

# A guide for investors

Financial instruments



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This is an investor risk disclosure document (“**Investor Risk Disclosure Document**” or “**IRDD**”) issued by ING Luxembourg S.A. (hereinafter referred as “**ING Luxembourg**” or the “**Bank**”) and established within the context of the European Market in Financial Instruments Directive as amended, modified or supplemented from time to time (“**MiFID II**”).

The aim of this document is to provide clear, transparent and unambiguous basic information to investors and make clients aware of the existence of risks inherent to all investments in financial instruments. By its nature, this summary Investor Risk Disclosure Document presents a simplified overview and should not be considered exhaustive.

The financial instruments concerned by MiFID II and discussed here are transferable securities (namely bonds, shares, etc.), units or shares in Undertakings for Collective Investment in Transferable Securities (UCITS), alternative investment funds (AIFs), the principal derivative instruments (namely options, futures, swaps, forwards, etc.) and structured products.

Any investment decision assumes that the investor has at least general knowledge of the associated risks. This Investor Risk Disclosure Document is thus intended to present:

- The things an investor needs to know before investing in financial markets (part I);
- The types of financial instruments that exist (part II);
- The risks associated with the various financial instruments which we offer (part III).

With the aim of describing the said financial instruments to underline the risks associated thereto, so that the investor considering investing in such financial instrument is informed.

Please note, however, that tax and legal aspects of these financial instruments are deliberately excluded from this guide. Since this Investor Risk Disclosure Document only described non-investor specific risks and does not intend to describe all risks inherent to investments in financial instruments, in case of doubt, any investor shall request external tax and legal assistance to ascertain her/his potential risks before investing.

This Investor Risk Disclosure Document does not represent a recommendation or investment advice.

For any questions regarding the financial instruments described in this Investor Risk Disclosure Document, we recommend that clients contact their Personal or Private Banker.

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# Part I.

## Rights and duties: what you need to know before investing in a financial instrument

### 1. First steps in investments

When referring to investments, products such as stocks and bonds come first to mind but they are not limited to that. Different products like common funds, exchange traded funds (ETFs), structured products, derivative products, commodities and precious metals may also be considered. In part II of the Investor Risk Disclosure Document, you will find a description of these different financial instruments, their advantages and disadvantages and in part III a description of the risks associated with each financial instrument.

The total profit you make from your investments is called a “return” and is expressed as a percentage of the capital invested. Financial instruments like stocks, bonds and common funds have historically offered higher returns compared to traditional savings accounts.

However, they can also bear a higher risk and there are no guarantees of returns: in the event of higher market volatility, the value of some investments can fall or even become zero.

This is why it is important to do your research and diversify your portfolio, especially if you are investing on your own ('non-advised services'). This is known as Execution only.

Under certain conditions, you can also benefit from the Advice of financial professionals to help you make informed investment decisions (through an Advisory mandate or Ad hoc Advice) or entrust a Discretionary portfolio management team with the management of your investments (through a Discretionary portfolio management mandate).

There are many reasons for investing in financials products. Investing may be a means to achieve specific financial goals such as buying a home, funding your children's education, retiring comfortably, diversifying your patrimony, leaving a financial legacy for your heirs, investing in companies or funds that align with your ethical, environmental and social values.

In this regard, it is important that the investment of your choice is in line with your objectives, your personal situation and your Risk profile.

### 2. Different ways of investing

Three types of investment solutions exist at ING Luxembourg, depending on the level of autonomy you want when you invest: Execution only, Advice and Discretionary portfolio management.

## 2.1 Investing on your own (Execution only)

When the Bank executes trades at the client's request, without offering advice, it provides Execution only services. This type of service is intended for clients who have informed and advanced investment knowledge (see chapter 3.2) and who wish to invest their money in financial instruments without receiving recommendations from ING Luxembourg's experts.

With this service, you remain in full control of your portfolio. The Bank receives your orders and takes care of transmitting your investment instructions to its network of agents (brokers, transfer agents), settling the transaction, booking the transaction in your custody account and safeguarding your assets over time.

For private individuals, the preferred channel for your transactional activity is your My ING Online Bank, which allows you to invest easily in equities on several stock exchanges, as well as in the ING in-house funds. A wider range of products (funds, bonds, structured products) is also available by reaching ING Luxembourg contact center.

Wholesale clients who benefit from this type of service can request access to the Triple-A transaction and reporting tool where they can place their orders.

Regarding the funds, the range of products available may vary depending on the services (i.e. DPM or advice) provided to the Client (i.e. which residence country).

Find out more about costs and charges of Execution only on our website [ing.lu/tariffs](http://ing.lu/tariffs).

## 2.2 Get investment advice from ING Luxembourg

A client may receive investment advice from the Bank either under an advisory management agreement or through an ad hoc advisory service provided outside such an agreement.

**Ad hoc advice:** the Bank may occasionally provide the client with advice on financial instruments, without a formal advisory agreement. This ad hoc advice does not involve any ongoing follow-up or monitoring. If the client has received ad hoc advice more than once, each instance is treated separately, and previous advice will not be considered in future recommendations.

**Advisory Service:** with the advisory service, you will periodically receive personalized recommendations from ING experts, while remaining in control of the products in which you wish to invest. Depending on your investor profile, a range of ING funds is open to you, as well as a list of products selected by our team of investment experts. The advisory service is governed by a specific agreement between the client and the Bank. Please contact us for further details and access to the terms and conditions of the service.

The Bank provides advice on a non-independent basis.

Find out more about ING Luxembourg investment solutions on [ing.lu/investmentsolutions](http://ing.lu/investmentsolutions). Do not hesitate to contact your Private Banker to discuss these solutions including costs and charges in detail. Our banking relationship may entail other fees, the details of which can be found in the Tariff List, available on our website [ing.lu/tariffs](http://ing.lu/tariffs).

## 2.3 Entrust ING Luxembourg to manage your investments (discretionary portfolio management mandate)

With the discretionary management mandate, your portfolio is in the hands of ING's experts, who will take advantage of the market opportunities for you. Working with a dedicated team, you define your objectives, your Risk profile, investment horizon, amount to be invested and your sustainability preferences.

Subject to certain conditions, you will be offered various formulas ranging from investing in in-house funds to customized management through a diversified range of financial instruments (funds, equities, bonds, etc.).

The discretionary management service is governed by a specific agreement between the client and the Bank.

Find out more about ING Luxembourg investment solutions on [ing.lu/investmentsolutions](http://ing.lu/investmentsolutions). Do not hesitate to contact your Private or Personal Banker to discuss these solutions including costs and charges in detail. Our banking relationship may entail other fees, the details of which can be found in the Tariff List, available on our website [ing.lu/tariffs](http://ing.lu/tariffs).

## 3. Clients protection

In order to ensure that customers are provided with the appropriate level of protection and information, the Bank will process the following:

### 3.1 Clients Classification

Clients have different levels of knowledge and experience of financial instruments and therefore require different and appropriate levels of information. In compliance with MiFID II, ING Luxembourg classifies its clients into 4 categories.

> **Retail clients:** e.g. private individuals, (micro/mid)- corporates, (semi-)public entities (in certain cases);

> **Professional clients (“per se”):** clients who are automatically considered professional due to their nature or status. e.g. (mid)- corporates and (financial) institutions;

> **Professional clients (“opted-up”):** clients are not automatically considered professional but can be treated as such upon request and after an assessment;

> **Eligible Counterparty:** e.g. financial institutions, pension funds.

When you enter into a relationship with ING Luxembourg, you are by default classified as a retail client (or non-professional), unless the Bank disposes of additional information to assign you a different classification. The retail client category benefits from the highest level of protection, as it is assumed that the level of knowledge and experience is lower than that of a professional investor who is able to adequately assess the risks involved when investing. Classification as a professional client or eligible counterparty is made following an assessment based on defined criteria.

Professional clients (per se) and eligible counterparties in Execution only are not required to complete the investor profile questionnaire and are therefore not within the scope of the MiFID tests described below.

### 3.2 Knowledge and Experience test

The purpose of assessing your knowledge and experience is to ensure that you understand financial instruments you may invest in.

This test is carried out based on the information collected and assessed through the investor profile questionnaire. In case of a joint account or if you have appointed one or more agents to manage your securities account, the Bank will ask you to mention the lowest level of knowledge and experience among all the joint account holders or among the account holder and the agent(s).

For legal entities, the assessment is similarly based on the representative with the lowest level of knowledge and experience.

For each category and complexity of products (bonds, stocks, collective common funds, exchange traded funds (ETF), commodities & precious metal, structure products and derivatives) a level of knowledge and experience will be assigned to you.

- **None:** I don't know the characteristics or the risks associated with this instrument.
- **Basic:** I would need some advice before taking a decision about this instrument.
- **Good:** I understand the characteristics and risks of this instrument and I am able to take a decision based on the documentation available.
- **Advanced:** thanks to my professional experience and/or my studies, I have in-depth knowledge of the characteristics and risks of this instrument.

If you wish to invest on your own (Execution only basis) in a product for which you have stated that you have no knowledge or experience, our transactional systems will warn you, but the decision to invest will still be yours.

For Execution only transactions this test is referred to as the Appropriateness test.

When providing investment advice, the Bank will only recommend products or services that match (or are less complex than) your assessed level of knowledge and experience. If you wish to access more complex products, you must improve your knowledge and update your investor profile in consequence. In discretionary portfolio management, your knowledge and experience are considered through the investor profile questionnaire, which helps define your overall Risk profile and investment strategy.

### 3.3 Suitability test

When the Bank provides investment advice or discretionary portfolio management, a suitability assessment is required to ensure that any recommendations or investment decisions are suitable for you.

The assessment ensures that you have the necessary knowledge and experience to understand the financial instruments involved (as described above under 3.2), that the products and services offered match your financial situation, including your ability to bear losses, meets your investment objectives, including your time horizon and sustainability preferences, if any, and that your risk tolerance is respected. Together, this information determine your investor profile, which guides the Bank in acting in your best interest.

Some of the suitability tests mentioned herein are also carried out for Execution only services, when indicated.

A pre-suitability report is provided to the client whenever an investment advice is given, regardless if it leads to a transaction or not. For discretionary portfolio management, the Bank provides periodic suitability reports confirming that the overall portfolio - not individual transactions - is suitable and aligned with your investor profile. Further information is available in the Client Reports section below.

The suitability assessment is based on your responses to the investor profile questionnaire.

For jointly held accounts or those with multiple authorized representatives, the suitability test relies on responses agreed upon by all parties involved.

#### 3.3.1 Test on the global risk of the portfolio

The purpose of this test is to protect the client from deviation between the overall risk level of their portfolio and the risk level defined as acceptable for their investor Risk profile.

By way of illustration, an investment in an option (classified as a "high risk product") may lead for the client's portfolio to have a level of risk that is not appropriate for their Risk profile.

Each Risk profile tolerates a different overall portfolio risk level. In general, the longer the investment horizon, the higher the acceptable risk in the portfolio.

When providing investment advice or discretionary portfolio management, the Bank will recommend or make investment decisions on your behalf involving products or services that align with, or are less risky than your risk level, as defined in your investor profile and investment strategy.

If you have invested on your own (Execution only basis) and if your planned investment deviates from your defined risk level, this control will take the form of a simple warning, but the decision to invest will still be yours.

### 3.3.2 Test on the diversification of the portfolio

The aim of this test, as its name suggests, is to check that the level of diversification of the portfolio is adequate with regard to the investor profile of the client. To each type of instrument, a level of risk is assigned. Depending on the instrument's risk level, a percentage of holding is defined as acceptable with regard to the total value of the portfolio. This acceptable percentage of holding varies depending on the Risk profile of the client.

For illustration, for a client with a "conservative" Risk profile, the acceptable percentage of holdings with a high level of risk will be lower than for a client with an "aggressive" Risk profile.

