Veles International

MiFID II RISK DISCLOSURE STATEMENT

November 2018 revision

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INTRODUCTION

This Statement does not purport to disclose all of the risks and other significant aspects of trading in financial instruments. In light of the risks, Client should undertake such transactions only if Client understands the nature of the financial instruments transaction into which Client is entering and the extent of Client's exposure to risk. Trading in high risk financial instruments like futures, options, swaps, forward rate agreements, alternative investment funds, structured notes and other derivative contracts is not suitable for many members of the public. Client should carefully consider whether trading is appropriate for Client in light of Client's skills, experience, objectives, financial resources and other relevant circumstances.

The Client should note that the value of Client's investments may rise or fall depending on market conditions and that Client may not always recoup Client's initial investment. In addition, past performance should not be seen as an indication of future performance.

The specific risks presented by a particular transaction necessarily depend upon the terms of that transaction and Client's circumstances. Therefore, particular risk disclosures in respect of a variety of products as provided herein are not exhaustive and need to be reviewed in light of Client's specific transaction and circumstances. Accordingly, Client should also read any relevant documentation, for example term sheets and offering memoranda, which may highlight a non-exhaustive set of additional risks particular to a financial product or service.

If Client is in any doubt as to the suitability of any investment or its possible implications, Client should seek independent expert advice including in finance, accounting, legal and tax areas.

RISKS INHERENT IN FINANCIAL INSTRUMENTS TRANSACTIONS

Main risks, which must be considered when investing in all types of financial instrument, are described briefly below. They are assigned, in their specific variations where appropriate, to the individual types of financial instrument listed in this Statement.

Credit Risk

Deterioration in solvency or, even worse, the bankruptcy of a borrower meaning at least a partial loss of the capital invested.

Counterparty risk can be considered a variation of Credit risk resulting from the insolvency of any institution, including Veles International Limited, acting as party to a contract in a financial instrument (or otherwise providing a service) may expose the investor to financial loss

Risk of Inflation

Inflation can reduce the value of an investment. The purchasing power of the invested capital declines if the rate of inflation is higher than the return generated by securities.

Market Risk

Market risk reflects the extent to which the return of the security varies in response to, or in association with, variations in the overall market returns. If the market value of an investment declines, assets are reduced. Credit, country and interest rate risks in particular have an impact in the form of price fluctuations. All investments are exposed to this risk.

Country Risk

Country risk refers to the likelihood that changes in the business environment (for example, financial factors, such as currency controls, devaluation, regulatory changes or stability factors such as mass riots, civil war and other potential events contributing to companies' operational risks) will affect operating profits or the value of assets in a specific country. This term is also sometimes referred to as political risk; however, country risk is a more narrow term, which generally only refers to risks affecting all companies operating within a particular country.

Liquidity Risk

Liquidity risk arises from situations in which a party interested in trading an asset cannot do so because nobody in the market wants to trade this asset. Liquidity risk becomes particularly important to parties who are about to hold or currently hold an asset, since it affects their ability to trade. In the cases of securities issued by small companies (second-tier stocks), occasional liquidity of the market is to be expected. This can mean that securities cannot be traded at the desired time and/or in the desired quantity and/or at the desired price.

Currency risk

Declining exchange rates reduce the value of investments in foreign currencies. However, the foreign exchange market also offers opportunities for profits. The currency risk can be eliminated by investing only in domestic currency. However, companies operating on an international scale are to a certain degree exposed to exchange rate trends risks. Such trends can therefore also exercise an indirect influence on the price movements of securities.

Interest rate risk

Fluctuations in interest-rate levels on the money and capital markets have a direct impact on the prices of fixed-interest securities- Rising interest rates usually have a negative impact on the market prices of equities and bonds. By contrast, falling interest rates have a positive impact on prices.

Operational risk

Operational risk is the risk of loss arising from inadequacies in, or failures of system and controls for, monitoring and quantifying the risks and contractual obligations associated with financial instruments transactions, for recording and valuing financial instruments and related transactions, or for detecting human error or systems failures.

Settlement risk: this operational risk may arise due to the non-settlement or delay in settlement of financial instruments, 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.

Fraud risk: if there is a fraud in relation to investments which Client holds, Client may be at risk of losing its investment.

Legal 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. Also, 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 Client deposits in respect of transactions, which may put Client's assets at additional risk.

*Tax risk***:** a change in tax law to impose a new tax on the transfer or holding of an instrument could result in costs being incurred when realising one's investment.

Performance risk

No assurance can be given relating to the present or future performance of a company or fund. Diminished performance, or performance proved lower than expected, can cause the price of the issuer's securities (net asset value of the fund) to fall.

RISKS PARTICULARLY INHERENT IN INVESTING IN EMERGING MARKETS

Emerging markets are markets for securities trading in countries that possess one or more of the following characteristics:

- certain degree of political instability;
- relatively unpredictable financial markets and economic growth patterns;

- financial market that is still at the development stage;
- weak economy.

There are risks linked to investments in emerging markets that are not encountered in more established markets. This is also the case when the issuer or provider of a product has its headquarters or primary focus of activity in an emerging nation.

Investing in products of such providers is therefore often speculative. Before investing in emerging markets, it is necessary to form an impression of them that will allow assessing the risks involved.

When investing in emerging markets, the following risks listed below should be taken into account. It should be noted that this list is not exhaustive. Depending on the type of investment product, there may be additional risks involved as described elsewhere in this statement.

Political risk

Government's political inexperience or instability of the political system increases the risk of short-term fundamental shifts in a nation's economy and politics. The consequences for an investor can include the confiscation of investor's assets with no compensation, the restriction of investor's rights of disposal over investor's assets, or a dramatic fall in the value of investor's assets in specific sectors of industry as a result of state intervention or the introduction of state monitoring and control mechanisms.

Economic risk

Emerging market economies are more sensitive to changes in interest and inflation rates, which are in any case subject to greater swings than in the established nations. Moreover, the focus of such economies is often relatively narrow, allowing single events to have a magnified impact. In addition, emerging nations generally have a lower capital base. Finally, their financial markets often lack an adequate structure and sufficient monitoring.

Credit risk

Investments in debt papers (e.g. bonds, notes) issued by emerging market governments or companies tend to entail much higher levels of risk than established market debt. This can be due to inferior creditworthiness, high level of government debt, debt restructuring and lack of market transparency or a lack of information. Credit risks are also much more difficult to assess due to inconsistent valuation standards and the absence of credit ratings.

Exchange rate risk

The currencies of emerging market nations are subject to major, unpredictable swings in value. Furthermore, it is important to note that some countries limit the export of their currency or can impose short-term restrictions. Hedging can help limit losses resulting from currency swings, but these risks can never be eliminated entirely.

Market risk

The lack of sophistication in monitoring financial markets can result in poor levels of market transparency, liquidity, efficiency and regulation in the emerging markets. Moreover, high volatility and large price differences are characteristic of these markets. Finally, the inadequacy or absence of regulatory measures gives rise to an increased danger of market manipulation or insider trading.

Market liquidity risk

Liquidity is dependent on supply and demand. The impact on the emerging markets of social, economic and political changes or natural disasters can involve a much more rapid and lasting change to this supply and demand equation than would be the case in the established markets. In an extreme case, illiquidity can be the result, which can make it impossible for the investor to sell its investments.

Legal risk

The absence or inadequacy of financial market monitoring can lead to investors' legal rights being difficult or impossible to enforce. Moreover, legal uncertainty may exist due to the inexperience of the emerging nation's judiciary.

Leverage risk

Leverage risks arise in making sell and purchase securities' transactions whereat settlements are made with using lent monetary funds or securities. A security shall be provided of the obligations of the repayment of loans granted. In these cases the borrower bears the risk of the lender withholding the borrower's assets in lender's favour for the repayment of the loan granted.

Certain emerging markets have an array of different clearing and settlement systems or none at all. These are often outmoded and prone to processing errors as well as considerable delays in settlement and delivery.

Shareholder risk and Creditor risk

Legislation to protect the rights of shareholders and creditors (e.g. duties of disclosure, insider trading ban, management responsibilities, minority shareholders protection) may be inadequate or non-existent.

WHAT ARE SECURITIES?

A security is a fungible (can interchanged by the parties in sale-purchase transactions upon mutual agreement of the parties), negotiable financial instrument representing financial value. Securities are broadly categorized into debt securities, such as bonds and debentures, and equity securities, e.g. common stocks. The company or other entity issuing the security is called the issuer. Securities include equities, bonds, units in investment (mutual) funds, options, warrants and derivatives and may be traded in financial markets such as stock exchanges.

WHAT ARE DERIVATIVES?

Derivatives are financial contracts for which the price is derived either from equities, bonds, commodities or precious metals, or from benchmarks such as currencies, interest rates and indices.

