

VTB CAPITAL PLC

RISK DISCLOSURES

v1.04

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Applicability:	VTB Capital
Functional Applicability:	Global Markets
Geographic Applicability:	Worldwide
Original Issue date:	31/10/2017
Current Version Issue Date:	31/10/2017

Table of Contents

VTB CAPITAL PLC	1
RISK DISCLOSURES	1
DRAFT	Error! Bookmark not defined.
1. Introduction to Risk Disclosures	9
1.1. General Financial Instrument Risk Disclosures	9
2. Universal Risks	9
2.1. Absolute Risk.....	9
2.2. Underperformance Risk	9
2.3. Opportunity Risk.....	9
2.4. Counterparty Risk.....	10
2.5. Diversification.....	10
2.6. Interest Rate Risk.....	10
3. Economic Risks	11
3.1. Inflation Risk.....	11
3.2. LIQUIDITY RISK.....	11
3.3. FOREIGN EXCHANGE (FX) RATE RISK	11
3.4. Credit Risk and Credit Ratings	12
3.5. Emerging Markets Risk	12
3.6. Country risk and transfer risk.....	13
3.7. Tax Risk (INSERT VTB TAX LANGUAGE) HOLDING Language.....	13
4. Other risks	13
4.1. Clearing and Settlement System risk.....	13
4.2. Transmission risk	13
4.3. Risk of Rumours (Psychological risk).....	14
4.4. Information risk	14
4.5. Market Manipulation Risk.....	14
5. Risks Associated with Non Complex Financial Instruments	14
5.1. Equity Securities (Shares)	14
a. Preferred and common shares	14
b. Preference shares	14
c. Ordinary/Common shares	15
a. Market risk:	15
b. Equity Liquidity risk (See also Liquidity risk in the relevant product sections).....	15
c. Equity Volatility risk.....	15
d. Equity exchange rate risk	16
e. Equity Dividend risk:.....	16
f. Entrepreneurial risk:	16
g. Small and medium sized company risk	16
h. Growth Enterprise Market (GEM) Shares/Stocks (Hong Kong)	16
5.2. Debt Securities (Bonds)	17

5.2.2.	Description	17
a.	Fixed Rate bonds (also known as Vanilla/Bullet bonds)	17
b.	Floating rate notes (FRNs) also known as (floating rate bonds)	17
c.	Zero-coupon bonds	17
d.	Indexed bonds.....	17
e.	Issuer Capital Structure (Investor debt ranking)	17
f.	Senior unsecured bonds.....	17
g.	Subordinated bonds	18
5.2.3.	Risks Associated with Debt Securities (Bonds).....	18
a.	Yield to Maturity	18
b.	Interest rate risk:	18
c.	Credit risk:.....	18
d.	Guarantor Risk.....	18
e.	Liquidity risk.....	19
f.	Reinvestment risk:	19
g.	Defined Event Driven Risk (see Complex Bonds)	19
h.	Government Risk.....	19
i.	Emerging Markets Risk.....	20
j.	Other risks associated with Bonds.....	20
5.1.2.	Bank recovery and resolution directive (BRRD).....	20
a.	Risk of Bail-in Action(applicable to all types of bonds)	20
5.2.	Money Market Instruments	21
5.2.2.	Descriptions	21
5.2.3.	Types of Money Market Instruments.....	21
a.	Term deposits.....	21
b.	Call deposits	21
c.	Certificate of Deposit (CD)	21
d.	Commercial paper (also known as CP).....	21
e.	Treasury Bills (T Bills)	21
f.	Treasury Notes.....	22
5.2.5.	Other risks associated with Money Market Instruments	22
6.	COMPLEX FINANCIAL INSTRUMENTS.....	23
6.1.	Complex Equity Securities (Equities)	23
6.1.2.	Description	23
a.	Callable equity securities	23
b.	Puttable equity securities.....	23
c.	Convertible preferred equity securities (Convertible stocks/shares).....	23
6.1.3.	Risks associated with Complex Equity Securities (Equities).....	24
a.	Market risk	24
b.	Stock option risk:	24
c.	Liquidity risk Callable Equity Shares.....	24
d.	Liquidity risk Puttable equity shares.....	24

e.	Volatility risk: Callable Equity Shares	24
f.	Volatility risk: Puttable equity shares	24
g.	Volatility risk: Convertible preferred shares	24
6.1.4.	Other relevant risks associated with Complex Equity Securities	25
a.	Market risk:	25
b.	Equity Liquidity risk (See also Equity risks)	25
c.	Equity Volatility risk.....	25
d.	Equity Foreign Exchange rate risk	26
e.	Equity Dividend risk:.....	26
f.	Entrepreneurial risk:	26
6.2.	Complex Bonds	27
6.2.1.	Description	27
6.2.2.	Floating Rate Notes (FRNs) with an embedded cap or floor.....	27
6.2.3.	Risks associated with capped and floored FRNs.....	27
a.	Interest rate risk:	27
b.	Credit risk:.....	28
c.	Guarantor Risk.....	28
d.	Liquidity risk.....	28
e.	Reinvestment risk:	29
6.2.4.	Callable Bonds (Fixed rate and Floating Rate)	29
6.2.5.	Risks Associated with Callable Bonds.....	29
a.	Interest rate risk	29
b.	Reinvestment Risk.....	29
6.2.6.	Risks Associated with Puttable bonds	30
a.	Interest rate risk	30
b.	Reinvestment Risk.....	30
c.	Credit risk:.....	30
d.	Guarantor Risk	30
e.	Liquidity risk.....	30
f.	Reinvestment risk:	31
6.2.7.	Convertible bonds	31
6.2.8.	Risks associated with Convertible Bonds.....	31
a.	Market Risk: Convertible Bonds	32
b.	Interest rate risk:	32
c.	Credit risk:.....	32
d.	Liquidity risk:.....	32
e.	Volatility risk:.....	32
6.2.9.	Exchangeable bonds.....	32
6.2.10.	Market Risk: Exchangeable Bonds	33
a.	Interest rate risk	33
b.	Credit risk:.....	33
c.	Liquidity risk:.....	33

d. Volatility risk:.....	33
6.2.11. Bonds Redeemable in Common Stock (shares).....	33
6.2.12. Risks associated with Bonds Redeemable in Common Stock (shares).....	33
a. Interest rate risk.....	34
b. Volatility risk:.....	34
c. Credit risk.....	34
d. Liquidity risk.....	34
e. Other risks.....	34
6.3. Other Types of Complex or Higher Risk Bonds.....	34
6.3.1. High yield bonds.....	34
6.3.2. Risks Associated with Preferred Perpetual Securities - Deferral of coupon / dividend 35	35
6.3.3. Preferred Perpetual Securities.....	35
6.3.4. Risks Associated with Preferred Perpetual Securities - Deferral of coupon / dividend 35	35
6.4. Other risks.....	35
6.4.1. Financing Risk.....	36
7. Derivatives.....	36
7.2. Description.....	36
7.3. Universal Risks Associated with Derivatives.....	36
7.3.1. MARK TO MARKET LANGUAGE AND RISK WARNINGS (ISDA).....	37
7.4. Types of Derivatives.....	37
7.4.1. Forward Contracts.....	37
7.4.2. Risks Associated with Forward Contracts.....	37
a. Market risk:.....	37
b. Interest rate risk.....	37
c. Volatility risk.....	37
d. Counterparty risk.....	38
e. Settlement Risk.....	38
f. Liquidity risk:.....	38
g. Foreign Exchange rate risk.....	38
h. Valuation risk:.....	38
7.4.3. Other Risks.....	38
a. Margin.....	39
7.4.4. Futures Contracts.....	40
7.4.5. Risks Associated with Futures Contracts.....	40
a. Market risk:.....	40
b. Interest rate risk:.....	40
c. Volatility risk:.....	41
d. Liquidity risk:.....	41
e. Foreign Exchange rate risk:.....	41
f. Valuation risk:.....	41

g. Other risks:	41
7.4.6. Interest Rate Swap Contracts and Cross Currency Swaps (Swap Contracts)	41
7.4.7. Risks Associated with Interest Rate and Cross Currency Swaps	42
a. Market risk:	42
b. Interest rate risk :	42
c. Market risk:	42
d. Counterparty risk:	42
e. Liquidity risk:	42
f. Foreign Exchange rate risk:	42
g. Valuation risk:	42
7.4.8. Option Contracts	43
a. Call options	43
b. Put options	43
7.4.9. Risks Associated with Option Contracts	43
a. Buying options	44
b. Selling options	44
c. Selling covered call options	44
d. Selling of uncovered call option	44
e. Selling of put options	44
f. Market risk:	45
g. Interest rate risk :	45
h. Price risk	45
i. Volatility risk:	45
j. Time value of money:	45
k. Counterparty risk:	45
l. Liquidity risk:	45
m. Foreign Exchange rate risk:	46
n. Valuation risk:	46
o. Leverage risk:	46
7.4.10. Option Strategy Combinations	46
7.4.11. Risks Associated with Option Combination Strategies	46
7.4.12. Credit Default Swap (CDS) Contracts	46
7.4.13. Risks Associated with Credit Default Swaps	47
a. Credit risk:	47
b. Counterparty / Issuer risk:	47
c. Foreign Exchange rate risk	47
d. Valuation risk:	47
8. Commodities	47
8.2. Risks Associated with Commodities	48
a. Market Risk	48
b. Volatility Risk	48
c. Valuation Risk	48

d.	Speculative nature of Commodities	48
e.	Physical Delivery Risk.....	48
9.	Structured Products.....	49
9.2.	What is a structured product?	49
9.3.	Types of structured products	49
9.3.1.	Capital Protected Structured Products	49
9.3.2.	Yield Enhancement Structured Products	49
9.3.3.	Participating / Leveraged Structure Products	50
9.4.	Risks associated with Structured Products	50
9.4.1.	General remarks:	50
a.	Market risk:	50
b.	Counterparty / issuer risk:.....	50
c.	Liquidity risk:.....	50
d.	Interest rate risk	51
e.	Foreign Exchange rate risk	51
f.	Valuation risk:.....	51
g.	Reinvestment risk	51
h.	Leverage risk.....	51
i.	Events Adjustment Risk.....	51
j.	Physical Delivery Risk.....	52
k.	Early Redemption / Termination Risk	52

1. Introduction to Risk Disclosures

1.1. General Financial Instrument Risk Disclosures

The following risk disclosures are applicable to all types of financial instruments.

Any investment in a financial instrument will expose investors to an element of risk.

This risk may be an absolute risk, an opportunity risk, a counterparty risk or any other risks.

ALL RISKS CAN POTENTIALLY LEAD TO COMPLETE LOSS OF MONEY INVESTED

VTB Capital plc does not provide Investment Advice nor deal with Retail categorised clients.

2. Universal Risks

2.1. Absolute Risk

Any absolute risk will, in its simplest form, expose the investor to volatility or fluctuation of a financial instrument over a period of time.

The factors which can influence absolute risk are numerous but all will have the potential to lead to a loss of capital, income or overall performance of the investment which may lead to a total loss of the money invested and (in the case of leveraged products) lead to loss exceeding the money invested.

The factors and individual types of risk will vary by financial instrument and or the market and or geographic region that those instruments are traded on.

