

# **Private Wealth Management Product Information and Risks Booklet**

**Version: April 2019**

## CONTENTS

<b>INTRODUCTION .....</b>	<b>3</b>
<b>PART I - NATURE AND RISKS OF FINANCIAL INSTRUMENTS .....</b>	<b>4</b>
<b>GENERAL RISKS WHEN INVESTING IN FINANCIAL INSTRUMENTS .....</b>	<b>5</b>
<b>NATURE AND RISKS OF INVESTING IN SPECIFIC FINANCIAL INSTRUMENTS.....</b>	<b>10</b>
1. EQUITY SECURITIES .....	10
2. DEBT SECURITIES .....	12
3. COLLECTIVE INVESTMENT SCHEMES .....	15
4. EXCHANGE TRADED FUNDS .....	17
5. REAL ESTATE INVESTMENT TRUST.....	20
6. ALTERNATIVE INVESTMENTS.....	22
7. WARRANTS.....	24
8. OPTIONS.....	26
9. CONTRACT FOR DIFFERENCE (“CFD”) .....	32
10. OVER-THE-COUNTER TRANSACTIONS IN DERIVATIVES .....	34
11. STRUCTURED PRODUCTS, INCLUDING SECURITISED DERIVATIVES AND STRUCTURED CAPITAL AT RISK PRODUCTS (SCARPS).....	37
12. STOCK LENDING .....	41
<b>PART II – EMERGING MARKETS RISK STATEMENT.....</b>	<b>42</b>
<b>PART III – KEY RISKS ASSOCIATED WITH INVESTMENTS ISSUED BY EUROPEAN BANKS THAT ARE SUBJECT TO THE EUROPEAN BANKING RECOVERY AND RESOLUTION DIRECTIVE .....</b>	<b>46</b>

## INTRODUCTION

It is important to us that our clients understand the nature and risks of the financial instruments in respect of which Goldman Sachs (“GS”) may offer services. Accordingly, this Booklet provides information regarding such financial instruments and summarises the risks of dealing in them. Please note that this Booklet forms part of your Private Wealth Management Agreement.

Before you review this Booklet, we would like to draw your attention to the following points.

Key considerations when dealing in financial instruments:

- You should not deal in financial instruments in respect of which we may offer services to you unless you understand the nature of these instruments, the nature of the relevant contracts (and contractual relationships) into which you are entering, the market underlying such instruments and the extent of your exposure to risk.
- Although financial instruments can be utilised for the management of investment risk, certain financial instruments can be unsuitable for many members of the public, for example options and other types of derivatives.
- As such, subject to any regulatory appropriateness and suitability obligations we may owe you under applicable law, before you deal in a financial instrument you should be satisfied that that instrument is suitable for you in the light of your investment experience, financial position, investment objectives and other relevant circumstances.
- Different financial instruments involve different levels of exposure to risk – in deciding whether to trade in such instruments you should be aware of the points contained in this Booklet and any other document we may provide to you in respect of specific instruments.

In light of these points, please carefully read the contents of this Booklet which contains descriptions of the nature and risks of certain types of financial instrument that we may offer to you as a Private Wealth Management client.

Types of risk covered by this Booklet:

Broadly speaking, this Booklet covers the following risks that are associated with dealing in financial instruments:

- general risks that apply when dealing in all types of financial instruments and risks that relate to specific financial instruments – see **Part I “Nature and Risks of Financial Instruments”**;
- risks of investing in emerging markets – see **Part II “Emerging Markets Risk Statement”**; and
- risks associated with investments issued by certain European banks and financial institutions – see **Part III “Key Risks associated with investments issued by European Banks that are subject to the European Banking Recovery and Resolution Directive”**.

