds invest exclusively in securities issued by prime debtors. However, certain bond funds may deliberately opt for lower quality paper (for instance, corporate bonds) in order to take advantage of the higher yield these offer. With capitalisation shares, the interest income from the fund is capitalised and re-invested. Dividends on distribution shares in beveks are subject to withholding tax in Belgium. The current rate can be found at www.kbc.be (search term: ‘tax measures’).

B Strengths

• Limited risk: the currency risk and borrower risk are limited by the diversification over a large number of bonds.
• Professional management: the portfolio is kept up to date on a daily basis.
• Easily negotiable: the price is calculated and published every day; investors can buy or sell shares every day at the net asset value on the day in question.
• Extensive range of investment options with their specific features in terms of borrower risk, interest-rate risk or currency risk.

C Weaknesses

• The interest-rate risk is high due to the fact that there is no maturity date.
D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, moderate to high, depending on the fund. The variety of securities in the portfolio reduces the borrower risk considerably. The borrower risk is higher for bond funds which specialise in lower rated loans.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low, these securities can always be sold at conditions that are in line with the market conditions.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Low, moderate to high. Depends on the investment strategy (see prospectus). The currency risk is non-existent if the bond fund invests exclusively in bonds denominated in euros. The currency risk is high if the fund invests solely in volatile currencies.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low, moderate to high, depending on the fund’s investment strategy.</td>
</tr>
</tbody>
</table>

2.10.2 Funds offering capital protection

A Description

- These funds have a fixed maturity date and aim to achieve a minimum return, as set out in the prospectus. The capital protection only applies in the currency of issue and at maturity (before charges). Investors recoup at least the amount of their investment at maturity (this applied to subscriptions within the issue period).
- Please refer to point 5.2 for charges, stock market tax and the taxation of these products.

C Weaknesses

- With bond funds offering capital protection, investors must take account of charges.
- Eurobonds are traded on the secondary market, although the liquidity may vary considerably from one issue to the next. The net asset value of funds offering capital protection is calculated fortnightly for purchases and sales of shares in the fund.

B Strengths

These investment instruments are very similar to Eurobonds (see point 2.7). The main differences are:
- The borrower risk is negligible for bond funds with capital protection.
- The coupon yield is fixed for Eurobonds. Bond funds with capital protection aim to achieve a minimum return. The ultimate yield may be higher.
**D Risks**

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low. The borrower risk on the underlying assets is minor.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate, the net asset value is calculated fortnightly.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro. Depends on the investment strategy (see prospectus). The currency risk is non-existent if the fund invests exclusively in bonds denominated in euros. The currency risk is high if the fund is invested solely in volatile currencies with no hedging of exchange rates and if the capital protection is not denominated in euros.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low for funds with a term to maturity of &lt; 3 years, moderate for funds with a term to maturity of between 3 and 5 years, and high for funds with a term to maturity of &gt; 5 years. As with Eurobonds (see 2.7), the net asset value of these bond funds fluctuates with interest-rate changes. Investors may incur a loss if they sell prior to maturity. This will be the case if the residual yield to maturity is higher than the market rate. If it is lower, investors will realise a gain.</td>
</tr>
</tbody>
</table>
III Shares and related securities

3.1 Shares

A Description

A share represents ownership of a portion of a company’s share capital. In other words, shareholders participate in the company’s risk, in contrast to bond holders, who have a claim on the company concerned.

Among other things, shareholders are entitled to:
- a share in the company’s profit (in the form of a dividend), provided that the General Meeting of Shareholders decides that a dividend will be paid;
- vote at the General Meeting of Shareholders (except, of course, in the case of shares without a voting right);
- a share in the liquidation value of the company if it is dissolved (provided, of course, that there is a positive liquidation value).

There are various types of share. Ordinary shares represent a specific part of the capital. In addition, there are also preference shares, which have special features. For instance, they may offer a higher dividend, a double voting right, or priority in the event of the company being wound up.

Shares are issued in registered or book-entry form. A feature of registered shares is that they are recorded in the company’s register of shareholders in the holder’s name. Shareholders sometimes receive certificates evidencing this entry. Registered shares are transferred to third parties by means of an entry concerning the transfer in the register of shareholders.

Book-entry shares are represented by entries to an account at a recognised institution in the name of the shareholder. The transfer of book-entry shares must take place from one account to another.

The certificate referred to above – which only has evidentiary value – differs from so-called bearer certificates issued for foreign securities. The latter technique involves specialist companies - ATEKA, for instance - which act as intermediary. These companies buy foreign registered shares or foreign book-entry shares in their own name and subsequently issue bearer certificates themselves; these can then be traded on the stock exchange.

Share coupons entitle holders to an annual dividend. Dividends are subject withholding tax in Belgium. The current rate can be found at www.kbc.be (search term: ‘tax measures’). In addition, there are also shares for which tax breaks apply - so-called VVPR (Verminderde Voorheffing - PrÉcompte RÉduit) shares. Dividends from these shares are subject to withholding tax, provided that they were issued publicly after 1 January 1994 and that a number of legal requirements were met. The current rate can be found at www.kbc.be (search term: ‘tax measures’).

The right to the lower rate of withholding tax is represented by a second coupon strip, the VVPR strip. To boost the liquidity of these shares, it is possible for the share to be detached from the right to lower withholding tax (but not from the standard dividend entitlement). In other words, VVPR strips can be traded separately on the stock exchange.

In addition to a dividend, coupons may also confer entitlement to:
- a subscription right, i.e. a priority right for existing shareholders to subscribe to new shares in the event of a capital increase;
- a bonus, i.e. free allocation of new shares to existing shareholders.

Listed shares can be bought and sold on the stock exchange. Some unlisted shares can be traded at public auction.

The price of a share is determined by supply and demand on the financial markets. Both external and internal factors play a role in pricing.
• Factors intrinsic to the company concerned include: its financial situation, the technical and commercial situation, investment strategy, and the outlook for the company and the economic sector to which it belongs.

• In addition, the stock exchange in general and each share in particular are influenced by external factors, such as political events, the international and domestic economic and monetary situation, and emotional and irrational factors which may exacerbate stock-market fluctuations (upwards or downwards).

The combination of these factors can give rise to sharp price fluctuations. Stock market transactions are subject to charges, brokerage fees, stock market tax and possibly a fee for delivery of the securities in physical form.

Covered by MiFID? Yes. Complex instrument? No

B Strengths

• From an historical perspective, shares have yielded a higher return than bonds in the long run. This is due – inter alia – to the risk premium required by investors.

C Weaknesses

• Neither the profit nor the dividend is known in advance or guaranteed.

• Investing in shares requires knowledge of the market and sound monitoring of all factors influencing share prices.

• A minimum diversification over several shares in various sectors is essential. So, anyone investing in individual shares must already have a reasonable amount of capital. An investment fund which invests in shares is a possible option for those with a relatively small amount to invest.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>None, shares are risk-bearing capital. There is no guarantee that investors will recoup their money. In the event of bankruptcy, shares could go down in value or become completely worthless.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low, unless the company has a high rating (e.g. AAA) and low market capitalisation.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro. Depends on the ‘home country’ of the share and the type of share.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low, moderate to high, depending on the share and the investment climate. Generally speaking, a rise in interest rates will have a negative impact on share prices. Some shares are more sensitive than others to changes in interest rates.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Low, moderate to high, depending on the volatility of the share. Depends largely on the quality, the company, trends in the sector to which the company belongs and general stock-market trends. Speculative shares (e.g. very young technology firms) are riskier than shares in companies with stable business activities (such as utilities). Since there is considerable risk of price volatility, it is possible that investors may lose money on shares.</td>
</tr>
</tbody>
</table>

• There are attractive tax breaks for capital gains on share investments. Capital gains are exempt from tax for individuals.
3.2 Equity funds

The term funds refers here to Undertakings for Collective Investment (UCIs). Please refer to point 5.2 (Investment funds) and 5.3 (Open-end investment companies (beveks)) for a general description.