2.2. Underperformance Risk

The vast majority of financial instruments do not guarantee the returns or performance of an investment or strategy. Those products which potentially are able to provide such predictable returns tend to be either complex or more costly.

In general, product performance is unpredictable and may be less than expected or designed to produce.

Past performance should not be used as an indicator of future performance.

2.3. Opportunity Risk

When committing to a particular investment strategy of financial instrument, the probability of losses or gains will differ from other investments that might have been chosen. This difference is known as an opportunity risk represents the likelihood that a loss will be incurred by committing resources to one opportunity, preventing the pursuit of better or alternate opportunities while committed to it.

2.4. Counterparty Risk

Some financial Instruments or investment strategies involve entering into a financial commitment with a counterparty. The performance of the financial instrument or contract between the two parties will be dependent on each party meeting its obligations under the contracted arrangement. A failure to perform as defined by the contract is a counterparty risk. Counterparty risk will be influenced by various factors including each party's financial standing, geographical location and willingness to live up to their contractual obligations.

Counterparty risk is a risk to both parties of a financial contract and is also known as a Bilateral Risk; this should be considered when evaluating a contract.

In most financial contracts, counterparty risk is also known as "Default Risk".

2.5. Diversification

In financial markets, investors face two types of risks: systematic risk and non-systematic risk.

2.5.1. Systematic risk, (Market Risk), is non-diversifiable.

Systematic/Market Risk will always be present and any investment entered into will expose the investor to it.

This risk represents the fact that prices may increase or decrease in the short, medium or long-term without it being possible to determine when (if ever) those prices in the financial instrument will recover.

This refers to the systematic risk of the equity securities markets. This risk is the same for all investors, is non-diversifiable and is driven by the prevailing market conditions and economic sentiment.

The value of a financial instrument may fluctuate dramatically due to different market factors including the price or level of any underlying reference asset, level of interest rates, credit quality of the issuer and guarantor (where applicable), foreign exchange rates, volatility, liquidity and tenor remaining on the financial instrument (if relevant). Such financial instrument may depreciate in value as quickly as it may appreciate and can also become valueless. Investing in such financial instrument is as likely to incur losses as it is to make profit. Past performance should not be used as an indicator of future performance.

2.5.2. Non-systematic risks

Non-systematic risks can be mitigated through diversification of the investment strategy or financial instruments used.

2.6. Interest Rate Risk

Fluctuations in interest rates, which may be in either short-term or long-term rates, may have a substantial and adverse impact on the prices of financial instruments, in particular Bond Securities where variable rates, fixed interest rate yields and the risk of default risk may all be impacted.

3. Economic Risks

Prices and the value of a financial instrument may fluctuate according to changes in the activity of a market economy both in the short and long term. These short term economic impacts or longer term economic cycles, will vary depending on the country, region and continent and should be considered before making any investment since they may impact any and all the other risk factors and considerations analysed when making an investment decision.

Failure to take economic risk into account before making any investment decision may lead to financial instruments under performance and the loss of all monies invested.

3.1. Inflation Risk

Inflation (the rate at which prices increase in an economy) erodes the purchasing power of money over time. Inflation, especially high inflation, may cause financial detriment to an investor if it is not taken into account; maturing or the proceeds of an investment may not have the same value in "real" terms in the future even if they are worth nominally the same as when the investment was made.

High inflation can lead to many effects on investments including:

- i) the currency of that economy to depreciate (lose its value vs. other currencies) and
- ii) reduce the real returns of investments and financial instruments (especially bonds)

3.2. LIQUIDITY RISK

Liquidity is the ability to buy and sell any type of asset or financial instrument readily.

A lack of liquidity may prevent an investor from selling (or buying) a financial instrument or unwinding a financial strategy.

Insufficient liquidity may lead to stressed or fewer prices in the market and consequently unanticipated unfavourable conditions which could impact how much money is realised when an instrument is sold or the increase in the costs of entering into a new investment (if it can be bought or sold at all).

A lack of liquidity can occur due to:

- i) a reduced or lack of market supply and demand and/or
- ii) be a characteristic of a particular markets' practice (e.g. extended procedures, performance delays, notarisation requirements etc.).

The inability to sell or buy in such circumstances may lock an investor into or out of other possible investments and thus additionally create an Opportunity Risk (see 1.1.2)

3.3. FOREIGN EXCHANGE (FX) RATE RISK

The price or rate at which one national currency can be bought or sold at relative to another national currency fluctuates. These fluctuations are often unpredictable and may be long or short term in nature.

Exchange rates can be impacted by many other risk factors including,

- i) interest rates
- ii) inflation rates
- iii) national and international economic policy and data
- iv) political risks
- v) geographical risks (including weather)

Where a financial instrument or investment is denominated in a foreign currency (namely a currency other than the home currency of an investor) the ultimate performance of that investment will be impacted on by the FX rates that prevail at the time of the investment, during the life of the investment and when the investment is sold, matures or terminated.

3.4. Credit Risk and Credit Ratings

3.4.1. Credit Risk (Default Risk), see also (Credit Default Risk)

The credit risk (credit worthiness) of an issue (bonds, shares, sovereigns and counterparties) is the ability or willingness of that entity to meet its financial obligations. Credit risk occurs whenever an investor commits funds via a financial instrument and a risk of non-performance could lead to a partial or complete loss of invested funds and/or anticipated periodic payments (including dividends, interest payments etc.).

An inability or failure to perform under such obligations is commonly referred to as a "default".

A default may lead to a protracted process in which some, none or all monies which are due to investors are sought to be recovered. Credit risk may be reduced where the financial instrument is collateralised in some manner. The quality of the collateral is also a factor to be considered (See 6.4.2 and 7.4.3)

3.4.2. Credit Ratings.

Credit ratings and country outlook ratings are a short hand/proxy measure of the credit worthiness of the Issuer, Country or Counterparty / Financial Institution to which they refer.

The lower a credit risk is the lower these ratings are (and vice-versa).

Credit Rating are assigned by a variety of rating agencies such as Moody's, Standard & Poors, Fitch etc.

The use of a credit rating to determine either the relative risk between two types of investment or as an absolute measure of Default Risk is not recommended and is not a substitute for a full fundamental analysis of the entity in question.

Credit ratings issued by credit rating agencies are not a recommendation or guarantee of issuer's (or guarantor's) creditworthiness or an accurate representation of the risk, returns or appropriateness of any particular investment.

3.5. Emerging Markets Risk

Emerging Markets (described by the World Bank as "countries with low-to middle per capita income") generally have higher growth and higher risks than those experienced in more mature economies.

Most risks are heightened and many, which in mature economies are either low or well understood, should receive additional investor focus prior to making an investment decision. Asset-prices are liable to fluctuate more frequently and to greater extremes than in developed markets. This is further compounded by heightened political risk, volatile economic fundamentals (e.g., inflation, exchange rate) with many emerging markets having less sophisticated rules and controls regarding the clearing and settlement of transactions together with less mature Regulatory Supervision and less robust protection of investors.

3.6. Country risk and transfer risk

Country and transfer risk occur when investing or transacting with counterparties in a foreign country.

3.6.1. Country Risk

An investor could lose all its investment if a government were to nationalise a company or industry.

3.6.2. Transfer Risk

During periods of economic stress, especially where capital is withdrawn from a country, Capital controls enforced by a government may prevent funds from leaving that country rendering that investment to be held for longer than expected or forced to be sold with funds held on deposit in the country in question. This situation could be indeterminate in how long it may last effectively denying the investor access to their money outside of that country.

These risks should be considered especially in emerging economies.

3.7. Tax Risk (INSERT VTB TAX LANGUAGE) HOLDING Language

You should take independent tax advice before entering into any investment to ensure that you understand the potential tax implications (including the implications of any applicable income tax, goods and services, value added /withholding taxes, stamp duties and other taxes) of acquiring, entering into, holding and disposing of the relevant investment or transaction. Different transactions may have different tax implications and the tax consequences of any transaction is dependent upon your individual circumstances and may be subject to change in the future. VTB Capital Plc, does not offer tax advice and any tax-related information provided to you by VTB Capital plc should not be relied on as tax advice or as a tax recommendation.

4. Other risks

4.1. Clearing and Settlement System risk

In case of the short term failure or insolvency of the clearing and settlement system on which a particular financial instrument is negotiated through, an investor may lose part or all of their investment.

4.2. Transmission risk

A Transmission risk is the risk of an operational error.

This can occur when placing an order, passing on an instruction to a counterpart, an exchange or any party involved in the execution, acquisition or disposal of a financial instrument.

Transmission risk is generally regarded as a low risk and is in most cases resolved without financial detriment to the investor (where other risk are not crystallised).

4.3. Risk of Rumours (Psychological risk)

Rumours and opinions may affect the overall performance of financial instruments leading to a significant fall in prices even where the future expectations and/or economic fundamentals of the market, issuer, counterparty, national economy or the instrument itself, remain unchanged.

A Psychological risk may arise from irrational factors or abusive and manipulative behaviours by unethical market participants which may affect the overall evolution of prices.

4.4. Information risk

Information risk refers to the risk of poor investment decisions arising from a lack of knowledge, experience, incomplete information or inaccurate information. This may be due to the use of unreliable sources, the misinterpretation of originally accurate information or due to communication errors.

4.5. Market Manipulation Risk

All markets are susceptible to forms of manipulation and abuse. Should a market or price in a specific financial instrument be subject to such regulatory prohibited practices, it may not be immediately obvious, it may take many years to emerge and there is no assurance that any losses (if they can be quantified or identified) could or would be made whole. In the event that a form of restitution is made available, it is likely to be significantly distant from when the original investment was made, if at all available.

5. Risks Associated with Non Complex Financial Instruments

5.1. Equity Securities (Shares)

5.1.1. Description

Equity Securities (Shares) represent part of an issuer's capital:

Shareholders typically are entitled to receive a share of the company's profits (Dividends) where a profit is made and a Dividend made available..

Shares, generally, expose investors to a greater risk than debt securities (Bonds). Additionally, shares have a lower ranking in the event of a company's insolvency meaning that any monies recovered by administrators will go to senior creditors (generally Bond holders or other creditors) before paying out more junior inventors (Subordinated) in shares: bond holders and other more senior creditors get paid before shareholders.

5.1.2. Types of Shares

a. *Preferred and common shares*

There are two main categories of Shares:

b. *Preference shares*

Generally receive preferential treatment which can include:

- in the event a company being wound up or liquidated, preference shares shareholders have a senior rights to a company's assets than holders of

c. Ordinary/Common shares

Which usually do not carry voting rights.

The precise details as to the structure of preference shares are specific to each company and should be understood by an investor prior to making any investment decision.

5.1.3. Risk Associated with Equity Securities

In addition to the Universal risks which are generally applicable to all investments and financial, the following risk are specific to Equity Securities or are modified for equity Securities, as described below.

a. Market risk:

this refers to the systematic risk of the equity securities markets. This risk is the same for all investors, is non-diversifiable and is driven by the prevailing market conditions and economic sentiment.

Investing in equities provides for an opportunity to generate higher rates of return when compared with investing in short or longer term debt securities of the same company.