***Please note that the information contained in this Booklet is not intended to be exhaustive and therefore does not disclose everything about the nature and risks of all financial instruments in respect of which we may offer services to you and other significant aspects of trading in such instruments.***

***During the course of your Private Wealth Management relationship with GS, we may provide you with additional information regarding the nature or risks of financial instruments that you may trade through us, including prospectuses and other offering documents which may have been published in connection with such financial instrument.***

All capitalised terms used in this Booklet and not otherwise defined shall have the meaning given to such terms in your Private Wealth Management Agreement with GS.



## **PART I - NATURE AND RISKS OF FINANCIAL INSTRUMENTS**

## **GENERAL RISKS WHEN INVESTING IN FINANCIAL INSTRUMENTS**

The following are some of the general risks that apply when investing in financial instruments, including instruments in respect of which GS may offer services.

### **1. Volatility of returns**

The value of investments and the amount of income derived from them may go down as well as up. All investments can be affected by a variety of factors, including macro-economic market conditions such as the interest or exchange rate environment or other general political and economic factors, in addition to more company or investment specific factors.

While risks of a particular investment may be minor, the sum of risks in an investment or a series of investments taken as a whole may have a significant impact on values and income.

### **2. Past performance**

Past performance of a financial instrument is not a guide for future performance nor is it a reliable indicator of future returns for investments in that instrument.

### **3. Liquidity and non-readily realisable securities**

Some investments may be very illiquid, meaning that they are infrequently traded. Certain investments may be subjected to time constraints or may not be easily assigned or transferred without the consent of other market traders. Where investments are combined or structured, it may be difficult to ascertain a precise price or value as each price may have to be individually negotiated. There is no certainty there will be market makers available to provide price or markets for such investments and hence it may be difficult to sell them within a reasonable or desired timeframe or at a price which reflects "fair" value.

In extreme cases, an investment may be non-readily realisable. This means that the investment is neither a government security, nor a listed investment, nor an investment that regularly trades on an exchange. Market conditions or restrictions resulting from the operation of rules within certain markets may restrict or render it impossible to liquidate transactions. There is a risk that any termination or unwinding of time restricted investments may result in losses. In this case there may be no secondary market available, and it may be difficult to obtain any reliable independent information about the value and risks associated with such an investment.

### **4. Investment leverage, or gearing**

Leverage involves using borrowed money, either in the form of financial instruments or capital, to increase the potential return on an investment. Use of borrowing to invest increases both the volatility and the risk of an investment. The degree of leverage used can work favourably or unfavourably with a potential to disproportionately affect returns on investments. This increase in volatility and risk applies to investments where the issuer or counterparty has significant borrowings, or if an investment vehicle otherwise allows an investor to gain much greater economic exposure to an asset than is paid for at the point of sale. It also applies if an investor borrows money for the specific purpose of investing.

The impact of leverage can include, but is not limited to, the following:

- (i) movements in the price of an investment leads to much greater volatility in the value of the leveraged position, and this could lead to sudden and large falls in value;
- (ii) the impact of interest costs could lead to an increase in any rate of return required to break even;
- (iii) leveraged transactions involve the possibility of greater loss than transactions for which an investor is not borrowing money;
- (iv) an investor may receive no return from the investment at all and may lose the entire amount of the initial capital invested, if there are significantly large falls in the value of the investment; and
- (v) an investor may be requested to deposit additional assets with GS at short notice as a result of adverse movements in leveraged transactions and to the extent that the investor has borrowed money and there is any

deficit between the value of interest charged for any borrowed money and amount of assets held with GS, such investor may be requested to deposit additional assets with GS.

## **5. Foreign exchange**

Investments denominated in foreign currencies, or entering into transactions involving one currency to hedge against another currency, open up additional risks related to the relevant exchange rate. Movements in exchange rates may cause the value of an investment to fluctuate either in a favourable or unfavourable manner. Such fluctuations will affect profit or loss in transactions in foreign currency-denominated contracts where there is a need to convert from the currency denomination of the contract to another currency and affect the potential gains or losses in investments overall.