3.2.1 Equity funds without capital protection

A Description

These funds invest mainly in shares (and related instruments), enabling investors to participate indirectly in a well-diversified share portfolio. Depending on the investment strategy, which is set out in the fund’s prospectus, the fund will invest in one country or sector, a specific region or worldwide. The portfolio may also consist of shares with common characteristics (such as a high dividend yield). The management style may be active or passive. In the case of passive management, the fund manager tracks a specific stock-market index. With active management, the fund manager attempts to outperform a stock market index or the market by picking the right stocks. The funds are incorporated under Belgian or foreign law. In the case of capitalisation shares, the fund dividend income is capitalised and re-invested. Capital gains realised are exempt from withholding tax. Dividends on distribution shares of a fund are subject to withholding tax in Belgium. The current rate can be found at www.kbc.be (search term: ‘tax measures’).

For charges and stock market tax, please refer to point 5.3.

B Strengths

• Easy, flexible way of investing in shares. Investors automatically get access to a diversified portfolio managed by professionals.
• Easily negotiable: the net asset value is calculated and published daily. Investors can buy into or sell shares in the fund every day at the net asset value on the day in question.
• Very suitable for long-term investment. From a historical perspective, shares have offered a higher return than bonds.
• Tax break: capital gains realised are exempt from withholding tax. More information on withholding tax can be found at www.kbc.be (search term: ‘tax measures’).
• Great diversity of investment options, each with its own specific characteristics.
• Equity funds are often the only investment offering the possibility of building up a diversified portfolio in markets or niche segments which are not easily accessible otherwise.

C Weaknesses

• The regional and/or sectoral diversification of actively managed equity funds is subject to fundamental change, depending on what the manager expects the markets to do, and may not precisely reflect the investor’s wishes.
• Their highly volatile trend is typical of shares, certainly in the short term.
D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>None.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low. These securities can always be traded on the market.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro. Depends on the market in which the fund is invested. The currency risk is non-existent for funds which invest solely in euro-area shares. The risk is high for funds which invest exclusively in share markets with a volatile currency.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low, moderate to high, depending on the share and the investment climate. Generally speaking, a rise in interest rates will have a negative impact on share prices.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Low, moderate to high, depending on the volatility of the underlying share. Is largely determined by the general investment climate prevailing on the stock exchange on which the fund invests. Volatility is lower than for an individual share since the risk is spread over several shares.</td>
</tr>
</tbody>
</table>

3.2.2 Capital-protected equity funds

A Description

When you invest in these funds and they reach maturity, you do not run the risk of having to bear any loss incurred by the underlying asset. The return at maturity of the fund is linked to changes in the value of a stock market index or a basket of shares. The capital protection only applies in the currency of issue and at maturity (before charges). In some types of fund, there is a guaranteed minimum return in addition to the capital protection.

There are various types of fund; details are given in the prospectus.

- The investment result achieved by the fund is linked to a benchmark stock market index, the price trend of a basket of shares or a composite index comprising several benchmark stock market indices. Unlike investment funds without capital protection, the basket of shares for these formulas is fixed contractually when the fund is launched and the basket remains unchanged throughout the life of the fund. The share baskets are not actively managed. The basket of shares can only be changed in the event of exceptional circumstances, such as mergers, take-overs or delisting, and then this is in accordance with rules determined in advance.
- There are different formulas for calculating the degree of participation in the (positive) change in the value of the underlying basket, viz.:
  - Formulas where all or part of the rise in the index over the entire investment period is paid out at maturity.
  - Formulas which determine the rise in the index periodically (for instance, once a year). The positive percentage increases (often subject to a specified ceiling, or ‘capped’) are added up and sometimes offset by percentage decreases during specific periods (also subject to a limit) and the end result (where positive) is paid out at maturity.
  - Formulas which lock in the rise in the index at certain levels (for example, a rise of 30%, 60% or 90%). Even if the index falls afterwards, the amount of the rise that has been locked in will still be paid out.
  - Digital formulas: the amount paid out is a fixed percentage that depends on a specific condition, but not on the extent of the rise in value of the index. For instance, if the index has risen by 10% or more after 8 years, the initial capital will be doubled; otherwise only the initial capital will be paid out. Equity funds with capital protection have a final maturity date. Capital protection only applies at maturity (although sometimes provision is made for the counterparty of the swap contract to sell before
then) and is related to the initial value of the fund when it was launched (before costs). Investors buying into the fund after the initial issue period at a higher net asset value may therefore incur a loss. Equity funds with capital protection offer capitalisation shares or distribution shares. Dividends of funds are always subject to withholding tax. Capital gains realised are exempt from withholding tax. More information on withholding tax under the current tax regime can be found at www.kbc.be (search term: ‘tax measures’).

For charges and stock market tax, please refer to point 5.2.

Covered by MiFID? Yes. Complex instrument? No.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, the borrower risk on the underlying assets is minor.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low, these securities can always be sold at conditions that are in line with market conditions. There are redemption or exit fees.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro. Depends on the currency in which the fund offers capital protection.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low for capital-protected funds with a term to maturity of &lt; 3 years, moderate for capital-protected funds with a term to maturity of between 3 and 5 years, and high for capital-protected funds with a term to maturity of &gt; 5 years. The capital protection only applies at maturity.</td>
</tr>
</tbody>
</table>

B Strengths

- Capital protection at maturity (before costs). Investors can benefit from a rise in the stock market without the risk of a capital loss.
- There is no currency risk for funds linked to a foreign stock market index but denominated in euros.
- Capital gains realised are exempt from withholding tax.

C Weaknesses

- Investors only share in the rise in the value of the benchmark basket, not in the dividend yield.
- Investors will not always share fully in the rise in the benchmark index. There may be a cap on the maximum return.
- The fund’s net asset value is calculated at market conditions. This means that the capital protection only applies at maturity and that in the interim the net asset value does not always track developments in the benchmark index.
- The intention is for investors to remain in the fund until maturity. It is possible to redeem shares prior to maturity but there is usually a charge for this.
3.3 Closed-end equity investment companies, privaks

A Description

Bevaks are statutory undertakings for collective investment (investment companies) with a fixed amount of capital. For a general description, please refer to point 5.4.

In some cases, these funds are set up for a limited period, in which case they have a final maturity date. They are then liquidated at the net asset value. They do not offer capital protection.

There is a special kind of closed-end equity fund in Belgium: the privak. Privaks invest mainly in unlisted paper issued by very young companies which only consider listing at a later stage. They are venture capital funds, which often specialise in a specific (sub-)sector such as biotechnology or information technology. They help promising young companies - often involved in technologies that can only prove their commercial feasibility after a certain period of time - to grow by providing venture capital.

