

## Risk Disclosure – Information Statement relating to the nature and risks of financial instruments

Pursuant to our obligations under the Markets in Financial Instruments Directive (Directive 2014/65/EU - MIFID II) we are required to provide clients or potential clients with a general description of the nature and risks of financial instruments in which we may offer to deal with you.

### 1. INTRODUCTION

This Information Statement has been prepared to comply with Article 48 of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive ("**Regulation**") we are required to provide clients or potential clients with a general description of the nature and risks of financial instruments.

The information required to be provided to you pursuant to Article 48 of the Regulation relates only to the nature and general risks of financial instruments, and so this Information Statement does not address any other risks or consequences that may arise as a result of your particular circumstances or as a result of the terms of particular investment.

Moreover, this Information Statement cannot disclose all the risks and other significant aspects of financial instruments. You should not deal in financial instruments unless you understand their nature and risks and the extent of your exposure to risk. You should also be satisfied that the product is suitable for you in the light of your circumstances and financial position.

Please note that this Information Statement is not intended to be, and should not be relied upon as, legal, financial, tax, accounting or other advice. Unless otherwise expressly agreed in writing, we are not providing you with any such legal, financial, tax, accounting or other advice and you should consult your own advisors for advice.

In this Information Statement:

"we", "our", "ours" and "us" refers to Standard Chartered Bank AG;

"you", "your" and "yours" refer to each of the persons to which this Information Statement is delivered or addressed in connection with entering into, continuing, executing or agreeing upon the terms of Transactions with us (or, where you are acting on behalf of other persons, each of those persons).

### 2. RISKS IN RELATION TO INVESTMENTS

Investment risk involves the risk of gains or losses, however this document seeks to inform you primarily of risks that can result in potential losses and does not cover potential gains.

Some risks prevalent in many or most investments. These include (but are not limited to):

- **Change in law risk:** if there is a change in law or regulation which affects an investment, or the manner in which it is traded or held, additional costs might be incurred or, in extreme circumstances, investments lost.
- **Commodity risk:** The prices of commodities may be volatile, and, for example, may fluctuate substantially if natural disasters or catastrophes, such as hurricanes, fires or earthquakes, affect the supply or production of such commodities. The prices of commodities may also fluctuate substantially if conflict or war affects the supply or production of such commodities.

If any interest and/or the redemption amount payable in respect of any product are linked to the price of a commodity, any change in the price of such commodity may result in the reduction of the amount of interest and/or the redemption amount payable. The reduction in the amount payable on the redemption of an investment may result, in some cases, in you receiving a smaller sum on redemption of a product than the amount originally invested in such product.