## **6. Foreign markets**

Foreign markets will involve different risks from UK markets and markets outside the European Economic Area (“**EEA**”) will involve different risks from EEA markets. In some cases, the risks will be greater in foreign markets. Foreign markets may also be subjected to different or diminished investor protection and redress. Before you trade you should enquire about any rules relevant to your particular transactions. Local regulatory authorities may be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. On request, GS will endeavour to provide an explanation of the relevant risks and protections (if any) which will operate in any foreign markets, including the extent to which it will accept liability for any default of a foreign firm through whom it deals.

The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts will also be affected by fluctuations in foreign exchange rates (see above) and political and economic factors and policies in the relevant foreign markets themselves.

## **7. Tax affairs**

The tax treatment of investment products can be complex, and the level and basis of taxation may alter during the term of any product. The tax treatment applicable to particular investment products can be particular to a client and can change over time. Prospective investors should therefore obtain professional tax advice appropriate to their own circumstances before investing.

## **8. Risk reducing orders or strategies**

The placing of certain orders (e.g. “stop-loss” orders, or “stop-limit” orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as “spread” and “straddle” positions may be as risky as taking simple “long” or “short” positions.

## **9. Trading over-the-counter (“OTC”)**

Subject to applicable law, transactions may be conducted OTC (i.e. in an off-exchange transaction). While some OTC markets are highly liquid, transactions in OTC securities may involve greater risk than investing in on exchange securities because it may be difficult to liquidate an existing position, to assess the value of the position or to assess the exposure to risk. It may not always be apparent whether or not a particular investment is purchased on exchange or OTC.

## **10. Collateral**

If you deposit collateral as security with GS, the way in which it will be treated will often vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral depending on whether you are trading on a regulated market, with the rules of that market (and the associated clearing house) applying, or trading on an OTC basis. Subject to applicable law and the terms of your Agreement, deposited collateral may lose its identity as your property and therefore you may not get back the same assets which you deposited and you may have to accept payment in cash.

## 11. Commissions and charges

Before you begin to trade, you should obtain details of all commissions, fees and other charges for which you will be liable. If any charges are not expressed in money terms (but, for example, as a percentage of contract value), you should obtain a clear and written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. In the case of futures, when commission is charged as a percentage, it will normally be as a percentage of the total contract value, and not simply as a percentage of your initial payment.

Details of applicable fees and charges will be provided to you separately. You may also speak to your Private Wealth Management team for further details about our fees and charges.

## 12. Suspensions of trading

Under certain trading conditions or the application of certain market rules, it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. At such times, there is no certainty that market traders will be prepared to trade in the relevant investments. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

Most GS and other external electronic and auction trading systems are supported by computerised systems for order routing and trade checking, recording and clearing. Like all automated procedures, these systems are subject to the risk of stoppages (deliberate or otherwise) and malfunctions, which may result in your orders not being executed in accordance with your instructions or remaining unexecuted.

## 13. Clearing house protections

On many exchanges, the performance of a transaction by GS (or a third party with whom it is dealing on your behalf) is “guaranteed” by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover you, the client, and may not protect you if GS or another party defaults on its obligations to you. On request, GS will endeavour to explain any protection provided to you under the clearing guarantee applicable to any on-exchange derivatives in which you are dealing.

Under various regulations regarding derivatives trading (including the European Market Infrastructure Regulation on derivatives, central counterparties and trade repositories (“EMIR”)), certain OTC derivative contracts are required to be centrally cleared through a clearing house.

## 14. Insolvency

GS's insolvency or default, or that of any other brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent. In such instances, it may be difficult or impossible to liquidate investments, assess value or risk exposure or determine a fair price especially where transactions have been entered into in markets which may be less regulated or subject to different rules (if any) than those which you are familiar with. In certain circumstances, subject to applicable law and the terms of your Agreement, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash.

On request, GS will endeavour to provide an explanation of the extent to which it will accept liability for any insolvency of, or default by, other firms involved with your transactions.