Privaks and closed-end equity investment companies (bevaks) are listed on the stock exchange. After the issue period, investors can buy into and sell shares in these vehicles at the price of the day, which may however differ considerably from their net asset value. In that case, they are quoted at a premium (stock market price higher than the net asset value) or discount (stock market price lower than the net asset value), depending on public interest. The premium or discount can fluctuate considerably, in line with the mood on the market in which the privak or bevak is invested.

B Strengths

- This is an attractive investment instrument for investing indirectly in segments of the share markets which would otherwise be difficult or impossible to access. These segments often yield a higher return in the long term.
- Listed.
- The stock market price is often quoted at a discount to the net asset value, which means the underlying assets can be bought relatively cheaply.

C Weaknesses

- The portfolio composition is not always transparent and in the case of country and sector funds it can differ significantly from the standard benchmark indices.
- Volatility. These funds sometimes show greater price fluctuations than the markets in which they invest.
- The securities are less liquid.
- They may have to be sold at a discount.

Covered by MiFID? Yes. Complex instrument? No.
D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>None. The borrower risk on the underlying assets depends on the quality of the issuer. The higher the rating, the smaller the risk.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low. These securities can always be traded on the market. Listing is not a guarantee that they will always be easily negotiable</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro. Depends on the market in which the fund is invested. The currency risk is non-existent for funds which invest solely in euro-area shares. The risk is high for funds which invest exclusively in share markets with a volatile currency.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low, moderate to high, depending on the share and the investment climate. Generally speaking, a rise in interest rates will have a negative impact on share prices.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Low, moderate to high, depending on the volatility of the share. Is largely determined by the general investment climate prevailing on the stock exchange on which the fund invests. Volatility is lower than for an individual share since the risk is spread over several shares.</td>
</tr>
</tbody>
</table>

3.4 Trackers

A Description

The tracker (also known as Exchange Traded Fund or ETF) is a hybrid product between share and bevak. Just like an index-linked bevak, the tracker is a passive financial instrument which mostly follows the underlying stock market index as closely as possible. Just like shares, trackers are listed continuously and pay dividends once or twice a year, after deduction of the management fee. In Belgium, these dividends are subject to withholding tax in full discharge. More information on withholding tax under the current tax regime can be found at www.kbc.be (search term: ‘tax measures’).

The tracker or ETF belongs to the group of Exchange Traded Products (ETPs). Although Exchange Traded Commodities (ETCs) and Exchange Traded Notes (ERNs) also belong to this group, they are not covered here.

Covered by MiFID? Yes. Complex instrument? No.

B Strengths

- Easy, flexible way of investing in a diversified basket of shares in a single transaction.
- Easily negotiable: the trackers are listed continuously and can therefore be bought or sold during stock market opening hours.
- Low management costs amounting to about 0.50% per annum.
- No fees for subscription and redemption, only brokerage fees are payable.
- The trend in the underlying index is usually followed to a good extent, but not by all trackers (less in the case of leverage, short trackers, synthetic trackers, etc.).

C Weaknesses

- There is sometimes a wide spread between supply and demand, although it is limited to 1.5% on Euronext.
- Their highly volatile trend is typical of shares, certainly in the short term.
- Tax treatment can be detrimental for Belgian residents.
In principle, the prices of these instruments fully track the price movements of the underlying. For certificates with a commodity as the underlying, the participation rate may differ considerably from 100%.

With certificates, you can decide on the term of your investment yourself, since there is no maturity date. Certificates are therefore suitable for investors who wish to capitalise on promising themes over the medium to long term, or for active investors wishing to benefit from a particular price movement.

The main themes are Emerging Markets, Eco Markets, Sectors, Mature Markets, Commodities, Strategy and Real Estate.

Covered by MiFID? Yes. Complex instrument? Yes.

### Quanto certificates

The difference between ordinary and Quanto certificates is that the currency risk is hedged daily for Quanto certificates. The fees are also deducted each day from the price of the certificate via a variable cost mechanism. The Quanto principle entails a number of potential charges and income, which together result in the so-called quanto premium.

The premium comprises the following two components:

- **Hedging of the currency risk**
  
  The costs or income related to hedging the currency risk are calculated daily based on:
  
  - the difference between the interest rates on the various currencies
  - a market factor calculated by multiplying the following three variables:
    - the ratio between the exchange rate movement and the underlying
    - the volatility of the underlying
    - changes in the euro/dollar exchange rate.
  
  The interest rate differential is deducted from the market factor. If the result is positive, the hedging of the currency risk generates income; but if the rate differential is greater than the market factor, the hedging of the currency risk generates costs.

- **The dividend payment**
  
  If the underlying pays dividends, this is offset against the value of the certificate, which has a positive effect on the certificate’s return.

  The quanto premium is then determined by deducting...
item 1 (the cost of hedging the currency risk) from item 2 (the dividend payment). If the dividend payment is higher than the cost of hedging the currency risk, the quanto premium is positive, and is credited to the Quanto certificate. The reverse is also true. If the dividend payment is lower than the cost of hedging the currency risk, the quanto premium is negative, and is deducted from the Quanto certificate.

Covered by MiFID? Yes. Complex instrument? Yes.

B Strengths

- With certificates, it is easy to invest worldwide in promising themes. In many cases, this means markets, such as emerging markets or commodities, that were previously difficult, if not impossible, to access.
- Thanks to the extensive supply, certificates are also an appropriate means of increasing diversification in your portfolio. In many cases, certificates mean investing in a basket of shares, which provides more diversification than investing in a single share. In that respect, a certificate is similar to a unit in an investment fund.

C Weaknesses

- However, certificates are not actively managed, which means there are no fund managers to select the underlying instruments.
- The market price may differ considerably from the intrinsic value. If the certificate invests in futures, there is the risk of a contango situation, so that the price does not fully track the price of the underlying. As a result, the certificate may badly underperform.
- Often, the liquidity of the secondary market is limited.
- De liquiditeit van de secundaire markt is vaak beperkt.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit risk</td>
<td>None, for transactions on a regulated stock exchange. For OTC transactions, the risk depends on the counterparty’s creditworthiness.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate to high, for transactions on a regulated stock exchange.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro. This risk is hedged in the case of Quanto certificates.</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>Moderate to high, depending on the term and structure of the certificate. Interest-rate fluctuations have both a direct influence on the price of options and an indirect influence due to their impact on the underlying security.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Moderate to high, depending on the underlying assets.</td>
</tr>
</tbody>
</table>

* Contango is een situatie waarin termijncontracten van bijvoorbeeld grondstoffen of agrarische producten zich kunnen bevinden. Als de prijs over een bepaalde termijn hoger is dan de huidige prijs is de markt in contango. Dit kan onder andere veroorzaakt worden door hoge voorraadkosten, verzekeringskosten en dergelijke.
3.6 Turbos

A Description

Turbos combine the simplicity of open-end certificates and the leverage effect of futures. They offer the investor the possibility of capitalising – via a leverage effect (i.e. more quickly) – on an expected rise or fall on the market. Turbos might appear to have similar features to options, but there are some important differences. For instance, a Turbo has greater price transparency and there is no expiration date. The underlying may be a share, index, interest rate, currency or commodity.

There are two types of Turbo: Turbo Long, where you benefit from a rise in the value of the underlying, and Turbo Short, where you hope that the price of the underlying will fall.

The leverage ensures that changes in the price of the underlying are quickly reflected in the price of the Turbo. For example, with an investment of 20 euros you buy a Turbo with an underlying instrument worth 100 euros. The price movement of this Turbo is therefore five times greater than the underlying instrument.