When providing investment advice or discretionary portfolio management, the Bank will recommend or make investment decisions on your behalf involving products or services that align with your Risk profile, as defined in your investor profile and investment strategy.

If you have invested on your own (Execution only basis) and your planned investment deviates from your defined risk level, this control will take the form of a simple warning, but the decision to invest will still be yours.

### 3.3.3 Test on the investment horizon

On the quarterly portfolio report, this test checks that the global investment horizon of the client's portfolio is consistent with the recommended investment horizon defined for the investment profile of the client. With ING Luxembourg the recommended investment horizon has been defined as follows:

Profile	Investment horizon Years
Aggressive	> 10 years
Dynamic	7-10 years
Balanced	5-7 years
Moderate	3-5 years
Conservative	0-3 years

### 3.3.4 ESG Suitability test

ESG is the acronym for "Environmental", "Social", and "Governance". It refers to the three key factors used to assess the sustainability impact of an investment, such as, but not limited to, climate change, biodiversity, human rights, anti-bribery and corruption.

The purpose of this test is to know whether you have any ESG preferences and whether the global composition of your portfolio aligns with those preferences. These preferences are collected through the investor profile questionnaire and evaluated across three dimensions: Sustainability, as defined by Sustainable Finance Disclosure Regulation (SFDR), Principal Adverse Impact (PAI), and European Taxonomy, from an environmental perspective.

The ESG check is performed when:

- The Bank provides you with investment advice (either through an advisory mandate or one-time advice); or
- The Bank manages your portfolio on a discretionary basis.

In advisory services, the ESG check applies to your entire portfolio. It helps to verify whether the portfolio matches your ESG preferences and understand whether our advice improves or worsens the ESG quality of your portfolio. You only have the final decision to accept or decline the advice.

In discretionary management, if your ESG preferences do not match the sustainability features of the discretionary mandate, you could give the Bank explicit consent to adjust those preferences by signing the investor profile form. If you wish to change your mandate, you must contact your advisor.

Find out more about ESG on [ing.lu/SFDR](https://ing.lu/SFDR).

- The level of risk that the client is prepared to take, relative to the return the product may generate.
- The client's investment horizon, in terms of the minimum period required to hold the product in order to expect a return.
- The alignment between the client's sustainability preferences in terms of environmental, social and governance objectives and the objectives supported by the product in this regard.
- Investment solution: Execution only, advisory mandate or discretionary portfolio management mandate.

### 3.4 Target Market test

For each product distributed by a financial institution, MiFID II requires banks to define the standard profile of the client to whom the product can be sold (positive target market), but also to whom it cannot be proposed (negative target market). The purpose of this control is to reduce the risk of selling to the clients a product that does not match their investor characteristics, objectives and needs.

To illustrate, imagine that you want to buy a car. If you have a large family and want to go on holiday by car, a 2-seater sports car will not be one of the options suggested by the salesman.

Regarding financial instruments, the main criteria considered before proposing a product to the client are the following:

- The type of MiFID client classification appropriate for the product (Retail, Professional).
- The knowledge and experience required to invest in the product.
- The level of loss that the client is prepared to accept, which must be commensurate with the potential loss that the product may cause.

When providing investment advice or discretionary portfolio management, the Bank will only recommend or make investment decisions on your behalf involving products or services that align with the target market criteria, unless the proposed financial instruments are considered suitable for the client, taking into consideration, for example the individual's customer's portfolio as a whole or hedging and diversification purposes of the portfolio.

If you have invested on your own (Execution only basis) and your planned investment deviates from the target market, this control will take the form of a simple warning, but the decision to invest will still be yours.

### 3.5 Best order execution

Best Execution is a set of measures and diligence that banks must take to obtain the most favorable result for their clients when executing an order on behalf of a client, including execution factors such as: price, cost, speed, likelihood of execution and settlement, size and nature of client order and any other relevant considerations.

For example, depending on the nature and size of the client order, the Bank may consider the liquidity of the market, but also transaction costs or settlement fees, when selecting the broker and the market venue where the order is to be executed.

Find out more about ING Luxembourg best order execution at [ing.lu/Mifid](http://ing.lu/Mifid), in particular the ING Luxembourg best execution/selection and order handling policy.

## 4. Investor profile

Not all investors have the same knowledge and experience when it comes to financial instruments, nor the same risk appetite or financial needs. One investor may choose to take more risk in the hope of achieving a potentially higher return, while another may prefer to play it safe and settle for a lower, more predictable return. Some people can afford to invest their money for more than 10 years, while others need it back in 5 years to carry out a project.

In order to help you make your own investments in full transparency and to ensure that the financial products and services offered to you are suitable and/or appropriate for your individual circumstances, ING Luxembourg will establish your investor profile.

In this context, the MiFID II regulation, which has the main objective of enhancing investor protection and transparency, requires financial institutions, including banks, to conduct a thorough assessment of client's:

- knowledge and experience of financial instruments;
- financial situation and, in particular, the client's ability to bear losses;
- risk tolerance and risk/return profile compatibility;
- objectives and needs like investment horizon, type of income...; as well as preferences in terms of environmental, social and governance (ESG) related objectives.

This assessment is carried out by means of an investor profile questionnaire which you will be asked to complete before investing and renew it every two years while you invest. It consists of a series of questions designed to gather information on the aspects described above.

**Clients declaring in the investor profile questionnaire that they cannot afford to bear a loss of capital will not be authorized to invest in financial products with ING Luxembourg. Investing in the financial markets is not the best solution for clients not willing to run the risk of capital loss. It is also important to understand that higher risk does not always result in higher returns, and each investor should carefully consider their own financial goals and risk tolerance before making investment decisions.**

For professional clients who invest on their own (Execution only), banks are not obliged to establish an investor profile.

At the end of this assessment, the Bank will assign you both a Risk profile and a Sustainability profile.

Defining your Risk profile and Sustainability profile will allow the Bank to carry out several important checks. These include appropriateness tests (knowledge and experience) and suitability tests (risk and diversification of the portfolio, investment horizon, ESG suitability preference and target market), as described in section 3.

You will receive various reports that give you an overview of how well your portfolio matches your profile.

Please ensure to keep your information up to date. Failure to do so may prevent the bank from correctly carrying out the appropriateness test or suitability test or acting in your best interest.

Find out more about MiFID II on [ing.lu/Mifid](http://ing.lu/Mifid).

## 4.1 Risk profile

The Risk profile is the weighted summary of your investment objectives, your financial situation and knowledge and experience. The general approach can be illustrated with the table below:

Profile	Risk level/Expected return				
	Very low	Low	Average	High	Very high
Aggressive					◆
Dynamic				◆	
Balanced			◆		
Moderate		◆			
Conservative	◆				

Short term----->Long term  
Investment horizon

## 4.2 Sustainability profile

ING Luxembourg will also assess your ESG preferences. These are collected through the investor profile questionnaire, generating a Sustainability profile. Based on this information and your Risk profile, ING Luxembourg will assess whether a financial instrument is suitable for you.

Profile	Level of preference in sustainability			
	No	Low	Average	High
Impact				◆
Sustainable			◆	
Responsible		◆		
Traditional	◆			

Your ESG preferences are taken into account only within the framework of discretionary management and advisory mandates, subject to the provisions of said mandates, or in the case of ad hoc advisory requests for clients who have not signed mandates at the Bank's discretion. In the absence of aforementioned services, the Bank cannot be held liable in any way for not having considered the preferences thus defined.

## 5. Client reports

When investing in financial products, the Bank will provide clients with a set of reports on a recurring or on an ad hoc basis, when a transaction is executed.

### 5.1 MiFID II Reports

One main objective of MiFID II regulation is to enhance transparency. In this context, dedicated reports will provide clients with information on cost and charges relating to their investments, result on their

appropriateness and suitability tests, portfolio performances, valuation, operations and key information on products. Please see the table below for more details.

For clients with advisory or discretionary portfolio management, the Bank includes a dedicated ESG section in the quarterly MiFID II reports. This section of the report provides an overview of the ESG composition of the client's portfolio and helps to assess how well it aligns with the client's ESG preferences.

The ESG section of this report is not provided to clients with execution-only services.

Report name	Execution only	Advisory	Discretionary portfolio management	Description	Frequency
Pre-trade suitability report		X		The result of the appropriateness, suitability and target market controls	At trade
Pre-trade cost and charges	X	X		Summary of the estimated cost and charges related to the purchase, detention and the potential sale of the financial instrument held by the client.	At trade
Quarterly portfolio report	X	X <sup>1</sup>	X <sup>1</sup>	Set of the necessary information regarding the client portfolio's performance, operations, valuation, suitability and cost & charges.	Quarterly
Loss alerting on portfolio			X	Alerts sent to clients when the value of their portfolio falls by more than 10% compared to the previous reporting period.	Ad hoc
Loss alerting on leveraged instruments	X	X	X	Alerts sent to clients when the value of their leveraged instruments falls by more than 10% compared to the previous reporting period.	Ad hoc
PRIIPS KID <sup>2</sup>	X	X		A 3-page document, written in a comprehensible manner, detailing financial data of the product designed to help investors understand investment products behavior and support comparison with other similar products.	Ad hoc <sup>3</sup> , triggered by a funds or structured products transaction

<sup>1</sup> Quarterly portfolio report for Advisory and Discretionary portfolio management contains the section on the ESG composition of the portfolio.

<sup>2</sup> PRIIPS KID are delivered only to Retail Clients.

<sup>3</sup> You can also check the KIDs for our current financial instruments offer at the following link [ing.lu/kid](http://ing.lu/kid).

## 5.2 Reports and notices

Additional to the MiFID II required reports, ING will also provide reports and notices which keep investors informed of the actions performed on their securities account.

Report name	Execution only	Advisory	Discretionary portfolio management	Description	Frequency
<b>Fiscal report</b>	X	X	X	Presents the movable income to help clients to fill their tax return (including dividends, coupons, capital gains, etc.)	Yearly
<b>Execution notice</b>	X	X		Customized reports are produced for France, Belgium and Luxembourg residents. Notice confirming the execution of the transaction including the type of order, the market venue, the execution time, the price and the charges.	At trade, next banking day
<b>Corporate events notice</b>	X	X		Information notice detailing the operation concerned (dividend payment, merge, General meeting...). In case of a voluntary operation, it includes a response section.	Ad hoc, triggered by an event

## 6. Holding of your assets

As custodian Bank, ING Luxembourg takes care of the assets held in the client's investment accounts, reflecting their market value and quantity at all times, with all the due diligence required.

The Bank will also inform the client of corporate events affecting the assets held and will reflect their impact on the instruments (e.g. acquisition of a company held in the client's portfolio by another, change in the company's denomination, dividend payment, redemption of a bond...).

To illustrate, let's take the case of the company Facebook, whose name becomes Meta. This type of corporate event is transparent for the client. The Bank will ensure that the correct and updated situation of the client's portfolio is reflected at all times. For some other events, called voluntary action, such as an optional dividend payment in cash or in shares, the client's choice will be required. There will be a default option available, if no response is given.

In the context of the Shareholder Rights Directive II EU 2017/828 and the obligation of the Bank acting as Nominee for funds, clients will be informed on General and Extraordinary meeting agenda and under certain conditions will have the possibility to exercise their voting rights. Please contact us for further details and access to the terms and conditions of the service.

### 6.1 Sub-custodians network

In order to be close to the market and to receive rapid and accurate information on events that may affect financial instruments, the Bank is supported by a network of local third-party banks, known as sub-custodians, with whom ING Luxembourg holds the positions of all its clients globally, generally by country of issuer or main market venue.

To illustrate, let's take the French stock of TotalEnergies. The global position of all client assets in this stock is held with Caceis Investor Services, which specializes in the French market. The assets are held in a special account called "Assets held on behalf of clients" and are segregated from the Bank's own assets.