- **Conversion risk:** conversion of a convertible instrument (such as a convertible bond) may only be possible during certain periods of time and may also be subject to certain other conditions. This may mean that you are unable to exercise conversion rights at the most advantageous time, which may result in reduced profits or increased losses.
- **Counterparty / Insolvency risk:** the insolvency of any institution, including us, acting as party to a contract in a financial product (or otherwise providing a service) may expose you to financial loss. The insolvency or default of the firm with whom you are dealing, or of any brokers involved, may lead to positions being liquidated or closed out without your consent or, indeed, investments not being returned to you. There is also insolvency risk in relation to the investment itself, for example of the company that issued a bond or of the counterparty to off-exchange derivatives (where the risk relates to the derivative itself and to any collateral or margin held by the counterparty). Banks and other financial institutions may become subject to special resolution procedures. In such situations the value of shares and certain debt instruments issued by the bank or financial institution may be written down in whole or in part. Already the deterioration of counterparty's solvency may influence the price of the investment.
- **Country risk:** some markets' investments or the holding of each may be subject to different or diminished investor protection and the protections accorded money or other property you deposit in respect of transactions, which may put your assets at additional risk. Moreover, a foreign debtor, despite itself being solvent, will not be able to meet its transfer or payment obligations because of the inability or unwillingness of its country of domicile to affect the transfer/payment. Investments in emerging markets entail additional risks associated with political and economic uncertainty, adverse government policies, restrictions on foreign investment and currency convertibility, currency exchange rate fluctuation, higher volatility, inadequate liquidity, possible lower levels of disclosure and regulation, and uncertainties as to the status, interpretation and application of laws, including those relating to private ownership of assets, expropriation, nationalization and confiscation.
- **Credit risk:** the risk of loss caused by borrowers, bond obligors, guarantors, issuers or counterparties failing to fulfil their obligations or the risk of such parties' credit quality deteriorating. Generally, the higher the relative rate of interest (that is, relative to the interest rate on a risk-free security of similar maturity and interest rate structure – usually a government bond or certificate of deposit, generally considered to be free from risk of monetary loss), the higher the perceived credit risk. Exposure to the credit risk of one or more reference entities is particularly relevant to any credit linked product such as credit linked notes, and the potential losses which may be sustained, and the frequency and likelihood of such losses occurring, when investing in credit linked products may be substantially greater than when investing in an obligation of the reference entity itself. Credit risk may also be incurred to more than one entity at the same time as for example in case of ABS in which the investor is exposed to the credit risk of the issuer of the ABS and the borrower against the underlying asset. These two risks may be related. Wide-spread default by underlying obligors may lead to the insolvency of the issuer of the ABS.
- **Currency risk:** if investments are denominated in a currency other than that in which your initial investment was made, returns could be reduced, or losses incurred, due to currency fluctuations.

- **Derivatives risk:** for instruments that include an embedded derivative, you should consider the effect of the embedded derivative on the value of the instrument, which may be to amplify any losses.
- **Disinvestment / liquidity risk:** you may be affected by impediments to disinvestment. The liquidity of an investment means the extent to which it is possible for you to sell the assets at any time at fair market price. The liquidity of an instrument is directly affected by the supply and demand for that instrument and also indirectly by other factors, including market disruptions (for example a disruption on the relevant exchange) or infrastructure issues, such as a lack of sophistication or disruption in the securities settlement process. Under certain trading conditions it may be difficult or impossible to liquidate or acquire a position. This may occur, for example, at times of rapid price movement if the price rises or falls to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to intended amounts, but market conditions may make it impossible to execute such an order at the stipulated price. In addition, unless the contract terms so provide, a party may not have to accept early termination of a contract or buy back or redeem the relevant product and there may therefore be zero liquidity in the product. In other cases, early termination, realisation or redemption may result in you receiving substantially less than you paid for the product or, in some cases, nothing at all. You may also be exposed to inflation and/or interest rate risk, as the return on the investment may become lower than the rate of inflation or interest rates available elsewhere.
- **Early termination:** the investment (in particular debt investments) may be terminated prior to their maturity date (due to regulatory, tax change or other events of default). Early termination may mean your expected return is not provided and/or not all the investment is returned. You may not be able to reinvest the proceeds in a product with comparable returns (reinvestment risk).
- **Inflation risk:** means the risk that you will suffer a financial loss as a result of a fall in the value of money (i.e. inflation). Both the real value of the existing assets and also the real income which the assets are supposed to generate are subject to this risk.
- **Interest rate risk:** Interest rates can rise as well as fall. A risk with interest rates is that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could negatively impact also other products. There are additional interest rate related risks in relation to floating rate instruments and fixed rate instruments; interest income on floating rate instruments cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield of floating rate instruments at the time they purchase them, so that their return on investment cannot be compared with that of investments having longer fixed interest periods.
- **Fraud risk:** if there is a fraud in relation to investments which you hold, you may be at risk of losing your investment.
- **Leverage risk:** any leveraged product may be subject to more risk than a non-leveraged product or investment. As a result of leverage, a small movement in the price of an underlying security or benchmark may result in a disproportionately large movement in the price of the leveraged product or instrument. This can lead to sudden and large falls in the value of such products and investments.
- **Loss of investment:** there is a risk in certain investments that you will pay an upfront amount, but never receive any benefit from the transaction. An example of this could be if an option purchased is not in-the-money at the time it can be exercised.

