# General Description of the Nature and Risks of Financial Instruments

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This document contains a general description of the nature and risks of financial instruments. However, this document is not intended to be a complete listing of all financial instruments in which you may invest, nor is this document intended to provide an exhaustive description of all the risks that may be associated with all financial instruments. Rather, it is a description of the principal risks arising from those financial instruments, techniques and services that we generally offer to our clients. We may supplement these descriptions from time to time, including by providing information that relates to a particular financial instrument (for example in our marketing material).

In particular, the scope and content of the information provided takes into consideration (a) your categorisation as a professional or eligible counterparty client within the meaning of the Markets in Financial Instruments Directive and (b) given your categorisation our reasonable assessment of the scope and level of your knowledge and understanding of the nature and risks of financial instruments.

If you do not agree with your client categorisation please let us know as we will need to revisit our client relationship, the nature of the services that we provide to you and the information that we must provide to you with respect to the nature and risks of financial instruments. Similarly, please let us know if you do not understand any of the contents of the descriptions below.

## A) General Introduction

You should not make an investment unless you are prepared to bear the risk of loss arising from that investment.

All financial instruments involve a certain degree of risk and even low-risk financial instruments and strategies contain an element of uncertainty and past performance is not a reliable indicator of future performance. The value of an investment and the income received from an investment can go down as well as up, and investors may not get back the amount that they invested. There can be no assurance that expected or targeted returns for any investor will be achieved. Even if a financial instrument performs as anticipated, changes in exchange rates or taxation may have an adverse effect on the price or value of, or income received from, the financial instrument. Investment returns may be constrained by charges levied and inflation may reduce the value of investments. Also, financial instruments (even those which share similar characteristics) may be exposed to different risks, different combinations of risk, or may exhibit or be exposed to those risks to different degrees. Furthermore, where an investor's portfolio holds two or more financial instruments, the aggregate risk of the portfolio may be different in nature or extent from the risks of the individual financial instruments of which the portfolio is comprised.

As set out in the descriptions below, certain principal risks typically impact particular financial instruments. However, they may be subject to other risks, for example, because of any specific features of the particular financial instrument. Further, many of the risks described below apply generally to financial instruments and individual financial instruments may be impacted by multiple risks. We may, from time to time, make available to you financial instruments that have additional terms and conditions. These may be included in various types of documents, including (without limitation) documents referred to as a "**final terms**" or "**terms**

**and conditions**". These documents may contain additional descriptions of risk that apply to the particular financial instrument and it is important that you read these. The terms and conditions of those financial instruments may also give rise to other risks and the relevant financial instrument to which they apply may have features that are not commonly found in the relevant category of financial instrument.

The terminology used to describe different types of financial instruments may not be used uniformly or consistently, may differ between markets or countries/jurisdictions, and may have different meanings in different contexts (for example, for the purposes of financial services regulation and taxation). The precise features (and, therefore, the risks) of a particular financial instrument will depend on the specific terms and conditions that apply to that financial instrument. A financial instrument might have peculiar features that distinguish it from similarly categorised financial instruments and those distinctions may only become apparent in certain market conditions or upon the occurrence of certain events that may be issuer-specific and therefore may result in unexpected outcomes. For example, without limitation, broad discretion may be granted to the issuer, counterparty or another person to (a) amend the terms and conditions of the financial instrument; (b) determine the economic outcome (which may include unilateral termination); (c) determine the value of the financial instrument; or (d) determine whether and in what form collateral must be provided (including the value of such collateral). Therefore, it is important to review and understand those terms before making any investment.

Certain financial instruments may be highly speculative and may be suitable only for experienced and financially sophisticated investors who are willing to bear the risks associated with such investments, which can include the loss of all or a substantial portion of any the value of or all such investments. Investors should ensure that they fully understand the features of the financial instrument and the risks involved, before deciding whether or not to invest in any such financial instrument.

Unless the context otherwise requires, the terms "**investments**" and "**financial instruments**" may be used interchangeably. Note: (i) The following risk disclosures relate to business that we usually undertake with clients and not to all of those we are permitted to carry on investment business in. (ii) Not all of the products are offered by each of our entities listed above.