Find out more about ING Luxembourg sub-custodian network on [ing.lu/custodian](http://ing.lu/custodian) and Segregation options in General Terms and Conditions of the Bank on [ing.lu/terms](http://ing.lu/terms).

### 6.2 Assets protections in case of Bankruptcy

In the event of failure of the Bank or of one of its sub-custodian, financial instruments such as securities held on behalf of clients do not fall within the liquidation assets and they are returned to the client.

However, it may turn out that some of these financial instruments have vanished due to e.g. fraud or administrative negligence. In this case, the Investor Compensation Scheme or "Système d'indemnisation des investisseurs Luxembourg" ("SIIL") where ING Luxembourg is an affiliate, covers the compensation of clients up to an amount of EUR 20,000 per person and per institution.

ING Luxembourg is also a member of the Luxembourg Deposit Guarantee Fund (FGDL), therefore in case of insolvency, your cash deposits are protected up to EUR 100,000.

## 7. Inducements

Under MiFID II, inducements are remunerations, commissions, or non-monetary benefits (like participation in conferences, or seminar) that financial professionals like banks may receive from financial products manufacturers (e.g. Funds promoters such as Fidelity or Blackrock) as an incentive to propose and distribute their investment funds to clients.

The Bank can only accept those inducements that are designed to enhance the quality of the relevant service provided to clients. For example, inducement received may finance research designed to provide valuable insights to clients in financial markets or investment opportunities.

Inducement must never impair compliance with the Bank's duty to act honestly, fairly and professionally in accordance with the best interest of its clients such as recommending one financial product over another when it is not in the best interest of the clients.

When providing discretionary portfolio management services, ING will not accept, nor

keep any form of monetary or non-monetary inducements. If any inducement is received, the Bank will swiftly transfer it to the clients concerned and they will be notified.

When providing execution and advisory services, ING Luxembourg S.A. receives fees/commissions from in-house and external product manufacturers. However, ING will only retain fees or commissions that are justified by the enhancement of the quality of a service or entitlement to additional services. An inducement analysis is performed on a yearly basis by the bank and any inducement, that is not covered by a client focused quality enhancement, is reimbursed to the clients.

In order to increase transparency related to the inducements, ING will disclose the existence, type and amount of the inducement, if any, before executing a transaction. If the amount cannot be disclosed upfront, the calculation method will be described. Nevertheless, the client will be informed on the inducements received by ING and those paid back in every quarterly report.

Find out more about Inducement on [ing.lu/Mifid](https://ing.lu/Mifid).

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# Part II.

## The financial instruments targeted by MiFID II

### 1. Bonds

We refer to the table in part III for the “Risk” aspects associated with this type of financial instrument.

#### 1.1 Description

A bond (“Bond”) is an IOU (“I Owe You”) from an issuer; it represents a fraction of a borrowing issued by an issuer for which the bondholder receives interest (coupons).

The issuer may be:

- › a supranational entity;
- › a public entity, within Luxembourg or outside of it;
- › a private company based in Luxembourg or outside of it;
- › an international entity;
- › a lending institution (we then speak of a deposit receipt rather than a bond).

Their principle is simple: an interest rate entitles the holder to receive a periodic coupon, for a period of borrowing, a purchase price and a reimbursement price on maturity.

Certain bonds nevertheless have particular features which we shall discuss in point 1.3 (principal types of bonds).

#### 1.2 General characteristics

##### Primary/secondary markets

Bonds are issued in the primary market and may be subscribed for a defined period from the issuer. After this period, Bonds may be traded (purchase/sale) on the secondary market, in which prices vary daily (when interest rates rise, prices fall and vice versa).

##### Nominal amount

The nominal amount corresponds to the size of the Bond issue divided by the number of bonds issued. Coupons are calculated based on this amount.

- › **Size of the Bond Issue:** This is the total amount of capital the issuer aims to raise by issuing the Bonds.
- › **Number of Bonds Issued:** This is the total quantity of individual Bonds issued.
- › **Nominal Amount:** This is the value of each individual Bond which the bondholder will receive. It's also the amount on which coupons are calculated.
- › **Coupon:** This is regular interest payment made to bondholders, typically expressed as a percentage of the nominal amount.

For example, if 50,000 bonds are issued, each with a nominal amount of EUR 5,000, the total size of the bond issue would be EUR 250 million.

In this way, a bond with a nominal amount of 5,000 EUR and of a coupon of 5% will generate a gross coupon of 250 EUR for its bond holder (5,000 x 5%), if the coupon is paid annually.

### Reimbursement procedures

A Bond is generally reimbursed on its final maturity date but may be reimbursed in advance through annual reimbursements or, more rarely, by a random draw. Certain bonds have specific reimbursement procedures (under certain conditions), at the option of the issuer or of the bondholder, for example.

### Nominal interest rate

This is the interest rate displayed on the bond, which, when applied to the nominal value of the Bond, allows the amount of payable coupons to be calculated. For example, an interest rate of 5% with a nominal value of 5,000 EUR will generate coupons of 5% x 5,000 EUR = 250 EUR, if the coupon is paid annually. In this example, the coupon is gross, without taxes and without other fees.

### Return

The return on the final maturity of the Bond expresses the average annual income from a Bond.

### Issue price and reimbursement value

A Bond may be issued at par (issue price = 100% of the nominal value), above par (e.g., nominal value of 100, displayed price of 102) or below par (e.g., nominal value of 100, displayed price of 98). The reimbursement value on maturity is often 100% of the nominal value, but a reimbursement premium may be stipulated.

### Duration

The duration is determined when the Bond is issued, but an early reimbursement ("call") may be foreseen. An early reimbursement or call means that the issuer reserves the right, on certain dates or for certain periods determined at the time of the issue, to terminate the loan

and to reimburse its holder at a price determined in advance.

The duration also influences the return on the Bond. In general, the longer the duration of the borrowing, the higher the interest rate.

### Quality of the issuer

Some issuers receive a rating, a standardized code, attributed by independent rating agencies (Moody's, Standard & Poors, Fitch, etc.). This rating provides an assessment of the solvency of the debtor. The higher the rating (e.g. AAA), the lower the debtor risk. Over the life of the bond, this rating may nevertheless be revised. These rating agencies shall be registered in Europe with the relevant authority (<https://www.esma.europa.eu/credit-rating-agencies/cra-authorisation>) and disclosed in the issuer documentation (e.g. prospectus and final terms).

## 1.3 Principal types of bonds

We can distinguish bonds from two perspectives: their nature and their issuer. Please see below a description of some of the examples of the division.

### 1.3.1 Bonds by nature

#### Ordinary Bonds

The ordinary Bonds (also called vanilla bonds) have a fixed duration and a fixed interest rate over the entire period. Holders of ordinary Bonds do not benefit from any particular privilege; in the event of bankruptcy of the issuer, they are reimbursed after all the priority creditors.

#### Priority Bonds

Holders of priority Bonds are reimbursed as a priority in the event of bankruptcy of the issuer. The reimbursement of capital and interest is guaranteed by certain assets of the issuer.

#### Subordinated Bonds

Holders of subordinated Bonds are only reimbursed, in the event of bankruptcy of the issuer, after all the other bondholders (priority creditors and ordinary creditors).

## Zero-coupon Bonds

Zero-coupon bonds are characterized by having no coupon (interest is not distributed annually, but capitalized until maturity); and by issuance below par, i.e. on issuance, the investor pays less than the nominal value (the issue price is much less than the reimbursement price since it is equal to the present nominal value on the date of issue and at the fixed interest rate).

## Indexed Bonds

These are Bonds with a return linked to the evolution of one or other index (e.g.: inflation, gold price, stock index or a share price, a given exchange rate); different indexation clauses may be provided: e.g., only the reimbursement price is indexed, and no coupon is paid.

## Variable rate Bonds (or floating rate: Floating rate notes (FRN))

In this type of Bond, the level of the coupon is not fixed but is periodically revised. The coupon may, for example, be linked to a market rate, e.g. 6-month Euribor. The coupon shall be calculated as a function of the 6-month Euribor on the observation date.

## Convertible Bonds

Convertible Bonds, like ordinary bonds, have a fixed interest rate and a fixed duration. What distinguishes them is the right (and not the obligation) for the Bondholder to demand its conversion into shares, during one or several given periods, under conditions set in advance.

## Warrant Bonds

A Bond with warrants is linked to a share; the warrant provides the right to purchase the underlying share at a price set in advance. When separated from its warrant, the Bond becomes an ordinary Bond. Separated from the Bond, the warrant possesses the characteristics of all warrants (see point 5.3.3).

## Reverse convertible debt securities

A “reverse convertible” is a current debt security for which the coupon should be considered as remunerating the option which the issuer (generally a bank) reserves to reimburse the

debt securities on maturity, either in cash at the nominal value of the securities in question, or with a certain number of shares or their countervalue in cash. These securities are always reimbursed by the choice of Bond issuer.

## Perpetual Bonds

These are Bonds for which no date of maturity is set. They are nevertheless generally accompanied by a “call” (early reimbursement).

## Step up Bond

A Bond with an interest rate which rises during the life of the Bond. The rates and the periods to which they apply are set at the time of the issue.

## Step down Bond

A Bond with an interest rate which falls during the life of the Bond. The rates and the periods to which they apply are set at the time of the issue.

## Mandatory convertible

A Bond which is mandatorily convertible into shares at maturity.

The interest rate of this type of bond is generally lower than that of the classic Bond, even if the growth prospects of the issuing company are favorable at the time of issuance of the Bond.

The risk linked to this type of Bond is that the reimbursement takes place at a point when the share price has fallen sharply. It is thus possible that the underlying investment falls heavily as a result.

## 1.3.2 Bonds by issuer

### Deposit receipts

These are an IOU from a borrower (the financial institution) to a lender (the investor).

In return for the principal paid to the financial institution, the investor receives interest on the entrusted amount over the concluded duration (often 1 to 5 years, sometimes 10 years or more).

On maturity, the principal amount is reimbursed.

We distinguish ordinary deposit receipts with a rising interest rate, with capitalization (the annual interest is not distributed but added on each occasion to the initial amount), with optional capitalization (= growth bonds) or with periodic payment (quarterly, monthly, half-yearly).

### Government Bonds

Government Bonds are fixed income Bonds with an annual coupon issued by a State.

### Corporate Bonds

A Bond issued by a company or a “corporate Bond” is a debt security representing a stake in a long-term loan issued by a private sector company.

In general, the interest rate is higher than on deposit receipts or government bonds in order to offset a higher credit risk.

### Eurobonds

Eurobonds are Bonds issued at international level (in several countries at the same time) by private companies, public institutions, sovereign States and international entities, outside of the country of the currency in which they are issued.

They are generally denominated in different currencies.

Elements which the investor must consider when choosing euro-bonds are the currency of the issue (currency risk), the quality of the company which issues the borrowing (the issuer), the return and the possibility of early reimbursement.

## 1.4 Advantages and disadvantages of Bonds

### 1.4.1 Advantages

- › In principle and for most Bonds, this type of investment does not offer much uncertainty as amount, interim income date and reimbursement of capital are determined at the time of the issue.

- › The Bonds provide remuneration exceeding that offered by short-term investments and this with a level of risk less than that represented by investments in shares. This remuneration is generally even more attractive when the issuer’s rating is low (but this is also accompanied by higher risk).
- › Most Bonds pay regular interest (coupon) which provide predictable source of income. This can be particularly attractive to those investors who value stability.
- › Investments in bonds, essentially in bonds of OECD States, may be made starting from very modest amounts and are hence accessible to everyone.
- › In addition to a regular income, bonds may generate capital gains when market rates fall below the rate of the Bond held. Conversely, when rates rise, they may generate a capital loss.
- › Unlike “private” investments, as a rule, Bonds are negotiable at any time on a secondary market depending on available liquidity.