## 15. Regulatory risk:

Under certain regulatory regimes, issuers (principally financial institutions) may be able to terminate, redeem or call securities or other financial instruments prior to their maturity. In addition, regulators in certain jurisdictions currently have, or anticipate having, the ability to declare financial institutions as being “non-viable” at their discretion and write down debt securities outside of insolvency as part of measures taken to resolve failing financial institutions. In such circumstances the principal amount paid for a security or other financial instruments could potentially be written down to zero even if the issuer remains in business.

Certain jurisdictions have created legal and/or regulatory frameworks and bodies to rescue failing financial institutions by using a bail-in tool that involves either the cancellation of the liabilities (typically unsecured) of the failing entity, in whole or in part, or the conversion of such liabilities into another security, including ordinary shares of the surviving entity (if any). The terms and rights associated with such financial instruments (e.g. date of maturity or interest rate payable) may be varied or payments suspended, or the instruments may be converted into ordinary shares or other instruments of ownership, which have different risks or rights associated with them.

Your investment in such instruments issued by an institution that is subject to a resolution regime or even in instruments which are exposed to such “in-scope” instruments may therefore be written down to zero and you will lose the entire capital you have invested in that instrument or security. The exercise of the “bail in” and other powers under the relevant resolution regime may not constitute an event of default under the terms of your investments and you will have limited recourse to challenge the use of such measures.

Please refer to Part III of this Booklet for further information on the regulatory risk of dealing in investments issued by financial institutions that are subject to the European recovery and resolution regime.

## **16. Stabilisation**

The process of stabilisation is undertaken in order to ensure that the issue of investments is introduced to the market in an orderly fashion, and that the issue price and/or the price of associated investments is not artificially depressed because of the increase in supply caused by the new issue. Stabilisation may only take place for a limited period, and there are limits on the price at which shares, warrants and depository receipts may be stabilised (although there are no limits in respect of loan stock and bonds).

You acknowledge that GS may effect transactions in investments that may be the subject of stabilisation, a price supporting process that may take place in the context of new issues. The effect of stabilisation can be to make the market price of the new issue temporarily higher than it would otherwise be. The market price of investments of the same class already in issue, and of other investments whose price affects or is affected by the price of the new issue, may also be affected. Prices of investments during such periods should not be taken as indicative of the level of interest or market price in the future after stabilisation.

## **17. Differences among electronic trading systems**

Trading or routing orders through electronic systems varies widely among the different electronic systems. You should consult the rules and regulations of the exchange offering the electronic system and/or listing the contract traded or order routed to understand, among other things, in the case of trading systems, the system’s order matching procedure, opening and closing procedures and prices, error trade policies and trading limitations or requirements; and, in the case of all systems, qualifications for access and grounds for termination and limitations on the types of orders that may be entered into the system. Each of these matters may present different risk factors with respect to trading on or using a particular system. Each system may also present risks related to system access, varying response times, and security. In the case of internet based systems, there may be additional types of risks related to system access, varying response times and security, as well as risks related to service providers and the receipt and monitoring of electronic mail.

## **18. System failure**

Trading through an electronic trading or order routing system exposes you to risks associated with system or component failure. In the event of system or component failure, it is possible that, for a certain time period, you may not be able to enter new orders, execute existing orders or modify or cancel orders that were previously entered. System or component failure may also result in loss of orders or order priority.

## **19. Contractual terms**

You should always ask a firm with which you are dealing about the terms and conditions that govern your transactions with them. In particular, it is important that you have a clear understanding of your rights and obligations under a transaction and those of the other party. In certain cases, for instance your rights may be time limited or you may be obliged to make or take physical delivery of assets to which a transaction relates.



**20. Suspension or restriction of trading and pricing relationships**

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.

Further, in relation to derivatives and structured products where the value of the instrument is dependent upon, or derived from, one or more underlying interests, pricing relationships between the underlying interest and the instrument may not exist or deviate significantly from expectations. A change in the price of the underlying interest may not result in a proportionate change in price of the instrument. The absence of an underlying reference price may make it difficult to judge “fair value”.