- **Market risk / market conditions:** the price of an investment and its disinvestment risk may each be affected by factors relating to wider market conditions, both positive and negative, and as such market conditions will affect issuers and other market participants differently financial instruments cannot therefore be assessed as an investment in isolation. In case of underlying assets which are determinative for the value of the investment, the investor is also exposed to market risk in respect of the underlying asset.
- **Operational risk:** Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can impact all investment. Business risk, especially the risk that the business is run incompetently or poorly, could also impact on investors in, such a business. Personnel and organisational changes can severely affect such risks and, in general, operational risk may not be apparent from outside the organisation. Also third party failure could expose you to losses as for example in relation to ABS the issuing special purpose vehicle may be dependent on third parties such as corporate servicers/asset managers, paying agents, trustees and other service providers to meet its own obligations. It and thus the investment is therefore exposed to the operational and credit risk of those third parties (third party risk).
- **Reinvestment Risk:** If the terms and conditions of the relevant investment provide for frequent interest payment dates, you are exposed to the reinvestment risk if market interest rates decline. That is, you may reinvest the interest income paid to them only at the relevant lower interest rates than prevailing.
- **Tax risk:** a change in tax law to impose a new tax on the transfer or holding of an investment could result in costs being incurred when realising your investment. Moreover, such changes may pursuant to the terms of the investment give an issuer of an instrument a right to call the instrument should there be an adverse change to the tax laws that affect it (tax call risk). This may mean that the yield on the investment is lower than anticipated.
- **Termination of listing:** where investment are listed or admitted to trading, the relevant issuer will not be obliged to maintain the listing or trading. Investment may be suspended from trading and/or de-listed at any time in accordance with applicable rules and regulations of the relevant exchange(s). This may inter alia result in reduced liquidity or a reduction in the value of the investment.
- **Third party risk:** certain investments may need third parties to act in relation to investments traded or held by you (e.g. custodians, settlement agents, exchanges). Your investments may be at risk in the event of failure and/or fraud in respect of one of these third parties.
- **Volatility risks:** the price of any investment may be volatile due to a number of factors, including but not limited to there being low liquidity in that instrument or product.

### 3. PRODUCT SPECIFIC RISK

Different products involve different levels of exposure to risk and, in deciding whether to trade in such products, you should in addition to the foregoing be aware of the risks outlined in the following in relation to specific instruments.

#### 3.1 Money Market Instruments

A money market instrument is a borrowing of cash for a period, generally no longer than six months, but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend it to the borrower. The borrower must specify the exact amount and the period for which he wishes to borrow. Examples of money market instruments include certificates of deposit, treasury bills and commercial paper, or any other instruments with substantially equivalent features that: (i) have a

value that can be determined at any time; (ii) are not derivatives; and (iii) have a maturity at issuance of 397 days or less. Like other debt instruments, money market instruments may be exposed to the risks identified in Section 2 and in particular to credit risk, market risk and interest rate risk.

### 3.2 Debt Instruments/Bonds

All debt instruments are potentially exposed to the risk described in section 2, in particular credit risk and interest rate risk.

If issued by banks, certain other financial services firms and, in some cases, their parents and other affiliates may, depending on the rank of the debt security in the resolution creditor hierarchy, debt instruments can be vulnerable to “bail-in” or equivalent measures, where the issuer (or an affiliated bank or firm) undergoes a resolution (or bank rescue) procedure. In a bail-in, a governmental or other regulatory body may require investor’s rights under such securities to be written off in whole or part, or converted into equity, or the terms of such securities to be altered (e.g. date of maturity or interest rates payable) or payments suspended. The purpose of such a bail-in is to prevent the bank (or other firm) from entering into insolvency proceedings, and will therefore precede formal insolvency. This means that the holders of the bank and related debt securities may lose some or all of their investment, where the issuer is in financial difficulty, even outside an insolvency scenario and absent the technical default of the issuer.