The risks associated with investing in equities are greater than in debt securities since the performance of that company (upon which dividends are generally dependent on) is less predictable and subject to the possibility of sudden or prolonged declines in the company's performance and thus its share price and dividend levels may decline compared to the rates of return available on debt securities.

b. Equity Liquidity risk (See also Liquidity risk in the relevant product sections)

For an equity investment, liquidity depends mainly on the 'free-float' of the company (which is the proportion of its shares that are listed and freely tradable) and the daily transaction volumes in these shares.

The larger the free-float and daily transaction volumes, the lower the liquidity risks.

Liquidity risk is larger for small companies (e.g., penny stocks) which are not frequently traded, than for large companies (e.g., large caps).

c. Equity Volatility risk

The higher the uncertainty of a company's value, the higher the volatility of its share price. Factors which can drive the markets view on a company's value and thus its share price include (but are not limited to);

- Growth prospects of the industry, sector and markets in which the company operates;
- Sector and company-specific risks;
- the competitive position of the company and its ability to gain or sustain market share
- the company's ability to generate cash-flow (which relate to its profitability, expected growth, and capital management)
- the maturity of the firm and longevity of the company
- the quality of the company's senior management, governance, staff training, customer satisfaction and
- increasingly the company's presence on social media, the dialogue around the companies activities and the quality of customer service vs complaints

d. Equity exchange rate risk

This applies for shares that are denominated in another currency other than that which the investor normally uses or is based in (in regards to their home state). The risk to equity based returns increases if the foreign currency in which the shares (or GDDRs etc.) are denominated in, depreciates relative to the domestic, home state or usual currency of investor use.

e. Equity Dividend risk:

The dividend payable or distributed by a company in respect of its shares is mainly dependent on the profits generated by the issuing company. Therefore, in cases where profits fall or losses are made dividends may be reduced or suspended completely for an indeterminate amount of time.

f. Entrepreneurial risk:

A shareholder is not a creditor of the company concerned; in fact, the shareholder has made a capital contribution to the company and is thus a co-owner of the company.

The shareholder thus is participating in the development and the ongoing viability, success and failure of the company as well potentially sharing in the related opportunities and risks, which may entail unexpected fluctuations in the value of the company as a going concern and thus the expression of this value in the company's share price and dividend yield.

The bankruptcy of the company, which could lead to a complete loss of the invested capital, is always a possibility as a shareholder, especially if the company has no realisable net assets when declared bankrupt and after senior debtors and creditors have been dealt with.

g. Small and medium sized company risk

The price of Shares of small and medium sized companies tend to be more volatile than those of larger-sized companies. This is due in part to a greater sensitivity to changes in economic conditions and higher uncertainty over future growth prospects. Speculative trading around the company may also impact the share price negatively.

h. Growth Enterprise Market (GEM) Shares/Stocks (Hong Kong)

GEM stocks involve a high investment risk.
GEM stocks may be very volatile and illiquid.

Companies that are listed on the GEM are **not** required to have a track record of profitability and also do not have any obligation to forecast future profitability nor are required to issue paid announcements in gazetted newspapers in this regard.

The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

You should seek independent professional advice if you are uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of GEM stocks.

Current information on GEM stocks may only be found on the internet website operated by The Stock Exchange of Hong Kong Limited.

5.2. Debt Securities (Bonds)

5.2.2. Description

Bonds are a debt investment where an investor lends money to a company who in turn issues security (the bond) in which the company represent to repay the principal debt by a specified Maturity date plus a defined rate of interest (or coupon) over the term of the bond.

Generally bond holders rank higher than equity shareholders in the event of a default or bankruptcy of the securities issuing company.

a. Fixed Rate bonds (also known as Vanilla/Bullet bonds)

This is the simplest form of bond debt instrument. There is a defined fixed rate of interest (paid periodically) and whose Principal or face value is repaid to the investor on the maturity date, usually at 100%.

b. Floating rate notes (FRNs) also known as (floating rate bonds)

This form of debt security have variable interest rate payments (coupons) that are determined periodically by resetting the interest by reference usually to a short term money market rate such as the London Interbank Offered Rate (LIBOR). This reset of the interest rate occurs at periodically and is predefined (e.g., quarterly, semi-annually, yearly).

In order for the rate of return/.yield of the FRN to be commensurate with the debt security's Issuer credit worthiness, a margin or lending premium is typically added to the underlying reference rate throughout the term of the notes life.

c. Zero-coupon bonds

Zero coupon bonds (zeroes) are securities that make no periodic payments of interest during their life.

The interest that would have been paid in return for the investor loan is represented by selling the bond at a discounted (reduced) price such that the yield to maturity is comparable for the tenor and risk of the investment.

Zero coupon Bonds are more volatile in price than bonds which pay Interest on a periodic basis. This is especially more volatile for longer dated zero coupon bonds.

d. Indexed bonds

Bonds of this type have their returns/yields tied to the movements of an index such as inflation, stock market, gold price, foreign exchange, etc.

e. Issuer Capital Structure (Investor debt ranking)

f. Senior unsecured bonds

Bonds which are designated or ranked as **Senior unsecured bonds** are debt instruments that take priority over other unsecured or otherwise more "junior" forms of debt by the same issuer.

Such bonds have greater seniority in the issuers' capital structure than subordinated debt, meaning that in case of the issuer of the securities defaulting, investors holding senior forms

of debt will be reimbursed (principal and interest) before other creditors receive any payments.

g. Subordinated bonds

(or junior debt): the redemption of these securities is subordinated to the repayment of all higher ranked creditors. The ranking of a subordinated bond issue can vary and themselves be tiered, from a simple subordination to deep subordination. In this last case, there are no debts issued with a lower ranking.

5.2.3. Risks Associated with Debt Securities (Bonds)

a. Yield to Maturity

The level of interest paid by a bond issuer, together with the price of the bond, its tenor and the level of prevailing rates will determine the yield to maturity of the bond.

If the bond is not held until the Maturity date, the investment is unlikely to yield the expected return due to the fluctuation of the bond's price and variations in the issuing company's credit worthiness (see risks below).

A bond's price is inversely related to its yield thus, if the price of the bond falls, its yield increases. If the price of the bond increases its yield declines (see interest rate risks).

The characteristics of particular types of bonds can vary.

b. Interest rate risk:

The price of a bond will increase or decrease in the opposite direction to the changes of interest rate risks.

- **Sensitivity of Bond Prices to changes in prevailing interest rates: Maturity Date**

The sensitivity of a bond price to interest rates increases the longer the outstanding maturity date is.

- **Sensitivity of Bond Prices to changes in prevailing interest rates: Coupon level**

A bond with lower coupon interest rate payments namely a 1% coupon bond will exhibit a greater price movement than a 3 % coupon bearing bond of the same maturity given an identical change in prevailing market interest rates.

c. Credit risk:

The risk that the issuer, or borrower, does not meet the agreed interest payments or principal repayments as defined by the bond.

d. Guarantor Risk

Some bond issues may benefit from a third party guaranty.

The guarantor's credit capacity and creditworthiness is a factor which although intended to protect an investors money in the event of a default or non- performance of the Issuer in

respect to its obligations, is itself also subject to the risk of that guarantor becoming insolvent or defaults on its/their obligations as a guarantor..

In the event of a Guarantor failing to meet its obligations, you may not receive repayment of your investment principal or any other amounts owing from the issuer and/or the guarantor.

You should also note that the credit rating of the issuer and that of the guarantor are separate and the rating of one could be very different from the rating of the other. (see credit ratings and credit risk).

e. Liquidity risk

The availability of a price enabling an investor to buy or sell a bond is the bonds liquidity.

This will vary greatly depending on many factors including supply and demand, the number of or value of bonds issued, the popularity of the issuer and the market on which it is traded. The primary measure of liquidity risk is the difference between the bid price (the price at which a dealer is willing to purchase a security) and the ask/offer price (the price at which a dealer is willing to sell a security). The wider this difference, which is also called the “spread”, the higher the liquidity risk. In many circumstances only one of these prices may be available and in illiquid markets none.

f. Reinvestment risk:

The yield to maturity of a bond assumes that an investor is able to reinvest their interest coupon income received from the issuer at a constant interest for the life of the bond. The actual yield that an investor will experience will differ from the initial yield to maturity by virtue that coupons i.e. the bonds income interest payment proceeds, will likely not be reinvested at the same interest rate as when the bond was purchased. Reinvestment risk increases as prevailing interest rates fall.

g. Defined Event Driven Risk (see Complex Bonds)

Certain bonds are issued with specific conditions that permit the issuer to alter the terms of the bond and/or the principal amount of bonds in issue.

Depending on the terms of the bond, which are described in the offering documents, the issuer may (or may not) exercise these clauses. Some will be event driven, others will be optional to the Issuer. In some cases these events may include extraordinary events including (but not limited to) market disruption, trading suspension, regulation in the relevant industries, insolvency, changes in taxation law and other economic, political or social conditions).

The exercise of such rights may have an unforeseen adverse impact on the payments that you receive in relation to the bond invested in.

h. Government Risk

An issuer of debt securities may be unable to meet its obligations even if it is not insolvent. This may be due to many factors including, but not limited to, the unavailability of foreign currency, domestic budgetary constraints, political issues, international sanctions or currency exchange controls. Government risk includes the danger of economic as well as political instability (see political risk). These factors that may lead to an issuer to be unable to meet its obligations may or may not constitute an event of default depending on the conditions under which the bond was issued. These conditions are detailed in the offering documents.

The inability of an issuer to meet its obligations may lead to investors losing some or all of the capital invested and a partial or total loss of any coupon interest income from the bond.

i. Emerging Markets Risk

Investing in bonds issued in or by entities in jurisdictions such as emerging nations or countries with less mature regulated markets outside European Economic Area, the United States of America or certain mature Asian jurisdictions, involves additional potential risk and considerations. These risks include, but are not limited to, political, economic, expropriation, [market manipulation], nationalisation, social and military conflict risk. These, and other factors and risk associated with an investment in such circumstances may impact liquidity, price volatility, foreign exchange rates and may have unforeseen adverse interactions and impact the payments that you receive in relation to the bond invested in including the partial and/or total loss of income and principal repayments.

j. Other risks associated with Bonds

Please see the universal risks related to the following:

- **Exchange rate risk**
- **Inflation risk**
- **Settlement Risk**

5.1.2. Bank recovery and resolution directive (BRRD)

a. Risk of Bail-in Action (applicable to all types of bonds)

A Bail-In Action" means the exercise of any Write-down and Conversion Powers.

The BRRD establishes a framework for the recovery and resolution of credit institutions and investment firms in the event of their failure.

"Bail-In Legislation" means:

CONTRACTUAL RECOGNITION OF BAIL-IN

Notwithstanding any other term of any Transaction Document or any other agreement, arrangement or understanding between the Parties, each Party acknowledges and accepts that any liability of a Party to the other Party under or in connection with the Transaction Documents may be subject to Bail-In Action by the relevant Resolution Authority and acknowledges and accepts to be bound by the effect of:

any Bail-In Action in relation to any such liability, including (without limitation):

- a reduction, in full or in part, in the principal amount, or outstanding amount due (including any accrued but unpaid interest) in respect of any such liability;
- a conversion of all, or part of, any such liability into shares or other instruments of ownership that may be issued to, or conferred on, it; and
- a cancellation of any such liability; and
- a variation of any term of any Transaction Document to the extent necessary to give effect to any Bail-In Action in relation to any such liability.