# B) Types of Financial Instrument

## 1) Money Market Instruments

Money market instruments are a class of short term instruments that are normally dealt on the money market and include treasury bills, certificates of deposit and commercial papers (including euro commercial paper). Money market instruments are similar to other fixed income securities where the investor becomes a creditor of the issue of the security. They have maturities at issuance of 397 days or less. They have a nominal value which should be returned to you when the investment matures at the end of its term. However if instruments are sold before reaching maturity a capital gain or loss may be realised.

A certificate of deposit is a promissory note issued by a bank in exchange for a deposit. Holders of the certificate of deposit have restricted access to the funds deposited until the maturity date, at which point the funds are returned with interest. The major risk of purchasing a certificate of deposit in the money markets, other than counterparty risk, is that there is greater uncertainty associated with holding the investment for a long period of time and the holder of the certificate foregoes the opportunity to invest in other instruments.

Commercial paper (including euro commercial paper) is an unsecured short-term debt instrument issued by a company to meet short-term liabilities. The maturity date on commercial paper is normally close to its issue date. Commercial paper is typically issued at a discount (for lower interest rates). Commercial paper is often unsecured meaning that counterparty default risk is higher than with other debt securities. As with certificates of deposit, there are risks associated with holding a more illiquid asset than a debt or equity security – however, the short maturity period for commercial paper mitigates this risk. Treasury bills are short-term debt instruments backed by governments with a maturity of less than one year. The principal and interest rates of bills are paid to investors cumulatively at the maturity date; as such investors do not receive regular interest payments. Bills are issued at relatively low value and are therefore accessible to a wide range of investors. However, due to their low risk they offer low returns and do not generate steady cash flows.

Money market instruments are exposed to a number of risks, including liquidity risk, interest rate risk, credit risk and FX risk.

## 2) Derivatives

There are many different types of derivative financial instruments, with different characteristics and subject to different conditions. As mentioned elsewhere, derivatives are sometimes combined or embedded in other financial instruments. Derivatives are complex instruments and individual transactions may comprise more than one derivative and may be tailored to the particular requirements of the parties. Certain of the risks arising from the use of derivatives may depend on whether the derivative is exchange traded or over-the-counter ("**OTC**").

The main categories of derivatives are: options, futures (forwards) and swaps. The term "**contract for difference**" (used, in particular, in the UK) is sometimes used to describe certain types of cash settled derivatives transaction. The terminology used to describe the different types of derivatives may not be used uniformly or consistently, may differ between markets or countries and may have different meanings in different contexts (for example, for the purposes of financial services regulation and taxation). Derivatives are suitable only for sophisticated investors and investors should carefully review all the terms and conditions of the derivative transaction to ensure they have a comprehensive understanding of their rights and obligations and of how the derivative may function in different market conditions.

### Options

An option, in this context, is simply the right to buy or sell an underlying asset. Options are broadly divided into puts and calls. Simplistically:

a. a call option gives the purchaser (holder) the right to buy an underlying asset from the seller (writer) of the option, and imposes the obligation on the seller of the option to sell the underlying asset to the option purchaser; and

b. a put option gives the purchaser the right to sell an underlying asset to the seller of the option, and imposes the obligation on the seller of the option to buy the underlying asset from the option purchaser.

Instead of the physical delivery of an underlying asset, an option may give the purchaser the right to receive a cash amount (for example, an index option) or the right to require the seller to enter into another transaction with the purchaser (for example, a "**swaption**", which is an option to enter into a swap transaction). The terms of the option will typically specify, as well as the identity and amount of the underlying asset, the price at which that asset will be purchased/sold (the "**strike price**"), whether it is physically or cash settled, the date(s) on which the option may be exercised (by the purchaser) and the date on which the option expires (after which the purchaser can no longer exercise the option). The purchase price payable by the purchaser for the option is called the "**premium**" and it is usually (but not necessarily) paid up front when the option is purchased.

Buying options generally involves less risk than selling (writing) options as the purchaser can allow the option to lapse (i.e., not exercise the option). For example, in the case of a call option, a purchaser of an option would likely not exercise the option if the market price of the underlying asset is less than the strike price.