With a Turbo, you actually invest only part of the amount of the underlying, and the rest is financed by the issuer. The part financed by the issuer is called the financing level. In the case of a Turbo Long, you pay financing fees on the part financed by the issuer.

Unlike an option, for instance, a Turbo does not have an expiration date, but does have a stop loss level. If the price of the underlying reaches, or exceeds, that level, the Turbo is terminated and the residual value is paid to the holder. The stop loss level is a mechanism that ensures that you can never lose more than your initial investment. A Turbo Long is terminated if the price of the underlying falls below the stop loss level, whereas a Turbo Short is terminated if the price of the underlying rises above the stop loss level. In principle, the stop loss level is set each month on the basis of the current financing level. It should be noted that the stop loss level is set by the intraday price, i.e. an order that pushes the price of the underlying below (Turbo Long) or above (Turbo Short) the stop loss level is enough to terminate the Turbo.

The ratio indicates how many Turbos must be bought to track the absolute change in value of the underlying fully. If the absolute value of the underlying is low, the ratio will generally be 1. However, with a Turbo on the Dow Jones (high absolute value), the ratio is 100, i.e. one Turbo represents one hundredth of this index.

Turbo Longs are listed, so prevailing stock market fees apply. You also need to allow for the bid/offer spread. You can place orders at any time during stock market trading hours, in accordance with the arrangements for submitting orders in the KBC regulations.

Covered by MiFID? Yes. Complex instrument? Yes.

B Strengths

- Turbos are linked not only to shares, but also to less accessible markets such as the bond and commodity markets.
- A Turbo is not affected by volatility, which can be an advantage, depending on the situation.
- Due to the leverage effect, Turbos offer greater potential to make a gain than a direct investment in the underlying would, and the loss is limited to the initial investment.
- You can set buy and sell limits and set your own stop loss limits in addition to the stop loss set by the issuer. Please note that in the latter case, the price obtained may differ considerably from the stop loss price indicated.
C Weaknesses

• Turbos are subject to the terms and conditions set by the issuer. Charges and income may vary from one product to the next.
• As a result of the leverage effect, an investment in a Turbo (Long or Short) is riskier than a direct investment in the underlying. Any losses will therefore be proportionally greater.
• The stop loss is a typical feature of a Turbo. You run the risk of losing all or much of your investment if the stop loss is reached. Turbos are therefore only suitable for experienced investors. Nevertheless, the stop loss also ensures that the Turbo can never become negative, so there is no obligation to invest additional capital. The issuer of the Turbo has the right to change the stop loss level.
• If the underlying is not listed in euros, the exchange rate may affect the value of the Turbo. Since the leverage is financed, the price of the Turbo is also affected by financial charges and dividends during the period when the investor holds the certificate.
• The issuer of Turbos is entitled to terminate the certificates for a payment under certain circumstances.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redemption procedure</td>
<td>None, for transactions on a regulated stock exchange. For OTC transactions, the risk depends on the counterparty's creditworthiness.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate to high, for transactions on a regulated stock exchange.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest rate risk</td>
<td>Moderate to high, depending on the term and structure of the Turbo. Interest-rate fluctuations have both a direct effect on the price of Turbos and an indirect effect due to their impact on the underlying security.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Moderate to high, depending on the underlying assets.</td>
</tr>
</tbody>
</table>
IV Real estate

4.1 Real estate certificates

A Description

Real estate certificates are issued to fund commercial premises or office buildings. Investors in real estate certificates have a claim on the issuing company. This means that the holder of the certificate is not part-owner of the property. The certificate entitles the holder to a share in the net income generated by the lease and, when the certificate matures, a share in the residual value on sale of the property. When they are issued, real estate certificates generally have a term to maturity of between 15 and 25 years. The certificate is redeemed at maturity, not extended.

Coupons on real estate certificates are directly linked to the net result of the operation of the building. In tax terms, part of the coupon income is usually considered as a repayment of the capital initially invested and is therefore not subject to withholding tax. More information on withholding tax under the current tax regime can be found at www.kbc.be (search term: ‘tax measures’). In the owner’s (issuer’s) accounts, the repayment corresponds to the depreciation of the building. Any capital gains on sale of the property to which the certificate relates are subject to withholding tax.

Most real estate certificates listed on the Brussels Second Market are ‘rental certificates’.

• With rental certificates, investors receive a proportional share of the net rental income from the underlying property. In the event of sale, investors receive a proportional share of the sale proceeds.

• With lease participation certificates, the underlying asset is a lease contract in which the lessee has one or more options to buy the property at times stipulated in advance (usually over the whole life of the certificate). Holders of certificates receive a proportional share of the lease income and the sale proceeds from the property.

• There is at present only one issue of property operation certificates, i.e. Park De Haan.

In addition, there are Lendit certificates, which are not listed on the stock exchange. Lendit certificates comprise two separate securities. Firstly there is a claim, similar to a bond, which entitles the holder to a proportion of the net rental income from the invested capital at maturity. Secondly, there is a share, which entitles the holder to dividends (the surplus rental income after payment of interest on the bond and setting aside a provision for repayment of the principal) and a share in the sale proceeds.

Covered by MiFID? Yes. Complex instrument? No.

B Strengths

• Direct investment in a specific property with a limited amount of capital.

• Under normal circumstances, the dividend will rise in line with inflation due to the fact that the rental income is index-linked.

• Tax breaks for dividends. More information on withholding tax under the current tax regime can be found at www.kbc.be (search term: ‘tax measures’).

C Weaknesses

• Rental income is not always guaranteed.

• Renovations could mean (long-term) vacancy and could result in considerable expense.

• The property market is cyclical and is sensitive to fluctuations in interest rates and the business cycle.

• Some certificates are not very negotiable on the stock market or at public auctions.
D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, since the certificates are usually guaranteed by a financial institution.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate to high, the liquidity of listed certificates depends on the volume of the issue. Certain certificates cannot be traded on the stock exchange.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None, since the real estate certificates are denominated in euros.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Moderate, real estate certificates are sensitive to interest-rate fluctuations. In principle, an increase in market interest rates will result in a fall in the value of the certificate.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Moderate, depends largely on developments on the property market and intrinsic features of the building (location, age, quality of tenants and so forth).</td>
</tr>
<tr>
<td>Risk of income loss</td>
<td>Moderate, the income paid is variable and depends on factors such as the occupancy rate for the building and the indexation of rents.</td>
</tr>
</tbody>
</table>

4.2 Closed-end real estate investment companies (bevaks)

A real estate bevak is a listed company with fixed capital, whose aim is to pool investors’ funds and invest them mainly in real estate, subject to the relevant legal restrictions. These funds always issue income (i.e. distribution) shares.

Covered by MiFID? Yes. Complex instrument? No.

B Strengths

• Gives investors (indirect) access to the property market with a limited amount of capital and to investment in a diversified portfolio. Thanks to this diversification, the risk is spread across various property investments.
• Under normal circumstances, the dividend rises in line with inflation due to the fact that the rental income is index-linked.
• The composition of the portfolio is published periodically. The value of the property is determined by independent appraisers.