5.2. Money Market Instruments

5.2.2. Descriptions

Money Market instruments are highly liquid short term investments, with maturities generally up to one year.

The money market is an informal market on which financial institutions, commercial banks, insurance companies, fund managers, larger corporate borrowers and some central banks issue short term assets in order to raise short-term financing.

Rates of return can be absolute in terms of the interest rate paid by the borrowers or they can be paid in reference to a benchmark interest rate with an additional margin which is reflective of the term and credit quality of the institution obtaining the funding.

Money market instruments are generally considered to be lower risk than other investments due to their shorter tenor and the generally higher quality of the borrowers.

5.2.3. Types of Money Market Instruments

a. Term deposits

A term deposit is a cash investment, where investor places funds (lends) with a financial institution for a predetermined period of time in return for a predefined rate of return (Interest).

The range of investment periods can be as short as a single day and extend out to 18 months. Some instruments can be available for longer periods.

b. Call deposits

A Call deposits differs from a Term Deposit by having no defined maturity date. The depositor (lender/ Investor) is normally able to terminate the deposit and seek a return of their investment by giving notice to the borrower. This is typically a few days.

c. Certificate of Deposit (CD)

A certificate of deposit is a negotiable deposit, namely it can be bought or sold in the money market. CDs are Short term debt security issued by a bank or credit institution.

d. Commercial paper (also known as CP)

Commercial paper is a form of a negotiable short-term debt instrument issued by companies and financial institutions for periods of up to 360 days. CP is used by issuers/borrowers to finance short-term cash needs. CP is normally typically issued at a discount that reflects prevailing market interest rates.

Commercial Paper is typically the least liquid of the money market instruments.

e. Treasury Bills (T Bills)

Treasury bills are short-term debt instruments issued by the United States Government with maturities of less than 365 days.

T-bills are typically issued in maturity clusters namely with maturities of 3, 6, 9 and 12 months.

T Bills are typically issued at a discount that reflects prevailing market interest rates.

f. Treasury Notes

Treasury notes are short-term debt instruments issued by the United States Government with maturities 1 to 10 years

US Treasury Notes are negotiable debt securities with a fixed interest rate typically paid every 6 months (semi-annually). Treasury Notes are issued at an auction.

5.2.4. Risks associated with Money Market Instruments (also see Universal Risks)

a) Market risk

This is the main risk and is predominantly driven by the changes in short-term interest rates.

b) Liquidity risk

Liquidity is the ability to buy and sell any type of asset or financial instrument readily.

Money market instruments are generally the most liquid forms of debt securities. US T-bills and Notes being the most liquid, Commercial Paper being the least liquid.

A lack of liquidity may prevent an investor from selling (or buying) a financial instrument or unwinding a financial strategy.

A lack of liquidity can occur due to :

- i) a reduced or lack of market supply and demand and/or
- ii) be a characteristic of a particular markets' practice (e.g. extended procedures, performance delays, notarisation requirements etc.).

The inability to sell or buy in such circumstances may lock an investor into or out of other possible investments and thus additionally create an Opportunity Risk

c) Deposits: Early redemption penalties

d) Early termination Risk

Charges may apply to Money Market deposits should an investor withdraw their money or terminate the deposit before the end of the defined maturity date.

5.2.5. Other risks associated with Money Market Instruments

Please see the universal risks related to the following:

- **Foreign Exchange rate risk**
- **Counterparty risk**
- **Settlement Risk**

6. COMPLEX FINANCIAL INSTRUMENTS

6.1. *Complex Equity Securities (Equities)*

6.1.2. Description

Complex equities are equity securities that include some form of derivative instrument (see sections on Derivatives).

The most common complex equity securities are those with an embedded call or put option (see Call and Put Options) or convertible preferred shares which have an embedded conversion option permitting the investor to convert their shareholding into another share class.

In order to better understand how these options impact an investor's risks and potential returns, investors should also read sections for non-complex equities and option risks.

a. Callable equity securities

Callable Equity securities give the issuer the right (but not the obligation, hence the "option") to buy back the shares from the investor at a defined time and/or price. The specific conditions under which this optionality held by the issuer is detailed in the offering documents or prospectus. The call price is typically fixed and at a premium to the prices prevailing when it was established.

An issuer held equity call option can be embedded in both common equity and preferred equity shares.

[Callable preferred equity shares can be issued to any type of investor and will rank senior in priority in regards to payment of dividends however they will typically attract a lower dividend.

Callable equity securities are generally more advantageous to the issuer than to the investor.

b. Puttable equity securities

Puttable equity securities give the investor, and not the issuer, the right or the option (but not the obligation) to sell their investment back to the issuer at a pre-determined time and price (the "put price" or "strike price").

An embedded put option in an equity security has the advantage over non-puttable shares for investors in providing a guaranteed price that the shares could be sold back to the issuer and thus limit any potential loss should the share price fall.

c. Convertible preferred equity securities (Convertible stocks/shares)

Convertible preferred shares are securities allow holders to convert their shares into a specified number of common shares, at a pre-determined conversion rate which is established at issuance.

The advantages to investors of holding Convertible preferred shares include:

A more senior ranking in regards to the payment of dividends tend to be less volatile than the underlying common stock/hares dividend payments are generally known and more stable. investors can benefit from a potential rise in the price of the underlying common stock/shares by exercising the conversion option.

6.1.3. Risks associated with Complex Equity Securities (Equities)

The below compare the risk or additional risk of complex equities with those that are non-complex. Investors MUST additionally read and understand the Universal Risks and the risks associated with Equity Securities.

a. Market risk

Markets risk for callable and puttable equity securities (stock/shares) is generally comparable to that of non-complex equities common stock/shares.

b. Stock option risk:

The risk that the stock is bought back by the issuer (call option) or sold back to the issuer (put option) means that investors will be disinvested from their holding thus additionally introducing Reinvestment risk (see section)

c. Liquidity risk Callable Equity Shares

Liquidity risk for callable equity securities (stock/shares) is generally comparable to that of non-complex equities common stock/shares.

d. Liquidity risk Puttable equity shares

Liquidity risk for puttable equity shares is typically lower than that of non-complex equities, since an investor is able to sell the shares back to the issuer should the price fall.

e. Volatility risk: Callable Equity Shares

Where the price of the underlying callable stock is below the call price, the volatility risk (See option section) is comparable to non-complex common stock but as the price approaches the call price, the price rise is effectively capped (a maximum level) since the Issuer will buy back the shares at the call price if the common stock price rises above the call option price. As this point is approached the volatility is effectively less than for common stock/shares.

f. Volatility risk: Puttable equity shares

Where the price of the underlying puttable stock is above the put price, the volatility risk (see Volatility sections) is comparable to non-complex common stock but as the price approaches the put price, the price fall is effectively limited to a maximum level (floored) since the investor will sell the shares to the issuer at the put price if the common stock price falls below the put option price. As this point is approached the volatility is effectively less than for common stock/shares.

g. Volatility risk: Convertible preferred shares

Prior to the conversion option being exercised, the volatility risk of convertible preferred shares is comparable to that of non-complex preferred equities/ common stock.

Following the exercise of the conversion option into common stock, the volatility risk will be comparable to that of non-complex common stock equities securities.

6.1.4. Other relevant risks associated with Complex Equity Securities

a. Market risk:

Less predictable than debt securities

Investing in complex equity products (namely those with an embedded derivative element) provides for an opportunity to generate higher rates of return when compared with investing in short or longer term debt securities of the same company.

The risks associated with investing in equities are greater than in debt securities since the performance of that company (upon which dividends are generally dependent on) is less predictable and subject to the possibility of sudden or prolonged declines in the company's performance and thus its share price and dividend levels may decline compared to the rates of return available on debt securities.,

b. Equity Liquidity risk (See also Equity risks)

For an equity investment, liquidity depends mainly on the 'free-float' of the company (which is the proportion of its shares that are listed and freely tradable) and the daily transaction volumes in these shares.

The larger the free-float and daily transaction volumes, the lower the liquidity risks.

Liquidity risk is larger for small companies (e.g., penny stocks) which are not frequently traded, than for large companies (e.g., large caps).

Liquidity is the ability to buy and sell any type of asset or financial instrument readily.

A lack of liquidity may prevent an investor from selling (or buying) a financial instrument or unwinding a financial strategy.

Insufficient liquidity may lead to stressed or fewer prices in the market and consequently unanticipated unfavourable conditions which could impact how much money is realised when an instrument is sold or the increase in the costs of entering into a new investment (if it can be bought or sold at all).

A lack of liquidity can occur due to :

- i) a reduced or lack of market supply and demand and/or*
- ii) be a characteristic of a particular markets' practice (e.g. extended procedures, performance delays, notarisational requirements etc.).*

The inability to sell or buy in such circumstances may lock an investor into or out of other possible investments and thus additionally create an Opportunity Risk (see 1.1.2)

c. Equity Volatility risk

The higher the uncertainty of a company's value, the higher the volatility of its share price. Factors which can drive the markets view on a company's value and thus its share price include (but are not limited to);

- *Growth prospects of the industry, sector and markets in which the company operates;*
- *Sector and company-specific risks;*
- *the competitive position of the company and its ability to gain or sustain market share*

- *the company's ability to generate cash-flow (which relate to its profitability, expected growth, and capital management)*
- *the maturity of the firm and longevity of the company*
- *the quality of the company's senior management, governance, staff training, customer satisfaction and*
- *increasingly the company's presence on social media, the dialogue around the companies activities and the quality of customer service vs complaints*

d. Equity Foreign Exchange rate risk

This applies for shares that are denominated in another currency other than that which the investor normally uses or is based in (in regards to their home state). The risk to equity based returns increases if the foreign currency in which the shares (or GDDRs etc.) are denominated in, depreciates relative to the domestic, home state or usual currency of investor use.

e. Equity Dividend risk:

The dividend payable or distributed by a company in respect of its shares is mainly dependent on the profits generated by the issuing company. Therefore, in cases where profits fall or losses are made dividends may be reduced or suspended completely for an indeterminate amount of time.

f. Entrepreneurial risk:

A shareholder is not a creditor of the company concerned; in fact, the shareholder has made a capital contribution to the company and is thus a co-owner of the company.

The shareholder thus is participating in the development and the ongoing viability, success and failure of the company as well potentially sharing in the related opportunities and risks, which may entail unexpected fluctuations in the value of the company as a going concern and thus the expression of this value in the company's share price and dividend yield.

The bankruptcy of the company, which could lead to a complete loss of the invested capital, is always a possibility as a shareholder, especially if the company has no realisable net assets when declared bankrupt and after senior debtors and creditors have been dealt with.

6.2. Complex Bonds

Please see 5.1.2 Bank recovery and resolution directive (BRRD)

6.2.1. Description

Complex bonds are debt securities that include some form of embedded derivative instrument.