**NATURE AND RISKS OF INVESTING IN SPECIFIC FINANCIAL INSTRUMENTS****1. EQUITY SECURITIES****DESCRIPTION OF INSTRUMENT**

When you purchase equity securities (the most common form of which is shares) you will become a member or shareholder of the issuer (which is the company “issuing” the shares) and participate fully in the success or failure of the issuer as reflected in price movements of the securities. You will be entitled to receive any dividend distributed each year (if any) out of the issuer's profits made during the reference period.

**RISKS RELATING TO THE INSTRUMENT**

Investing in equity securities puts your capital at risk. This means you could lose some or all of your original investment. You should not purchase this product unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

***i) Market risk:***

The price volatility of equity markets (the rate at which the price of equity securities increases or decreases) can change quickly and cannot be assumed to follow historic trends. In adverse market conditions equity securities may be subject to increased volatility which can lead to losses. In the worst case, a company could fail and investments in its equity can become worthless.

Market conditions, both positive and negative, may affect each issuer differently. Investments in equity securities should therefore be assessed in light of such conditions and not in isolation.

***ii) Issuer default risk:***

Generally, investments in equity securities expose holders to more risk than debt securities (see Section 2 below) since remuneration is tied more closely to the profitability of the issuer of the securities.

Solvency of issuers could be dependent on a range of factors like the solvency of its parent company and the issuer itself, its business sector, political and economic factors within the relevant countries. These factors may in turn affect the price of, and demand for, the equity securities in the markets.

In the event of insolvency of the issuer, your claims for recovery of your equity investment in the issuer will generally be subordinated to the claims of both preferred or secured creditors and ordinary unsecured creditors of the issuer. This means that a shareholder will normally only receive any money from a liquidator if there are any remaining proceeds of the liquidation once all of the creditors of the company have been paid in full. It may take a significant amount of time to obtain any money that is owed to you by a liquidator.

***iii) Characteristics of individual securities and issuer:***

Investors in equity securities will also be exposed to the specific risks associated with individual securities. There is an extra risk of losing money, for instance, when shares are bought in some smaller companies, such as penny shares. There may be a significant difference between the buying price and the selling price of these shares. If they have to be sold immediately, the Account may get back much less than was paid for them. The price may change quickly and it may go down as well as up.

Other issuer characteristics such as a heavy reliance on borrowing for raising finance, high fixed costs and reliance by an issuer on specific markets or jurisdictions for income typically indicate heightened risk for investments in equity securities of that issuer.

***iv) Trading on secondary exchanges:***

Certain equity securities are traded on secondary exchanges (e.g. AIM) which may have been listed with reduced regulatory oversight or disclosures. These securities involve a higher degree of risk as they may be more volatile and illiquid than traditional stock exchanges.

v) ***Additional risks:***

Furthermore, the risks set out in the paragraph entitled “Trading over-the-counter” in the section headed “General Risks When Investing In Financial Instruments” will also be applicable to this instrument.

**FURTHER INFORMATION**

Further information regarding the risks relating to a particular equity security, and any risks regarding the issuer of that security, can be found in the prospectus or other offering documents regarding that issuance. In addition, for some equity securities, information regarding the specific security that you are investing in may also be found in product information documents that may be provided under applicable law. Please contact your Private Wealth Management team for guidance on how to obtain such documents.

## 2. DEBT SECURITIES

### DESCRIPTION OF INSTRUMENT

Buying debt securities (such as bonds and certificates of deposit) means that you are, in effect, a lender to the company or entity that has issued the securities. Debt securities are typically issued for a fixed term and are redeemable by the issuer at the end of that term (maturity). The terms and conditions of repayment are usually stipulated in advance. Purchasers of debt securities are entitled to receive specified periodic interest payments (referred to as a coupon), as well as repayment of the principal amount of the debt securities at maturity. Interest payments can be fixed for the duration of the term or variable and linked to external reference rates.