Hence, for example, an equity option derives its value from the 'underlying' equity. There are different types of derivatives, including forwards, futures and their combinations as well as options.

RISKS OF PARTICULAR FINANCIAL INSTRUMENTS

SHARES

A share is an instrument representing a shareholder's rights in a company. Shares may be issued in bearer or registered form and may be certificated or non-certificated. One share represents a fraction of a corporation's share capital. Dividend payments and an increase in the value of the security are both possible, although not guaranteed. The shareholder has financial and ownership rights which are determined by law and the issuing company's incorporation documents. Unless otherwise provided, transfers of bearer shares do not entail any formalities. However, transfers of registered shares are often subject to limitations.

Dealing in shares may involve risks including, but not limited to, the following:

Company risk (*a variation of Credit risk*): a share purchaser does not lend cash to the company, but becomes a co-owner of the corporation. He or she thus participates in its development as well as in chances for profits and losses, which makes it difficult to forecast the precise yield on such an investment. An extreme case would be if the company went bankrupt, thereby wiping out the total sums invested.

Price risk (*a variation of Market risk*): share prices may undergo unforeseeable price fluctuations causing risks of loss. Price increases and decreases in the short-, medium- and long-term alternate without it being possible to determine the duration of those cycles. General market risk must be distinguished from the specific risk attached to the company itself. Both risks, jointly or in aggregate, influence share prices.

Dividend risk (*a variation of Performance risk*): the dividend per share mainly depends on the issuing company's earnings and on its dividend policy. In case of low profits or losses, dividend payments may be reduced or not made at all.

Risk relating to market conditions (*a variation of Market risk*): the price of a share and its disinvestment risk may each be affected by factors relating to wider market conditions, both positive and negative, and such market conditions will affect each company differently depending on the nature and size of the company, amongst other factors; a share cannot therefore be assessed as an investment in isolation.

Disinvestment risk (*a variation of Liquidity risk*): shares may be affected by impediments to disinvestment (e.g. shares may prove illiquid or difficult to sell and/or may be difficult to sell at a price equal to or greater than the transaction price at the point in time that the purchaser wishes to sell).

Dilution risk (*a variation of Legal risk*): in the absence of any restrictions in the incorporation documents of the company or other agreement, an issuer may issue more of its shares, thereby potentially reducing the value of the holding and putting downward pressure on the amount of dividends per share.

Termination of listing risk (*a variation of Legal risk*): where the shares are listed or admitted to trading, the relevant issuer will not be obliged to maintain the listing or trading. Shares may be suspended from trading and/or de-listed at any time in accordance with applicable rules and regulations of the relevant stock exchange(s). This may result in reduced liquidity or a reduction in the value of the shares.

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 (promissory note)*, 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 major risk types, such as **credit risk** and **interest rate risk**.

Money market instruments may be exposed to the following specific risks:

Market risk: when the equity and debt markets are extremely volatile, investing in money market instruments is generally considered to be lower risk. Conversely, during normal market conditions you may be prevented from achieving your objective during any period in which assets are not substantially invested in accordance with your principal investment strategies as a result of being invested in such money market instruments.

Risks affecting the issuer: investors in money market instruments are exposed to the **political**, **market and operational risks** that affect the issuers of the underlying assets. They are also exposed to **currency risk** insofar as underlying assets are denominated in a currency other than the one in which their investment was made.

DEBT INSTRUMENTS (general)

All debt instruments are potentially exposed to the main risk types outlined above in this Statement. The following risks are specific (additional) to Debt instruments:

New issuances risk *(a variation of Market risk)*: investors should be aware that they may not receive the full allocation they apply for, and that any debt instruments they do receive may decline in value from the par value of issuance.

Additional risk for EU banks and investment firms related to debt instruments *(a variation of Legal risk)*: debt instruments 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, 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 (known in the EU as a "resolution authority") 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 INSTRUMENTS - 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).

Investments in bonds may involve risks including, but not limited to, the following:

Insolvency risk *(a variation of Credit risk):* the issuer may become temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the bond. The solvency of an issuer may change due to one or more of a range of factors including the issuing entity, the issuer's economic sector and/or the political and economic status of the countries concerned. The deterioration of the issuer's solvency will influence the price of the securities that it issues.

Interest rate risk: uncertainty concerning interest rate movements means that purchasers of fixed-rate securities carry the risk of a fall in the prices of the securities if interest rates rise. The longer the duration of the loan and the lower the interest rate, the higher a bond's sensitivity to a rise in the market rates.

Credit risk: the value of a bond will fall in the event of a default or reduced credit rating of the issuer. 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 of the issuer.

Early redemption risk (*a variation of Legal risk*): the issuer of a bond may include a provision allowing early redemption of the bond if market interest rates fall. Such early redemption may result in a change to the expected yield.

Risks specific to certain types of bond: 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, Client is 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.

Risk relating to market conditions (*a variation of Market risk*): the price of a bond and its disinvestment risk may each be affected by factors relating to wider market conditions, both positive and negative, and such market conditions will affect each issuer differently depending on the nature and size of the issuer, amongst other factors; a bond cannot therefore be assessed as an investment in isolation.

Disinvestment risk (*a variation of Liquidity risk*): bonds may be affected by impediments to disinvestment (e.g. the liquidity of a bond). In respect of non-listed bonds, these are generally speaking less liquid than listed bonds. There may be no market for such bonds, meaning that the bond holder is unable to exit this investment before the maturity date. This exposes the bond holder to inflation and/or interest rate risk, as the return on the bond may become lower than the rate of inflation or interest rates available elsewhere.

Termination of listing risk (*a variation of Legal risk*): where the bonds are listed or admitted to trading, the relevant issuer will not be obliged to maintain the listing or trading. Bonds may be suspended from trading and/or de-listed at any time in accordance with applicable rules and regulations of the relevant stock exchange(s). This may result in reduced liquidity or a reduction in the value of the bonds.

DEBT INSTRUMENTS – CONVERTIBLE BONDS

These instruments 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. In addition to the risk outlined in “Bonds” above, investments in convertible and exchangeable bonds may be exposed to the following risks:

Derivatives risk: as these bonds include an embedded equity derivative, investors should consider the effect of the embedded derivative on the value of the bond, which may be to amplify any losses.

Equity risks: on exercise of the conversion rights, holders are exposed to the risks relating to shares (as described above) in respect of the relevant equity securities (e.g. shares).

Conversion risk (*a variation of Legal and Liquidity risks*): conversion of the bond into equities may only be possible during certain periods of time and may also be subject to certain other conditions. This may mean that the holder is unable to exercise its conversion right at the most advantageous time, which may result in reduced profits or increased losses.

INVESTMENT FUNDS (general)

Investment Funds are collective investment vehicles which pool the funds of investors in order to make investments in accordance with the investment objectives of the fund. Funds can be either open-ended or closed-ended. Open-ended funds are valued on the basis of the value of the assets held. Closed-ended funds are valued on the basis of what investors are prepared to pay/sell.

Investing in funds may generally involve risks including, but not limited to, the following:

Market risk: the value of an interest in a fund depends on the value of the assets it holds. If general market conditions deteriorate, it is likely that the value of the investment in the fund will also deteriorate.

Liquidity risk: open-ended funds may not be able to liquidate their assets and return funds to investors in the event that there is poor liquidity in the market generally or in the specific sector in which the fund invests. Ongoing costs to service those investments could lead to increased losses or reduced profits for investors in the fund. Closed-ended funds can be subject to risks of low trading and therefore provide limited liquidity, making it difficult for an investor to realise its investment.

Interest rate risk: a leveraged fund will be exposed to interest rate rises. This could reduce the returns that investors receive, or even lead to losses.

Country risk: the value of a foreign investment may decline because of political changes or instability in the country where the foreign investment was issued.

Currency risk: if investments in the fund are denominated in a currency other than that in which the investor’s initial investment was made, returns could be reduced (or losses incurred) due to currency fluctuations.

Counterparty risk and service provider risk: the insolvency of any institution providing services to the fund, such as safekeeping of assets or acting as counterparty to the fund in derivatives or other instruments, may expose the fund to financial loss.

Derivatives risk: a fund may utilise instruments in the form of warrants, futures, options, forward contracts and swaps to seek to enhance investment returns. While this can potentially have the effect of enhancing the fund's performance, it can also be detrimental if there are losses on the derivatives.

Operational risk: an investment in a fund can involve operational risks arising from a wide range of possible operational errors, including system breakdowns, human errors or external events and errors caused by service providers such as the investment manager, which may affect the value of the fund and (if applicable) its ability to pay redemptions within the scheduled timeframe.

Limited diversification risk (*a variation of Legal risk*): unless the fund is subject to investment restrictions and diversification requirements, the number and diversity of investments held by a fund may be limited.