However, selling (writing) options involves considerably more risk. The seller of an option assumes the legal obligation to purchase or sell the underlying asset (or pay the cash settlement amount) if the option is exercised, regardless as to the difference between the strike price and the market price prevailing at the time of exercise. In the case of call options, if the seller of the option does not own the underlying asset, the seller is exposed to unlimited risk as the seller will need to purchase the underlying asset in the market (or, as relevant, pay the cash settlement amount) and the market price may be significantly higher than the strike price. This risk could be increased further by other factors, for example, if the underlying asset is illiquid. If the option seller owns the underlying asset (a "**covered call**"), the risk is reduced.

The maximum loss arising from the purchase of an option is, essentially, the cost of that option (also known as the premium) plus any associated commissions and other transaction-related costs.

If an option is not exercised before expiry, in accordance with its terms, it may expire worthless. Accordingly, it is important to identify the applicable terms for exercise, which may include specific provisions relating to time and method of notification. Failure to observe those terms may invalidate any purported exercise of the option.

### Futures

Futures involve the obligation to make, or to take, delivery of the underlying asset at a future date, or in some

cases the payment of a cash amount. Futures transactions share the characteristics of forward transactions however, historically, the term "**futures**" has typically been used to describe standardised exchange traded transactions (whether physically or cash settled) and the term "**forwards**" has typically referred to individually negotiated over-the-counter physically settled transactions, in both cases where the delivery date is for a future date that is beyond the date on which a "**spot**" transaction for the relevant underlying asset commonly settles. However, this terminology is not consistently applied and, for example, currency forwards may be structured as "**non-deliverable forwards**" meaning that the relevant currencies in the currency pair are not exchanged on the settlement date. Where a future is physically settled, an investor who does not want to make or take physical delivery must close out the position (typically by entering into an equal and opposite position) before any applicable cut-off time. There can be no assurance that it will be possible to close out the position on advantageous terms or at all.

**Swaps**

This term typically describes a financial instrument under which the parties agree to exchange certain cash flows based on the value of, or return from, one or more underlying assets or other reference points (for example, an index or interest rate). Parties are exposed to the market risk of the relevant underlying.

The term "**contract for difference**" (or "**CFD**") is generally used to describe a contract between two parties, typically described as "**buyer**" and "**seller**", stipulating that the seller will pay to the buyer the difference between the value of an asset (often a share or an index) on one date and its value at a subsequent date (if the difference is negative, then the buyer pays the difference to the seller). In effect CFDs are financial derivatives that allow traders to take advantage of prices moving up (long positions) or prices moving down (short positions) on underlying financial instruments and are often used to speculate on those markets.

The terms "**swap**" and "**contract for difference**" are sometimes used interchangeably to refer to the same financial instrument.

Some examples of swaps include the following:

- **Interest rate swaps** – Typically, these swaps involve the exchange of cash flows based on two or more interest rates, where the cash flows exchanged are calculated by reference to a notional principal amount. For example, one party might pay the other a floating or variable rate of interest (based on the notional principal amount) in return for the payment by the other party of a fixed rate of interest (based on the notional principal amount). Companies use interest rate swaps to alter their interest rate exposure. A company paying floating interest rate can obtain fixed rate exposure by entering into a swap. Therefore, the company can enter into a swap in which they receive floating rate and pay the fixed rate.
- **FX/currency swaps** – FX swaps are risk management tools that can be utilised in order to hedge FX risks and exposures generated through commercial activity. These products allow users to guarantee future cash-flows and remove the risks presented by market fluctuations for known future revenues or expenditures. Under a bilateral swap contract a party simultaneously borrows one currency and lends another in order to hedge against unfavourable movements in exchange rates. A cross currency swap is, similarly to an FX swap, a bilateral agreement, where two parties exchange interest payments and principal denominated in two different currencies. Depending on the market conditions at inception, the bid/offer spread of an FX or currency swap can vary. When market circumstances are negative the spread will be wider and vice versa when market circumstances are positive. During the lifetime of a product, the market conditions (positive or negative) will be reflected in the way the contract is marked to market. Whilst trading FX swaps companies can hedge against FX risk, inflation risks and interest rate risk but if interest rate developments differ from expectations, there is a risk that choosing a different strategy would have led to better financial results. In the event of (interim) termination, one party may be faced with an amount payable to the other party close to/equal to the negative market value of the FX swap taking into account normal market conditions
- **Inflation linked swaps** – An inflation swap is a contract under which risk is transferred from one party to another. Party 1 pays a fixed cash flow to party 2, while party 2 pays a floating cash flow which is linked to inflation. The cash flow paid is linked to a notional amount, however the notional is not exchanged.
- **RPI swap** – An RPI swap is a swap which involves an exchange of interest calculated by reference to the Retail Prices Index (RPI) and another reference rate (e.g. LIBOR). This swap allows parties to hedge the risk of inflation being lower or higher than expected.