Money market instruments are short term fixed income instruments which are normally dealt in on the money market with remaining maturities of one year or less, such as treasury bills, certificates of deposit and commercial papers and excluding instruments of payment. Their value can be determined at any time on either an amortised cost basis or in reference to the short term yield curve for the currency of the instrument.

### RISKS RELATING TO THE INSTRUMENT

Investing in debt securities including money market instruments puts your capital at risk. This means you could lose some or all of your original investment. You should not purchase this product unless you are prepared to sustain a total loss of the money you have invested plus any transaction charges.

The risk of capital loss for debt securities is generally limited to circumstances where the issuer is in a state of financial distress (see issuer default risk section at (iii) below) or where debt securities are sold prior to maturity. Debt securities such as bonds have a nominal value. This is the sum that will be returned to investors when the debt security matures at the end of its term. As debt securities are traded on a market, if you sell debt securities prior to maturity a capital gain or loss may be realised.

#### ***i) Market risk:***

The value of debt investments can generally be expected to be more stable than that of equity investments (see Section 1 above for further information on equity securities). However, in some circumstances, particularly when interest rate expectations are changing, the value of debt securities can be volatile. In general, if interest rates rise the prices of debt securities will fall, and vice versa. If you wish to sell debt securities prior to maturity and interest rates have risen since you purchased the debt securities, the price will have fallen since purchase and you will incur a capital loss on the debt securities.

Market conditions, both positive and negative, may affect each issuer differently, depending on the issuer, size of the debt securities and its coupon payable. Investments in debt securities should therefore be assessed in light of such conditions and not in isolation.

With respect to money market instruments, they are generally short term and therefore more liquid than other investments. Where equity and debt markets are extremely volatile, money market instruments are considered lower risk. However, these instruments and their market price could be adversely exposed to interest and market risks given the speed and quantum of transactions undertaken in these instruments during periods of volatile market movements. During normal market conditions, money market instruments may not achieve optimum returns similar to other instruments in line with growth markets.

#### ***ii) Characteristics of individual securities and issuer:***

Holders of debt securities will be exposed to the specific risks associated with individual securities held (and the financial soundness of the issuers of debt securities), as well as the systemic risks of the debt securities markets. Generally, debt securities issued by major governments and companies tend to be lower risk investments than those issued by emerging market issuers. Other characteristics of debt securities that can increase price volatility and risk of investment are the coupon rate and the term to maturity of the debt securities. Debt securities with a lower coupon rate have higher price volatility and therefore carry a higher risk of capital loss if sold prior to maturity.

Certain types of debt securities may carry additional risks which are specific to them (for example subordinated bonds). The specific terms and risks of such debt securities will be set out in the prospectus or offering documents and you are advised to ensure these are fully understood prior to purchase as they may affect the amount you will receive at maturity.

**iii) Issuer default risk:**

Investments in debt securities generally risk not being remunerated only if the issuer is in a state of financial distress.

Solvency of issuers could be dependent on a range of factors like the solvency of its parent company and the issuer itself, its business sector, political and economic factors within the relevant countries. These factors may in turn affect the price of, and demand for, the debt securities in the markets.

Credit ratings indicate rating agency assessments of the probability of the issuer defaulting. The lower the credit rating the higher the possibility that the issuer will default. "Investment grade" bonds carry ratings of at least Baa3/BBB-/BBB-, while the ratings of high yield bonds (or "junk bonds") are Ba1/BB+/BB+ and lower, as rated by Moody's, Standard & Poor's, and Fitch respectively.