Restrictions on subscription risk (*a variation of Legal risk*): an investor in the fund's units/shares may be prevented from subscribing and redeeming such units/shares, either at the official net asset value (for example, as a result of the imposition of any charges by the fund) or at all, or the prescribed notice period, timing cut-offs and minimum/maximum amounts in respect of subscriptions and redemptions for the fund's units/shares may be changed.

Compulsory redemption risk (*a variation of Legal risk*): the fund may compulsorily redeem the shares/units upon the occurrence of certain events (for example, if, following the insolvency of the investment manager, the fund becomes unable to fulfil its investment objections).

Performance risk: no assurance can be given relating to the present or future performance of a fund and any underlying asset or instrument in which the fund may invest, that any analytical model used by the fund will prove to be correct or that any assessments of the short-term or long-term prospects, volatility and correlation of the types of investments in which a fund has or may invest will prove accurate.

Changes to portfolio risk (*a variation of Operational or Performance risk*): the composition of the fund's portfolio of investments may change from time to time. Such changes may have an impact on the value of the fund.

Sub-funds segregation risk (*a variation of Legal risk*): the sub-funds of the fund may be segregated as a matter of the law of the fund's home jurisdiction and, as such, the assets of one sub-fund will not be available to satisfy the liabilities of another sub-fund. However, the fund may operate or have assets held on its behalf or be subject to claims in other jurisdictions other than its home jurisdiction which may not necessarily recognise such segregation. There can be no guarantee that the courts of any jurisdiction outside its home jurisdiction will respect the above limitations on liability.

INVESTMENT FUNDS - AIFs

Alternative Investment Funds ("AIFs") are vehicles which pool investments but are not restricted by statute as to instrument restrictions (as, for example, UCITS are), so no investor protection arrangements are in force. Investments in an AIF may be exposed to the following risks (in addition to those outlined above for Investment Funds in general):

Asset allocation risk (*a variation to Market or Liquidity risks*): AIFs can invest in a very wide range of investments. Some AIFs will invest in highly speculative or very illiquid assets; this may increase the risk of losing some or all of the investment in the AIF or making it difficult to relive the value of the investment.

Leverage risk: AIFs can be highly leveraged. This means that small falls in the value of the investments they hold can have significant impact on the value of the fund.

Liquidity risk: some AIFs have lock-up periods or may otherwise be illiquid, so realising Client's investment can be difficult.

Limited diversification risk (*a variation to Market risk)*: AIFs may not be subject to investment restrictions and diversification requirements, and therefore they may have limited diversification meaning that an investor may be highly exposed to poor market conditions in the relevant sector.

INVESTMENT FUNDS - UCITS

Undertakings for Collective Investment in Transferable Securities ("UCITS") may only invest in certain assets (transferable securities, units in Collective Investment Schemes (any arrangement in respect of any property (investment), such as money, the purpose of which is to enable persons taking part is such arrangement (whether by becoming owners of the property or otherwise) to participate in profits/income arising from the property, including income), certain money market instruments, derivatives and forward transactions and deposits). Investments in UCITS may be subject to the following risks (in addition to those outlined above for Investment Funds in general):

Limited diversification risk (*a variation to Market risk)*: as UCITS can only invest in certain assets, they are therefore highly exposed to market conditions affecting those investments.

Liquidity risk: interests in UCITS are intended to be easily transferable and redeemable, but in the event of poor performance of the fund, liquidity may be drastically reduced and investors may be unable to realise their investments without incurring losses or reduced returns.

INVESTMENT FUNDS - ETFs

Exchange-traded funds ("ETFs") are funds that are traded on an exchange. Investments in ETFs may be exposed to the following risks (in addition to those outlined above in for Investment Funds in general):

Market risk: typically, an ETF will seek to replicate a stock market index, market sector, commodity or other basket of assets. Accordingly, the investor is exposed to the market risk of the underlying assets.

Performance risk: investors in an ETF may rely on the manager to track the performance of the underlying indices or assets, or the ETF may track the underlying assets passively (i.e. without the active involvement of the manager). In practice, the ETF's performance will differ from the performance of those indices or assets. More specifically, this may be the result of an ETF tracking error (being the difference between the returns of the ETF and its reference index or asset) may occur owing to a number of factors including rebalancing, restrictions/limitations (e.g. emerging market accessibility), method of replication and the costs/expense ratio (higher costs may lead to a greater tracking error).Therefore, an investor may receive lower returns than it would have had it invested directly in those underlying assets.

Derivatives risk: ETF managers may employ a synthetic structure to provide the stated return, whereby the return is based on a derivative executed with a counterparty. The return may therefore be dependent on the credit quality of the counterparty and/or the collateral held to support the position. Investors may also be exposed to the risks outlined below in respect of derivatives.

Authorised participant (AP) concentration risk *(a variation of Legal or Operational risks)*: in the ETF market, only an AP is permitted to engage in the creation/redemption of transactions directly with the ETF. Since the ETF may only permit for a limited number of institutions to act as an AP, there is the risk that, where an AP exits the business, or is otherwise unable to proceed with the creation/redemption transactions, it was instructed to carry out, and no other AP is able to step in to give effect such creation/redemption transactions, the ETF shares/units may be more likely to trade at a premium price or a discount to the net asset value of index or assets it seeks to replicate, and as a result the ETF may be subject to trading halts and/or delisting.

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.

Repo/Stock Lending transactions may be subject to the following risks:

Credit risk: a party to a repo or stock lending transaction is exposed to credit risk – its counterparty may become insolvent or otherwise unable to meet its obligations and such party may not be adequately collateralised in order to mitigate this counterparty credit risk.

Settlement Risk (*a variation of Operational or Liquidity risks*): operational risk may arise 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.

Market Risk: the economic risks and rewards remain with the Seller (or Lender). Therefore, there is also a potential opportunity cost to a repo or stock lending transaction. If the value of the securities transferred to Buyer (or Borrower) has fallen before equivalent securities are returned, the Seller (or Lender) may have missed the opportunity to dispose of those securities for a higher price which may exceed the price received for the use of its securities under the transaction.

Interest Rate Risk: for longer-dated repos, there can be interest rate risk, in that parties are locked into paying/receiving a specific interest rate that is higher/lower than the prevailing rate.

Collateral risk (*a variation of Market, Credit or Operational risks*): repo and stock lending transactions also involve risks relating to the re-use of collateral (up to the loss of collateral) provided to the counterparty to which title of the collateral securities is generally transferred.

OTC DERIVATIVES – general

A derivative is a contract entered into between parties for the exchange of payments calculated by reference to an underlying asset, rate or index.

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

In general, OTC derivatives involve the following risks:

Market Risk: as derivatives are priced on the basis of an underlying asset or other value, Client will be exposed to the market risks that affect the underlying. However, the economic return of a derivative transaction may not be identical to the economic return of holding the underlying, and may include an adjustment for fees or commissions, financing charges, hedging costs or break costs. 'Stop loss' or 'stop limit' orders intended to limit losses may not be effective if market conditions make it impossible to execute such orders

Counterparty credit risk: where the derivative transaction is uncleared and uncollateralised, the counterparties are exposed to the credit risk of the other party. Client's entire investment could be lost in the event of default by, or the insolvency of, its counterparty.

Loss (up to unlimited) of investment risk (*a variation of Market risk*): there is a risk that the client 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. Losses under certain derivatives (e.g. a sale of an option) can theoretically be unlimited.

Contingent liabilities risk: derivatives such as credit default swaps or options may involve contingent liabilities. This can result in 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.

Leverage risk: derivatives may be entered into on a highly geared or leveraged basis. This may mean that even a relatively small movement in the value of the underlying asset or other specified factor(s) could result in a disproportionately large movement, unfavourable or favourable, in the amount payable between the parties to 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 (*a variation of Market, Credit or Operational risks*): 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.

Operational risk: losses may occur due to the failures of processes and systems used in monitoring derivative transactions, including calculating and making payments or deliveries, exercising rights (such as options rights) before their expiry, monitoring lifecycles events and delivering notices in a timely manner. Such failures in third party systems may be subject to limitations on liability.

Delivery risk: if you have entered into a physically settled derivative, you may be obliged to deliver/take delivery of the relevant asset. In respect of commodities and natural resources, this may require significant operational resources to achieve.

Early termination risk (*a variation of Market, Credit or Operational risks*): derivative transactions may be subject to early termination due to a voluntary or agreed early termination, ‘events of default’ or ‘termination events’ in relation to the client or the provider (e.g. failure to pay, insolvency, force majeure, illegality, tax events) or extraordinary events relating to the underlying (e.g. merger nationalisation or delisting of an equity, market disruptions, cancellation of an index, disruptions in the ability of one or more parties to hedge the transaction). Such events (with the exception of voluntary or agreed early termination) may be outside the control of the client and such termination may, depending on the value of the transaction at such time, result in a substantial payment due from/to the client (even where the provider is in default or the termination arises from an external event). Clients may not be able to establish replacement transactions, or may incur significant costs in doing so, such as charges for early termination even where such early termination is voluntary or agreed between the parties.