C Weaknesses

• The rental income from the buildings is not guaranteed. Contracts may be terminated early.
• The property market is cyclical and is sensitive to fluctuations in interest rates and the business cycle.
• The stock market price may differ considerably from the net asset value of the portfolio.
D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate to high, these securities are listed, so there is a secondary market in them. But this is no guarantee of easy negotiability.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None, real estate bevaks invest in Belgian and Luxembourg real estate.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Moderate, in principle, an increase in interest rates has a negative effect on the bevak’s price.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Moderate, strongly influenced by developments in the property sector and the intrinsic quality of the portfolio.</td>
</tr>
<tr>
<td>Risk of income loss</td>
<td>Moderate, considerable expense for renovation and vacancy could result in the dividend flow being interrupted.</td>
</tr>
</tbody>
</table>

4.3 Open-end real estate investment companies (bevaks)

Real estate bevaks invest in negotiable securities relating to property (such as real estate certificates, real estate bevaks or shares in property companies). They do not offer capital protection. Depending on the investment strategy, which is set out in the bevak’s prospectus, the bevak may invest solely in one country, a region or worldwide. The investment company is incorporated under Belgian or Luxemburg law (bevak or sicav, respectively) and may issue capitalisation and/or distribution shares. The yield is subject to withholding tax in Belgium. More information on the current rate of withholding tax can be found at www.kbc.be (search term: ‘tax measures’).

For charges and stock market tax, please refer to point 5.2.

Covered by MiFID? Yes. Complex instrument? No.

B Strengths

- Real estate bevaks are the easiest and safest way to invest in property. Investors automatically get access to a diversified portfolio managed by professionals.
- Easily negotiable: the net asset value is calculated and published daily. Investors can buy into or sell shares in the fund every day at the net asset value on the day in question.
- In the case of capitalisation shares, the interest received is re-invested and converted to capital gains which are exempt from tax.

C Weaknesses

- The portfolio composition can undergo radical changes (in accordance with the manager’s concrete expectations) and may not conform exactly to the investor’s wishes.
- Distribution shares are subject to withholding tax. More information on the current rate of withholding tax can be found at www.kbc.be (search term: ‘tax measures’).
## D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low, these securities can always be sold at conditions that are in line with the market conditions.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None, real estate bevaks invest in Belgian and Luxembourg real estate.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Moderate, in principle, an increase in interest rates has a negative effect on the bevak’s price.</td>
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<tr>
<td>Price volatility</td>
<td>Moderate, strongly influenced by developments in the property sector and the intrinsic quality of the portfolio.</td>
</tr>
<tr>
<td>Risk of income loss</td>
<td>Moderate, considerable expense for renovation and vacancy could result in the dividend flow being interrupted.</td>
</tr>
</tbody>
</table>
V Undertakings for collective investment (UCIs)

5.1 Introduction

An Undertaking for Collective Investment (UCI), commonly referred to as a fund, is an entity which solicits funds from the public and invests them collectively. The investment strategy is set out in the prospectus. Depending on the legal form of the vehicle, a distinction is made between contractual investment undertakings (investment funds, see point 5.2) and statutory investment undertakings (investment companies). The latter can be further broken down into investment companies with variable capital (or open-end investment companies (beveks), see point 5.3) and investment companies with fixed capital (or closed-end investment companies (bevaks), see point 5.4). Statutory investment undertakings are issued by companies (i.e. with a legal personality), which issues shares.

Covered by MiFID? Yes. Complex instrument? mostly not.

In this brochure, the general term fund is used for three types of UCIs.

Depending on the investment strategy, a distinction is drawn between:
- Money market funds (see point 1.5);
- Bond funds without capital protection (see point 2.10.1);
- Bond funds with capital protection (see point 2.10.2);
- Equity funds without capital protection (see point 3.2.1);
- Equity funds with capital protection (see point 3.2.2);
- Real estate beveks (see point 4.3);
- Real estate bevaks (see point 4.2);
- Mixed funds: funds which invest in shares, bonds and/or time deposit accounts;
- Funds of funds: funds which invest in other, specialised funds with the aim of creating a very diversified portfolio;
- Pension savings (see point 7.2).

5.2 Investment funds

An investment fund has no legal personality, but represents an undivided body of assets regulated by an agreement and managed on behalf of the unit holders by a management company. Investment funds must be completely transparent for fiscal purposes: dividends received and interest are taxed as if the final investor had received them directly. As a result, dividends paid by an investment fund are exempt from withholding tax. More information on withholding tax under the current tax regime can be found at www.kbc.be (search term: ‘tax measures’).

For charges and stock market tax, please refer to point 5.3.
5.3 Open-end investment companies (beveks)

Beveks are open-end investment companies (Bevek - BEleggingsvennootschap met VEranderlijk Kapitaal in Dutch and sicav - Société d’Investissement à Capital Variable in French). A typical feature is that investors can buy or sell shares in a bevek at any time. The bevek can also increase its capital at any time, without formalities, by issuing new shares (this happens when an investor wishes to invest in the bevek and buys shares) or, conversely, can reduce its capital by redeeming existing shares (this occurs when an investor sells his shares). Purchases and sales occur at the net asset value at the time. The net asset value corresponds to the market value of the net assets per share. This net asset value is calculated and published periodically – generally daily – in the financial press.

It is possible for a bevek to be split into different sub-funds. This means the bevek may have different kinds of share, each of which corresponds to a separate portion of the company’s assets.

A prospectus and a simplified prospectus are published whenever a sub-fund is launched, providing details of the sub-fund’s specific investment strategy.

In addition to the (simplified) prospectus and periodic net asset value, an annual report and a half-yearly report are also published. There are legal provisions requiring a minimum diversification of assets in the portfolio.

A distinction is made between distribution (or income) and capitalisation (or growth) shares. Holders of distribution shares are entitled to a periodic dividend.

With capitalisation shares, dividends are added to the invested capital and reinvested. Belgian distribution beveks are subject to withholding tax, as are Luxembourg distribution sicavs.

Since 23 December 2012, the holder has to pay withholding tax on sale of the capitalisation shares of UCIs with a European passport which are more than 25% invested in debt instruments.

The current rate of withholding tax can be found at www.kbc.be (search term: ‘tax measures’).

Purchases and sales of shares are subject to fees. Depending on the bevek, the entry fee will be between 0% and 3.5%. Exit fees vary between 0% and 2%.

A reduced fee often applies if an investor switches from one sub-fund to another in one and the same bevek or between beveks of one and the same financial institution. Beveks generally charge an annual management and advisory fee, which is deducted from the net asset value.

Sales of shares and switches between funds are also subject to stock market tax. Current rates of this tax can be found at www.kbc.be/fundfinder, specifically in the fund’s fact sheet and prospectus.
5.4 Closed-end investment companies (bevaks)

A closed-end investment company is known as a ‘bevak’ (BEleggingsvennootschap met VAST Kapitaal) in Dutch and ‘sicaf’ (Société d’Investissement à Capital Fixe) in French. A typical feature of bevaks is that their capital is in principle fixed (can only be increased or reduced as for an ordinary company) and that the shares must be listed. Investors can trade shares on the stock exchange. Unlike beveks, the stock market price of a bevak can differ considerably from its net asset value. The price is determined on the basis of supply and demand on the stock exchange. Market sentiment and the level of public interest play an important role in this. If the stock market price is higher than the net asset value, the shares are said to be trading at a premium. If the stock market price is lower than the net asset value, the shares are said to be trading at a discount. Shares in the fund can only be bought or sold at the stock market price. Bevaks are traded on the stock exchange. There are no specific entry and exit fees, but the standard brokerage fees and stock market tax apply as for trading in (ordinary) shares. Dividends are subject to withholding tax, the current rate of which can be found at www.kbc.be (search term: ‘tax measures’).