### 1.4.2 Disadvantages

- › The capital guarantee or partial capital guarantee, if any, is only effective on maturity or as the case may be on the date of an autocal.
- › During the life of the borrowing, the value of the bond will fluctuate depending on various factors, of which the evolution of interest rates and the financial solidity of the issuing company are the main ones.
- › The real value of the principal on reimbursement on the final maturity is generally less than that of the principal at the time of the issue, on account of inflation. This phenomenon, termed “monetary erosion”, is all the greater, the higher the inflation rate and the longer the Bond duration. It must be offset if the nominal interest rate exceeds the average rate of inflation over the duration of the Bond.

- A bond may only be acquired under the initial conditions during the subscription period. Outside of this period, the Bond shall be acquired at a variable price, and the purchase price shall be increased by brokerage fees.

## 2. Shares

We refer to the table in part III for the “Risk” aspects linked to this type of financial instrument.

### 2.1 Description

Shares (“Shares”) form part of the equity base of a company. Shareholders are hence the owner of the Company pro rata to the number of Shares which they hold.

Private individuals who invest generally opt for an instrument which does not expire (and from which they may only withdraw by selling the Share, since there is no contractual reimbursement), without fixed income and without nominal value or fixed value.

The Share price represents a compromise between income (dividends and capital gains) and risks. The latter are influenced by many factors, both intrinsic to the company (such as its financial, technical and commercial situation, its investment policy, its prospects and those of its economic sector, etc.) and external, since the stock market is influenced by political events, the economic and monetary situation, both international and national, and by emotional or irrational elements which may accentuate (both upwards and downwards) the price fluctuations of the stock market.

All these complex factors influence Share prices and may make them very volatile in the short term. Investment in Shares should thus be regarded as a long-term investment. Certain Shares are often grouped together in an “index”.

This groups together Shares with common characteristics, whether from a geographical perspective (National indices such as the LuxX, the Bel 20, the CAC 40, the DAX, the Footsie, the Dow Jones, the Nikkei), or from a sectoral or market capitalization perspective (indices of small caps, etc.).

A Share is termed “preferred” when any benefit is granted to its shareholder in addition to those granted to the ordinary shareholders. This is often the case of a right to receive a fixed amount in the event of liquidation and a fixed dividend before the ordinary shareholders.

The benefits granted to the preferred Shares are recorded in the articles of the association of the Company.

### 2.2 General characteristics

#### Forms

The Share is termed a “bearer” Share when its owner is not entered in the register of the Company, unlike the registered Share. The Shares are termed “dematerialized” when they exist only in electronic form. They are stored in a digital account (called a demat account) within a Central Securities Depository (CSD), such as Clearstream, Euroclear, or a national CSD. This system allows for efficient, secure, and paperless trading.

#### Return

It is the possible dividend and the fluctuation in the price (variation of value, termed a capital gain or loss) which represents the return (“return”) of a Share.

#### Risk

Investors are exposed to the full risk of the company (they do not receive any income if the company performs badly and in the event of bankruptcy, shareholders rank after creditors in the allocation of the proceeds from the sale of the assets, in other words, most of the time, they do not recover anything in the event of bankruptcy). By contrast, as a joint owner, the shareholder has the following rights.

## Rights potentially associated with the share

- › **right to a dividend:** if the company has generated profits and the general meeting decides to distribute them as a whole or in part (and not to reinvest them or allocate them to reserves), the shareholder is entitled to part of these profits, termed dividends. These may vary from one year to the next, as a function of the profits generated, but also of the distribution policy of these. If the financial year has ended with a loss, there may be no distribution of dividends. These are hence never guaranteed.

Dividends are generally distributed in cash. Sometimes, the shareholder may also have the option of receiving these in the form of new Shares (stock dividend), in a proportion established in advance.

- › **voting rights** at the ordinary and extraordinary general meetings for the approval of the annual financial statements, the appointment and dismissal of the directors, the approval of the amount of the dividend distributed to the shareholders; the shareholder thus has a right to monitor management.
- › **right of information:** before the general meeting, the shareholder may inspect the Company's financial statements, the content of its portfolio of securities, the report by the statutory auditors, as well as other information, whether periodic or occasional, notified by the company; the shareholder may ask for explanations of the company's situation.
- › **right of allocation:** in the event of liquidation, the shareholder shall be entitled to a part of the company's assets.
- › **preferential subscription right** (priority for new Shares), in the event of a capital increase decided with the agreement of the shareholders. A shareholder who does not wish to participate in this capital increase may sell his/her

preferential subscription right in the stock market if the Share is listed. Some companies may distribute free shares, termed "bonus" Shares.

- › **right of transfer:** for listed companies, the shareholder may sell his/her shares on a stock market.

## 2.3 Principal types of Shares

### Shares representing the Share capital of the Company

These Shares may have the following features:

- › **Actions with or without voting rights**

Shares with voting rights allow the shareholder, as a joint owner, to participate in the general meeting and to take part in the vote and the management of the Company. Shares without voting rights provide entitlement to a dividend which may not be less than that granted to Shares with a voting right.

- › **Privileged or preferred shares**

These Shares may provide entitlement, before all the other Shares, to a portion of the annual profit. In the event of dissolution of the Company, they shall be reimbursed before all the others.

### Shares not representing the Share capital of the Company

Unlike classic Shares, non-equity profit Shares do not represent share capital or a material contribution and cannot have a nominal value.

They are issued as consideration for a non-financial contribution to the company, in other words a contribution which cannot be determined. They provide entitlement to a part of the profit over the life of the Company or when it is dissolved. Their holders may only exercise their voting right in restricted cases.

### Listed Shares

For a Share to be listed, certain conditions set by the market authorities must be fulfilled. The introduction of a Share to a stock market is also termed an IPO (Initial Public Offering).

## Stock market listings (IPO, Initial Public Offering)

IPO is the term used when a company issues Shares for the first time on a stock market. A company which makes a stock market listing has the principal objective of collecting funds to drive its investment and its growth. In order for a company to list on a stock market, it must meet certain conditions (minimum size, publication of regular and detailed information, “Corporate Governance” rules, etc.). Private investors may also have access to stock market listings.

## Sector Shares

From a stock exchange investment perspective, four sectors may be distinguished:

- › cyclical Shares (construction, raw materials, chemicals);
- › growth Shares (telecoms, pharmacies, IT);
- › financial Shares (banks and insurers);
- › defensive Shares, representing assets for consumption and services to private individuals (production and distribution).

## 2.4 Advantages and disadvantages of Shares

### 2.4.1 Advantages

- › In financial terms the return from a share is generally greater than that of a bond. This is notably explained by the risk premium demanded by the investor. Unlike a bond, the return on a Share consists above all of the capital gain which the Share accrues over time, and not only of the income (dividend) which it distributes.
- › Liquidity: if Shares are listed, the shareholder may sell them every day via the stock market. The “liquidity” of a Share indicates the ease with which it may be purchased or sold.

### 2.4.2 Disadvantages

Investment in Shares is a risky investment (see the table, part III):

- › Depending on the profitability of the Company, the dividend represents variable income (as opposed to the fixed income generated by the majority of bonds);
- › The market value of the Share fluctuates as a function of the prospects of the Company and of the general trend in the markets.

## 3. Undertakings for Collective Investment (UCI)

We refer to the table in part III for the “Risks” aspects linked to this type of financial instrument.

### 3.1 Description

The term “Undertakings for Collective Investment” (“UCI”) is a general term which designates an entity, with or without a legal personality, which raises funds from the public and invests these collectively in a series of securities according to the principle of the allocation of the risks.

UCI represents a form of collective management of portfolios. The most popular UCI are the SICAV and FCP (“*fonds commun de placement*”). The term ‘UCI’ nevertheless covers an entire series of products of a specific nature.

- › SICAV (open-end investment companies);
- › FCP is a common contractual fund. The FCP has no legal personality and must be managed by a management company.
- › SICAF (closed-end funds);

In this chapter we present different types of UCI. However, our main focus is here on SICAV and FCP. More information on SICAF will be mentioned in Chapter 4 dedicated to alternative investments.

## 3.2 General characteristics

- › SICAV and FCP can both increase or reduce their capital on a periodic basis (in general daily). The major difference between the two forms is that a SICAV is a legal person, while FCP is not: the fund is the undivided property of its shareholders. This notably has tax implications which we shall not discuss here.
- › UCI are subject to specific legislation, as well as to the prudential control of the CSSF (Financial Sector Supervisory Commission).
- › Asset management is entrusted to specialists, who invest the collected amounts in various securities (shares, bonds, money market instruments, property certificates, currencies, forward investments, etc.), observing the investment policy of the fund described in the prospectus. The investor has no right of inspection of the investment policy followed by the UCI. In order to know whether an UCI corresponds to your requirements, you should refer to its issued prospectus
- › UCI reinvests the funds which are entrusted to them by the public according to the principle of allocation of risks.
- › Inventory value corresponds to the market value per share of the net assets of the portfolio. This inventory value is calculated periodically, usually daily, and is published in the financial press.
- › UCI are managed in the exclusive interests of their participants.

- › The investment policy of a UCI may be very broad and benefits from access to a range of instruments and stock markets which a private individual does not have. UCI must observe the provisions on informing investors.

## 3.3 Principal types of UCI

In addition to the distinction between UCI according to their legal form, we may also distinguish them by their management policy and investment strategy.

We shall briefly summarize these distinctions here.

### 3.3.1 Distinction by distribution policy

We draw a distinction between a distribution UCI, on the one hand, and a capitalization UCI on the other. Some UCI give investors the choice between the two types.

#### Distribution UCI

These allow investors the possibility of receiving a periodic dividend (most frequently an annual dividend). All or part of the income received is then passed on to their holder.

#### Capitalisation UCI

The income received is not distributed to the holders but is automatically reinvested and added to the invested capital and replaced. There is no distribution of income or of dividends. Investors only benefit from the return on their investment when they sell their units, at which point, they receive income in the form of a capital gain.

### 3.3.2 Distinction by investment strategy

There is currently a multitude of UCI, principally SICAV.

The UCI fall into several major groups as a function of the type of securities held in the portfolio (liquidity, bonds, shares, precious metals, property certificates or a combination of two or more of these values).

## Money market UCI

They primarily invest in liquid and short-term instruments, such as term deposits, treasury certificates, short maturity bonds, commercial paper and certificates of deposit.

## Bond UCI

Invest principally in debt securities.

## Equity UCI

Invest principally in shares of companies and to a minor degree in derivative products on shares (see point 5.3), such as warrants, options, etc.

## Mixed UCI

Invest in both shares and in bonds.

We may distinguish several types of mixed funds by their Risk profile:

- mixed “defensive” UCI mainly invest in risk-free investments (e.g., 75% invested in bonds, most of which are in stable currencies);
- “balanced” mixed UCI allocate their assets in a more or less balanced way between non-risky investments (bonds) and risky investments (shares).
- “dynamic” or “aggressive” mixed UCI mainly invest in risky investments (e.g., 75% is invested in shares).

## Property UCI

They invest principally in property assets. UCI which invest solely in other property UCI or property certificates fall into this category

## Funds of funds

Those are UCI which invest in other UCI. Managers of funds select other fund managers for a region, a sector, a theme, etc.

## Hedge Funds

(cf. point 4.2.2) Funds using so-called “alternative” or non-traditional portfolio strategies with the aim of hedging against stock market fluctuations or which are speculative, or which seek to generate positive returns regardless of the evolution of financial markets (absolute return strategy). These funds are also called “absolute return” funds.

A certain number of these funds also seek, within the context of these strategies, to establish a “leverage effect”, which considerably increases the risks. There are nevertheless also low-risk hedge funds.

## Index UCI

These UCI have an investment policy following the evolution of a benchmark index as faithfully as possible (e.g., a national stock index (the LuxX in Luxembourg) or a sector index).