Liquidity risk: uncleared derivative contracts can be amended or transferred only pursuant to their express terms or by agreement of the parties. Where consent of the dealer to transfer or unwind an OTC derivative transaction is required, it may not provide such consent, for reasons which it is not obliged to disclose. In addition, there may not be another dealer who is willing to provide the same or a similar transaction. OTC derivative transactions on standardised terms (e.g. credit default swaps with set payment dates and maturity dates) will be more liquid than bespoke transactions. OTC derivative transactions may involve greater risk than investing in exchange-traded derivatives (see section 2.8 below) because there is no exchange market on which to close out an open position. It may therefore be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to 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.

Changes to exchange or clearing house rules (*a variation of Legal risk*): the terms and conditions of OTC derivatives contracts (including the strike or forward price) may be modified by the exchange or clearing house to reflect changes or events in respect of the underlying asset or otherwise.

OTC DERIVATIVES – FORWARDS

Forwards are contracts which require an investor to purchase an asset at an agreed price at a certain point in the future.

If the price of the asset on maturity of the forward is lower than the agreed forward purchase price, the buyer of the forward will receive less of the asset than if they had purchased it in the spot market on the maturity date; if the price on maturity is higher than the agreed forward price, the seller of the forward will receive less for the asset than if they had sold it in the spot market on the maturity date.

OTC DERIVATIVES – 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.

OTC DERIVATIVES – 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 pay-out 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.

EXCHANGE-TRADED DERIVATIVES

Exchange-Traded Derivatives are typically standardised futures or options contracts traded through an exchange or other recognised trading venue. Before entering into a transaction, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

Transactions in Exchange-Traded Derivatives may expose Client to the following specific risks:

Leverage risk: futures contracts are leveraged instruments as the amount of initial margin required is smaller relative to the potential gains or losses under the contracts.

Margin risk: a relatively small market movement will have a proportionately larger impact on the margin an investor has deposited or will have to deposit: this may work against the investor as well as for them. An investor may sustain a total loss of initial margin funds and any additional margin deposited with the firm to maintain their position. However, if the market moves against their position or margin levels are increased, the investor may be called upon to pay substantial additional collateral on short notice to cover losses incurred under the futures contracts and maintain their position. Failure to provide collateral may lead to the contracts being closed out which could crystallise a loss position.

Clearing risk: most Exchange-Traded Derivatives will 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 Exchange-Traded Derivatives 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 Exchange-Traded 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.

Changes to exchange or clearing house rules: the terms and conditions of exchange-traded contracts (including the strike or forward price) may be modified by the exchange or clearing house to reflect changes or events in respect of the underlying asset or otherwise.

Market risk: 'stop loss' or 'stop limit' orders intended to limit losses may not be effective if market conditions make it impossible to execute such orders. Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or 'circuit breakers') may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If an investor has sold options, this may increase the risk of loss.

Operational risk: trading facilities utilise computer systems for the order routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. An investor's ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms.

EXCHANGE-TRADED DERIVATIVES - OPTIONS

Additionally to the risks mentioned above transactions in options may carry a high degree of risk. Purchasers and sellers of options should familiarise themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks, and they should calculate the extent to which the value of the options must increase for their position to become profitable, taking into account the premium and all transactions costs. 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.

STRUCTURED PRODUCTS - general

Structured products provide economic exposure to a wide range of underlying asset classes, generally taking the form of a debt obligation embedding a derivative. The level of income/capital growth derived from a structured product is usually linked to the performance of the relevant underlying asset(s). The range of products may include those where the return is linked to an index or indices, a basket of securities or other specified factors which relate to one or more of the following: equity or debt securities, interest rates, currency exchange rate, commodities, depositary receipts, shares in ETFs, interests in mutual funds, warrants or dividend futures contracts.

The potential return from the structured product may be different to that which may be achieved as compared to directly holding the underlying asset. These instruments may involve a high degree of gearing or leverage, so that a relatively small movement in the relevant index/indices, basket or other specified factor(s) results in a disproportionately large movement, unfavourable or favourable, in the amount paid on maturity of the investment.

Certain structured products provide capital protection while others provide conditional or no capital protection. It may be difficult to liquidate or sell an investment of this type, or to identify an independently determined fair valuation for an interest in this kind of vehicle. Investors will also be exposed to the credit risk of the issuer of the structured note and may lose up to the entire value of their investment if the issuer fails or is otherwise unable to meet its payment obligations.

Structured products are complex in nature and carry a higher risk of loss than certain more straightforward debt and equity products. Therefore, in addition, investors in structured products should be aware of certain additional risks relevant to certain specific product types.

STRUCTURED PRODUCTS – STRUCTURED NOTES

A structured note is a debt obligation with an embedded derivative. The performance of a structured note tracks both that of the underlying debt obligation and the derivative embedded within it. This type of note seeks to alter the risk profile of the underlying by including additional modifying structures , therefore increasing the bond's potential returns or providing a particular exposure to the investor.

Investments in structured notes may involve risks including, but not limited to, the following:

Market risk: as the return on a structured note is determined by reference to an underlying asset or basket of assets, clients will be exposed to the risks that pertain to those underlying assets. The performance of an underlying asset may be subject to sudden and large unpredictable changes over time, which could adversely affect the value of and return on the structured notes.

Credit risk: clients will be exposed to the credit risk of the issuer of the structured note and may lose up to the entire value of their investment if the issuer either fails or is otherwise unable to meet its payment obligations. Structured notes are not deposits and are not protected under any deposit insurance or protection scheme.

Adjustment risk: in certain circumstances (e.g. if the calculation agent for the issuer determines that any adjustment events or other events affecting the underlying assets or the issuer's hedging arrangements have occurred), the calculation agent may adjust the terms and conditions of the structured note (including substituting an underlying asset) without the consent of the investor. Any such adjustment could have a material adverse effect on the return on, and value of, the structured note.

Liquidity risk: structured notes can be highly customised and can therefore be very illiquid. It may be difficult to liquidate or sell an investment of this type, or to identify an independently determined fair valuation for an interest in this kind of product. In addition, illiquidity may have an adverse effect on the market value of the structured notes. As a structured note may need to be held to maturity, the derivative element of the note could amplify losses with no way for the client to exit the trade and thereby reduce those losses. Investors should therefore be prepared to hold a structured product until maturity.

No interest in underlying assets: the holder of a structured note does not have any ownership rights over the underlying assets and will therefore have no claim over the issuer of the underlying assets, including in the event of its insolvency or any recourse as regards the underlying assets themselves..

Termination of listing risk: where structured notes are listed or admitted to trading, the issuer will not be obliged to maintain the listing or trading. Structured notes may be suspended from trading and/or de-listed at any time in accordance with applicable rules and regulations of the relevant stock exchange(s). This may result in reduced liquidity or a reduction in the value of the structured note.

Legal risk: in certain circumstances (e.g. if the issuer determines that its obligations under a structured note have become unlawful or illegal, upon certain events having occurred in relation to any underlying asset or following an event of default), the structured note may be redeemed prior to its scheduled maturity. In such circumstances, the amount payable may be less than the original purchase price of the structured note and could be as low as zero.

DETAILS ON THE MOST COMPLEX PRODUCTS -

OPTIONS

Options transactions can involve major financial risks and should only be entered into by investors who are familiar with this type of transactions, have sufficient liquid resources at their disposal and are able to absorb potential losses.

Characteristic features

Definition

With an option the purchaser acquires the right, against immediate payment of the option premium, to purchase (call option) or sell (put option) a certain quantity of the underlying instrument at a price stipulated in advance, either at any time during the life of the contract (American option) or on expiry date (European option).

By contrast, the writer of an option undertakes to deliver (call option) or accept (put option) the corresponding underlying instrument at the agreed price (striking price) if the option is exercised. Depending on the contract specifications, cash settlement can also be accepted in lieu of physical delivery.

The following may serve as underlying instruments:

- physical assets (equities, futures, bonds, commodities, precious metals)
- benchmarks (currencies, interest rates, indices).

American-type options: it is possible to exercise American-type options on any trading day up until the expiration date.

European-type options: iIt is only possible to exercise European-style options on their expiration date. This does not, however, limit their tradability on the secondary market (e.g. on a stock exchange).

"In the money", "out of the mosey" and "at the money" options:

A call option is "in the money", i.e. has an inherent value, if the current market value of the underlying instrument is higher than the striking price. A put option is "in the money" if the current market value of the underlying instrument is lower than the striking price.