OTC derivatives, such as the swaps described above, are typically documented under industry standard terms (for example, the ISDA Master Agreement) which contain key provisions governing the contractual relationship between the parties, including their respective rights, liabilities and obligations. These terms (which, in fact, comprise a number of documents, including a master agreement, a schedule, relevant definitions and the individual confirmation containing specific provisions relating to the particular transaction) govern how the derivative will operate in different circumstances, including where there is a market disruption event impacting the relevant underlying asset. In these circumstances, the investor may have no ability to influence the outcome. Although the terms and conditions used by banks, investment firms and other participants for these transactions may be based on industry standard terms, they may be tailored by the particular bank, investment firm or other participant and an investor may have limited ability to make amendments. These are often very technical and complex documents and the parties should ensure that they have appropriate expertise to review and understand them and/or seek independent advice before entering into a transaction.

Collateral (sometimes referred to as "**margin**") is an important feature of derivatives transactions. This relates to the "**contingent liabilities**" that typically arise under a derivatives transaction and where one or both parties are exposed to the credit (or performance) risk of the other party. Collateral is used to manage the credit exposure between the parties to the derivatives transaction until the obligations of the parties have been completed. The risks arising from the provision of collateral are described further below.

## 3) Structured Deposits

Our structured product range is currently limited to structured deposits. We also offer dual currency investments, known as option linked premium deposits. These are not structured deposits and have their own risk warning set out at 4. below.

- **Structured deposits** – These are deposits where the interest rate or return is derived from or based on an underlying asset or index (similar to a structured product). The deposits are placed with a credit institution (such as a bank or building society) and, therefore, the investor is subject to the credit risk of that credit institution as well as other risks, principally the market risk relating to the underlying asset or index. The terms of structured deposits may prohibit termination prior to the scheduled maturity or provide that such termination can only occur upon payment of an exit fee that may not be a fixed amount or a percentage of the original amount invested. All structured deposits are capital protected but may be affected by withdrawal before maturity.

## 4) Dual currency investments

Dual currency investments- The dual currency investment (also known as option linked premium deposit) allows a client to earn interest over a flexible term with the added feature that if the prevailing spot market is at a pre-defined rate on maturity the deposit will convert. In this scenario the client will, on expiry, be returned their deposit plus interest in an alternate currency. Dual currency investments are "**capital at risk**" investments and are subject to the following main risks:

- **Market risk** – This can materialise due to macroeconomic factors and may have an impact on a particular instrument or more broadly on currency markets as a whole. The client deposit is subject to a potential conversion dependent upon pre-defined market conditions on expiry.
- **Credit risk** – When investing in a dual currency investment the client is taking on a credit risk to the deposit taking bank. **In the event that bank should default on its obligations or become insolvent a client may receive back less, in original currency terms, than originally deposited.** This is dependent upon market conditions on expiry.

Dual currency investments are also subject to volatility risk if there are adverse market conditions and this can increase market risk. Levels of volatility will depend on the currency pairs which are relevant for each dual currency deposit. Major currencies may be more stable than emerging market currencies.

FX risk arises when investing in dual currency investments. Fluctuations in the market will have a direct impact on the outcome for the client. Liquidity risk may also arise. FX markets are typically highly liquid but this may depend on the currency pairs selected.

# C) Principal Investment Risks

This section contains a list of the principal categories of general investment risks that are typically associated with financial instruments. Not all of these risks will apply to all financial instruments and different financial instruments (including those which share similar characteristics) may exhibit some or all of these risks to different degrees.

### 1) Issuer Risk

This refers to the risks associated with the particular issuer of a particular financial instrument. The value of a financial instrument may decline because of a number of reasons, which directly relate to the issuer, such as (without limitation) insolvency, management performance, the availability and/or cost of financing, financial leverage, reputation, and reduced demand for the issuer's goods or services, as well as the historical and prospective earnings of the issuer and the value of its assets. The issuer may also fail to perform its obligations under the terms and conditions applicable to the financial instrument. Issuer risk also relates to the risk arising from corporate events such as mergers, acquisitions and takeovers (including the failure to execute any such transaction), as well as other events that may result in the dilution of any ownership interest of an investor in the issuer.