The evolution of the UCI thus follows the average performance of the relevant index.

## ETFs (Exchange Traded Funds)

An ETF is a fund which is often an index fund, traded on a stock exchange. The investor thus has the possibility of benefiting, in a single transaction, from the performance of an index, a basket of shares, a basket of bonds or of raw materials. The ETF combines the benefits of shares (simplicity, continuous market price) with those of traditional funds (access to a wide variety of securities, diversification).

## Capital protection UCI

This SICAV offers its subscribers a promise of a minimum return, linked to the performance of an underlying instrument or a guarantee of reimbursement of a minimum capital amount on a given maturity.

An example of a SICAV with capital protection is: a SICAV which allows full exposure over a 6-year period to the increase in the CAC40 (an index consisting of 40 shares in the monthly settlement market, from all economic sectors, drawn from the hundred largest companies by market capitalization). During this period, the index rises by 150%. On maturity, investors receive 150% more than their initial investment. If, on the other hand, the CAC40 has failed to rise or even fallen, investors will nevertheless receive their initial capital.

It should be noted that this protection is most frequently conditional and that it is obtained by payment of insurance policies, so-called “hedges”, obtained e.g. in the options market.

## 3.4 Advantages and disadvantages of UCI in general

### 3.4.1 Advantages

#### **Diversification**

UCI allows investors to establish a diversified portfolio with an allocation of risks.

#### **Management by professional managers**

More profitable and more effective; professionals may react more quickly to market conditions. For investors who do not have the time, interest or expertise to manage their own portfolio such as the purchase and sale of shares at suitable moments, selecting and adjusting bond holdings, etc., UCI offers a suitable solution.

#### **Economies of scale**

In view of the importance of the implemented measures, these funds can benefit from lower costs (e.g. on market transactions) and in this way, secure better returns.

#### **Investments appropriate to the needs of the investor**

The wide variety of existing UCI, each with its own characteristics, makes it possible to meet the diverse and specific needs of investors.

#### **Possibility of investing small amounts**

Even with a small investment, investors can gain exposure to multiple markets and even different currencies, benefiting from a diversified portfolio with a small amount.

#### **Allow access to specific markets**

UCI allow access to markets which are hard or impossible for individual investors to access (e.g. Asian markets) or to sophisticated financial instruments (options, futures).

#### **Liquidity and transparency**

The net asset value (for SICAV) or the market price (for SICAF) is often calculated daily. Furthermore, the UCI are obliged to comply with regulations regarding investor information. Depending on the type of fund and of the underlying instrument in which the UCI invests, certain advantages specific to the financial instrument in question should be considered (see advantages for each financial instrument covered in this Investor Risk Disclosure Document. For example, the benefit of a ratchet fund, which locks in an interim gain definitively and secures it at maturity, regardless of market conditions).

### 3.4.2 Disadvantages

- Expenses: units and shares of UCI generally result in payment of management expenses (the most significant part of the expenses), of entry and exit expenses (which may vary significantly according to their specific characteristics and according to the financial institutions which market them).
- Depending on the type of fund and of the underlying asset in which the UCI will invest, certain disadvantages specific to the financial instrument in question must be considered (see disadvantages for each financial instrument covered in this Investor Risk Disclosure Document. For example, we would highlight the higher risk represented by an equity UCI relative to a bond UCI).

## 4. Alternative investments

We refer to the table in part III for the “Risk” aspects linked to this type of financial instrument.

### 4.1 Description

Alternative investments are those which cannot be executed through standard asset classes (bonds, shares or money markets). They present unique characteristics in terms of their risk/return ratio. In numerous cases, they have a high degree of sophistication.

### 4.2 Principal types of alternative investments

We may distinguish four large groups of alternative investments:

- Property investments (property);
- Hedge funds;
- Private equity;
- Gold, gold mines, precious metals and raw materials (“commodities”)

#### 4.2.1 Property investments

##### Real estate certificates

Real estate certificates (or land certificates) are titles which give their holder a right to a portion of the rent and of the resale price of the property (or of the group of properties) to which it relates. The issuer is officially the owner of the property; the holder of the certificate is merely the financier.

##### Property SICAF

A property SICAF is a closed-end investment company which invests in property. These are securitized properties, i.e. the investor acquires properties not directly, but indirectly, by purchasing a title representing the properties of the SICAF.

#### 4.2.2 Alternative funds

An alternative fund is a financial product which seeks to maximize performance through alternative investment strategies and to generate positive returns, whatever the evolution of financial markets. The investment practices of hedge funds are, for example, leverage effects, short sales, the use of derivative products and arbitrage.

Hedge funds are often complex products, reserved for experienced investors (see point 3.3.2).

#### 4.2.3 Private equity

This term refers to the capital provided to companies which are not listed on a stock market. Various reasons may favor this type of investment (development of new products and technologies, balance sheet strengthening, boosting working capital, etc.).

A private equity investment may also be made through funds, allowing the risk linked to an individual company to be limited.

#### 4.2.4 Gold, gold mines, precious metals and raw materials

Precious metals have always been regarded as investment vehicles.

Gold represents the most widely used precious metal for investment purposes. It is traditionally regarded as a safe haven investment in exceptional circumstances (notably war and political instability). Relative to other forms of investment, it has the benefit of being easily tradable throughout the world and at a known price, when it is expressed in accordance with international standards. The reference price for gold is quoted in US dollars (USD) per ounce. This relates to unallocated gold, i.e., which cannot be delivered physically. Gold is principally traded through futures, options (see point 5.3) and ETFs. In parallel, there is an important physical market quoted in local currency (euro, etc.) and possibly in local units (kilo, ounce, tael).

Nowadays, it is the futures and options market which dominates trends, followed by the physical market. Fluctuation may be significant. Furthermore, for investors based in Euros, currency risk should not be underestimated.

The other precious metals, with markets which are highly speculative and not recommended to retail investors, are principally silver, platinum, palladium, iridium, rhodium, etc.

These metals are principally traded in US dollars on US markets. Under normal market conditions, they are not generally available in physical form.

Raw materials (commodities): investments are principally made through commodity futures and forward commodity agreements (for which a unit is exchangeable for another unit of the same raw material) such as wheat, precious metals, oil, gas, cotton, coffee, etc.

Traders conduct such transactions in order to hedge themselves against any adverse price developments, and investors/speculators in order to profit from the price fluctuations in the markets in which these goods are traded.

## 4.3 Advantages and disadvantages of alternative investments

### 4.3.1 Advantages

- › Alternative investments are financial products which in principle offer the benefit of a low correlation with traditional investments. They thus permit in general a significant improvement in portfolio diversification.

### 4.3.2 Disadvantages

- › The liquidity of alternative investments is generally lower than that of traditional investments.
- › These sophisticated products are intended for experienced investors who follow market developments very closely.

## 5. Derivative financial instruments

We refer to the table in part III for the “Risk” aspects linked to this type of financial instrument.

### 5.1 Description

#### What is a derivative financial instrument?

Derivative financial instruments (or products) were developed to hedge risks such as exchange rates, interest rates and principally volatility. They are called derivative since they “derive” from the underlying financial instruments which they are intended to hedge.

They may be used for hedging or for speculative purposes. A derivative financial instrument provides exposure to the changes in value of the underlying asset without owning it. It may also permit the long-term purchase of the underlying asset at a price determined in advance. A derivative product should not be confused with an investment in the underlying security. After the expiration of its exercise, it loses all of its value.

### 5.2 General characteristics

#### The leverage effect

Derivative financial instruments allow in general a very significant profit to be realized relative to the size of the investment. This is called the leverage effect. The leverage effect of derivative products refers to the ability to gain exposure to a large position in an underlying asset while committing only a small amount of capital upfront. This magnifies both potential gains and losses. For example, in order to invest in options, it is sufficient to pay the premium. The potential profits may be considerable.

The associated risk is nevertheless equally significant: the whole of the investment may be lost. The leverage effect thus works in both directions. You should never forget that the hope of a large gain goes together with a higher risk, with this termed the ‘sledgehammer’ effect.

The investor who sells an option receives the premium but conversely may be exposed to a limited risk (sale of a call option, without owning the underlying instrument).

#### For risk-friendly investors

Derivative financial instruments are high risk investments: the return on the investment is extremely variable and the recovery of the amount invested is very uncertain. Derivative products should thus only represent a limited part of the overall portfolio.

Specialist financial markets offer standardized contracts and manage pricing, allowing anyone to buy or sell contracts by systematically locating a counterparty.

### 5.3 Principal types of derivative financial instruments

The principal categories of derivative financial instruments are options, warrants and futures.

#### 5.3.1 Options

An option is a financial instrument which quite simply gives its holder the right, but not the obligation to buy (call option) or sell (put option), an underlying asset at a predetermined price on a given date (so-called Bermuda style), during a given period (American style), or can be exercised only at expiration (European style).

Many options may not only be linked to a given share, but to a basket of shares, the evolution of which is measured by a stock index. The option grants a right to its purchaser/ holder but imposes an obligation on its seller/issuer: if the holder of the option expresses a wish to execute a transaction, the seller shall be obliged to execute this transaction. In exchange for having an obligation, the seller receives a premium. The premium that the seller receives is the remuneration for the obligation, and hence for the risk which it agrees to assume. The premium is the price of the option and translates what the market is willing to pay for the right to exercise which it represents. Certain options may form the object of transactions on a secondary market.

## EXAMPLE OF A CALL OPTION

Consider the case of a call option allowing the purchase over the next three months of share “x” at a price of EUR 50, supposing that the current share price is EUR 45 and that the option costs EUR 1.50. The purchaser who has paid a price of EUR 1.50 for this option hopes that within three months, share “x” will have risen sufficiently for it to be more advantageous to exercise the option (i.e. to pay EUR 50 in order to obtain a share) than to buy the share via the stock market. In this case, the total cost price will be EUR 51.50 (exercise price of EUR 50 + option price of EUR 1.50).

If, three months later, the share is worth EUR 55, the investor will earn EUR 3.50 (EUR 55 – EUR 51.50) by exercising his/her option and by reselling the share directly into the market.

For prices above the cost price (EUR 51.50), the option provides an ever-greater benefit. The value of a call option thus increases with the probability that the market price exceeds the exercise price, and this probability is all the greater the longer the duration of the option and the higher the volatility of the share. Conversely, if share “x” is worth less than EUR 50, the investor will not exercise the option and will sustain a loss (representing a gain for the seller of the option), but this will be limited to at most his/her initial investment, namely the price of the option, i.e. EUR 1.50. Given the purpose for which it is bought, the call option is thus a bullish contract.

## EXAMPLE OF A PUT OPTION

In the example of share “x”, the put option permits the sale of the share at EUR 50 within three months and we suppose that the price of the option is EUR 1.

If, on maturity, the share loses ground and falls to EUR 45, the holder of the option will exercise his/her right and will earn 4 euros (EUR 50 – EUR 45 (the share price) – EUR 1 (the option price), by selling at EUR 50 an option which it may purchase at EUR 45 in the stock market. If, by contrast, the share price on maturity is greater than EUR 50, the option holder will allow its option to expire without exercising it, and the transaction will be offset by a loss limited to the amount of the premium paid, i.e. EUR 1.

In practice, it is rare for the option to be exercised, since it entails the purchase or sale of shares at the exercise price, to which the usual stock exchange expenses apply. Market positions may be unwound by closing transactions, which are much cheaper. In this way, the holder of the option will waive his/her right through a closing sale and the seller may terminate his/her obligation of delivery by a closing purchase.

### 5.3.2 Futures and Forwards

The “future” is a forward agreement by which two parties undertake to purchase or to sell a given quantity of an underlying instrument (currencies, bonds, stock indices, etc.) at a fixed price and on a given date in the future.