The embedded derivative, usually a form of optionality that is conferred to the investor or the issuer and is pre-defined. This optionality will typically be over one of the following characteristics namely:

- the interest rate the bond pays to the investor
 - floating rate notes with either a cap or a floor
 - collared floating rate notes (with both a cap or a floor)
- the level and /or timing as to the redemption of the bond
 - callable bonds,
 - puttable bonds,
- an ability to exchange the bond for another class or form of security
 - convertible bonds,
 - exchangeable bonds,
 - bonds redeemable into shares,

6.2.2. Floating Rate Notes (FRNs) with an embedded cap or floor

Floating rate notes bonds provide investors with a variable interest rate income which can include and embedded floor or cap option.

A Capped Floating Rate Note limits the interest which investors will receive by setting a maximum level of interest payable by the issuer.

Capped FRNs benefit the issuer.

A floored Floating Rate Note establishes a minimum limit below which the interest which investors will receive will not fall below by setting a minimum level of interest payable by the issuer.

Floored FRNs benefit the investor.

6.2.3. Risks associated with capped and floored FRNs

The below compare the risk or additional risk of complex bonds with those that are non-complex. Investors MUST additionally read and understand the Universal Risks and the risks associated with Debt Securities.

a. *Interest rate risk:*

Capped and Floored Floating Rate Notes

FRNs less interest rate sensitive than fixed rate bonds.

Floating Rate Notes with a capped interest rate are more interest rate sensitive than an equivalent bond without the embedded option when interest rates rise above the level that the capped interest is set at.

Floating Rate Notes bonds with a floored interest rate are less interest rate sensitive than an equivalent bond without the embedded option when interest rates fall below the level that the floored interest is set at.

The price of a bond will increase or decrease in the opposite direction to the changes of interest rate risks.

- **Sensitivity of Bond Prices to changes in prevailing interest rates: Maturity Date**

The sensitivity of a bond price to interest rates increases the longer the outstanding maturity date is.

- **Sensitivity of Bond Prices to changes in prevailing interest rates: Coupon level**

A bond with lower coupon interest rate payments namely a 1% coupon bond will exhibit a greater price movement than a 3% coupon bearing bond of the same maturity given an identical change in prevailing market interest rates.

b. Credit risk:

The credit risk of capped and floored FRNs is equivalent to that of non-complex bonds of the same seniority issued by same issuer.

The risk that the issuer, or borrower, does not meet the agreed interest payments or principal repayments as defined by the bond.

c. Guarantor Risk

Some bond issues may benefit from a third party guaranty.

The guarantor's credit capacity and creditworthiness is a factor which although intended to protect an investors money in the event of a default or non- performance of the Issuer in respect to its obligations, is itself also subject to the risk of that guarantor becoming insolvent or defaults on its/their obligations as a guarantor..

In the event of a Guarantor failing to meet its obligations, you may not receive repayment of your investment principal or any other amounts owing from the issuer and/or the guarantor.

You should also note that the credit rating of the issuer and that of the guarantor are separate and the rating of one could be very different from the rating of the other. (see credit ratings and Credit Risk).

d. Liquidity risk

The Liquidity risk of capped and floored FRNs may greater than that of non-complex bonds of the same seniority issued by same issuer.

The availability of a price enabling an investor to buy or sell a bond is the bonds liquidity.

This will vary greatly depending on many factors including supply and demand, the number of or value of bonds issued, the popularity of the issuer and the market on which it is traded. The primary measure of liquidity risk is the difference between the bid price (the price at which a dealer is willing to purchase a security) and the ask/offer price (the price at which a dealer is willing to sell a security). The wider this difference, which is also called the “spread”, the higher the liquidity risk. In many circumstances only one of these prices may be available and in illiquid markets none.

e. Reinvestment risk:

The yield to maturity of a bond assumes that an investor is able to reinvest their interest coupon income received from the issuer at a constant interest for the life of the bond. The actual yield that an investor will experience will differ from the initial yield to maturity by virtue that coupons i.e. the bonds income interest payment proceeds, will likely not be reinvested at the same interest rate as when the bond was purchased. Reinvestment risk increases as prevailing interest rates fall.

6.2.4. Callable Bonds (Fixed rate and Floating Rate)

Callable Bonds have an embedded Call Option (See Options and Derivative sections) which confers to the issuer the right (but not the obligation) to buy back or retire (early redemption) of the bond by being able to buy back the bonds from the bondholders at a pre-determined price (the “call price”) on pre-determined date or dates. The details are described in the Offering Documents/Prospectus.

This option is beneficial to the Issuer.

This option is generally used when an issuer anticipates that market interest rates will fall below coupon interest rates in the future. This means that it is economically advantageous for the issuer to buy back the securities and then re-issue/refinance them by replacing them with a newer issuer which will have a lower interest coupon rate.

6.2.5. Risks Associated with Callable Bonds

a. Interest rate risk

Callable bonds are less sensitive to interest rate changes when interest rates fall and approach the call price.

Callable bonds have a comparable level of interest rate risk compared with non-complex bonds when interest rates are high.

b. Reinvestment Risk

Reinvestment Risk is higher for callable bonds since they issuer will exercise their option to buy the bonds back when interest rates fall below the call price. This means investors will be disinvested and will be seeking to invest at a time when rates are lower than when they originally purchased the security/bond in question.

6.2.6. Risks Associated with Puttable bonds

Puttable Bonds have an embedded Put Option (See Options) which confers to the investor/bondholder the right (but not the obligation) to sell back the bonds to the issuer at a pre-determined price (the “put price”) on pre-determined date or dates. The details are described in the Offering Documents/Prospectus.

This option is beneficial to the bondholder/investor.

a. Interest rate risk

Puttable bonds are less sensitive to interest rate changes when interest rates rise and approach the put price).

Puttable bonds have a comparable level of interest rate risk compared with non-complex bonds when interest rates are low.

b. Reinvestment Risk

Reinvestment Risk is lower for puttable bonds since the investor will have obliged the issuer to buy back the bonds when interest rates have increased and is thus able to reinvest the proceeds at the prevailing higher interest rates in the market (lower price see interest rate risk section).

c. Credit risk:

The credit risk of puttable bonds is equivalent to that of non-complex bonds of the same seniority issued by same issuer.

The risk that the issuer, or borrower, does not meet the agreed interest payments or principal repayments as defined by the bond.

d. Guarantor Risk

Some bond issues may benefit from a third party guaranty.

The guarantor’s credit capacity and creditworthiness is a factor which although intended to protect an investors money in the event of a default or non- performance of the Issuer in respect to its obligations, is itself also subject to the risk of that guarantor becoming insolvent or defaults on its/their obligations as a guarantor..

In the event of a Guarantor failing to meet its obligations, you may not receive repayment of your investment principal or any other amounts owing from the issuer and/or the guarantor.

You should also note that the credit rating of the issuer and that of the guarantor are separate and the rating of one could be very different from the rating of the other. (see credit ratings and Credit Risk).

e. Liquidity risk

The Liquidity risk of puttable bonds may greater than that of non-complex bonds of the same seniority issued by same issuer.

The availability of a price enabling an investor to buy or sell a bond is the bond's liquidity.

This will vary greatly depending on many factors including supply and demand, the number of or value of bonds issued, the popularity of the issuer and the market on which it is traded. The primary measure of liquidity risk is the difference between the bid price (the price at which a dealer is willing to purchase a security) and the ask/offer price (the price at which a dealer is willing to sell a security). The wider this difference, which is also called the "spread", the higher the liquidity risk. In many circumstances only one of these prices may be available and in illiquid markets none.

f. Reinvestment risk:

The yield to maturity of a bond assumes that an investor is able to reinvest their interest coupon income received from the issuer at a constant interest for the life of the bond. The actual yield that an investor will experience will differ from the initial yield to maturity by virtue that coupons i.e. the bond's income interest payment proceeds, will likely not be reinvested at the same interest rate as when the bond was purchased. Reinvestment risk increases as prevailing interest rates fall.

6.2.7. Convertible bonds

Convertible bonds are a form of hybrid debt securities.

A convertible bondholder/investor has the right, but not the obligation, to convert the bonds into common stock/equity shares (see sections on equity/Option Risks) of the same issuer company either during a pre-determined period or date/s under specific conditions determined at the time of original issue. The details are described in the Offering Documents

The specific conditions will generally be made up of two elements:

- **The Conversion Ratio:**
This is the number of common shares the investor will receive when they exchange their convertible bond, and
- **The Conversion Price:**
This is the pre-determined price that will be applied in converting the bonds into common shares.

Once the bonds have been converted, the bondholder becomes a stockholder.

Convertible bonds are typically issued with a coupon interest rate which is lower than that of similar non-complex bonds issued by the same issuer.

If the latter is very low, the convertible bond will behave like a non-complex bond. If the stock price is high enough, the convertible bond will behave more like an equity security. The main advantage for investors is that they can exercise their option if the underlying stock price increases sufficiently such that they make a higher profit than if they were holding the initial bond.

6.2.8. Risks associated with Convertible Bonds

The below compare the risk or additional risk of convertible bonds with those that are non-complex. Investors MUST additionally read and understand the Universal Risks and the risks associated with Debt and Equity Securities i.

a. Market Risk: Convertible Bonds

in addition to the Universal Market risks and Bond Market risks, the price behaviour of a convertible bond will have a dependency and be influenced by that of the underlying common stock price (or the instrument which the convertible bond can be converted to).

b. Interest rate risk:

When the underlying common stock/share price is very high, convertible bonds prices will move more in line with the underlying stock price and behave more like an equity security (see Equity sections).

When the underlying common stock/share price is low, convertible bond price behaviour and market risk will be comparable to that of non-complex bonds issued by the same issuer.

c. Credit risk:

Convertible Bond credit risk is the same as non-complex debt securities of a similar class issued by the same issue prior to the exercise of the conversion option.

Once the conversion option has been exercised, the credit risk of the equity security converted to will be the same as an equivalent non-complex equity security of a similar class issued by the same issuer.

d. Liquidity risk:

Convertible bonds have a generally higher liquidity risk than comparable non-complex bonds due to there being generally fewer buyers and sellers and lower amounts of the securities being in issue.

e. Volatility risk:

Convertible bonds price behaviour, and consequently the price volatility, will have a dependency and be influenced by that of the underlying common stock price (or the instrument which the convertible bond can be converted to).

6.2.9. Exchangeable bonds

Exchangeable bonds are debt securities that can be exchanged by bondholders for existing shares of another company, namely a company other than the issuer of the bonds themselves.

The behaviour of exchangeable bonds and risks are similar to those of convertible bonds except that once exchanged the risk associated with the shares is that of the company who issued the shares.

Issuers of Exchangeable Bonds are typically companies which hold shares in other companies.

6.2.10. Market Risk: Exchangeable Bonds

in addition to the Universal Market risks and Bond Market risks, the price behaviour of a convertible bond will have a dependency and be influenced by that of the underlying common stock price (or the instrument which the convertible bond can be converted to) of the company that the bonds can be exchange to and NOT the issuer of the Exchangeable Bond.

a. Interest rate risk

When the underlying other company common stock/share price is very high, convertible bonds prices will move more in line with the underlying other company's stock price and behave more like an equity security (see section on Equity Risk).