Capital gains realised are exempt from tax.

There are real estate bevaks (see point 4.2) and privaks (see point 3.3).
VI Derivatives

6.1 Introduction

Derivatives are financial instruments whose value is derived from the value of the underlying assets.

The value of the derivative is related to the value of the underlying asset, but is also determined by a number of other factors such as interest-rate trends, the term to maturity and the volatility of the underlying asset. Derivatives are useful in portfolio management because of their leverage effect; with a fraction of an investment in the underlying instrument, the same nominal income can be achieved as with a direct investment in the same asset.

6.2 Options

A Description

An option is a contract between a buyer (or holder) and seller (writer).

A distinction is made between:
- call options, which give the holder the right to buy a specific quantity (set out in the contract) of a financial asset (the underlying asset) at a predetermined price during a predetermined period (the life of the option) or at a specific time. The other party – the seller – undertakes to deliver the agreed amount at the strike price if the holder exercises his right.
- put options, which give the holder the right to sell a specific quantity of a financial asset at a predetermined price during a specific period or at a specific time. The other party - the buyer - undertakes to buy the agreed quantity at the strike price if the holder exercises his right.

An option thus provides the buyer with a right. However, it involves an obligation on the part of the seller, who receives a premium in exchange. The obligation will lapse if the buyer does not exercise his right. In this respect, a distinction is made between European-style and American-style options. With European-style options, buyers may only exercise their right when the contract matures. With American-style options, the right may be exercised at any time during the life of the contract and the seller can be called upon to deliver at any time.

Options have a value; they can be traded on the secondary market. Options trading can occur on a regulated market/exchange or over the counter (OTC). OTC transactions are arranged directly between the parties involved (i.e. not via a stock exchange) and are usually made to measure in accordance with the concrete requirements of the parties concerned.

To make options easier to trade, the contract terms (except the price) are standardised on the regulated market. For options on shares, the contract always involves a fixed
number of shares (for instance, 100) and the strike price is expressed per share. At any given time, there is a whole range of options series in circulation, with terms of between three months and several years and with different strike prices for each term.

Example
Purchase of a Total CALL March 2007 55.00 euros on 28 August 2006 provides the buyer with the right to buy 100 Total shares at a price of 55 EUR per share on Friday, 17 March 2007 (the expiry date). For this right, the buyer pays an option premium of 2.90 euros - a total of 290 euros. At that time, Total shares are trading at 53.50 euros. On 17 March 2007, the holder will exercise the option provided the price of Total shares is above 55 euros (for example, 59 euros), since he can immediately sell the shares purchased at a better price. On an investment of 290 euros, he will receive 400 euros, a return of 110 euros, or 37.90%. He could also have bought 100 Total shares direct. For an investment of 5 350 euros, he would then have realised a return of 10.28%.

If the share price does not rise above 55 euros, exercising the option is no longer attractive and it becomes valueless. So, for the holder of the option the loss is limited to the premium paid and the potential profit is in theory unlimited.

Against the holder’s right, there is the option writer’s obligation to deliver. If the option is exercised, his potential loss is in theory unlimited (especially if he does not have the underlying security in portfolio) and the profit will be limited to the premium received. Writers (or sellers) of options are therefore obliged to pay an initial margin when entering into a contract. This margin is expressed as a percentage of the obligation taken on. All open positions are valued daily on the basis of market developments (marked to market) and the related accounts are credited or debited depending on the profit or loss on the position. If necessary, the margin is increased (see also point 6.3).

There are options contracts on a number of financial assets: individual shares, stock market indices, bonds, currencies and gold. For each of these underlying assets, various series are traded at any one time, with different strike prices and/or different expiry dates. The parties may agree that the obligation should be settled in cash on the expiry date.

Opening or closing options contracts and exercising them entails charges. In addition, there may be charges related to trading the underlying assets. In order to limit costs, an option is seldom exercised in practice. When the underlying assets are purchased or sold at the strike price, the standard stock market fees are charged. These fees can be avoided by winding up the market positions through closing-out transactions. In that case, the holder waives his right with a closing sale and the seller can terminate his obligation to deliver through a closing purchase.

Options are therefore an investment instrument which can be used for a variety of purposes: to hedge against a market risk, to achieve an additional return (writing options on an existing portfolio) or to speculate on a rise or fall in the price of a financial asset. The risk can be reduced (or increased) by buying and/or selling options in combinations (options strategies).

Covered by MiFID? Yes. Complex instrument? Yes.
B Strengths

- Options can be used to safeguard an investment portfolio: put options offer protection against a fall in the price of the financial assets in an investment portfolio.
- Leverage effect: with a fraction of an investment in the underlying asset, the same nominal return can be achieved as with a direct investment in the asset. Expressed as a percentage, a much higher return may be realised with options than with an investment in the underlying security.
- Immediate income (premium) when the option is issued.

C Weaknesses

- Not suitable for all investors. Options are intended for investors who are thoroughly conversant with instruments of this kind and who also keep close track of market developments.
- Therefore, they are only offered to customers with a defensive, dynamic or highly dynamic risk profile. Speculative options transactions are only permitted for customers with a dynamic or highly dynamic risk profile.
- The leverage effect is a double-edged sword. It increases both price rises and falls. To limit the losses and contribute to market efficiency, the seller is required to pay margin in order to assure due fulfilment of his obligations. The margin may change during the life of the contract.
- When writing a ‘naked’ option, profit is limited to the premium received. The loss can be considerable and in principle unlimited.

D Risks (no distinction between bond options and share options)

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>None, for transactions on a regulated stock exchange. For OTC transactions, the risk depends on the counterparty’s creditworthiness.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate to high.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Moderate to high, depending on the term and structure of the option. Interest-rate fluctuations have both a direct influence on the price of options and an indirect influence due to their impact on the underlying security.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Moderate to high, depending on the underlying assets, the option could lose all its value.</td>
</tr>
<tr>
<td>Other risks</td>
<td>Low to high. When an option is being written, the obligations taken on may be disproportionate to the premium received and should be proportionate to the position in the underlying asset in the portfolio.</td>
</tr>
</tbody>
</table>
6.3 Warrants

A Description

A warrant is a financial instrument which gives the holder the right to acquire (call warrants, the most common type) or sell (put warrants) an underlying asset at predetermined conditions during a specified period.

Warrants may be issued as part of a share or bond issue. The warrant may remain attached to the share or bond, in which case we refer to shares or bonds cum warrant. However, in most cases the warrant is detached from the share or bond immediately after issue (they are then listed ex warrant) and listed separately. Finally, warrants can also be issued separately (referred to as naked warrants). When (call) warrants are exercised, they are converted into shares. This results in an increase in the number of shares. However, when call warrants are issued by an issuer who already owns the relevant shares, they are referred to as covered warrants. Such issues often involve a basket of shares, a stock market index or a currency. Warrant issues are not standardised. The specific conditions are set out in the prospectus published when the warrants are issued.

Covered by MiFID? Yes. Complex instrument? Yes.

B Strengths

- As for options, there is a leverage effect. In the event of favourable stock-market trends, the investment result is greater than would be achieved with a direct investment in the underlying asset.
- In the event of an adverse stock-market trend, the loss cannot be higher than the price paid for the warrant. This is generally less than the possible loss on direct investment.