Debt securities may be subject to the risk of the issuer’s inability to meet principal and /or interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer, general market liquidity, and other economic factors, amongst other issues. When interest rates rise, the value of corporate debt securities can be expected to decline. Fixed-rate transferable debt securities with longer maturities/lower coupons tend to be more sensitive to interest rate movements than those with shorter maturities/higher coupons.

#### (a) Bonds

Bonds are negotiable debt instruments issued in bearer or registered form by a company, a government body or other entity to creditors, and whose par value at issuance usually represents a fraction of the total amount of the debt. The duration of the debt as well as the terms and conditions of repayment are determined in advance. Unless stipulated otherwise, the bond is repaid either at the maturity date, or by means of scheduled payments, or at different rates determined by drawing lots. The interest payments on bonds may be either (i) fixed for the entire duration or (ii) variable and often linked to reference rates (e.g. FIBOR or LIBOR). The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

#### (b) Convertible and Exchangeable Bonds

Convertible and Exchangeable Bonds are bonds, the fixed return of which can be converted into the shares (or a cash payment linked to the value of the shares) of the bond issuer at the option of the bondholder, the issuer, or either of them. Prior to their exchange or conversion, the price volatility of exchangeable or convertible bonds may differ from that of non-exchangeable or non-convertible bonds due to the impact of the potential for exchange or conversion into a new instrument. Once exchanged or converted into a new instrument, that new instrument will carry the risks of the relevant instrument.

#### (c) Asset-backed Securities

An asset-backed security (“ABS”) is a debt security in respect of which the income payments, and therefore the value, are derived from and collateralised (or “backed”) by a specified underlying asset or pool of underlying assets. The asset can be a loan, a lease, a pool of

secured loans or receivables relating to assets such as cars, aircraft or real estate or revenue streams (for example, trade debts or football ticket sales).

Additional risks may be associated with certain types of bond, for example floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, reverse convertible notes, indexed bonds, and subordinated bonds. For such bonds, you are advised to make inquiries about the risks referred to in the issuance prospectus, and not to purchase such securities before being certain that all risks are fully understood. In the case of subordinated bonds, you are advised to enquire about the ranking of the debenture compared to the issuer's other debentures. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after repayment of all higher ranked creditors and, as such, there is a risk that you will not be reimbursed. In the case of reverse convertible notes, there is a risk that you will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

### 3.3 Repo and Stock Lending

Under a repurchase transaction ("Repo"), the parties enter into two simultaneous transactions: (i) one party (the "Seller") transfers title to securities to the other party (the "Buyer") for immediate settlement (or for settlement on a forward start date) at an agreed purchase price paid by the Buyer to the Seller, and (ii) with the agreement for the Seller to repurchase equivalent securities from the Buyer on a specified future date, or on demand, at an agreed repurchase price (representative of the purchase price plus the 'Price Differential' or 'repo rate' reflective of the financing charge during the term of the Repo).

Under a stock lending transaction, one party (the "Lender") transfers title to securities (normally equities) to the other party (the "Borrower") for a defined period of time, or open and terminable on demand, in return for a fee paid by the Borrower to the Lender during the term of the loan (based on market value of the securities). The Borrower provides cash or securities collateral (by way of title transfer) to the Lender on commencement of the loan. On termination of the loan, the Borrower delivers equivalent securities to the Lender and, simultaneously, the Lender returns to the Borrower any collateral provided by the Borrower.

Repo transactions are generally short-term, with the term ranging from overnight to one year, and can also be used for structured financing transactions with a longer term to maturity. They are potentially exposed to the risk described in section 2, in particular credit risk and market risk but also settlement risks – i.e. risks due to the non-settlement or delay in settlement of securities, or failure to deliver securities due to illiquid market conditions in respect of the specific securities at any given time, with the securities difficult to source. Delivery failure could result in an event of default and termination of the repo or stock lending transaction.