When the underlying common stock/share of the other company price is low, the convertible bond price behaviour and market risk will be comparable to that of non-complex bonds issued by the other company's stock.

b. Credit risk:

Exchangeable Bond credit risk is the same as non-complex debt securities of a similar class issued by the same issue prior to the exercise of the exchange option.

Once the conversion option has been exercised, the credit risk of the equity security converted to will be the same as an equivalent non-complex equity security of a similar class issued by the other company.

c. Liquidity risk:

Exchangeable bonds have a generally higher liquidity risk than comparable non-complex bonds or convertible bonds due to there being generally fewer buyers and sellers and lower amounts of the securities being in issue.

d. Volatility risk:

Exchangeable bonds price behaviour, and consequently the price volatility, will have a dependency and be influenced by that of the underlying common stock price of the other company (or the instrument which the Exchangeable Bond can be exchanged to).

6.2.11. Bonds Redeemable in Common Stock (shares)

Bonds that are redeemable with shares are debt securities that at maturity are repaid/redeemed by having shares/common stock delivered to the bondholder/investor in lieu of cash.

The number of common shares/stock is determined at issuance by a pre-defined conversion price/ ratio. The conversion into common stock at maturity is mandatory for the bondholder/investor.

At maturity, bondholder/investors become common stock/shareholders.

6.2.12. Risks associated with Bonds Redeemable in Common Stock (shares)

The below compare the risk or additional risk of Bonds Redeemable in Common Stock (shares) with those that are non-complex. Investors MUST additionally read and understand the Universal Risks and the risks associated with Debt and Equity Securities.

The risks associated with Bonds Redeemable in Common Stock (shares) after the maturity/redemption date/event are the same as non-complex investors in the equivalent class of equity securities (see Equity and Subordinated Risks).

Prior to the redemption/maturity of Bonds Redeemable in Common Stock (shares) the following differences in risk are notable:

a. Interest rate risk

is comparable to that of non-complex bonds of a similar class issued by the same issuer prior to redemption into common stock.

b. Volatility risk:

is comparable to that of non-complex bonds of a similar class issued by the same issuer prior to redemption into common stock

If the underlying stock price falls significantly near the maturity/redemption date, investors may receive common stock whose overall value is less than the amount invested.

c. Credit risk

is comparable to that of non-complex bonds of a similar class issued by the same issuer prior to redemption into common stock

d. Liquidity risk

is typically higher than for similar non-complex bonds issued by the same issues because the market for such bonds is typically smaller, with fewer buyers and sellers.

e. Other risks

(exchange rate, inflation, reinvestment): similar to those of other non-complex bonds issued by the same issuer prior to prior to redemption into common stock

6.3. Other Types of Complex or Higher Risk Bonds

6.3.1. High yield bonds

High yield bonds have the potential for greater returns but in turn have significantly higher risks associated with them.

High Yield Bonds are typically of a lower credit quality and are referred to as "below investment grade".

This lower credit quality results in lower credit ratings (see Credit Risk) and an increased risk of default by the issuer.

Some High Yield bond may be unrated.

6.3.2. Risks Associated with Preferred Perpetual Securities - Deferral of coupon / dividend

Any investment in High Yield Bonds is accompanied by an increase in all associated risks including but not limited to:

- a greater credit risk, (see Credit Risk)
- greater Liquidity risk (see Liquidity Risk)
- greater Emerging Market Risk and greater foreign exchange risk when invested in less liquid or popular currencies (see FX Risks)

6.3.3. Preferred Perpetual Securities

Preferred Perpetual Securities are hybrid debt-equity instruments.

These types of securities are undated, namely, they have no defined date when the investment will be repaid.

Such financial instruments tend to behave like and have the same risks associated with them as equity investments of a similar class and seniority.

Perpetual securities are typically subordinate (rank lower in the creditor waterfall i.e. less likely to receive cash following an insolvency) to debt instruments.

Preferred Perpetual Securities are generally, more volatile, more sensitive to movements in interest rates, less liquid and represent a specialised investment.

6.3.4. Risks Associated with Preferred Perpetual Securities - Deferral of coupon / dividend

The typical terms and conditions of Preferred Perpetual Securities securities allow the issuer to elect to defer any payment of coupon or dividend for a period of time during the tenor of the security.

Depending on the terms, such deferral may be cumulative or non-cumulative.

If deferral is non-cumulative, this means that, once deferred, the issuer will not be required to pay the relevant unpaid coupon or dividend at any subsequent point in time. As such, investors face uncertainty over the amount and time of the interest payments to be received as well the risk that they may not receive a return on their investment.

If deferral is cumulative, this means that the issuer will be required to investors the amounts deferred at a later payment date.

6.4. Other risks

6.4.1. Financing Risk

Credit-financed purchases of securities contain additional risks. On the one hand, supplementary collateral may be required if prices move so as to exceed the credit limit guaranteed by a pledge. If the investor turns out to be unable to present such collateral, the bank may be forced to sell deposited securities at an unfavourable moment. On the other hand, the loss incurred due to an unfavourable evolution of the price of a security may exceed the initial investment amount.

Fluctuations of prices of pledged securities may influence the capacity to repay loans in a negative way. The investor needs to be aware that, as a consequence of the leverage factor accompanying the purchase of credit-financed securities, the sensitivity to price fluctuations of those investments will be proportionally more important. As a consequence, chances of gains increase, as do the risks of losses.

Consequently, the risks of such purchases rise according to the importance of the leverage.

7. Derivatives

7.2. Description

Derivatives are financial instruments whose price depends on the price or value of an underlying asset.

The most common types of underlyers include bonds, interest rates, equities, currencies or commodities.

Derivatives are embodied by a bilateral contracts (between two parties), that confer the right or the obligation on one or both parties to execute the terms of the agreement.

Many derivative instruments are standardised and traded on organised venues, but many are still negotiated and executed directly between the contracting parties with no exchange or trading venue. This is known as "Over the counter" or OTC.

The most common forms of derivative contracts are:

- forward contracts,
- futures contracts,
- swap contracts and
- option contracts

Derivatives are typically complex and more volatile than the underlying asset which they reference.

Derivatives can be used for a variety of purposes most typically as a means to manage or mitigate risks (hedging) or as an outright way to speculate.

The use of Derivatives can create access to underlyers which might not be readily available to an investor due to the underlyers lower liquidity.;

7.3. Universal Risks Associated with Derivatives

The risks associated with derivatives are complex, generally of a hybrid nature so it is important that Investors ensure they understand the associated risks before entering into any such arrangements.

7.3.1. MARK TO MARKET LANGUAGE AND RISK WARNINGS (ISDA)

Where a “mark to market” or “margining” agreement exists, the investor will need to have access to funds (“margin”) to cover “margin calls” (see option / Derivative Risks). An ISDA Master Agreement and/or a Collateral / Margin Agreement will detail this.

7.4. Types of Derivatives

7.4.1. Forward Contracts

A Forward contract is an agreement between two parties where the buyer agrees to buy an asset from the seller at a pre-determined price at a defined future date.

At Inception:

There is no exchange of monies between the parties.

At Expiration:

The contract is typically settled by one of two methods:

- physical delivery of the underlying asset, or
- cash settlement, namely the delivery of monies equivalent economically to the value of the contract. This settlement will be either:
 - the buyer receives cash from the seller if the price of the underlying asset is higher than the price determined when the contract was agreed or
 - the buyer pays cash to the seller if the price of the underlying asset is lower than the price determined when the contract was agreed.

Forward contracts are highly customisable, not traded on organised exchanges, and are subject to counterparty risk (see Credit/Couterparty Risk).

Forward contracts are typically used with the underlying assets bonds, interest rates, equities, and commodities, mainly for hedging purposes.

7.4.2. Risks Associated with Forward Contracts

a. Market risk:

The parties to a Forward Contract are subject to the non-diversifiable market risk of the underlying assets (see relevant risk section)

Your attention is drawn specifically to the Universal Risks and you must also read the risks associated with the specific underlying asset class of instrument.

b. Interest rate risk

The main risk for forward contracts on bonds and interest rates is Interest rate risk (see Interest Rate Risks).

c. Volatility risk

The main risk for forward contracts on equities is volatility risk (see Volatility Risk).

d. Counterparty risk

Both parties to a forward contract are exposed to the default risk of the other party.

In case of the investors inability to do so, the transaction will be liquidated before due term, generally at loss.

e. Settlement Risk

Both parties to a forward contract are exposed to the risk of the other party not adhering to the terms of the forward contract.

f. Liquidity risk:

Forward contracts are predominantly traded OTC and have a low liquidity, and generally not negotiable with third parties.

g. Foreign Exchange rate risk

Where a Forward Contract is denominated in a currency other than either parties' domestic or preferred currency, an exposure to Foreign Exchange Risk exists.

h. Valuation risk:

The valuation of a forward contract will be determined by reference to the underlying asset and the forward period of time remaining until the settlement date of the contract. Some underlying assets may be difficult to value due to an absence of an underlying market and thus subject to subjective determinations and negotiations.

Any valuation may be subjective, volatile and investors that the actual value of the contract or of the underlying is not in line with their expectations at the time of inception of the forward contract.

7.4.3. Other Risks

WHERE THE UNDERLYER'S VALUE FALLS

The buyer of the Forward Contract will have to accept the underlying asset at the price agreed upon in the contract.

The maximum the buyer may lose is their whole of their initial investment if the underlying price falls to zero.

WHERE THE UNDERLYER'S VALUE RISES

The seller of the Forward Contract will have to deliver the underlying asset at the price agreed upon in the contract.

The seller of a forward contract risks unlimited loss which are indefinable at the contracts inception since theoretically the increase in price of the underlyers could continue in an unlimited manner.

a. Margin

In order to mitigate counterparty and valuation risk, a margining arrangement will collateralise part or all of the "mark to market" value of the contract periodically.

Investors will need access to funds in order to post margin when requested and in accordance with any in force margin arrangements. Should the margin be seen as insufficient during the forward transaction, the investor may need to provide an additional variation margin at short notice.

A failure to meet a Margin Call or Variation Margin call may result in the termination of the contract.

7.4.4. Futures Contracts

Description

A Futures contract is similar and equivalent to a forward contract in its general characteristics, namely it is an agreement between two parties where the buyer agrees to buy an asset from the seller at a pre-determined price at a defined future date.

Futures contracts are typically highly standardised, traded on regulated markets or organised exchanges.

Counterparty Risk is reduced by the use of a Clearing House which acts as an intermediary counterparty between the buyer and seller.

Unlike a Forward contract, there is never any exchange of cash between the contracting parties since they actually are contracted via the Clearing House.

At Inception: INITIAL MARGIN:

An initial margin is fixed at the time of inception of the contract.

This margin is generally expressed as a percentage of the value of the contract or potential future exposure.

During the life of the Futures Contract : MARGIN CALL:

The amount of margin required to be posted during the life of the Futures Contract will vary. When the amount held in the Margin account (of wither the buyer or seller) falls below the minimum margin requirement, the Exchange will issue a margin call.

The investor now either has to increase the margin deposited or close out / terminate the Futures Contract.

At Expiration:

Exchange traded Futures are typically cash settled, namely the delivery of monies equivalent economically to the delivery of the underlying asset. This settlement will be effected via the Clearing House either:

- the buyer receives cash from the seller if the price of the underlying asset is higher than the price determined when the contract was agreed or
- the buyer pays cash to the seller if the price of the underlying asset is lower than the price determined when the contract was agreed.