### 2) Credit / Counterparty Risk

Credit (or counterparty) risk arises from the inability or unwillingness of a counterparty, issuer or other relevant person (for example, a custodian or broker) to perform their contractual obligations, or the perception or expectation that this may be the case or may occur in the future. As such, there is some overlap with issuer risk, described above.

For example, an investor will be exposed to the credit risk of (a) the parties with whom it enters into transactions (including derivatives transactions and stock loans); (b) any person with whom it deposits its assets or funds or to whom it transfers collateral; (c) the issuer of a fixed income security; (d) and any person who owes monies to the investor.

This risk may arise in the course of the settlement of a transaction, for example, where the purchase price for a financial instrument has been paid but where the financial instrument has not been delivered.

### 3) Credit Ratings Risk

Credit ratings are opinions about credit risk. They express an opinion about the ability and willingness of an issuer, such as a company or state or government, to meet its financial obligations in full and on time. Credit ratings can also speak to the credit quality of an individual financial instrument, such as a corporate or government bond, and the relative likelihood that the issuer may default. Credit ratings are not an absolute measure of default probability. Since there are future events and developments that cannot be foreseen, the assignment of credit ratings is not an exact science. Credit ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or debt issue will (or will not) default.

As they are opinions, credit ratings assigned by different ratings agencies (or other ratings providers) may differ in respect of the same issuer or financial instrument.

### 4) Interest Rate Risk

Interest rates may fluctuate significantly at any time and from time to time. As a result of such fluctuations, the value of financial instruments may increase or decrease in value. For example, when interest rates increase, fixed income instruments will generally decline in value. Long-term fixed income securities or instruments will normally have more price volatility because of this risk than short-term fixed income instruments. A wide variety of market factors can cause interest rates to rise, including central bank monetary policy, rising inflation and changes in general economic conditions.

### 5) Market Risk

The term "**market risk**" is sometimes used generically to describe the systematic risk to which investors may be exposed and which may result in losses due to factors affecting financial markets generally, or particular geographies, countries, sectors or issuers. As such, many of the risks described elsewhere in this document may comprise components of market risk.

The value of a financial instrument may decline due to general market conditions which are not specifically

related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, inflation, adverse investor sentiment generally and the forces of supply and demand. The value of financial instruments may also be impacted by market disruptions and by the activities of other market participants which influence prices.

The value of particular financial instruments may be impacted by the price or value of other financial instruments (whether or not there is a direct relationship with those other financial instruments); and values may go up or down, sometimes rapidly or unpredictably.

**6) Currency Risk**

This refers to the risks relating to the currency in which the financial instrument is denominated. Where a financial instrument is denominated in a currency that is different from the investor's "**base currency**" (this generally refers to the currency in which the performance of the portfolio is measured and is typically, but not always, the currency in which the investor is located), the investor is exposed to the risk that the relative value of the two currencies (or exchange rate) may deviate over time. So, although the value of the financial instrument might increase when measured in the currency of denomination, when measured in (or converted into) the base currency, the investor might experience a loss. This would happen where the currency in which the financial instrument is denominated falls in value relative to the base currency. This risk also arises where the investor hold funds in a currency other than the base currency.

Currency rates may fluctuate significantly, including over short periods of time, for a number of reasons, including changes in interest rates; intervention (or the failure to intervene) by foreign governments; central banks or supranational entities such as the International Monetary Fund; or by the imposition of currency controls or other political developments.

Currency risk also refers to the risk that events may occur that adversely impact the currency in which a financial instrument is denominated. For example, a government may impose exchange controls (which may artificially impact the applicable exchange rate) or other restrictions on the repatriation of the proceeds of sale.

**7) Legal and Regulatory Risk**

Changes in, or the introduction of new, rules, regulations and laws (including with respect to particular categories of financial instruments, issuers, and taxation) or the way in which they are applied or interpreted may impact your financial instruments and/or the implementation of your investment strategies.