C Weaknesses

- The warrant may expire without any value.
- The stock market price may differ considerably from the net asset value.
- Often, the liquidity of the secondary market is limited.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>None, for transactions on a regulated stock exchange. For OTC transactions, the risk depends on the counterparty’s creditworthiness.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Moderate to high, liquidity is usually not very high, since the volumes traded on the secondary market are often low.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for warrants which entitle the holder to subscribe to new shares or bonds in euros. Very high for currency warrants.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Moderate to high, depending on the term and structure of the warrant. Interest-rate fluctuations have both a direct influence on the price of warrants and an indirect influence due to their impact on the underlying security.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Moderate to high, depending on the underlying assets, the warrant could lose all its value.</td>
</tr>
</tbody>
</table>
6.4 Futures

A Description

A futures contract is a bilateral agreement between two parties relating to the delivery of a standardised quantity of an asset specified in the contract (the underlying asset) at a time and price agreed on the floor or via the electronic trading system of a futures exchange. The underlying assets may be commodities (commodity futures), financial assets (including bonds, deposits/prepayment by selling or buying an FRA (Forward Rate Agreement), indices and currencies.

The major characteristic of futures is that they are standardised. The conditions which futures must fulfil are explicitly defined, in respect of both the quantity and quality of the product involved and the time of delivery. Contracts generally have a specified month (mostly March, June, September or December) for delivery. Buyers of futures undertake to buy a specific asset. Sellers of futures undertake to deliver the asset concerned. In other words, buying or selling futures gives rise to an obligation, not just a right.

Futures contracts seldom run until maturity. They are used for:

- Hedging.
- Speculative purposes (i.e. taking advantage of the expected rise or fall in a specific underlying asset). Positions are generally hedged by taking an opposite position. This means the delivery of the underlying asset practically never occurs.
- Futures transactions are carried out on organised exchanges. When a deal is entered into, the contracting parties must pay initial margin (a deposit). This sum serves to cover any losses on the positions taken. The minimum margin is determined by the stock exchange and is based on the volatility of the underlying security. The initial margin is held as cover until the futures position is closed out. It should be noted that the initial margin only represents a fraction of the value of the contract (3% to 10%); this means there is a leverage effect. At the end of every trading day, all open futures positions are revalued at the closing price for the day. This is known as marking to market. This results in what is known as the variation margin. In the event of a loss, the account is debited and in the event of a profit, it is credited. As stated above, only a small proportion (about 3%) of futures positions are kept until the delivery date. Assuming that the holder of a futures position has not unwound his position, it will be settled as follows:
  - Cash settlement. This is in fact a final marking to market. Stock-market index contracts are settled in this way. After settlement, the futures position is liquidated and the balance booked to the account.

Covered by MiFID? Yes. Complex instrument? Yes.

B Strengths

- Futures are first and foremost instruments to use for safeguarding the value of the portfolio. For instance, an investor wishing to hedge the value of his bond portfolio against the negative effects of an expected rise in interest rates may sell futures. The profit made on the sale will more or less offset the loss resulting from the fall in the price of the bonds.
- Buying and selling futures is a technique any investor can use to speculate on movements in futures prices, since with a very limited outlay (initial margin and daily variation margins), it is possible to take large positions (leverage effect).
- The futures market may offer an attractive alternative to spot buying and selling. By buying and selling futures, investors can determine their buying and selling prices for the underlying asset in the future, independent of how the prices actually develop.
C Weaknesses

- Like options, futures are intended for hardened investors who are well acquainted with the system and keep close track of developments in the financial markets. They are sophisticated instruments for financial management intended first and foremost for institutional investors such as insurance companies, pension funds, beveks, trading and industrial companies and individuals with large portfolios.

- Due to the leverage effect, transactions on the futures market may mean considerable losses for investors who speculate wildly or are mistaken in their assessment of prospects. The aim of the initial margin system is precisely to guarantee payment of losses.

- A full hedge is never possible, since the contracts are standardised.

D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>None, a clearing house guarantees settlement on the regulated exchange. A clearing house acts as counterparty for the buyer and seller.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low, futures are easily negotiable on the organised exchanges.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Moderate to high for interest-rate futures, low for equity futures.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Moderate to high, depending on the underlying assets, the future could lose all its value.</td>
</tr>
</tbody>
</table>

6.5 Forward foreign-exchange contracts (currency futures)

For a description of the main features, strengths and weaknesses and potential risks associated with forward foreign exchange contracts, please see the document drawn up specifically for hedging products. This document is available upon request from your branch.

Covered by MiFID? Yes. Complex instrument? Yes
6.6 Hedge funds

A Description

Hedge fund is a collective name for investment undertakings where the manager has considerable freedom of investment (he can invest in any market and any investment instruments) and can take short and long positions (see below), which often results in a significant leverage effect (see point 6.1). The manager will often have a stake in the fund or receive performance-linked remuneration himself, which boosts his involvement and motivation. The aim is to achieve and maximise an absolute return, regardless of market circumstances.

Traditional investment undertakings invest (buy) securities (shares, bonds or options, depending on the investment strategy) using the final investors’ funds. They take a long position in the market, which means they will achieve a positive investment result if the underlying securities go up in value. With hedge funds, however, the manager can also sell securities which the investors do not have, in the hope of buying them back more cheaply at a later date. He takes a short position in the market and will achieve a positive investment result if the underlying security goes down in value. The sale of securities always produces additional cash, which may be re-invested and create an additional return and thus result in a leverage effect.

Covered by MiFID? Yes. Complex instrument? Yes.

B Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Low, moderate to high, depending on the underlying instruments.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>High, often only possible to sell shares on a monthly basis. In many cases, the investor also has to make this known in advance.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low, moderate to high, depending on the underlying instruments.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Moderate to high, depending on the underlying instruments.</td>
</tr>
</tbody>
</table>

The combination of a long and short position in two entirely different assets increases the risk. In the case of a combination of two related securities representing the same asset (for example, a share and a warrant on the same share), the investment risk can be reduced. Any profit on the long position will be offset by a loss on the short position. Strategies of this kind are adopted for the express purpose of eliminating a specific market risk (partially or entirely) and deriving a profit from market inefficiencies in pricing the securities. This risk is hedged, hence the name. Profit is made on pricing imbalances. For instance, a warrant may be listed at a price which is lower or higher than its net asset value or a convertible bond may be cheaper than the sum of its composite parts (the standard corporate bond and the warrant).

Consequently, the riskiness of one hedge fund may differ greatly from that of another. Often the investment strategy is described in very vague terms (that is the price of the extensive freedom of management) and is not very transparent. This constitutes another source of risk.
VII Life insurance - pension savings

7.1 Universal life insurance (Class 21)

A Description

A life insurance policy is a contract between an insurance company and a policyholder. The insurer undertakes to pay the beneficiary a specific sum depending on whether or not the insured is still alive at a certain time. The policyholder undertakes to pay the agreed premiums. There are always four parties to the contract:

• the insurer, which covers the risk.
• the policyholder, who signs the policy and pays the premiums.
• the insured - the person whose demise or survival on a specified date will determine whether or not the insurer has to make payment. The policyholder and insured are often the same person.
• the beneficiary, who receives the capital paid out by the insurer.

Contracts can be divided into three major groups:

1 Term life insurance

This insurance guarantees payment of a sum of money if the insured dies before the date specified in the policy. The beneficiary is generally the spouse or, failing that, the children. We shall not go into further details of this kind of insurance, since it can hardly be considered as an investment instrument from the point of view of the insured.