A call option is “out of the money" if the current market value of the underlying instrument is lower than the striking price. A put option is "out of the money" if the current market value of the underlying instrument is higher than the striking price.

Call and put options are “at the money”, if the current market value of the underlying instrument and the striking price are the same.

Value/Price of an Option

The price of an option depends on its intrinsic value and on what is referred to as the time value. The latter depends on a variety of factors, especially the remaining life of the option and the volatility of the underlying. The time value of an option reflects the chance that it will be in the money. Hence, the time value is higher for options with a long duration and a very volatile underlying.

Categories

Traded options are financial instruments which contract sizes, striking prices and expiry dates are standardized and which are traded on exchanges.

Over-the-counter (OTC) options are contracts with standardized contractual terms or contract specifications agreed upon individually between purchasers and vendors. OTC options are not traded on an exchange.

Warrants are non-standardized financial instruments. Some of them are traded on exchanges but many are traded over-the-counter.

Margin Requirement / Margin Cover

A margin is fixed for sales of puts and short sales of calls when the contract is concluded. This margin is recalculated periodically during the entire life of the contract and may result in equivalent margin calls.

In the case of traded options, these margins and their calculation are subject to the guidelines laid down by the exchange in question and are debited or credited daily. The securities dealers are entitled to request higher margins than the required minimum rates. For all other options transactions (for which required minimum rates are not prescribed by the exchange) the securities dealers can set the margins at their own discretion.

Investors must maintain the required margin cover with the securities dealer during the entire life of the contract. A margin shortfall usually results in the liquidation of the position in question by the securities dealer.

Closing out / Settlement

Contracts can be closed out at any time prior to expiry date. Depending on the type of contract and customary practice on the exchange in question, contracts are closed out either by means of an identical counter-transaction or by concluding an offsetting transaction in respect of the obligation, with otherwise identical specifications. In the latter case, the delivery and acceptance obligations resulting from the two open contracts cancel each other out.

Obligations arising from the sale of options which are not closed out must always be settled on expiry date. In the case of contracts based on physical assets, settlement usually takes the form of a delivery of the underlying instrument. In the case of contracts based on benchmarks, a corresponding cash consideration is paid in lieu of physical delivery.

Risks

Risks of changes in the value of the contract / underlying instrument

Generally speaking, if the value of the underlying asset falls, so does the value of a call option. The value of a put option tends to fall if the underlying asset rises in value. The less the option is “in the money”, the larger the fall in the option’s value. In such cases, value reduction normally accelerates closer to the expiration date of the option.

The value of call option can also drop when the value of the underlying remains unchanged or rises. This can happen when supply and demand factors are unfavorable. Put options behave in precisely the opposite manner.

An investor must therefore be prepared to fix a potential loss in the value of the option or for it to expire entirely without value. In such a scenario, an investor risks losing the whole of the premium paid for the option.

Risks of a writer of a covered call option

If, as writer of a call option, an investor already has a corresponding quantity of the underlying at its disposal, the call option is described as covered. If the current market value of the underlying rises above the strike price, investor’s opportunity to make a profit is lost since the investor must deliver the underlying to the buyer at the strike price, rather than selling the underlying at the market (higher) value. The underlying assets must be freely available as long as it is possible to exercise the option, i.e. they may not, for example, be blocked by being pledged for other purposes. Otherwise, an investor is subject to the same risks as when writing an uncovered call option.

Risks of a writer of an uncovered call option

If, as writer of a call option, an investor does not have a corresponding quantity of the underlying at its disposal, the call option is described as uncovered. In the case of options with physical settlement, investor’s potential loss amounts to the price difference between the strike price paid by the buyer and the price the investor must pay lo acquire the underlying assets concerned. Options with cash settlement can incur a loss amounting to the difference between the strike price and the market value of the underlying.

Since the market value of the underlying can move well above the strike price, investor’s potential loss cannot be determined and is theoretically unlimited.

As far as American-style options in particular are concerned, an investor must also be prepared for the fact that the option may be exercised at a highly unfavorable time when the markets are against the investor. If investor is then obliged to make a physical settlement, it may be very expensive or even impossible to acquire the corresponding underlying assets.

An investor must be aware that investor’s potential losses can be far greater than the value of the underlying assets the investor has lodged as collateral (margin cover).

Risks of a writer of a put option

As the writer of a put option, an investor must be prepared for potentially substantial losses if the market value of the underlying falls below the strike price and the investor has to pay the seller. Investor’s potential loss corresponds to the difference between these two values.

As writer of an American-style put option with physical settlement, an investor is obliged to accept the underlying assets at the strike price, even though it may be difficult or impossible to sell the assets and may well entail substantial losses.

Investor’s potential losses can be far greater than the value of the underlying assets the investor has lodged as collateral (margin cover).

Physical delivery / Cash settlement

Investors are exposed to greater risks with contracts which have to be fulfilled by physical delivery than with those which are fulfilled by cash settlement. In the case of physical delivery the full contract value must be paid, whereas in the case of cash settlement only the difference between the prices agreed upon when concluding the contract and the current market value on settlement date must be paid. Investors must therefore have greater liquid resources at their disposal for contracts with physical delivery than for contracts with cash settlement.

Special risks of over-the-counter options transactions and transactions with warrants and stock *options*

As a rule, the market for standardized OTC options transactions and for transactions in warrants and stock options listed on an exchange is transparent and liquid. Closing-out is therefore usually possible without any significant problems.

By contrast, there is no market as such for OTC options transactions with individual contract specifications and for transactions in warrants and stock options which are not listed on an exchange. Closing out is therefore only possible if counterparty is found who is prepared to conclude an offsetting contract.

Combined transactions

Combined transactions are understood to mean the conclusion of two or more options transactions on the same underlying instrument. In such cases the options differ at least in respect of type (call or put), quantity, striking price, expiry date and/or the position taken (long, short).

Due to the diversity of possible combinations, the risks arising in a specific instance cannot be dealt with in detail within the scope of this statement. They can also be altered substantially by closing out individual elements of a combined transaction. Before concluding a combined transaction, investors should therefore make detailed enquiries about its specific risks.

Exotic options

In comparison with the types of options described hereinabove, exotic options comprise additional conditions. They therefore feature structures which cannot be created by any combinations of standard options alone or together with underlying instruments. Exotic options occur both as OTC options and also in the form of warrants.

The virtually unlimited possibilities for structuring exotic options mean that the risks arising in individual instances cannot be described within the scope of this statement. Investors should therefore seek detailed information about the risks involved before purchasing or selling instruments of this nature.

DETAILS ON THE MOST COMPLEX PRODUCTS - FORWARDS AND FUTURES

Forward transactions can involve major risks and should therefore only be entered into by investors who are familiar with this type of transaction, have sufficient liquid resources at their disposal and are able to absorb potential losses.

Characteristic features

Definition

A futures contract is a legally binding agreement between two parties to purchase or sell a specific quantity of a specific underlying instrument on a certain date in the future (expiry date) at a price agreed upon when concluding the contract. A person who buys a futures contract enters into a contract to purchase an underlying instrument and is said to be “long” in the contract. A person who sells a futures contract enters into a contract to sell the underlying instrument and is said to be ”short” the contract. The price at which the contract trades (the “contract price”) is determined by relative buying and selling interest on a regulated exchange.

The following instruments may serve as underlying instruments:

- physical assets (equities, warrants, options, commodities, precious metals)
- benchmarks (currencies, interest rates, indices).

Categories

Futures are forward transactions, which contract sizes and expiry dates are standardized and which are traded on an exchange.

Over-the-counter (OTC) forward transactions (so-called forwards) are contracts with contractual terms or contract specifications agreed upon individually between purchasers and vendors. Forwards are not traded on exchanges.

Difference between futures and forwards

Futures are traded on exchanges. They take the form of contracts, in which the quantity of the underlying and the expiration date are standardized.

Forwards are not traded on exchanges; hence they are referred to as OTC (over-the-counter) forwards. Their specifications may also be standardized; otherwise they may be agreed between the buyer and seller.

Margin requirement / Margin cover

An initial margin is stipulated for both purchases and forward short sales of underlying instruments when a contract is concluded. A variation margin is also calculated periodically during the entire life of the contract. The variation margin corresponds to the book gain or book loss arising by virtue of the change in value of the contract, i.e. the underlying instrument. In the process, the variation margin can rapidly amount to a multiple of the initial margin. In the case of futures, these margins and their calculation are subject to the guidelines laid down by the exchange in question and are debited or credited daily. The securities dealers are entitled to request higher margins than the required minimum rates. In the case of forwards the securities dealers can set the margins at their discretion.

The investor is obliged to deposit the required initial and variation margin cover with the securities dealer for the entire life of the contract. A margin shortfall usually results in the liquidation of the position in question by the securities dealer.