### 3.4 Derivatives

A derivative is a contract entered into between parties for the exchange of payments calculated by reference to an underlying asset, rate or index. Rather than trade or exchange the asset itself, an agreement is entered into to exchange money, assets or some other value at some future date based on the underlying asset. A premium may also be payable to acquire the derivative instrument.

There are many types of derivatives, but options, futures and swaps are among the most common. If a derivative transaction is particularly large or if the relevant market is illiquid (as may be the case with many privately negotiated off-exchange derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price.

A derivative can be traded "over-the-counter" (i.e. off-exchange or other trading venue) ("OTC") or on an exchange ("exchange-traded").

On-exchange derivatives are subject, in addition, to the risks of exchange trading generally, including potentially the requirement to provide margin. Off-exchange derivatives may take the form of unlisted transferable securities or bi-lateral OTC contracts. Although these forms of derivatives may be traded differently, both arrangements may be subject to credit risk of the issuer (if transferable securities) or the counterparty (if OTCs) and, like any contract, are subject also to the particular terms of the contract (whether a one-off transferable security or OTC, or a master agreement), as well as the risks described in Section 2. In particular, with an OTC contract, the counterparty may not be bound to close-out or liquidate this position, and so it may not be possible to terminate a loss-making contract. Off-exchange derivatives are individually negotiated. As the terms of the transactions are not standardised and no centralised pricing source exists (as exists for exchange traded instruments), the transactions may be difficult to value. Different pricing formulas and financial assumptions may yield different values, and different financial institutions may quote different prices for the same transaction. In addition, the value of an off-exchange derivative will vary over time and is affected by many factors, including the remaining time until maturity, the market price, price volatility and prevailing interest rates.

In addition to the risk described in section 2, investment in derivatives may subject you to the following risks (but not limited to):

- **Contingent liabilities:** derivatives such as credit default swaps or options may involve contingent liabilities. This can result in the client incurring losses much greater than its original investment (if any) or premium received (in the case of sold options) should certain conditions be met, such as the occurrence of a credit event or an asset reaching a strike price.
- **Unlimited loss:** losses under certain derivatives can theoretically be unlimited. In the context of an interest rate or FX swap, for as long as the interest or exchange rate continues to rise, so too will the client's loss if it is required to pay the variable rate under the transaction.
- **Legal risk:** if a counterparty goes into default and the derivative is terminated, the ability to recover value from the transaction is ordinarily dependent on netting gains against losses across different transactions and the value of the transactions against the value of the collateral. If the legal netting mechanism is not recognised in any jurisdiction, it may be that losses will be incurred.
- **Collateral risk:** parties to derivatives contracts are often required to post collateral to mitigate their credit exposure to one another. If the market value moves against their position, the investor may be called upon to pay substantial additional collateral on short notice. Failure to post collateral may lead to the contracts being closed out, which could crystallise a loss position. There is no guarantee that collateral which is posted by the client will be returned to the client. Where collateral is held by a third-party custodian, the return of such collateral is subject to the credit and operational risk of that custodian.
- **Basis risk:** where a derivative transaction has been entered into to hedge price or other risks arising from ownership of a particular underlying, the performance of the derivative and the performance risk of the underlying may not be perfectly correlated, resulting in residual 'basis' risk.
- **Risk of Adjustments:** the occurrence of certain events relating to the underlying of the derivative transaction may trigger the right of the calculation agent to make certain adjustments to the economic terms (e.g. market disruption events, stock splits, or the payment of unexpected or extraordinary dividends, currency controls, cessation of a benchmark). Such adjustments may involve an element of discretion on the part of the calculation agent. Exposure to an underlying via a derivative may not correspond in all cases with exposure obtained by holding the underlying directly.