Futures Contracts are typically available on liquid underlying assets including Government bonds, standardised interest rate tenors in major currencies, and some major equities and commodities.

7.4.5. Risks Associated with Futures Contracts

a. Market risk:

Futures contract investors are subject to the market risk of the underlying assets (see relevant sections).

b. Interest rate risk:

This is the main risk for futures contracts quoted on bonds and interest rates (see Interest Rate Risks).

c. *Volatility risk:*

This is the main risk for futures contracts quoted on equities (see volatility risk).

The Counterparty risk of Futures Contracts traded on organised regulated markets is significantly less than for forward contracts by virtue of the intermediation of the Clearing House.

d. *Liquidity risk:*

there is a significantly lower liquidity risk than for forward contracts by virtue of being standardised and traded on an organised and regulated exchange with higher numbers of market participants.

e. *Foreign Exchange rate risk:*

Where a Futures Contracts are denominated in a currency other than either parties domestic or preferred currency, an exposure to Foreign Exchange Risk exists (see FX Risk).

f. *Valuation risk:*

there is significantly lower valuation risk than for forward contracts, by virtue of being standardised and traded on an organised and regulated exchange with higher numbers of market participants and a generally transparent availability of prices.

g. *Other risks:*

WHERE THE UNDERLYER'S VALUE FALLS

The buyer of the Futures Contract will take delivery of the underlying asset or cash settle (settlement by economic difference being the difference between the contract price and the market price at the moment of expiry) at the price defined by the Futures contract.

The maximum the buyer may lose is their whole initial investment if the underlying price falls to zero.

WHERE THE UNDERLYER'S VALUE RISES

The seller of the Futures Contract risks unlimited losses which are indefinable since theoretically the increase in price of the underlyers could continue in an unlimited manner.

7.4.6. Interest Rate Swap Contracts and Cross Currency Swaps (Swap Contracts)

Description

Interest Rate Swap contracts are bilateral agreements (between two parties) that agree to exchange or swap a series of periodic cash-flows over a pre-defined period of time.

Interest Rate Swap Contracts are highly customisable and tend to have maturities of 1 to 101 years.

In the more liquid currencies, US Dollars, Sterling, Euros and Yen maturities can extended to 30 years.

Interest Rates Swap Contracts have historically been traded and negotiated on an OTC basis i.e. not traded on organised regulated exchanges.

In common with other bilateral derivative contracts, they subject to both parties to mutual counterparty risk and are typically used by corporations, financial institutions and Sovereign agencies to manage interest rates and/or currency risks.

Where and Interest Rates Swap contract is denominated in more than one currency, i.e. an agree agreement to exchange or swap a series of periodic cash-flows over a pre-defined period of time in one currency in exchange for a periodic cash-flow over a pre-defined period of time, in a second currency they are known as Cross Currency Swaps.

7.4.7.Risks Associated with Interest Rate and Cross Currency Swaps

a. Market risk:

Interest Rate Swap contracts are subject to the market risk of the underlying assets, namely the interest rate of the currency in question.

Cross Currency Swaps contracts are subject to the market risk of the underlying assets, namely the interest rate of the two currencies in question and the Foreign Exchange risk if there is not an exchange of Principal at inception.

b. Interest rate risk :

This is the main risk for swap contracts with interest rates as an underlyers (see relevant underlyer)

c. Market risk:

Swap contract investors are subject to the mark to market risk of the underlyers (see relevant underlyer)

d. Counterparty risk:

The Counterparty risk of Swap Contracts is material to both parties of the contract. In some cases, this is reduced by clearing the swap cash flows via an intermediary clearing house in a similar manner to Futures contracts.

e. Liquidity risk:

Swap Contrast have significantly higher liquidity risk than for forward or futures contracts by virtue of not being standardised nor traded on an organised and regulated exchange and although they can be assigned to a third party in lieu of being fully negotiable.

f. Foreign Exchange rate risk:

Swap Contracts denominated in a currency other than either parties domestic or preferred currency, are exposure to Foreign Exchange Rate Risk. This risk increases further where the Swap contract is denominated in more than one currency, and increases further still if neither currency is the domestic currency of either party concerned.

g. Valuation risk:

There is significantly higher valuation risk than for forward or futures contracts, by virtue of not being standardised nor traded on an organised and regulated exchange. Given the lower

level of price transparency availability, especially on bespoke and cross currency swaps, the valuation risk and/or costs of termination and/or assignment will include Break Costs and charges which can be significant for longer dated swap contracts of prices.

7.4.8. Option Contracts

Description

Option contracts are bilateral agreements (between two parties), where the seller is obliged to sell or the buyer obliged to buy an underlying asset at a pre-defined price (the “strike price”) at or up to a specific pre-determined date.

The exercise conditions of an option can be single (known as a European option) or continuous (American Option). Some options can be exercised at a defined periodicity e.g. every quarter (Asian Option).

Option contracts are highly standardised and trade on organised exchanges, though more customised versions can be negotiated and executed on an OTC basis.

There are two classes of options:

a. Call options

The buyer acquires the right (or the option with no obligation) to buy the underlying asset from the seller at a predetermined price at a defined point or points in the future in exchange for a premium payable to the seller at inception.

Upon the buyer exercising the option, the seller must either:

- physically deliver the underlying asset, or
- cash settle, namely the delivery of monies equivalent economically to the delivery of the value of the option.

b. Put options

The buyer acquires the right (or the option with no obligation) to sell the underlying asset to the seller at a predetermined price at a defined point or points in the future in exchange for a premium payable to the seller at inception.

Upon the buyer exercising the option, the seller must either:

- physically take delivery of the underlying asset from the buyer of the option, or
- cash settle, namely the delivery of monies equivalent economically to the delivery of the value of the option.

The maximum loss the buyer of any option can incur is the complete loss of the initial money invested, namely the premium.

The seller of an option Contract risks unlimited losses which are indefinable since theoretically the increase in price of the underlyers could continue in an unlimited manner.

7.4.9. Risks Associated with Option Contracts

a. Buying options

A buyer of an option risks the total loss of premium paid in addition to any transaction costs incurred.

b. Selling options

The risks associated with selling (or “writing”) an option is greater than buying an option.

An option seller, is obliged to settle the option either in cash or through physical delivery (the acquisition or delivery of the underlying reference asset).

Writing an option exposes the seller(writer) to potentially unlimited losses.

c. Selling covered call options

In the case an investor sells a covered call option and such option is exercised by the buyer, the potential profit on the underlying reference asset (which is held by the seller) would be capped at the exercise price of the option contract and not benefit from further price increases of the underlyers. This opportunity loss would be partially mitigated by the premium. In the event the call option is not exercised by the buyer, the full downside risk of the underlying reference asset is still experienced and mitigated only to the extent of the amount of premium received for selling the call option.

d. Selling of uncovered call option.

A seller of an uncovered call option, would be required initially to deposit a margin.

In the event that the price of the underlying reference asset rises, the amount of the required margin will also increase.

As such, the seller would bear the risk of having to provide additional collateral to the bank at any time in order to meet the increased margin requirements.

In addition, in the event that the call option is exercised by the buyer, the seller would bear the risk of having to purchase the underlying reference asset to be delivered at a market price which would be higher than the exercise price. Since there is no limit to the amount by which the market price of the underlying reference asset may rise by, the theoretical potential loss would be unlimited and mitigated only in part by the amount of premium received for the selling the option.

e. Selling of put options

A seller of a put option would be required initially deposit a margin.

In the event that the price of the underlying reference asset falls, the amount of the required margin will also increase.

As such, the seller would bear the risk of being called upon at any time by the bank to furnish additional collateral to satisfy the increased margin requirements.

In the event that the put option is exercised by the buyer, the exercise price may be considerably higher than the market price of the underlying reference asset. The seller’s loss in such a situation would be the difference between the exercise price of the put option and

the market price of the underlying reference asset and the total loss would be limited to the amount of the exercise price. Any loss incurred would be mitigated only in part by the amount of the premium received for selling the option.

If the buyer does not exercise the put option before its expiry, the margin provided will be released and the seller will no longer face the risk of having to purchase the underlying reference asset at a price exceeding the market price. The seller retains the amount of premium received.

f. Market risk:

Option contracts are subject to the market risk of the underlying assets in question. (see Mark to Market Risk and Valuation Risk)

g. Interest rate risk :

This is a risk for buyers and sellers of option contracts, especially where the underlying asset is an interest rate (see section on Interest Rate Risk).

When interest rates rise, the value of a call option increases, while the value of a put option decreases.

h. Price risk

is the main risk for options.

Options are extremely sensitive to changes in the underlying asset's market value.

i. Volatility risk:

Is an important risk factor for Options.

If the volatility of the underlying asset increases, the value of both the call and the put options increases.

j. Time value of money:

Is an important risk factor for Options.

The value of both call and the put options decrease the closer the option is to its expiration date.

k. Counterparty risk:

The Counterparty risk of option Contracts is mutual to both parties of the contract. In some cases, this is reduced by clearing the swap cash flows via an intermediary clearing house in a similar manner to Futures contracts.

l. Liquidity risk:

Options traded on an organised exchange are more liquid than those negotiated on an OTC basis. The longer the maturity (time till expiration date of the option), the lower the liquidity, generally due to a lower level of supply and demand.

Options Contracts have a typically higher liquidity risk than for forward or futures.

m. Foreign Exchange rate risk:

Option Contracts denominated in a currency other than either party's domestic or preferred currency, give risk to Foreign Exchange Rate Risk. This risk increases further where the option contract is denominated in more than one currency, and increases further still if neither currency is the domestic currency of either party concerned.

n. Valuation risk:

There is significantly higher valuation risk than for forward or futures contracts, by virtue of not being standardised nor traded on an organised and regulated exchange. This is further impacted given the lower level of price transparency availability, especially for bespoke and complex options.

The valuation of some of the underlying assets may be difficult and subject to subjective assessments in the absence of an available or transparent market.

o. Leverage risk:

Options expose investors to Leverage risk. As a seller (of an uncovered option), losses can be unlimited.

As a buyer of an option this may produce gains far in excess of the amount of money/premium invested.

7.4.10. Option Strategy Combinations

Description

An acquisition of two or more options, based on the same underlying contract, which differ in either the option type (call or put), the quantity, the strike price, the expiration date or the type of position (buy or sell), is referred to as a combination.

There are an infinite number of such combinations and many of the more popular strategies are given names such as Straddles, Strangles, Bear Spreads and Butterflies.

7.4.11. Risks Associated with Option Combination Strategies

ONLY FOR PROFESSIONALS AND ELEGIBLE COUNTERPARTIES

Given the large number of possible combinations, you are advised to obtain independent advice before entering into any transaction to ensure you understand and are familiar with the particular risks involved.

EXOTIC OPTIONS PLACEHOLDER

7.4.12. Credit Default Swap (CDS) Contracts

Description

Credit Default Swaps ("CDS") are bilateral agreements (between two parties), that allow the buyer to protect against a negative credit or default event (or "credit event") that could affect a debt or equity security for a define period of time.