Closing out / Settlement

Contracts can be closed out at any time prior to expiry date. Depending on the type of contract and customary practice on the exchange in question, contracts are closed out either by means of an identical counter-transaction or by concluding an offsetting transaction in respect of the obligation, with otherwise identical specifications. In the latter case the delivery and acceptance obligations resulting from the two open contracts cancel each other out.

Contracts which are not closed out must be settled on expiry date. In the case of contracts based on physical assets, this usually takes the form of a delivery of the underlying instrument. In the case of contracts based on benchmarks, a corresponding cash consideration is paid in lieu of physical delivery.

The relevant contract specifications determine the further terms and conditions of settlement, especially for stipulating the place of performance.

Risks

General

Trading security futures contracts involves risks and may result in potentially unlimited losses that are greater than the amount deposited with the broker. As with any high risk financial products, an investor should not risk any funds that the investor cannot afford to lose, such as retirement savings, medical and other emergency funds, funds set aside for purposes such as education or home ownership, proceeds from student loans or mortgages, or funds required to meet investor’s living expenses.

Risks arising from changes in the value of the contract / underlying instrument

Every investor has certain expectations in respect of the change in value of the contract, i.e. the corresponding underlying instrument, in the relevant period. If the actual change in value does not correspond to these expectations, investor is exposed to the following risks:

- If the value of the contract (/underlying instrument) rises, the seller for forward delivery must deliver the underlying instrument at the price originally agreed upon, which can be substantially lower than the current price market value;
- If the value of the contract (/underlying instrument) falls, the purchaser for forward delivery must accept the underlying instrument at the price originally agreed upon, which can be substantially higher than the current market value.

In both cases the risk lies in the difference between the price agreed upon when the contract was concluded and the actual market value on expiry date. The extent of this risk cannot be defined in advance.

Risks in purchasing underlying instrument in the case of short sales

Anyone selling an underlying instrument for forward delivery, without already being in possession of it when concluding the contract (short sale), is exposed to the risk of having to purchase the underlying instrument at an unfavorable, i.e. high, market value, in order to be able to meet delivery obligations on expiry date. In this case the risk is especially high, indeed it is theoretically unlimited.

Risks arising from difficulties or impossibility of closing out positions

In order to limit excessive price fluctuations, an exchange can fix price limits for certain contracts. The investor must be aware that when the price limit is reached closing-out is considerably more difficult or even temporarily impossible. Every investor should therefore make enquiries about any existing price limits before concluding forward transactions.

Physical delivery / Cash settlement

Investors are exposed to greater risks with contracts which have to be fulfilled by physical delivery than with those which are fulfilled by cash settlement. In the case of physical delivery the full contract value must be paid, whereas in the case of cash settlement only the difference between the price agreed upon when concluding the contract and the current market value on settlement date must be paid. Investors must therefore have greater liquid resources at their disposal for contracts with physical delivery than for contracts with cash settlement.

Special risks of over-the-counter forward transactions

As a rule, the market for standardized OTC forward transactions is transparent and liquid. Closing out is usually possible without any significant problems.

By contrast, there is no market as such for OTC forward transactions with individual contract specifications. Closing out is therefore only possible if counterparty is found who is prepared to conclude an offsetting contract.

Combined transactions

These transactions are understood to refer to various combinations of forward, spot and options transactions. Due to the diversity of possible variations, the risk structures arising in a specific instance cannot be dealt with in detail within the scope of this statement. Note that closing out individual elements of a combined transaction substantially alters the risk profile of the position as a whole, i.e. of the elements remaining open. Before investors conclude a transaction of this nature or close out individual elements of it, they should therefore make detailed enquiries about the specific risks involved.

An investor shall assume, as a result of transactions in above-mentioned financial instruments, financial commitments and other additional obligations, including contingent liabilities, additional to the cost of acquiring the financial instruments.

DETAILS ON THE MOST COMPLEX PRODUCTS - STRUCTURED NOTES

Each prospective investor in structured product must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its purchase of the product is fully consistent with its financial needs, objectives and is fully consistent with investment policies, guidelines and restrictions applicable to it and is a suitable investment for it, notwithstanding the clear and substantial risks inherent in investing in or holding structured product.

Definition

Structured notes (the '*Notes*') are designed to track the value or level of the underlying reference asset(s). The Notes are a combination of a traditional investment (equities, currencies, bonds, commodities, or funds) and one or more derivatives that are structured into one securitized instrument. These investment instruments can be tailored to investor's specific market view in order to match desired risk profile and expectations.

Value/Price of the Note

The Note is usually issued at 100%. The price of the Note on secondary market depends on a number of factors and tends to fluctuate with the price of reference asset(s). As part of the valuation mechanism, Notes may specify a time and an exchange or other venue in which the level or value of the reference asset(s) are to be observed. Depending on how the level or value of the reference asset(s) is calculated, how its value is observed for the purpose of the Notes valuation and how the value of expected cash flows and redemption amount is defined, the level or value of such Notes may fluctuate and may change rapidly.

Categories

Classification of structured products has been established by the Swiss Structured Products Association (SSPA):

- Capital Protection
- Yield Enhancement
- Participation
- Leverage

Capital Protection Products are suitable for risk-averse investors. At maturity the investor receives a minimum redemption equivalent to the capital protection level. Additionally, the investor may participate in the positive or negative performance of the underlying.

Yield Enhancement Products are suitable for investors with a moderate to increased risk appetite who expect the underlying to move sideways. Return potential is limited, with the risk involved being similar to a direct investment in the underlying. However, risk dispersion is usually adjusted with protection barrier.

Participation Products are suitable for investors with a moderate to increased risk appetite who want unlimited participation in the performance of the underlying. The risk corresponds to the risk of a direct investment in the underlying.

Leverage Products are suitable for investors with a high risk tolerance. They are commonly used for short-term speculation or for hedging purposes. A small initial investment allows for leveraged returns.

Closing out / Settlement

The Notes are usually considered 'buy and hold' instruments. Prospective cash flows and redemption dates are explicitly stated in appropriate product term sheet and pricing supplement. Should investor wish to unwind his position before scheduled maturity date he is supposed to request for an indicative bid quote from the Notes Distributor. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Before deciding on a Note, investors should familiarize themselves with the relevant risks and special features.

Risks Related to the Issuers

Credit risk

The Notes are direct, unsecured and unsubordinated obligations of the Issuer and not of any other person. If the Issuer's financial position were to deteriorate, there could be a risk that the Issuer would not be able to meet its obligations under the Notes (the Issuer's credit risk). If the Issuer becomes insolvent or defaults on its obligations under the Notes, in the worst case scenario investors in the Notes could lose all of their invested amounts. Any rating of the Issuer reflects the independent opinion of the relevant rating agency and is not a guarantee of the Issuer's credit quality. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

Risks related to Notes issued by subsidiaries which are guaranteed by parent company

Prospective investors in Notes benefiting from Guarantee should note that, unless otherwise stated in the applicable Final terms, the entitlement of the Noteholder will be limited to the sums obtained by making a claim under the Guarantee, subject to the terms set out in the relevant Final Terms and the relevant provisions of the Guarantee. The Guarantee may cover only part of the Issuer’s payment obligations under the relevant series of Notes. In such a case, Noteholders may retain the risk that payments under the Notes are less than amounts due by the Issuer under the Notes.

Hedging and trading activity by each Issuer, the Guarantor and their affiliates could potentially affect the value of the Notes.

In the ordinary course of their business, whether or not they will engage in any secondary market making activities, the Issuers, the Guarantor and/or any of their affiliates may effect transactions for their own account or for the account of their customers and hold long or short positions in the reference asset (s) or related derivatives. In addition, they may enter into one or more hedging transactions with respect to the reference asset (s) of related derivatives. In connection with such hedging or any market-making activities or with respect to proprietary or other trading activities by the Issuers, the Guarantor and/or their affiliates may enter into transactions in the reference asset (s) or related derivatives which may affect the market price, liquidity or value of the reference assets and, consequently, the Notes and which could be deemed to be adverse to the interests of the relevant Noteholders.

The Notes are unsecured obligations

It will be particularly important for the investor to evaluate the Issuer's credit risk when considering an investment in the Notes as the Notes are usually unsecured. If the Issuer became unable to pay amounts owed to the investor under the Notes, such investor does not have recourse to the reference asset (s) or reference asset component or any other

security/collateral and, in a worst case scenario, may not receive any payments under the Notes.

The Notes may be subject to the bail-in tool

The capital instruments write-down and conversion power may be exercised independently of, or in combination with, the exercise of a resolution tool (other than the bail-in tool, which would be used instead of the capital instruments write-down and conversion power), and it allows resolution authorities to cancel all or a portion of the principal amount of capital instruments and/or convert such capital instruments into common equity Tier 1 instruments when an institution is no longer viable.