- **Clearing risk:** cleared OTC derivatives are OTC derivatives which have been submitted to and accepted for clearing by a clearing house. Such cleared derivatives are subject to the rules of the clearing house, including collateral arrangements required by the clearing house. Therefore, participants may be required to post collateral on short notice to cover losses incurred under the cleared OTC derivative contracts. Failure to post collateral may lead to the contracts being closed out, which could crystallise a loss position. The terms and conditions of cleared OTC derivatives contracts (including the strike or forward price) may be modified by the clearing house without notice to reflect changes or events in respect of the underlying asset or otherwise.

Specific risks associated with different types of derivatives are set out below.

(a) Swaps

Transactions in swaps involve an exchange of different cash flows between the parties. Parties are exposed to the market risk of the relevant underlying. For example, an interest rate swap may involve one party paying the other a variable rate of interest in exchange for payment by the other party of a fixed rate of interest, each calculated on the same notional amount. The party that pays the variable rate of interest will be exposed to the risk of a rise in the variable interest rate, but will benefit from a fall in that interest rate. The receiver of the variable rate of interest will be exposed to the risk of a fall in the variable interest rate, but will benefit from a rise in that interest rate.

An investor purchasing exposure to an underlying asset via a swap will also have funding costs to pay to its counterparty, thereby increasing the potential loss or reducing profits.

(b) Credit Default Swaps

A credit default swap is a contract under which one party (the buyer of credit protection) pays regular fixed amounts to the other party (the seller of credit protection) in return for a payment upon the occurrence of a 'credit event' (e.g. payment default, insolvency, restructuring) in respect of the underlying reference entity or entities, linked to the loss incurred by a holder of debt of the reference entity (typically calculated by reference to a recovery rate determined via an auction process run by ISDA).

The performance of standard credit default swaps is significantly influenced by the ISDA Credit Derivatives Determinations Committees which make binding decisions on critical issues such as whether a credit event has occurred, whether there is a successor to the specified "reference entity" underlying the credit default swap, which obligations of the reference entity are deliverable, the terms of an auction to determine the recovery price and whether or not an auction will be held. The procedures of the Determinations Committee are codified in specific rules, which may be amended by the Determinations Committee.

None of ISDA (or any successor organisation overseeing the Determinations Committee), the institutions serving on the Determinations Committee or any external reviewers owes any duty to participants in credit default swaps in relation to the activity of the Determinations Committee. Institutions serving on the Determinations Committee may base their votes on information that is not available to participants in credit default swaps.

The Determinations Committee is not obligated to follow previous determinations or to apply principles of interpretation such as those that might guide a court in interpreting contractual provisions. Therefore, the Determinations Committee could reach a different determination on a similar set of facts. If we or an affiliate serves on the Determinations Committee, we may have an inherent conflict of interest in the outcome of any determinations. In such capacity,



we or our affiliate may vote and take other actions without regard to the interests of its counterparties under credit default swaps.

Credit event triggers defined under the terms of a credit default swap may not cover all circumstances in which the participant in the credit default swap may suffer credit-related losses on a holding of obligations of the underlying reference entity. Parties intending to hedge credit exposure under an obligation of a reference entity should evaluate whether the credit default swap is an effective hedge.

The operation of the rules on successor reference entities can, in certain circumstances, result in the stated reference entity no longer having deliverable obligations, which means that the buyer of protection under such credit default swap can no longer recover any amounts upon a credit event, but will still be obligated to make fixed payments.

(c) Futures and Forwards

Transactions in futures or forwards involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The leverage you may employ in futures or forwards means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures and forwards transactions have a contingent liability, and you should be aware of the implications of this, in particular margining requirements: these are that, on a daily basis, with all exchange-traded, and most OTC off-exchange, futures and forwards, you will have to pay over in cash losses incurred on a daily basis and if you fail to, the contract may be terminated.

(d) Options

Transactions in options involve one of the parties paying an upfront premium for the right (but not the obligation) to make, or to take, delivery of the underlying asset of the contract at a set price (“strike price”) at a future date or calculate an equivalent cash settlement amount.