Investors may be exposed to the risks arising under the rules, laws and regulations of jurisdictions other than the jurisdiction in which the investor is located and/or with which the investor is familiar. For example, where you invest in financial instruments that are subject to the rules, laws and regulations in other jurisdictions and/or you invest in financial instruments traded in markets in other jurisdictions, it is important to recognise that those laws and regulations may differ from those with which you are familiar and may have unexpected consequences.

Further, such rules, regulations and laws may be subject to inconsistent or arbitrary application or interpretation and may be changed with retroactive effect. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. Judges and courts in many countries might not be experienced in the areas of business and corporate law. Legislatures might revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that an overseas investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in overseas courts. This may be exacerbated by the arrangements under which financial instruments are held in custody; for example, if an investor's ownership interest is not recognised in the overseas jurisdiction where the arrangements for holding the relevant financial instrument involve a nominee.

Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets will vary, and such a program may have positive or negative effects on the liquidity, valuation and performance of an investor's holdings.

**8) Liquidity Risk**

Liquidity risk exists when particular financial instruments are difficult to purchase or sell (e.g., if they are not

publicly traded and/or have no market that is currently available or may become less liquid in response to market developments). This can reduce a portfolio's returns because the portfolio may be unable to transact at advantageous times or prices, or at all. Investments that are illiquid or that trade in lower volumes may be more difficult to value.

Liquidity risk may be attributable to a number of factors including: the particular terms and conditions of the instrument; legal, regulatory or contractual restrictions on their sale or transfer; the fact that the instrument is not publicly traded (for example, because it is not listed on an exchange); or in response to market developments or adverse investor perceptions. Liquidity risk may arise where ownership in a particular financial instrument is concentrated in one or a small number of investors, and this may impact the value of the instrument. Liquidity risk may also arise as the result of the reduced number and capacity of traditional market participants to make a market in the relevant financial instrument. Additionally, market participants may attempt to sell holdings at the same time as the investor, and there may be insufficient liquidity to accommodate all these intended sales. These factors may exist at the time of investment or may arise subsequently.

Certain financial instruments may be intended to be held until maturity. Although the issuer or another person (who may be associated with the issuer) may agree to act as market maker in the relevant financial instrument, they may place limitations on their responsibilities to make a market (for example, in certain market conditions). Also, if there is only one market maker (and, particularly if that person is associated with the issuer), it will be difficult to verify whether the price offered by the market maker represents fair value.

**9) Call (or Redemption) Risk**

Certain financial instruments, in particular fixed income securities (including hybrid investments such as structured products), will be subject to the risk that the issuer may exercise its right to redeem the security earlier than expected (a "**call**"). Issuers may redeem or call the financial instrument prior to the original scheduled maturity for a number of reasons (e.g., declining interest rates, changes in credit spreads and improvements in the issuer's credit quality and, in the case of structured products or hybrid investments, changes in the reference price of the relevant asset, reference rate or index). If an issuer redeems or calls a financial instrument before the original scheduled maturity, the investor's objective in acquiring that financial instrument may be frustrated and may receive a return that is lower than the return the investor would receive at maturity. The investor may not realise the full anticipated investment returns and may be forced to reinvest in lower-yielding financial instruments or financial instruments with greater credit risks or other less favourable features.

**10) Hedging Risk**

The execution of certain strategies are intended to reduce (or "**hedge**") one or more risks relating to one or more financial instruments held in the investor's portfolio or certain risks in the portfolio as a whole. There can be no assurance that such risk reduction techniques will be successful or, indeed, that we will be able to execute the relevant transactions.

Hedging transactions (for example, through the use of derivatives) may not correlate perfectly with, or may be more sensitive to market events than, the exposure that is being hedged. Furthermore, hedging transactions will involve additional risks, for example (in relation to derivatives transactions) credit risk to the counterparty. Therefore, not only might hedging transactions fail to accomplish their objective, they may also result in additional or increased risks.

Hedging transactions (such as derivatives) typically have a defined termination or maturity date and this maturity date might not coincide with the period of time for which the underlying financial instrument is held. When the hedging transaction terminates, it might not be possible to execute a similar hedging transaction or an investor may only be able to enter into a similar hedging transaction on terms that are less advantageous.