Noteholders should consider the risk that they may lose all of their investment, including the principal amount plus any accrued interest, if the bail-in tool is acted upon or that any remaining outstanding Notes or securities into which the Notes are converted may be of little value at the time of conversion and thereafter. In addition, trading behaviour, including prices and volatility, may be affected by the threat of bail-in and, as a result, the Notes are not necessarily expected to follow the trading behaviour associated with other types of securities.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Issuer. The ratings may not reflect the potential impact of all risks related to its business. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Noteholders should be aware that credit ratings do not constitute a guarantee of the quality of the Notes or the reference entity(ies).

Risks Related to the Structure of a Particular Issue of Notes

A wide range of Notes may be issued by banks and other financial institutions. A number of these Notes have features which present particular risks for investors. Set out below is a description of the most common such features, which may increase the risk of investing in such Notes.

Limitations with respect to underlying assets

There are certain factors which are material for the purpose of assessing the risks associated with an investment in Notes. Such factors will vary depending on the type of Notes issued, in particular in relation to Notes, the interest and/or redemption amount of which is linked to the value of one or more index, share, commodity, unit, interest or share in a fund, or the combination of any of the foregoing or such other underlying or basis of reference.

The Notes are not ordinary debt securities

An investment in the Notes is not an equivalent to an investment in a time deposit. The terms of the Notes may differ from those of ordinary debt securities because the Notes may not pay interest, and, on redemption or expiry (as applicable), depending on the performance of the reference asset(s) may return less than the amount invested or nothing. The repayment of any amount invested in Notes and any return on investment may be variable and is not guaranteed.

Capital risks relating to Notes

Unless the relevant Series of Notes is fully principal protected, the repayment of any amount invested in the Notes is not fully guaranteed. As a result the investors' capital can fall below the amount initially invested in such Notes. Unlike a savings account or similar investment with a lower return and little or no capital risk, the Notes may potentially have a greater return but there is a greater risk of loss of capital. As a result, the investors' capital can fall below the amount initially invested. The value or level of the reference assets can alter sharply because they reflect the performance of the underlying value or general stock and other market conditions. Therefore, there is a risk that, if the underlying reference asset(s) does not move in the anticipated direction, the Notes may return less than the amount invested or, in a worst case scenario, nothing. In such circumstances, investors could lose their entire invested amount. In addition, investors should note that there may be a risk that if the issuer of an underlying reference asset(s) becomes insolvent, the value of such reference asset(s) will become zero. As a result thereof the value of the Notes will be adversely affected and in a worst case scenario become zero as well.

No ownership rights

An investment in Notes relating to a reference asset or reference asset component is not the same as an investment in the reference asset or any reference asset component and does not (prior to settlement of any exchange of Notes for the reference asset, where applicable) provide a Noteholder with any of the rights that a holder of such security underlying a reference asset or any reference asset component may have (such as voting rights and rights to receive dividends).

There may be no active trading market or secondary market liquidity for Notes

Notes are new securities which are not widely distributed and for which there is no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar Notes (as applicable), general economic conditions, commissions paid by the Issuer and the financial condition of the Issuer. Accordingly, the investor is subject to the risk that its investment in the Notes may be difficult or impossible to trade.

It is not possible to predict whether any trading market for the Notes will develop or, if it does, the price at which Notes will trade in the secondary market or whether such market will be liquid or illiquid. If any Notes are not listed or traded on any exchange, pricing information for the Notes may be more difficult to obtain and the liquidity of the Notes may be adversely affected. Also, to the extent that Notes are redeemed or purchased and cancelled, the number of Notes outstanding will decrease, resulting in a lessening of the liquidity of the Notes. A lessening of the liquidity of the Notes may cause, in turn, an increase in the volatility associated with the price of the Notes. An investor in the Notes is subject to the risk therefore, that to the extent that there is no liquid market in the Notes, an investor may have to wait until redemption of such Notes and, as such, an investor should proceed on the assumption that they may have to bear the economic risk of an investment in the Notes until their redemption or exercise date.

Certain factors affecting the value and trading price of Notes

The value of Notes prior to expiry or maturity (as applicable) is expected to depend on a number of factors: (1) the trading price of the Notes; (2) the value and volatility of the reference asset(s) or reference asset component(s); (3) the time remaining to expiration or maturity; (4) any change(s) in interim interest rates and dividend yields; (5) any change(s) in currency exchange rates; (6) market conditions or liquidity of the reference asset(s) or reference asset component(s) and (7) any related transaction costs. As a result of these factors the price at which a Noteholder will be able to sell the Notes prior to maturity or expiry (as applicable) may be less than the initial amount invested in the Notes. Each of these factors interrelate in complex ways (for example, one factor may offset an increase in the trading value of the Notes caused by another factor). Investors are subject to the risk that the value of Notes may be adversely affected by one or more of the following factors:

a. *Fluctuations in the level or value of the reference asset(s) or reference asset component(s)*
   Fluctuations in the value or level of the reference asset(s) or reference asset component(s) may affect the value of the Notes, but equally an investor in the Notes is subject to the risk that expectations of fluctuation in value or level of the reference asset(s) or reference asset component(s) during the remaining period to the maturity of the Notes or any earlier redemption or exercise date would adversely affect amounts payable in respect of the Notes. The level of the reference factor, reference asset or reference asset component may vary over

time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro-economic factors and speculation.

b. *Volatility of the reference asset(s) or reference asset component(s)*
If the size and frequency of market fluctuations in value of the reference asset(s) or reference asset component(s) increase or decrease, the trading value of the Notes may be adversely affected.

c. *Interest rates*
Rising interest rates may lower the value of the reference asset(s) or reference asset component(s), and thus, the value of the Notes. Changes in interest rates may also affect the economy of a country in which securities underlying the reference asset(s) or reference asset component(s) are traded, and which may adversely affect the value of the Notes.

d. *Time remaining to maturity or expiry*
The Notes may trade at a value above that which would be expected based on the level of interest rates and the level of the reference asset(s) or reference asset component(s). Any such difference will reflect a "time premium" resulting from expectations concerning the reference asset(s) or reference asset component(s) during the period prior to the maturity of the Notes. An investor in the Notes should be aware of the risk that, as the time remaining to the redemption or exercise (as applicable) of the Notes decreases, this time premium would likely decrease, which would adversely affect the value of the Notes.

e. *Dividend rates*
An investor in the Notes is subject to the risk that changes in dividend or other distribution rates on the reference asset(s) or reference asset component(s) may adversely affect the trading value of the Notes. If the dividend or other income rates on the reference asset(s) or reference asset component(s) increase, the trading value of the Notes are likely to decrease as the Notes generally do not reflect such distributions by way of increase in amounts payable on exercise or redemption, or pass-through payments of such distributions.

Value of Baskets

The value of a basket of reference assets to which any Notes relate may be affected by the number of reference assets included in such basket. Generally, the value of a basket that includes reference assets from a number of companies or obligors or other components or which gives relatively equal weight to each reference asset will be less affected by changes in the value of any particular reference asset included therein than a basket that includes fewer reference assets or that gives greater weight to some reference assets (“worst of” of “best of” basket observation principle). In particular, if the reference assets included in a basket are all in or relate to a particular industry, the value of such a basket will be affected to a greater extent by the economic, financial and other factors affecting that industry than if the reference assets included in the basket relate to various industries that are affected by different economic, financial or other factors or are affected by such factors in different ways. Investors in the Notes are subject to the risk that other risks relating to the reference assets which adversely affect the value of the Notes will be exacerbated due to the number of and/or type of reference assets.

Pricing

As part of the valuation mechanism, Notes may specify a time and an exchange or other venue in which the level or value of the reference asset(s) are to be observed. Depending on how the level or value of the reference asset(s) is calculated, the level or value of such reference asset(s) may fluctuate throughout the trading day, and they may change rapidly. As a result, investors should note that return on any Notes may be particularly sensitive to the choice of valuation times and valuation methods. The "price discovery" mechanism used to ascertain the value of the underlying at any given time on exchanges or other venues may not be uniform throughout the trading day. This may affect the valuation of any issuance of Notes. For example, exchanges may conduct auctions to set an opening or closing price, and trading characteristics and participants in after-hours trading sessions may differ from those during regular hour sessions.

Risk of early termination

In relation to certain types of Notes mandatory early redemption or termination occurs if certain conditions set out in the relevant term sheet are met. Investors should therefore be aware that certain types of Notes may terminate prior to the stated maturity date or expiry date (as applicable). As a result investors in such Notes may forego any future interest or other payments as well as any appreciation or depreciation (as applicable) in the underlying reference assets.