A put option will be ‘in-the-money’ if the price of the underlying is less than the strike price, and a call option will be ‘in-the-money’ if the underlying price is more than the strike price. An option must be exercised to provide the ‘in-the-money’ payout, and may be exercisable on maturity or at certain times during the transaction, depending on the type of option. The payout of an in-the-money option may be less than the premium paid for the option. An option expiring out-of-the money provides no pay-out.

The value of an option is a combination of the “intrinsic value” (dependent on the price level of the underlying compared to the strike price), and also the “time value” (primarily dependent on the time remaining to maturity and the volatility of the underlying price). Variations in these factors will cause the value of the option to change.

There are many different types of options with different characteristics subject to different conditions, each of which may have a significant impact on the value, or the ability to realise the value, of the option. For example, a “knock-in” option only becomes effective if the price of the underlying reaches the knock-in level. A “knock-out” option will terminate and become worthless if the price of the underlying reaches the knock-out level.

Selling (‘writing’ or ‘granting’) an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount, unless the seller is covered by holding the underlying asset.

(e) Collateralised Debt Obligations

Collateralised debt obligations (“CDOs”) are structured asset-back securities based on an underlying basket or portfolio of credit assets, which may include bonds, loans and credit default swaps. CDOs are usually divided into several tranches, creating different levels of risk exposure to the underlying credit assets. The most junior tranche tends to an equity tranche, with tranches going up in increasing seniority and correspondingly higher credit ratings. Any losses on the portfolio are sustained first by the holders of the equity tranche and by the holders of the other tranches in order of seniority. Credit events on a small portion of the underlying portfolio can lead to a significant or total loss of the capital invested in the equity tranche and in the more junior tranches.

Investors in CDOs are therefore exposed to a range of risks, including to the value, quality and likelihood of default of the assets underlying the CDO and their returns as well as the risks associated with them (which may be affected by market factors such as changes in interest rates), as well as to changes in the legal, tax or regulatory environment which may impact such assets, investors, or the CDO structure directly or indirectly. Investors have recourse only to the assets underlying the CDO, and thus the value of such assets may be insufficient to meet obligations to the noteholders in the event of a default. Product-specific features such as options for early redemption may also limit the value and/or marketability of the notes.

(f) Commodity Derivatives and Emission Allowances

Commodity Derivatives and Emission Allowances are inherently volatile, demonstrated by historical high volatility levels. Amongst many factors which influence the value of these instruments, supply and demand for the underlyings are affected by market conditions including the potential influence of speculative flows, and domestic policy and geo-political factors. Emission allowances and allowance trading schemes in particular are subject to variance in the environmental and industrial policy of which they typically form a component part. If you wish to utilise commodity derivatives for risk management or other purposes, you should ensure that you fully understand the risks involved in entering into such transactions.

Other forms of derivatives may subject you to the above mentioned or even additional risks.

### 3.5 Structured Deposits

A structured deposit is a cash-based fixed term deposit which typically offers a variable interest amount and a full return of principal at maturity. The investment is placed in a deposit account with the deposit taker who provides the variable interest amount in exchange for the interest generated by the deposit. Although the full return of principal does not typically depend on the performance of another financial instrument, the value of the variable interest amount is determined by reference to an underlying asset, which can include securities, indices, fund units, currencies, commodities, or other financial instruments.

The performance of the variable interest amount (and hence the structured deposit) depends on the performance of the underlying asset by reference to which the variable interest amount is determined. In addition, structured deposits are subject to the risk that the deposit taker may default on the payment of interest and/or principal. Further, the actual and perceived ability of the deposit taker to make payments of principal and interest and/or changes in the deposit taker’s credit ratings may affect the market value of the structured deposit. Whilst it may be possible for an investor to withdraw their investment before the deposit matures, in such a case it is likely that the investor will not receive all of the principal amount originally invested.