**11) Leverage or Gearing Risk**

Leverage and gearing describe various techniques and investment strategies that are typically intended to generate returns through increased exposure to financial instruments or other assets (including currencies and indices). Examples of these techniques include the following: borrowing (often using a portfolio of financial instruments as collateral) and investing the proceeds in financial instruments; and using derivatives to gain an (increased) exposure to a financial instrument, greater than the exposure that would be achieved by purchasing the financial instrument directly. These techniques and strategies may be applied to one or

more financial instruments or may be embedded in a financial instrument (for example, a structured product or a hedge fund).

These techniques and strategies can magnify both profits and losses in a financial instrument or portfolio, even where there is a relatively small movement in the relevant underlying asset(s). Depending on the technique or strategy used and (as applicable) the terms and conditions of the financial instrument in which the technique or strategy is embedded, the amount of losses incurred by an investor could result in the loss of the entire amount committed. In certain circumstances, the investor may be liable to make further payments: for example, where an investor has borrowed money secured against a portfolio of financial instruments and uses the proceeds of the loan to make further investments, the investor would be liable to repay the loan even in the event of the entire loss of value of the portfolio.

**12) Non-Domestic Market Risk**

Where an investment is made outside the investor's domestic (or home) market, the investor will be exposed to the risks of that market, as well as practical issues, for example relating to local language considerations. The precise nature and extent of those risks will be specific to that market and the following describes, in general terms, some of the risks that might be encountered. .

Even in developed markets, the laws, rules, regulations, trading conventions and practices may differ from those with which the investor is familiar. For example, the nature and extent of investor protections, the level of transparency (including with respect to accounting, auditing and reporting standards) and relevant corporate governance standards may be different.

Further, the rights typically associated with particular financial instruments, including with respect to the exercise of voting rights, may differ and these may be impacted by the arrangements under which financial instruments are held in custody. For example, an investor's ownership interest may not be recognised in the overseas jurisdiction where the arrangements for holding the relevant financial instrument involve a nominee. Information relating to the financial instruments distributed from the issuer may not be received on a timely basis or at all. This may also impact the processing of corporate actions.

**13) Tax Risk**

Dividends, interest and other amounts payable (including, without limitation, principal amounts) with respect to financial instruments and other funds held by an investor may be subject to taxes, including withholding taxes. The effect of taxation will reduce the return on the relevant financial instrument. Where tax is withheld (which may be effected by a tax authority in another jurisdiction), an investor may be able to recover the amount withheld or otherwise offset part or all of the amount withheld against the investor's tax liability. However, there can be no assurance that any such recovery will be successful. The location of the custodian (or its nominee) may also impact the tax treatment and (where applicable) the process for recovery of tax withheld.

Tax laws and regulations, and their interpretation and application, may change from time to time, including with retroactive effect. As a result of such changes, investors might incur unanticipated tax liabilities and/or may lose tax benefits previously attaching to particular financial instruments. As a result, the actual investment return may differ (potentially, significantly) from the expected return. Unless otherwise agreed in writing, we are not responsible for providing tax advice and are not responsible for and provide no guarantee or assurance with respect to the tax treatment of any financial instrument.

**14) Bail-In Risk**

This is the risk that the financial instruments of certain issuers, including banking institutions, building societies, investment firms and certain banking group companies, may be subject to action taken by governmental, banking and/or other regulatory authorities, for example to address banking crises pre-emptively, whether or not the express terms of such financial instruments anticipate such action. The relevant authorities may have broad discretion on the action that they may take and their powers may be extended in response to particular events. Examples of the actions that they may be able to take could include the following:

a. The reduction, including to zero, of the principal of the fixed income instruments of such issuers;

b. The conversion of such fixed income instruments into equity securities or other instruments of ownership (resulting in the dilution of ownership interests of existing shareholders);

c. The variation of the terms, including with respect to maturity, of such fixed income instruments; and

d. Shareholders being divested of their shares.