Unlike options, “futures” agreements contain the notion of an obligation for both parties: the purchaser of “futures” undertakes, on maturity of the contract, to receive the underlying instrument through payment to the seller of an amount termed the “due amount”. For its part, the seller of “futures” makes a commitment to deliver the underlying instrument on maturity in exchange for the due amount. “Forwards” are similar structures which are not listed on a stock market. They may be tailored to the specific needs of clients.

### 5.3.3 Instruments with similarities to options

Warrants have very many similarities with options (call/ put).

A warrant is a financial instrument (security) which gives its purchaser the right, but not the obligation, to buy (call warrant) or sell (put warrant) an asset during a defined period at a predetermined price.

The investor shall exercise the right if it is advantageous. The value of this right corresponds to the price of the warrant (= premium).

The warrant is comparable to the option albeit with a longer life.

The asset may be a share, a basket of securities, a bond, a currency, a commodity or an index and is also benchmarked as the instrument underlying the warrant.

### 5.3.4 Warrant (French warrant)

A warrant is an instrument which gives its holder the right to subscribe to a share or bond, at a price set in advance and until a set date. The warrant may not be exercised for resale before it matures.

The warrant may be attached to a share or bond or be autonomous.

The issuance of warrant is linked to the creation of new securities.

Contrary to the subscription rights which have a very short duration, warrants are generally valid for more than a year.

This is a financial instrument with a high leverage effect. Indeed, its price is usually lower than the price of the underlying instrument and generally fluctuates as a function of the latter. In this way, any increase in the price of the underlying instrument entails an amplified increase in the price of the warrant. Conversely, any reduction in the price of the underlying instrument represents a proportionately larger loss.

Often used during increases of capital, this is then termed an Equity Warrant.

### 5.3.5 Preferential subscription right

The subscription right is a coupon detached from a share which gives the right to an ordinary shareholder to subscribe to new shares during a given period, at a price set in advance.

This is a financial instrument with a high leverage effect. Indeed, its price is habitually far below the price of the share in question and generally fluctuates as a function of the latter. In this way, any increase in the share price entails an amplified increase in the price of the subscription right. Conversely, any reduction in the share price represents a loss which is all the greater.

Before maturity, the holder of the right may exercise his/her option at any time (notably if the price of the share has risen above the exercise price of the right) or sell it in the market for rights, where this exists.

### 5.3.6 Right of attribution

The right of attribution is a negotiable right, detached from a share which gives its holder the right to receive the new shares free of charge. This right is detached on the starting

date of the transaction and may be negotiated in the stock market as an autonomous security.

Certain companies, with the aim of securing the loyalty of their shareholder base, issue bonus shares. You should realize that these shares in no way modify the wealth of the shareholder.

Indeed, suppose that the share capital of a company consists of 50,000 shares with a nominal value of EUR 10, and that at the same time, the company has EUR 500,000 in reserves.

We may envisage incorporating these reserves into the share capital. The new capital shall hence be composed of 100,000 shares. Each shareholder shall then receive a new share for each existing share. Essentially, he/she is not richer, but merely has twice as many shares at half the share price (since the stock market price will adjust accordingly).

During this type of transaction, each existing shareholder who meets the transaction conditions will receive a right of attribution allowing him/her to assert his/her rights to the future shares. This right of attribution is freely assignable, notably for shareholders who do not wish to receive additional shares.

### 5.3.7 *Representative certificate*

The certificate representing shares is issued by financial companies at the request of the issuer of the shares and is intended, for example, for circulation abroad. A certificate represents a certain number of shares. The certificate may be tradable in the country in which the represented share is issued.

## 5.4 Advantages and disadvantages of derivative financial instruments

### 5.4.1 *Advantages*

- Derivative financial instruments offer investors the possibility of hedging all or part of certain categories of assets of their portfolio when the assets comprising the portfolio are likely to experience an adverse and significant evolution.

- They also offer the possibility of speculating on a significant short-term gain, by virtue of the leverage effect.
- Derivative financial instruments allow highly dynamic management of positions.

### 5.4.2 *Disadvantages*

- Derivative financial instruments listed on markets are generally standardized in order to permit the existence of an efficient market.

The underlying asset hence does not always correspond precisely to the asset which the investor wishes to hedge. A tailored hedge may be executed, but this will be to the detriment of the product's liquidity and it will generate higher costs.

- These may generate a loss which is notably greater than the initial investment and theoretically an unlimited loss for certain types of derivative products.
- These are sophisticated products intended for experienced investors who follow market developments very closely,

## 6. Structured Products

We refer to the table in Part III for the “Risk” aspects related to this type of financial instrument.

### 6.1 Description

Structured products are investments that combine several financial instruments, such as bonds and derivatives, to meet specific investment goals. They are designed to offer risk and return profiles tailored to the investor's needs - something traditional investments may not always provide.

### 6.2 General Characteristics

- › Structured products typically consist of two main components: a bond and one or more derivatives.
- › They are designed to meet specific investment goals, such as: capital protection, enhanced returns, or exposure to particular assets.
- › Their performance is often linked to the performance of other financial assets, such as: stock market indices, shares of companies or sectors, or instruments like currencies, commodities, or interest rates.

### 6.3 Principal types of structured products

- › Capital-protected products: These guarantee the return of the initial investment at maturity. They offer some exposure to the performance of an underlying asset but usually with lower returns.

- › Partially protected capital products: These offer partial protection of the invested capital at maturity, often up to a certain loss threshold. They allow for higher potential gains than fully protected products.

- › Yield enhancement products: These aim to deliver higher returns than traditional fixed-income investments but come with higher risk. They may include derivatives to boost performance.

### 6.4 Advantages and disadvantages of structured products

#### 6.4.1 Advantages

- › Diversification: Structured products can provide exposure to a wide range of asset classes.
- › Customization: They are tailored to meet specific investment needs and risk tolerance.
- › Potential for higher returns: Some structured products offer the possibility of higher returns compared to traditional investments.

#### 6.4.2 Disadvantages

- › Complexity: They can be difficult to understand due to their structure and use of derivatives, so they are intended for experienced investors who follow market development very closely.
- › Liquidity: They are often less liquid than traditional investments, meaning they can be harder to sell before maturity.
- › Credit risk: Their value depends on the issuer's ability to meet obligations, so there is a risk of default.

## 7. Cryptocurrency

A cryptocurrency is a digital or virtual currency that uses cryptography to secure transactions. It operates on a technology called blockchain — a shared record that no single person or group controls. Cryptocurrencies are independent of banks and governments, meaning they are not controlled by any central authority (Bitcoin, Ether, Binance Coin, Solana).

### How to invest in cryptocurrencies?

There are several ways to invest in cryptocurrency:

- › Directly through a digital wallet.
- › Via a **Crypto ETF** (Exchange Traded Fund).
- › Via an **ETN** (Exchange Traded Note).

**Currently, ING Luxembourg's distribution policy does not allow its clients to invest in cryptocurrencies through any of these three methods.**



# Part III.

## The different types of risk of financial instruments

### 1. The different types of risk – Definitions

#### 1.1 Insolvency risk

The Insolvency risk of the debtor is the probability, for the issuer of the security, that it is no longer able to meet its commitments. The quality of the issuer of a security is very important, since it is the party liable for the reimbursement of the initial capital. It is essential to evaluate this risk carefully. The weaker the financial and economic condition of the issuer, the higher the risk of no reimbursement (or of only partial reimbursement). The interest rate offered by this type of issuer will evidently be higher than that offered, for a similar product, by a better-quality debtor.

One element of the solution to this problem may be the rating: the risk assessment, also termed a rating, established by an independent rating agency, e.g. Standard & Poor's, Moody's or Fitch. We nevertheless note that the rating is not a fixed item and may hence evolve during the life of the product and does not prevent the potential investor from an understanding of the products, financials and related pay off.

#### 1.2 Liquidity risk

It is possible you may wish to recover your funds (capital + any interest) before the investment matures, either because you need the funds, or in order to invest in a more profitable product.

Liquidity risk is the probability, on the part of the investor, of encountering difficulties in recovering the entire amount of the initially invested capital before the set maturity (if there is one). The liquidity of an investment is influenced by several factors, namely:

- the volume of market transactions on which the product is traded: prices fluctuate more on a narrow market in which a significant order may entail a sharp change in price. The deeper the market, the lower the liquidity risk;
- the costs related to withdrawal from an investment;
- the time required to recover the funds (payment risk).

## 1.3 Market risk

### 1.3.1 General points

The price of investment fluctuates as a function of the supply and demand of the market, of investor perceptions and of the prices of any underlying or related investment or evidently, of sector and economic factors. These may be entirely unpredictable.

### 1.3.2 Foreign markets

Any foreign investment or investment with a foreign element may be subject to the risks of foreign markets, which may entail risks differing from local markets. In certain cases, the risks will be higher. The potential profit or loss associated with transactions on foreign markets or of contracts denominated in foreign currencies will depend on fluctuations in exchange rates.

### 1.3.3 Emerging markets

Prices may be extremely volatile, above all in emerging markets. Price differences may be common, and dislocations of markets are not infrequent. Furthermore, as news on a country is published, the financial markets may react with rises and/or falls in prices within a very short time interval. Emerging markets generally lack the transparency, liquidity, effectiveness and monitoring of more developed markets. For example, these markets still lack regulations governing manipulation and insider offences or other provisions conceived to “level the playing field” in terms of availability of information and the associated uses and abuses in these markets. They may also be affected by political risks. It may prove difficult to adopt risk management practices for investments in emerging markets, such as forward currency agreements.

## 1.4 Currency risk

When you invest in a currency other than the euro, there is inevitably a foreign exchange risk, which is also termed a currency risk.

Currency risk is the probability that an adverse evolution of the currency in which you invest reduces the return of the investment. If the evolution of the currency is unfavorable, the return will be eroded following the capital loss due to the conversion into euros. If the evolution is favorable, the investment will benefit from its “normal” return, as well as from a capital gain due to the favorable exchange rate. Moreover, some countries’ legislation may include additional currency restrictions for foreign investors. The form of any potential investment will only focus on the difference over time, without the possibility of being delivered the underlying currency.

Major regions may be distinguished from the perspective of “currency” risk: the Eurozone, the European countries outside of Euroland (United Kingdom, Switzerland, Sweden, etc.), the dollar zone, Japan and emerging countries (Asia excluding Japan, Latin America and Central Europe).

## 1.5 Interest rate risk

Interest rate risk is the risk linked to a change in market interest rates, entailing a reduction in the price of the security. For fixed rate investments, such as bonds, interest rate risk is translated by the risk that a change in rates does not generate a change in the bond price and hence a capital gain or loss. In the case of a sale on the secondary market before maturity at a point when the market interest rate exceeds the nominal rate of the bond, the saver will suffer a capital loss. Conversely, if the market rate is less than the nominal rates, the saver will enjoy a capital gain, with any other element remaining unchanged.

Example: a 10-year bond issued in 2001, with a rate set at 5% will witness a fall in its value if the market rate rises to 6% in 2002. Conversely, if the rate falls to 4%, its value will increase. For variable rate investments, like shares, an increase in interest rates will generally have a negative impact on the evolution of the price of the shares.

## 1.6 Price volatility risk

Volatility risk is the probability that the price of a variable income investment is subject to stronger or weaker market fluctuations, entailing a capital gain or a capital loss of the security. The investor shall register a capital loss in the event of a reduction in the price and a capital gain in the event of an increase in the price.

## 1.7 Risk of absence of income

The risk of absence of income is the probability that the investor cannot withdraw income from his/her investment. This results in an absolute loss due to inflation and a relative loss in relation to a remunerative investment (termed the opportunity cost).

## 1.8 Capital risk (or reimbursement risk)

The capital (or reimbursement) risk is the probability that the investor does not recover the whole of his/her initial investment on maturity or on withdrawing it. When you invest in shares, for example, the capital risk is significant, since the invested capital fluctuates

according to the financial and economic condition of the company, as well as according to the evolution of stock markets.