2 Pure Endowment

Here, the policyholder pays either a periodic premium or a single premium. If the policyholder is still alive on the maturity date specified in the policy, the insured capital is paid out. If the insured dies while the policy is in effect, the insurance will come to an end and the insurer will not pay anything.

3 Endowment insurance

Endowments are a combination of the two types of insurance mentioned above. The insurer always pays a capital sum. However, the amounts insured may vary according to whether the insured lives or dies.

Universal life insurance is therefore a contract which is binding as to the result achieved. After deduction of a fee to cover the insurer's general expenses and to provide for the death cover, the annual premiums serve to build up an individual reserve, using a fixed capitalisation rate. Since insurance companies invest the individual reserves on the capital market and the guaranteed interest rate is set on a prudent basis, there is usually a positive income differential between the return on the investment and the guaranteed interest rate. This positive differential is added to the insured capital as a share in profits. If the contract fulfils certain conditions, payment of the premiums will entitle the policyholder to a tax deduction. Note: if you ever have recourse to this tax reduction, the capital paid out will also be taxed. The policyholder can always redeem the policy prior to maturity, but this surrender will result in a sharp drop in the return on the investment.


B Strengths

• Insurance offers a way of saving with cover in the event of premature death, so that the beneficiaries are protected from loss of income.
• Guaranteed (minimum) return.
• The return is higher due to the tax break.
**C Weaknesses**

- The total return (including profit share, tax break, etc.) cannot be calculated in advance.
- Due to the long term and inflation, the purchasing power of the insured capital when it is paid out cannot be precisely determined in advance. To safeguard the purchasing power of the insured capital, a contact with index-linked premiums and capital can be taken out.
- Surrendering a life insurance policy is costly.

**D Risks**

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>None, since insurance companies are supervised by the NBB and there are restrictions on their investment strategy. If a Belgian credit institution were to go bankrupt, there is a deposit protection scheme with compensation for depositors of up to 100,000 euros per depositor</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>High. Surrendering a policy is costly.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None. Contracts are denominated in euros.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Moderate to high, profit share determined in part by interest-rate trends.</td>
</tr>
</tbody>
</table>

**7.2 Pension savings**

**A Description**

The government accords favourable tax treatment to a number of pension savings products to encourage individual pension savings. Anyone between the ages of 18 and 64 who is liable for personal income tax may invest a certain maximum amount in a pension scheme every year and offset the amount invested against their income on their tax return. When they turn 60, a one-off, definitive tax is charged (advance levy). But there is a higher tax charge in the event of early withdrawal from the scheme (before pensionable age). Pension savings usually involve one of the following two systems:
- pension insurance (class 21, see point 7.1),
- a pension savings fund.

This is an investment fund (please refer to point 5.2 - Undertakings for Collective Investment - Investment funds, for a general description); its investment strategy is subject to certain restrictions.

**B Strengths**

- With a limited, annual investment, investors build up a sizeable nest egg that will enhance their statutory pension.
- Pension savings qualifies for the tax breaks allowed for long-term savings so the investor can save several hundred euros from the start.

**C Weaknesses**

- The amount that can be invested annually may not exceed the maximum set each year by law.
- There is a tax penalty if investors withdraw from the scheme early; in that case, the tax charge is higher.
### D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>None.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low, the securities can be sold at any time at conditions in line with the market conditions. But there is a higher tax charge in the event of early withdrawal from the scheme (before pensionable age), and the tax break will be lost</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Low, there are restrictions on the investment strategy of pension savings funds.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Moderate, an increase in interest rates generally has a negative impact on the price of a pension savings fund.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Moderate to high, depending on the underlying instruments.</td>
</tr>
</tbody>
</table>

### 7.3 Unit-linked life insurance (Class 23)

#### A Description

Class 23 is the collective name for unit-linked life insurance. Unlike universal life products, unit-linked life insurance does not involve a guaranteed interest rate or profit share. The financial risk on investments is shifted entirely to the policyholder. The insurer is only responsible for managing the funds and providing cover for any death risk. KBC offers two kinds of unit-linked life insurance products: issue products and long-term products.

- **Issue products** are life insurance products linked to a closed-end investment fund. The product thus has a predetermined maturity date.
- **Long-term products**, on the other hand, are issued for an indefinite period. These are life insurance products linked to one or more open-end investment funds. The investment result depends on the variable income from the underlying assets. There is the option of death cover, which provides for a supplementary insured sum.

#### B Strengths

- In normal circumstances and over a long period, unit-linked life insurance (Class 23) will offer a higher return than universal life insurance (Class 21).

#### C Weaknesses

- Unit-linked life insurance does not offer a guaranteed minimum return. This is a disadvantage when the investment climate is poor.

### D Risks

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtor risk</td>
<td>Negligible. The borrower risk on the underlying assets depends on the quality of the issuer. The higher the rating, the smaller the risk.</td>
</tr>
<tr>
<td>Liquidity risk</td>
<td>Low. These securities can always be traded on the market.</td>
</tr>
<tr>
<td>Currency risk</td>
<td>None for securities in euros. Low, moderate to high, depending on exchange rate movements against the euro. Depends on the market in which the fund is invested. The currency risk is non-existent for funds which invest solely in euro-area shares. The risk is high for funds which invest exclusively in share markets with a volatile currency.</td>
</tr>
<tr>
<td>Interest-rate risk</td>
<td>Low, moderate to high, depending on the share and the investment climate. Generally speaking, a rise in interest rates will have a negative impact on share prices.</td>
</tr>
<tr>
<td>Price volatility</td>
<td>Low, moderate to high, depending on the volatility of the share. Is largely determined by the general investment climate prevailing on the stock exchange on which the fund invests. Volatility is lower than for an individual share since the risk is spread over several shares.</td>
</tr>
</tbody>
</table>
If you have any questions regarding your banking or insurance business, don’t hesitate to contact your KBC Bank branch or your KBC Insurance agent. You can also call the KBC-Telecenter on 078 152 154, on weekdays between 8 a.m. and 10 p.m. and on Saturdays and bank holidays from 9 a.m. until 5 p.m.

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KBC is a major financial group in Europe. It is a multi-channel bancassurer with a geographic focus on Europe, catering mainly for retail and private banking customers and small and medium-sized enterprises. Besides providing retail and private bancassurance services, KBC is also active in asset management, the provision of corporate services, and market activities. KBC occupies leading positions in its two home markets of Belgium and Central Europe (the Czech Republic, Hungary, Poland, Slovakia and Slovenia).
Bijna iedereen komt op een gegeven moment in aanraking met een erfenis en met het successierecht. Daarom is het goed om van te voren te weten hoe de vork in de steel zit. Want eenvoudig is het allemaal niet.

Als een geliefde, een familielid of een vriend plotseling wegvalt, hebt u zo veel zorgen en verdriet dat het op dat moment vaak moeilijk is om nuchter na te denken over de erfenis en de successierechten. Toch is het van groot belang dat u weet wat uw rechten en plichten als erfgenaam zijn en wat er met het vermogen van de overledene gebeurt.

Bovendien is het belangrijk om vooraf te weten wat u kunt doen om uw nalatenschap te verdelen zoals u dat wilt, en waarop u hoeveel successierechten moet betalen.

Daarom is er deze KBC-informatiegids.