Extraordinary Events

There is a risk in respect of Equity-Linked Notes that certain events may occur in respect of reference asset(s) (such a merger, a take offer or exchange offer, delisting, nationalisation or transfer to a governmental agency or the insolvency or bankruptcy of the issuer of the reference asset(s)). If such event has occurred, the Calculation Agent may take certain actions, such as adjusting certain conditions or redeeming the Notes. Upon the occurrence of such an early redemption or termination of the relevant Equity-Linked Notes, the holders thereof may suffer a loss of some or of all of their investment and will forego any future appreciation in the relevant reference asset(s) that may occur following such redemption or termination.

Potential Adjustment Events

Investors in Equity-Linked Notes are subject to the risk that certain circumstances in respect of reference asset(s) occur (such as a subdivision, consolidation or reclassification of securities, a distribution of dividend or extraordinary dividend or any other event that may have a diluting or concentrative effect on the theoretical value of the relevant reference asset(s)). If the Calculation Agent determines that such circumstances have occurred, the Calculation Agent may make a corresponding adjustment(s) as it in its sole and absolute discretion determines to be appropriate, to the number of reference asset(s) to which each Equity-Linked Notes and to any other exercise, settlement, payment or other term of the relevant Equity-Linked Notes and determine the effective date(s) of such adjustment(s). As a result of such adjustments the value of the relevant Equity-Linked Notes may be adversely affected and the holders thereof may suffer a loss of some or all of their investment as a result.

Potential conflicts of interest

The Issuer or affiliates of the Issuer may from time to time advise: (i) the issuers of or obligors in respect of reference assets regarding transactions to be entered into by them; (ii) engage in transactions involving reference assets or reference asset components for their proprietary accounts and for other accounts under their management; (iii) carry out hedging activities related to the Notes by purchasing the reference assets or reference asset components; or (iv) publish research reports relating to certain reference assets or reference asset components. Any such activities may have a negative effect on the value of such reference assets and therefore on the value of any Notes to which they relate.

Certain affiliates of the Issuer or the Issuer itself may (i) be the counterparty to the hedge of the Issuer's obligations under an issue of Notes; (ii) be the Calculation Agent responsible for making determinations and calculations in connection with the Notes; or (iii) publish research reports which express opinions or provide recommendations that are inconsistent with purchasing or holding the

Notes referencing the reference assets. Accordingly, there is a risk that certain conflicts of interest may arise both among the Issuer or these affiliates and between the interests of the Issuer or these affiliates and the interests of Noteholders.

Commission and cost of hedging

The original issue price of the Notes may include the distribution commission or fee charged by the Issuer and/or its affiliates and the cost or expected cost of hedging the Issuer's obligations under the Notes (if any). Accordingly, there is a risk that, upon issue, the price, if any, at which the Issuer or its affiliates would be willing to purchase Notes from the investor in the secondary market would be lower than the original issue price. Such fee, commission and cost of hedging may also be deducted from the redemption amount payable upon early termination of the Notes. In addition, any such prices may differ from values determined by pricing models used by the Issuer or affiliates as a result of such compensation or other transaction costs.

Effect of general economic conditions on the Notes

The market for debt securities is influenced by economic and market conditions, interest rates, currency exchange rates and inflation rates in Europe and other countries and areas. There can be no assurance that events occurring elsewhere will not cause market volatility or that such volatility will not adversely affect the price of Notes of that economic and market conditions will not have any other adverse effect.

Hedging activities of the Issuer and affiliates

The Issuer or its affiliates may carry out hedging activities related to the Notes, including purchasing reference assets or reference asset components, but will not be obliged to do so. Certain of the Issuer's affiliates may also purchase and sell the reference assets or reference asset components on a regular basis as part of their securities businesses. Any of these activities could potentially affect the value of the reference asset or reference asset component and, accordingly, the value of the Notes.

Calculation Agent's discretion and valuation

Calculation of the interest payments (if applicable) and/or amount payable in respect of redemption or expiry or exercise may be by reference to certain specified screen rates or level or value published on an exchange or other quotation system, or if any such rate or level or value is not displayed at the relevant time a rate or level or value (as applicable) determined by the Calculation Agent in its sole and absolute discretion acting in good faith. The Notes may be redeemable prior to their scheduled maturity in certain circumstances at an amount determined by the Calculation Agent which may be less than their nominal amount. Accordingly, an investor in the Notes is subject to the risk that the calculation of payment and other determinations under the Notes are conclusively determined by one party which may be the Issuer itself or its affiliates and the investor cannot object to such calculation or determination.

The Calculation Agent may be permitted to use its proprietary models in setting the terms of an adjustment, and it may be difficult for investors to predict the resulting adjustments in advance. In such case, an investor would be subject to the risk that it would be difficult to verify that adjustments made to payments under the Notes are legitimate and consistent with the terms of an issue of Notes without expertise in applying valuation models. All calculations and determinations made by the Calculation Agent in relation to the Notes shall (save in the case of manifest error at the time the relevant determination is made) be final and binding on the Issuer and all Noteholders. The Calculation Agent shall have no obligations to the holders of Notes, and shall only have the obligations expressed to be binding on it pursuant to the Conditions.

Exchange rate risks and exchange control risks

The Issuer will generally pay amounts in respect of the Notes in the Settlement Currency (as referred to in the relevant Pricing Supplement). As a result thereof there are various potential exchange rate risks that investors in the Notes need to consider.

a. *Investor converting amounts paid in the Settlement Currency into the Investor's Currency.* If an investor anticipates that it will need to convert payments made under the Notes from the Settlement Currency into a currency of its choice (the '*Investor's Currency*') (for instance, if other obligations of the investor are payable in the Investor's Currency), then the investor is subject to the risk that the currency conversion rate which it must pay for exchanging the Settlement Currency into the Investor's Currency becomes less attractive and therefore decreases the realisable value of its investment. An appreciation in the value of the Investor's Currency relative to the Settlement Currency at any time would decrease (i) the value any redemption (in the case of Notes) payable to the investor and (ii) the market value of the Notes, in each case where converted into the Investor's Currency at that time. As a result, the amount that the investors receive in respect of the Notes, as converted, may be less than expected or zero.
b. *Material risks involved in currency conversion.* The material risks involved in the currency conversion include the risk that exchange rates may change significantly (including changes due to appreciation of the Investor's Currency relative to the Settlement Currency). It is impossible to predict whether the value of one such currency relative to another will rise or fall during the term of the Notes.
c. *Exchange control risks.* Investors in Notes should also be aware that there is the risk that authorities with jurisdiction over the Investor's Currency or Settlement Currency such as government and monetary authorities may impose or modify (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or transfer of funds in and out of the country. It is impossible to predict whether the value of one such currency relative to another will rise or fall during the term of the Notes. As a result of exchange controls and restrictions the Issuer may not be able to make payments under the Notes in the Settlement Currency and will therefore pay the equivalent of the amounts due under the Notes in U.S. dollars or another currency. Investors in the Notes will therefore forego to any future appreciation of the Settlement Currency.

Illegality

The Noteholders are subject to the risk that the Calculation Agent may determine in its sole and absolute discretion acting in good faith that the performance of the Issuer's obligations under any Notes (the Issuer's designated affiliates' obligations under any hedging or funding arrangement established in connection therewith) has become unlawful or impracticable in whole or in part. Following such an illegality event, the Issuer may terminate its obligations under the Notes against payment of an amount determined by the Calculation Agent which may be, if so specified in the relevant term sheet and pricing supplement, the Fair Market Value of such Note immediately prior to such termination (adjusted to account fully for any reasonable expenses and costs incurred by the Issuer and/or its designated affiliates in connection with the Issuer's obligations under the Notes or any related hedging or funding arrangements as a result of such events). Noteholders may suffer a loss of some or all of their investment as a result of such early termination, and will forego any future appreciation in the securities underlying the relevant reference asset and, in the case of Notes only, future interest payments applicable to such Notes (if any).

Modification, waiver and substitution

Investors in the Notes are subject to the risk that modifications to the conditions of the Notes may be made without the consent of any Noteholders, as the case may be, where the Issuer determines that: (1) the modification is not materially prejudicial to the interests of the Noteholders as a whole; (2) where the modification of the Notes is of a formal, minor or technical nature or is made to correct a manifest error or comply with mandatory provisions of the law of the Issuer's jurisdiction of incorporation; or (3) where the conditions are inconsistent with the termsheet relating to the relevant Notes. There is a commercial risk that the obligations of the Noteholder will be owed by a principal debtor other than the Issuer. The Notes may permit the substitution of an affiliate of the Issuer as principal debtor in respect of the Notes.

Change of law

The conditions of the Notes are usually based on law in effect as at the date of appropriate offering memorandum. There is a risk that the interpretation and/or effect of the conditions may be subject to change in such a manner as to adversely affect the contractual rights of holders of the Notes. The value of the Notes may also be affected by changes in the laws of the jurisdiction of listing or incorporation of the reference asset(s) or reference asset component(s). No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the issuance of the Notes.