## 1.9 Sustainability Risk

A sustainability risk refers to an environmental, social, or governance-related event or situation that, if it occurs, could have a significant negative impact, either actual or potential, on the value of an investment or the performance of financial products. If such an event happens, it may also lead to changes in the investment strategy of a management mandate or fund, such as excluding certain issuers from the portfolio. More specifically, sustainability risks can affect issuers in various ways, including reduced revenues, higher costs, asset devaluation, increased capital costs, or regulatory risks. Therefore, it could impact your investments.

Given the nature of sustainability risks and specific themes like climate change, the likelihood of these risks affecting the performance of financial products is expected to increase over the long term.

## 1.10 Other risks

For risks specific to a type of investment, see the summary table in point 2.

## 2. Summary table

This table presents the specific risks associated with each financial instrument.

	1. BONDS		
	1.1 Deposit receipts	1.2 Government bonds	1.3 Other bonds
<b>Insolvency risk</b>	Negligible, since lending institutions form the object of close monitoring by the CSSF.	Negligible. In OECD countries, the State is considered as the highest quality borrower (sovereign state).	It depends on the quality of the issuing company. This quality is assessed by rating agencies which assign "ratings" to companies. The higher the assigned rating, the lower the risk. Rating agencies are nevertheless not infallible, and accidents periodically occur (above all for Eurobonds/convertibles, etc.).
<b>Liquidity *risk</b>	Relatively liquid financial instruments. Deposit receipts are not officially negotiable on a stock market. If the investor wishes to make an early withdrawal of funds invested in a deposit receipt, he/she may either seek a purchaser, or ask his/her bank to repurchase the deposit receipt at a price to be agreed with the latter party.	Government bonds: low risk. Government bonds are easily negotiable instruments, easy to resell under appropriate conditions before maturity, through the financial markets.	It depends on the existence and operation of a secondary market for security. The higher the transaction volumes, the lower the liquidity risk.
<b>Market risk</b>	The phenomenon of currency depreciation, termed inflation, reduces the relative purchasing power for the amount of coupons received, with the consequence that the amount of reimbursement on maturity no longer corresponds to the amount at the time of issuance in terms of purchasing power.  This risk is all the higher when the maturity is far in the future and the interim payments (coupons) are small.	Idem deposit receipt.	Idem deposit receipt.
<b>Currency risk</b>	None, since the deposit receipt is mandatorily denominated in euros (financial institutions do not issue deposit receipts in other currencies).	The currency risk depends on the currency in which the loan is issued; for investments in euros, it is hence zero. It may be high for investments in other currencies.	The currency risk depends on the currency in which the borrowing is issued; for the investments in euros, it is hence zero. It may be high for investments in other currencies.
<b>Interest rate risk</b>	The interest rate is set in advance for a given duration. Provided that it is observed, the Interest rate risk is zero.	Idem deposit receipt.	Floating Rate Bonds (FRNs) Interest Rate Risk: Low These bonds pay a variable coupon that resets periodically (e.g., every 3 or 6 months) based on a reference rate like EURIBOR or SOFR (Secured Overnight Financing Rate).

			<p>Because the coupon adjusts with market rates, the bond's market value remains relatively stable. Investors are less exposed to interest rate fluctuations, making FRNs attractive in rising rate environments.</p> <p>Zero-Coupon Bonds Interest Rate Risk: High These bonds pay no periodic interest. Instead, they are issued at a discount and redeemed at face value at maturity. Their entire return comes from the difference between purchase price and maturity value. Because all cash flows are received at maturity, their duration is equal to their maturity, making them very sensitive to interest rate changes. A rise in interest rates significantly reduces the present value of the bond, causing a larger price drop than for coupon-paying bonds.</p>
<b>Volatility risk</b>	In the event of a sale on the secondary market at a point when the market rate is above the nominal rate, the investor will suffer a capital loss. In the opposite case (market rate below the nominal rate), the investor will realize a capital gain.	Idem deposit receipt.	<p>Idem deposit receipt.</p> <p>Furthermore, the quality of the issuer also has an impact on the price of the bond (cf. Insolvency risk).</p>
<b>No income risk</b>	Not applicable.	Not applicable.	<p>Classic bonds paying interest: low risk.</p> <p>Structured bonds linked to shares or stock indices: potentially high risk, on account of income being reliant on the evolution of the underlying instruments.</p> <p>Convertible bonds: interest is paid until the time of the conversion.</p>
<b>Risk of capital</b>	Not applicable.	Not applicable.	<p>Structured bonds: according to the stipulated conditions of the structured bond, the capital risk may vary from 0% (full capital protection) to 100% (no capital protection). The reimbursement conditions may then depend on relatively risky underlying instruments (shares, stock indices, etc.).</p>
<b>Sustainability risk</b>	Environmental risk: This refers to potential damage to a company's reputation or financial stability if it supports projects that are harmful to the environment or not sustainable.	Environmental risk: If a government finances projects or industries that harm the environment (such as fossil fuels or deforestation), it could	<p>Environmental risk: If a company produces high levels of CO<sub>2</sub>, uses resources in an unsustainable way, or engages in polluting activities, its ESG rating may drop. This could lead to exclusion from</p>

	<p>Social risk: This involves the possibility of supporting activities that violate human rights or involve unethical practices.</p> <p>Governance risk: This relates to poor management or a lack of transparency, which could affect the financial reliability of the organization or issuer.</p>	<p>damage its reputation, face penalties, or must borrow money under less favorable conditions.</p> <p>Social risk: Failing to respect human rights, labor standards, or allowing high levels of social inequality can harm how the government is viewed in terms of ESG and may reduce its access to sustainable financial markets.</p> <p>Governance risk: Poor public governance, such as corruption, lack of budget transparency, or political instability, can reduce market confidence and threaten the government's ability to manage its debt.</p> <p>Regulatory risk: Not complying with new European regulations (like CSRD or EBA/GL/2025/01) could lead to exclusion from sustainable investment portfolios or increased pressure from investors.</p>	<p>sustainable investment portfolios or higher borrowing costs.</p> <p>Social risk: Violations of workers' rights, discrimination, or unethical practices can damage the company's reputation and reduce investor trust.</p> <p>Governance risk: Weak governance, such as corruption, lack of transparency, or conflicts of interest, can threaten the company's financial stability and lower the value of its bonds.</p> <p>Transition risk - If a company does not align with new regulations (like CSRD), it may lose access to certain types of funding or see its ESG rating downgraded.</p> <p>Reputation and exclusion risk: Not meeting sustainability standards can lead to exclusion from ESG portfolios, which may reduce demand and lower the market value of the company's bonds.</p>
<b>Other risks</b>	Not applicable	Not applicable	Bonds may be accompanied by a call option, allowing the issuer to reimburse the loan in advance at a determined price and on a determined date (the right used when the market interest rate is significantly lower than the coupon of the bond).

	2. SHARES	3. UNDERTAKINGS FOR COLLECTIVE INVESTMENT (UCI)
<b>Insolvency risk</b>	The shares represent risk capital. The company which issues them is thus not obliged to reimburse them. In the event of bankruptcy, the shares may lose practically all their value.	The diversity of portfolio assets strongly reduces the debtor risk. UCI authorized in Luxembourg are closely monitored entities which comply with very strict regulations. Debtor risk is evidently more significant for UCI which specialize in loans to debtors with a higher risk.
<b>Liquidity risk</b>	Liquidity is guaranteed by the existence of an organized market, the stock market. It depends above all on the volume of transactions on the security: the higher the market capitalization of the company, the deeper and hence more liquid the market in its shares.	Low for the majority. These securities may always be sold under conditions in line with the market.  Variable for SICAF: despite their stock market, liquidity varies very greatly from one fund to another and over time. During a bearish market phase, the difference between the nominal value of a financial instrument and its lower issue price is sometimes significant and selling is difficult.
<b>Market risk</b>	The market risk (uncertainty regarding evolution of interest rates, inflation, economic cycle, political situations, not to mention unexpected events) may never be overlooked in equity markets. For foreign stock markets, there is a specific risk that their evolution may be overall more unfavourable than that of Euronext.	The market risk of UCI refers to the potential for investors to experience losses due to fluctuations in the market value of the assets held by the fund. Since a UCI pools money from multiple investors to invest in a diversified portfolio (e.g., stocks, bonds, real estate, derivatives), its value is directly affected by the performance of those underlying assets.
<b>Currency risk</b>	Limited for shares denominated in euros. Even if the share is quoted in euros, there is a currency risk if part of the assets or the revenues of the Company are denominated in other currencies.  For the other currencies, this depends on their volatility: the risk of a currency loss at the time of reselling the shares. The evolution of an exchange rate may have both a negative and a positive effect on the return on investment in shares.	This depends on the currency in which the portfolios and their respective underlying instruments are denominated.
<b>Interest rate risk</b>	In general, an increase in interest rates in the market has a negative impact on the evolution of share prices. This effect is indirect. If rates rise, for example, this means that it will be more expensive for a company which finances itself through borrowing, which will weigh on its financial expenses. Furthermore, if bonds become more attractive, equity markets will tend to suffer, since this will reduce the attraction of the investors to risk capital.	This depends on the underlying instruments in which the UCI invests. Within the context of a bond UCI, for example, this risk is equal to the interest rate risk of an ordinary bond with a residual maturity equal to the average maturity of the bond portfolio of the bond fund. Interest rate risk exists during the entire investment period.
<b>Volatility risk</b>	This depends strongly on the quality of the Company, on the evolution of its sector of activity and on the general evolution of the stock market. A so-called "speculative" share has a price volatility risk above that of a share of a company with stable activities.	This depends on the underlying instruments in which the UCI invests.  In general, the diversification characterizing the UCI offers a lower volatility than that of the underlying instruments considered individually.
<b>No income risk</b>	The dividend represents variable revenue. The company may decide, for various reasons, not to distribute dividends in certain years.	Everything depends on the distribution policy to which the investor has adhered. A capitalization UCI does not distribute revenue, unlike the distribution UCI.

<b>Risk of capital</b>	The investor assumes the total of the company. There is always a risk of reselling a share at a loss (i.e. at a price less than the purchase price) or of a risk of a 100% capital loss. This risk is high, above all in the short term.	It depends on the evolution of the price of the unit of the UCI as a function of the evolution of financial markets.
<b>Sustainability risk</b>	<p>Environmental risk: If a company produces a lot of greenhouse gases, relies heavily on fossil fuels, or uses unsustainable practices, it may lose stock market value, face penalties, or be removed from ESG indexes.</p> <p>Social risk: Not following social standards—such as fair working conditions, diversity, or human rights—can lead to boycotts, lawsuits, or the loss of business partners.</p> <p>Governance risk: Weak governance, like lack of transparency, conflicts of interest, or poor management, can reduce investor trust and make the company's stock more volatile.</p> <p>Transition risk: If a company doesn't comply with new rules like the CSRD (which includes ESG reporting, sustainability strategy, and double materiality), it could receive a lower ESG rating or underperform in the stock market.</p> <p>Reputation risk: ESG controversies can quickly hurt a company's stock value, especially through social media and investor pressure.</p>	<p>Environmental risk: If a fund invests in sectors that harm the environment (like fossil fuels or polluting industries), it may lose value, be excluded from sustainable portfolios, or face lower demand.</p> <p>Social risk: If the fund is exposed to companies involved in human rights violations or discriminatory practices, it can become less attractive to investors and receive a lower ESG rating.</p> <p>Governance risk: Poor governance in the companies held by the fund (such as fraud, conflicts of interest, or lack of transparency) can hurt the fund's performance and damage the reputation of the fund manager.</p> <p>Regulatory transition risk: Not complying with rules like the CSRD or SFDR can lead to penalties, loss of sustainability labels, or increased pressure to be more transparent.</p> <p>Reputation and compliance risk: A fund that doesn't meet ESG standards may be excluded from ESG ratings, lose labels (like ISR or LuxFLAG), or be avoided by institutional investors.</p>
<b>Other risks</b>	Not applicable.	It depends on the nature of the underlying instrument.