In addition to bail-in risk, certain issuers (principally, banking institutions) may issue a hybrid form of subordinated fixed income security known as contingent convertible securities ("**CoCos**"). These financial instruments are intended to either convert into equity or have their principal written down upon the occurrence of certain "**triggers**" linked to regulatory capital thresholds or where the issuer's regulatory authorities question the continued viability of the entity as a going-concern. There may be broad discretion conferred on the issuer with respect to the determination as to whether any of these triggers have occurred and the specific features and characteristics of CoCos may vary significantly, as they are typically tailored to the particular issuer and its regulatory requirements. Therefore, it is particularly important to review the relevant terms and conditions. Some additional risks associated with CoCos are:

a. Typically, there is no stated maturity and the coupon is fully discretionary. This means coupons can potentially be cancelled at the issuer's discretion or at the request of the relevant regulatory authority in order to help the issuer to absorb losses;

b. If the CoCos are converted into the issuer's underlying equity securities following a conversion event, each holder will be subordinated due to their conversion from being the holder of a debt instrument to being the holder of an equity instrument;

c. The market value of the CoCos will fluctuate based on unpredictable factors including, without limitation:

   i. the creditworthiness of the issuer and/or fluctuations in such issuer's applicable capital ratios;

   ii. supply and demand for the CoCos;

   iii. general market conditions and available liquidity; and

   iv. economic, financial and political events that affect the issuer, its particular market or the financial markets in general.

**15) Unlisted (and Non-Exchange Traded) Financial Instruments Risk**

Financial instruments that are not traded or listed on an exchange may present greater risks. For example, these may include increased liquidity risk and lower levels of transparency with respect to accounting, auditing and reporting standards. It may also be more difficult to assess the value of such financial instruments; bid and offer prices might not be quoted, and even where they are, it may be difficult to establish a fair price.

**16) Collateral Risk**

Financial instruments and/or strategies relating to financial instruments may involve exposure to the risks associated with the provision of collateral (sometimes referred to as "**margin**"). For example, if an investor enters into a derivatives transaction, the investor may be required to provide the counterparty with collateral to mitigate the risk that the investor might fail to perform the obligations arising under the derivatives transaction and, depending on the nature of the derivatives transaction and changes in the value of the underlying asset, the investor may be required to deposit additional collateral. Failure to provide collateral may result in the termination of the relevant transaction and the investor will remain liable for any remaining losses.

Please note that the arrangements for the provision of collateral are typically not mutual or bilateral. This means that the investor might not receive collateral in circumstances where the investor is exposed to the counterparty to the transaction, but will be required to deliver collateral in circumstances where the counterparty is exposed to the investor.

Where collateral is provided, the recipient of the collateral may reserve the right to return "**equivalent**" collateral rather than the same collateral. In many circumstances, this right is primarily intended to address issues relating to the delivery of collateral that is "**fungible**" in nature. Assets are fungible where they are equivalent and, therefore, interchangeable. For example, ordinary shares of the same issuer are fungible with one another. However, those rights may entitle the counterparty to return other assets and/or cash.

Further, the investor may be exposed to the credit risk of the person (typically the counterparty to the transaction) to whom the collateral is provided in the event that the collateral is not returned and the

investor may be an unsecured creditor with respect to any claim in the event of the insolvency of the person to whom the collateral has been provided.

In certain circumstances (for example, in the case of exchange traded derivatives), the investor's collateral may be passed on to third parties, including clearing houses and clearing brokers. In such circumstances, the investor may be exposed to the risk that the third party fails to return the collateral, for example in the event of that third party's insolvency.

The arrangements under which collateral is provided and held may be governed by the laws of jurisdictions other than the jurisdiction in which the investor is located and/or with which the investor is familiar.

A detailed analysis and explanation of the consequences of providing collateral (including the concept of fungibility) is beyond the scope of this document and involves complex legal concepts and analysis. Before entering into transactions that require (or may require) the provision of collateral, investors should ensure that they understand the arrangements applicable to the collateral, the circumstances in which they may be required to provide additional collateral, and the legal and practical consequences of such arrangements. Where necessary, investors should obtain their own independent advice.

**17) Clearing House Risk**

On many exchanges, the performance of a transaction may be "**guaranteed**" by the exchange or a clearing house. However, in most circumstances, an end investor is unlikely to obtain the direct benefit of the guarantee and the investor may not be protected in the event that a broker or other intermediary involved in the execution or settlement and clearing of the transaction fails to perform its obligations. Investors are also exposed, although typically indirectly, to the credit or default risk of the exchange or clearing house, as well as any broker or other intermediary involved. In the event of the default of any of these persons, the investor's transactions may be terminated unilaterally and the investor may lose part or all of the amount invested.