Credit Default Swaps are typically used to militate against credit risk exposure.

The buyer pays a premium to the seller to be protected against the credit risk of a debt instrument. In case of a credit event, the settlement may be executed physically with the

buyer delivering the underlying (defaulted or distressed) asset to the seller and the seller paying the buyer the full face value amount.

In case of cash settlement, the buyer receives the difference between the face value amount and the market value of the underlying (defaulted or distressed) asset.

7.4.13. Risks Associated with Credit Default Swaps

a. Credit risk:

This is the most important and central risk to the value of a CDS Contract.

The credit risk of the contract will track the credit risk of the underlying asset.

b. Counterparty / Issuer risk:

Despite a CDS being a bilateral contract, the risk is predominantly the buyer's risk.

The Counterparty risk of CDS Contracts centres on the possibility of non-performance of the seller of the contract in the event of a qualifying credit event and the seller not meeting, being unable to meet its obligations or having themselves become insolvent.

c. Foreign Exchange rate risk

exists where payments specified in the contract are not in the domestic currency of the buyer of the CDS or the underlying assets being denominated in another or multiple currencies which are not the domestic currency of the CDS buyer.

d. Valuation risk:

PLACEHOLDER

The valuation of some underlying instruments can be difficult and subject to subjective assessments in the absence of a true market. Consequently, the valuation may be inaccurate.

8. Commodities

A commodity is a physical product which is or can be traded on a secondary market.

Returns from commodity investments are based on changes in their price in the open market.

Some of these markets are exchange based.

Tradable commodities are categorised in broad groups as follows:

Agricultural products and livestock – including biofuels, cocoa, coffee, cotton, edible oils, grains, pork, soybeans, sugar and wheat.

Metals and mining – including aluminium, copper, gold, steel and silver.

Energy – including crude oil, gas, electricity and petrochemicals.

While it is possible to buy such commodities directly and physically, the most common ways to gain exposure to commodity prices is using commodity derivative contracts or settling physical commodity trades by cash differential.

8.2. Risks Associated with Commodities

Commodities are exposed to many different types of risk.. The market for and trading in commodities is speculative and is highly volatile.

Apart from the Universal risks detailed in the relevant underlying sections and potentially significant transaction costs and logistical risks and associated costs, commodities are also subject to the following risks (depending on the specific commodity).

a. Market Risk

Commodity market risk fluctuations can be extreme, frequent, long lived and unpredictable. Supply and demand for commodities can be affected by the actions of producers, consumers, traders, and commodity investors.

Other factors which can impact commodity prices include, but are not limited to climate, geopolitical factors, political conflict, industrial disputes and , natural disasters, governmental programmes and policies, changes in interest and exchange rates, agricultural harvest levels, Quotas, International trade trends, sanctions, domestic and international fiscal policy, cross border exchange control policies

b. Volatility Risk

Commodity products are significantly more volatile than traditional investments such as equities or bonds.

Some commodities, such as energy and certain metals, may have more strongly correlated trends between them.

c. Valuation Risk

The physical nature of many commodities often requires that shipments be inspected to verify quality, quantity and the mere presence of the contracted shipment.

d. Speculative nature of Commodities

The commodities markets are in most cases less liquid as compared to the markets of equity, interest or currency-related products. Due to market movements, investors may suffer a substantial or even total loss of their investment.

e. Physical Delivery Risk

Commodities products may include the possibility of physical delivery at maturity of the contract.

Physical delivery may be affected by many factors including but not limited to:

- heightened political risk,
- Weather
- volatile economic fundamentals (e.g., inflation, exchange rate)
- freight failure
- mergers and acquisitions,

- other corporate actions on underlying reference asset/s,
- Nationalization,
- market disruption or suspension,
- Insolvency,
- Changes in economic, political or social conditions (including social unrest, riot and war).

9. Structured Products

9.2. What is a structured product?

Description

Structured products are highly customised simply financial instruments with varying terms, pay-outs and risk profiles which may be designed to track the performance of an underlying asset, mitigate specific risks, gain access to normally illiquid or unavailable markets or repackage underlying assets in order to pass on the risk or benefit to a third party.

Structured products can be designed with underlyers either individually or in infinite combinations. Underlyers can include but are not limited to equity, index, commodity, currency, funds, Mortgages, commercial cash flows and economic indicators either individually or in customised baskets.

9.3. Types of structured products

Structured products typically provide for a range of thematic uses including:

- Capital protection
- Yield enhancement
- Participation

9.3.1. Capital Protected Structured Products

Structured products are able to offer 100% protection or varying degrees of capital protection.

Some capital protected structured products can provide for conditional capital protection which may be linked or contingent on the underlying performance of a specified asset.

Where the specified conditions are met, such as the price of the underlying asset reaching a pre-determined level during the structured products term, the capital protection ceases. This method of composing the structured product allows for the price to be adjusted favourably in return for the investor assuming greater risk

9.3.2. Yield Enhancement Structured Products

Structure products which generate potential yield enhancement tend to not offer capital protection.

The objective to produce a return greater than that of comparable investments but may in turn mean an increase in risk of other parameters of the product.

Yield enhanced products may have features such as maximum income generation, barrier or multiple barriers above or below which the enhancement drops away either in part or for the entire products investment span.

Barriers can either trigger a benefit to take effect or drop away. This is usually based on the price of the underlying asset.

9.3.3. Participating / Leveraged Structure Products

Participation structure products typically will pay no interest coupon income but in return will pay a leveraged upside potential or downside protection often with little or no capital protection.

The Participation rate (expressed as a percentage) reflects the proportion of the underlying assets performance which is passed on to the structure product investor.

Counterparty and/or issuer risk is of greater importance since the issuer's or counterpart's failure to perform its obligation under the terms of the structured product may lead investors to lose part or all of their original investment.

9.4. Risks associated with Structured Products

9.4.1. General remarks:

All the Universal Risk described (see Universal Risks section) are relevant as are many of the risk previously detailed.

IT IS NOT POSSIBLE TO GENERICALLY DESCRIBE ALL THE RISK THAT MAY APPLY TO ANY ONE GIVEN STRUCTURE PRODUCT DUE TO THEIR HIGH CUSTOMISABLE FEATURES.

INVESTORS MUST READ THE SPECIFIC WARNINGS OF THE STRUCTURED PRODUCT BEING CONSIDERED, ESPECIALLY THE WAY IN WHICH CERTAIN FEATURES AND RISK MAY INTERESCT IN WAYS THAT ARE NOT NORMALLY ASSOCIATED WITH SIMPLER STANDARDISED INVESTMENTS.

YOU SHOULD NOT INVEST IN ANY STRUCTURED PRODUCT WITHOUT A FUNDAMENTAL NEED THAT NECCESITATES ITS USE AND A COMPLETE UNDERSTANDING OF:

- **HOW THE PRODUCT IS DESIGNED TO POTENTIALLY MEET THOSE NEEDS**
- **THE RISK ASSOCIATED WITHTHE SPECIFI STRUCTURED PRODUCT AND**
- **THE COMPROMISES TAKEN, WHICH GENERALLY INCREASE THOSE RISK, IN PURSUIT OF A MORE AFFORDABLE EXECUTION PRICE**

THE FOLLOWING ARE GENERIC DESCRIPTIONS OF THE MORE COMMON TYPES OF SRTUCTURED PRODUCT STARTEGIES AND KEY CONSIDERATIONS.

a. Market risk:

Structured product investors are subject to the risks of all the underlying assets in which the products invest or reference.

b. Counterparty / issuer risk:

Particular attention needs to be paid to issuer risk. Investors need to be aware that, as well as any potential loss they may incur due to a fall in the market value of the underlying, a total loss of their investment is possible if the issuer should default.

c. Liquidity risk:

Financial institutions and issuers who construct structured products will normally maintain active pricing to investors on a best efforts basis during the life of a structured product. THIS IS NOT A GUARANTY of liquidity, which will general have materially higher costs associated with the service provided.

Structured products are not liquid instruments and are not intended for short-term speculative use.

d. Interest rate risk

Where a structure product is delivered using a bond as the investible asset, the price of the bon will generally fall with increasing interest rates, and rise with falling interest rates provided that the features within the structured product are not designed to specifically offset this normal relationship between prices and interest rates.

e. Foreign Exchange rate risk

exists where payments specified in the structured product are not in the domestic currency of the investor or where any of the underlying assets are denominated in another or multiple currencies which are not the domestic currency of the investor.

f. Valuation risk:

The greater counterparty risk, higher market risks and significantly increase of liquidity risk, together with the lack of price transparency of both the structured product itself and possibly many of the underlying assets, means the valuation of structure products may be complex and a include subjective assessments, especially in the absence of underlying transparent liquid markets of the underlying assets.

g. Reinvestment risk

In the event that a structured product is terminated prior to its defined maturity date by the issuer(or counterparty if a bilateral contract), investors may not be able to reinvest the proceeds under similar conditions as the structure product.

h. Leverage risk

Where a structured product contains an embedded leverage condition or feature, a small movement in the underlying asset will have a multiple and magnified effect on the structured product. This may significantly impact the returns of the investment linked to the structured product and consequently the overall performance of the product which could be negative as well as positive.

i. Events Adjustment Risk

The issuer or calculation agent of the structured product has the discretion to adjust the terms of the structured product if it determines that certain adjustment or extraordinary events (as specified in the terms and conditions/offering documents have occurred.

Examples of such adjustment or extraordinary events include

- mergers and acquisitions,
- other corporate actions on underlying reference asset/s,
- Nationalization,

- market disruption or suspension,
- Insolvency,
- Changes in economic, political or social conditions (including social unrest, riot and war).

These adjustments may affect anticipated returns of the structured product or even trigger an early redemption (see section on Redemption risk and Early Termination) and Default Risk)

j. Physical Delivery Risk

Structured products may include the possibility of physical delivery at maturity or the contract end date (if bilaterally negotiated).

Physical delivery may be affected by many factors including but not limited to:

- heightened political risk,
- volatile economic fundamentals (e.g., inflation, exchange rate)
- Weather
- Freight failure
- mergers and acquisitions,
- other corporate actions on underlying reference asset/s,
- Nationalization,
- market disruption or suspension,
- Insolvency,
- Changes in economic, political or social conditions (including social unrest, riot and war).

k. Early Redemption / Termination Risk

Structured products issued in note or bond form do not confer early redemption/termination right on investor (unless specifically included as a contingent event or a pre-defined put option).

The issuer of a structure bond may, upon an investor's solicitation, consider repurchasing or terminated the structured note prior to the original maturity date. This is not assured and should not be relied upon as a source of liquidity.

Early repurchase of a structure note by an issuer is at their sole discretion and will likely incur costs which may not be easily definable prior to an investment being made.

Issuers are entitled to factor in the costs of the early termination and this may include many factors including but not limited to:

- Related hedging or risk management transactions
- break costs incurred related to funding arrangements and
- administrative costs
- legal costs
- associated third party costs

All of these will be factored into the final early termination price payable and may be materially and substantially exceed any reasonable bid offer spread of even the most illiquid financial instruments.

The final returns on early termination maybe below the theoretical value of the sum of the underlying assets.

As a consequence, investors may lose all or a part of their invested capital and principal.