4. ALTERNATIVE INVESTMENTS			
	4.1 Property	4.2 Hedge Funds	4.3 Gold, gold mines, raw materials
<b>Insolvency risk</b>	It depends on the quality of the issuing company. The greater the internal diverse location of the investment, the lower the risk.	The absence of transparency for investment policy is a significant risk factor.	Not applicable.
<b>Liquidity risk</b>	Certain certificates are not listed making them hard to sell quickly at the fair price. For the quoted certificates, liquidity depends on the transaction volume. The number of property certificates issued is generally quite limited. The same is true of the liquidity of a property SICAF. Certain medium or small property SICAF have fewer transactions. When the market is narrow, however, a sale or purchase order may influence the price if there are not many counterparties.	Investments in Hedge Funds generally have poor liquidity. The period between the sale of the units and the credit to the investor's account may vary from several weeks to several months.	Physical gold: risk quite low, except for certain specialist gold items.  Goldmining shares: depends on the transaction volume.  Raw materials: see derivative instruments, since they are principally through commodity futures and forward agreements that investments are made in raw materials.
<b>Market risk</b>	Real estate markets are susceptible to price overvaluation, especially during periods of low interest rates and expansionary monetary policy. A correction in property prices could lead to significant losses for investors in real estate certificates and property funds.	Hedge Funds are generally established in countries in which monitoring by authorities is limited or non-existent, significantly increasing risk, e.g. failure to observe the investment strategy, of endangering the financial structure, etc.	Gold prices are sensitive to interest rate changes (especially by the Fed and ECB), inflation expectations, currency fluctuations (especially USD strength) and geopolitical tensions. While gold is often seen as a safe-haven asset, its price can still fluctuate significantly due to shifts in investor sentiment and macroeconomic data.
<b>Currency risk</b>	None, for property certificates denominated in euros.	Currency risk is a function of the currency in which the Hedge Fund is quoted and of currencies in which the assets of the funds are designated.	Since the gold price is set in dollars on global markets, fluctuations of this currency may offset or accentuate a reduction in the gold price. The same applies for the price of raw materials, which is also generally set in US dollars on global markets.
<b>Interest rate risk</b>	Sensitivity to evolution in interest rates (in principle, an increase in market rates entails a reduction in value, like for company shares). Since property certificates/property SICAF are long-term investments, their returns are partially dependent on long-term rates.	It depends on the nature of the strategy but has a low correlation with traditional equity and bond markets.	The evolution of interest rates may also affect the prices of goldmining shares. In general, a rise in interest rates will have a negative impact on the gold price (since the opportunity cost of holding physical metal increases) and, consequently, on the price of gold mining shares.

			The evolution of interest rates in global markets also has an indirect effect on raw materials prices by exercising an influence on the level of consumption and, consequently, on the demand for these raw materials.
<b>Volatility risk</b>	Strongly depends on the evolution of the property sector and of the characteristics specific to the property (location, age, quality of materials, quality of the lessees, etc.).	Price volatility may be significant and entail a reduction in value. Volatility nevertheless depends on the strategy followed.	<p>The gold price and the price of mining shares are very volatile. There is hence a significant risk of resale at a loss, at a market price less than the purchase price, above all in the short term.</p> <p>Volatility of raw materials prices is highly significant and varies as a function of numerous parameters, including global demand for the raw material in question, but also of geopolitical factors, which are often less predictable, but which nevertheless strongly influence prices.</p>
<b>No income risk</b>	The distributed income is variable: it depends notably on the rate of occupation of the property and on the indexation of rents. The coupon may also entail a reimbursement of the initial investment.	As a general rule, Hedge Funds are capitalization funds.	<p>Holding of physical gold does not generate any income.</p> <p>Gold mining shares provide entitlement to a dividend, although variable income might not be distributed in certain years.</p> <p>Raw materials: see derivative products.</p>
<b>Risk of capital</b>	<p>Property certificate: at the time of sale of the property, a capital gain or a capital loss may be realized; the value of the certificate at the final maturity will then be unknown.</p> <p>Property SICAF: no, other than the volatility risk of the price, since, in principle, it has an unlimited duration, with no capital reimbursement provided on any date.</p>	The broad range of products used, including derivative products, and the capacity for resources to borrow in order to produce a leverage effect, may cause a significant loss at the time of resale if the manager takes poor decisions.	Significant risk of reselling at a loss, at a market price below the purchase price. Holding of physical gold offsets reimbursement risk.
<b>Sustainability risk</b>	Environmental risk: If a fund is exposed to assets with a high carbon footprint (like old, non-renovated buildings or fossil fuel infrastructure) or to physical climate risks, it may lose value, face higher insurance costs, or encounter restrictions on how those assets can be used.	Environmental risk: If a fund is exposed to assets with a high carbon footprint (like old buildings that haven't been renovated or fossil fuel infrastructure), to climate risks (such as floods or droughts), or to strict environmental regulations, it may lose value, face higher insurance costs, or be subject to usage	Environmental risk: Metal extraction can produce high CO <sub>2</sub> emissions, pollute soil and water (for example, using cyanide in gold mining), cause deforestation, and expose sites to physical climate risks like floods or droughts.

	<p>Social risk: Poor working conditions, negative impacts on local communities, or unethical practices can harm the fund's reputation and lead to legal disputes.</p> <p>Governance risk: A lack of transparency in unlisted assets can lead to conflicts of interest, fraud, or weak oversight, which may reduce resale value and investor trust.</p> <p>Regulatory transition risk: Not aligning with regulations like CSRD and SFDR can result in exclusion from institutional portfolios and increased pressure on investment strategies.</p> <p>Reputation and exclusion risk: A fund seen as unsustainable may lose mandates, be downgraded by ESG rating agencies, or experience capital outflows.</p>	<p>restrictions.</p> <p>Social risk: Poor working conditions, negative effects on local communities, or unethical practices can damage the fund's reputation and lead to legal issues.</p> <p>Governance risk: A lack of transparency in unlisted assets can increase the risk of conflicts of interest, fraud, or weak oversight, which may reduce resale value and investor confidence.</p> <p>Regulatory transition risk: Not complying with regulations like CSRD and SFDR can result in exclusion from institutional portfolios and greater pressure to adjust investment strategies.</p> <p>Reputation and exclusion risk: A fund seen as not sustainable may lose investment mandates, be downgraded by ESG rating agencies, or experience capital outflows.</p>	<p>Social risk: Poor working conditions, conflicts with local communities, or operations in unstable regions can lead to controversies and legal disputes.</p> <p>Governance risk: A lack of transparency, corruption, and weak traceability in supply chains can damage the credibility of mining companies.</p> <p>Transition risk: Not aligning with regulatory requirements (such as CSRD or the EU green taxonomy) or investor expectations can limit access to funding and make ESG reporting more difficult.</p> <p>Reputation and exclusion risk: Companies that don't meet ESG standards may be excluded from sustainable portfolios, lose funding, or face divestment campaigns.</p>
<b>Other risks</b>	Not applicable.	Not applicable.	The investor will sometimes find it difficult to obtain sufficiently specific and adequate information. This makes an investment in this field riskier.

	5. DERIVATIVE FINANCIAL INSTRUMENTS	6. STRUCTURED PRODUCTS
<b>Insolvency risk</b>	The risk lies in the counterparty not observing its commitments. The solvency of the issuer should be insured. If this is a monitored institution, the risk will be relatively low but never non-existent. This has been substantially decreased with reporting EMIR (European Market Infrastructure Regulation) and EMIR REFIT.	This occurs if the issuer of the structured product cannot meet its financial commitments. In case of bankruptcy, you may lose all or part of your investment.
<b>Liquidity risk</b>	Derivative products are negotiable on organized secondary markets (cf. Euronext) or to over-the-counter directly with a lending institution ("over the counter" agreement). The liquidity is nevertheless relevant: there is no guarantee of securing a favorable price at the time of resale.	Structured products can be hard to sell before maturity. There may not be enough buyers, making it difficult to sell and possibly at a lower price.
<b>Market risk</b>	The market risk of derivative products refers to the potential for financial loss due to adverse movements in the price of the underlying asset. Because derivatives derive their value from other instruments (like stocks, bonds, interest rates, currencies, or commodities), they are highly sensitive to market fluctuations.	The value of structured products may fall if financial markets decline. For example, if the product is linked to a stock index and that index drops, your investment may lose value.
<b>Currency risk</b>	None for derivative products denominated in euro. The currency risk may be high for the derivative products in other currencies, above all in volatile currencies.	If the structured product is linked to assets in a different currency, exchange rate changes can affect its value. A negative exchange rate movement could reduce the product's worth.
<b>Interest rate risk</b>	The evolution of interest rates has an impact on share prices and indirectly on the price of derivative products.  Furthermore, derivative products for which the underlying instrument is a bond type are more sensitive to such an evolution.	Changes in interest rates can impact the value of structured products. For instance, rising rates may lower the value of products with fixed-rate components.
<b>Volatility risk</b>	Since derivative products are speculative instruments, their price is very volatile. This reflects the evolution and anticipation of the underlying assets.	Volatility refers to how much the prices of underlying assets fluctuate. High volatility can cause large changes in the value of structured products, increasing the risk of losses.
<b>No income risk</b>	Derivative products do not generate income, but only a possible capital gain, depending on the price of the underlying assets.	Some structured products do not guarantee regular income. If market conditions are unfavorable, you may not receive expected interest or coupon payments.
<b>Risk of capital</b>	No reimbursement. The result of the investment is highly variable, and recovery of the amount invested is highly uncertain. At maturity, the derivative product loses all its value.	There is always a risk of losing your initial investment, especially if the product does not guarantee capital. Poor performance of the underlying assets may result in getting back less than you invested.
<b>Sustainability risk</b>	Indirect environmental risk: Derivatives can expose investors to underlying assets that are not sustainable (such as shares in polluting companies or fossil fuel commodities) or support speculative strategies that harm the environment (like trading carbon quotas for profit).  Social risk: Some derivatives may be linked to controversial companies (involved in weapons, gambling, or tobacco), human rights violations, or opaque market practices that undermine fairness.	Environmental risk: Structured products may be exposed to physical risks (like extreme weather events) or transition risks (such as carbon regulations or outdated assets), which can lead to a loss in value or exclusion from sustainable portfolios.  Social risk: If the product is linked to companies involved in human rights violations, unfair working conditions, or harm to local communities, it can damage the product's reputation.

	<p>Governance risk: Derivatives can hide exposure to unsustainable assets, bypass ESG criteria, or create systemic risks (such as excessive leverage or unclear counterparties).</p> <p>Regulatory transition risk: Regulators like the EBA and ESMA recommend including ESG risks in derivatives, disclosing indirect exposures, and improving transparency in ESG strategies.</p>	<p>Governance risk: Poor governance by the issuers (such as corruption, lack of transparency, or unethical behavior) can lead to legal risks and negatively affect the product's performance.</p> <p>Reputation and market risk: A structured product tied to unsustainable assets or misleadingly labeled as "green" (greenwashing) may be avoided by ESG-focused investors and lose its appeal.</p> <p>Regulatory risk: Not complying with evolving standards (like SFDR, the EU Taxonomy, or the French Energy-Climate Law) can result in stricter transparency requirements and limit access to sustainable markets.</p>
<p><b>Other risks</b></p>	<p>In the event of an adverse evolution in the underlying asset, the derivative product may lose all its value (for the purchaser, loss limited to the premium paid). Risk possibly unlimited in the event of sale (or of reimbursement).</p>	<p>Not applicable.</p>

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