In the event of insolvency of the issuer, holders of debt securities are likely to be able to participate with other creditors in the allotment of the proceeds from the sale of the company's assets in priority to holders of equity securities in the issuer. If an issuer has issued multiple bonds, they may have different credit ratings depending on factors such as the ranking of the bond, tenor etc. For example, in the event of insolvency of the issuer, there is an order in which bonds get re-paid; those bond issues that get paid first will typically have a higher credit rating. Please note that the terms of a debt security may provide that if the issuer becomes insolvent, claims for recovery of that debt investment may be subordinated to claims of holders of other debt securities or other creditors. In addition, it may take a significant amount of time to obtain any proceeds that you may be entitled to receive.

**iv) Call risk:**

Certain debt securities can be redeemed by the issuer prior to maturity (these are referred to as "callable" debt securities). Debt securities are usually redeemed early when the issuer feels it can issue new debt securities at a lower interest rate, forcing investors to reinvest the principal sooner than expected, most likely at a lower interest rate

**v) Liquidity risk:**

Some debt securities are illiquid, meaning that there is not much demand for them in the secondary market. An investor may own such a debt security and have difficulty selling it, or have to sell it at a lower price than he hoped, depending on market conditions at the time of the sale. For illiquid debt securities there may be a significant difference between the price that a buyer is willing to pay for a security and the price that a seller is willing to accept for a security, this may impact returns for investors that are seeking to sell illiquid debt securities prior to maturity.

**vi) Interest rate risk:**

Fixed rate debt securities will be affected by volatile movements in interest rates as prices will fall where interest rates rise. Debt securities with longer term maturity dates and lower coupon rate are more sensitive to rises in interest rates.

**vii) Convertible and exchangeable debt securities:**

Debt securities may be convertible into equity securities or cash payments linked to the value of specific equity securities of the issuer or exchangeable into equity securities of another entity. These securities include an embedded equity derivative which may subject the debt security to derivative risks and amplify any losses whilst continuing to be subjected to typical risks attached to debt securities. Upon conversion or exchange, you may be affected by the risks arising from equity securities (as described above). Conversions or exchanges into equity may be subjected to certain conditions (including specified time periods) and hence it may be difficult to realise the investment at the most profitable time.

**viii) Additional Risks:**

Furthermore, the risks set out in the paragraph entitled “Trading over-the-counter” in the section headed “General Risks When Investing In Financial Instruments” will also be applicable to this instrument.

**FURTHER INFORMATION**

The features or terms of debt securities may vary between different issuances. Further information regarding the risks relating to a particular debt security, and any risks regarding the issuer of that security, can be found in the prospectus or other offering documents regarding that issuance. In addition, for some debt securities, information regarding the specific security that you are investing in may also be found in product information documents that may be provided under applicable law. Please contact your Private Wealth Management team for guidance on how to obtain such documents.

### 3. COLLECTIVE INVESTMENT SCHEMES

#### DESCRIPTION OF INSTRUMENT

Collective investment schemes (such as investment funds, unit trusts and open-ended investment companies) invest funds paid in by purchasers of units or shares in the collective investment scheme in the various types of investments that are provided for in their rules or investment plans. As such, collective investment schemes generally allow unit holders and shareholders to achieve a high degree of diversification at a relatively low cost. Open-ended investment funds, for example, allow savers to invest or disinvest by buying or selling fund units from the fund on the basis of the value of a unit, plus or minus the relevant commissions. Closed-ended funds, however, have a fixed number of units, shares or other interests which (once issued) may not be redeemed by investors and are usually (but not necessarily) traded in the secondary market or redeemed on the winding up of the fund.

#### RISKS RELATING TO THE INSTRUMENT

Investments in collective investment schemes put your capital at risk. This means you could lose some or all of your original investment. You should not purchase this product unless you are prepared to sustain a total loss of the capital you invest in the transaction plus any commission or other transaction charges.

***i) Market risk and scheme characteristics:***

By purchasing units or shares in a collective investment scheme you will be exposed to the risks and returns associated with the nature of the financial instruments in which the collective investment undertaking invests and, where relevant, their concentration in a particular sector, country, region or asset class. The value of a collective investment scheme may decrease or increase and, in adverse market conditions, irrecoverable capital losses could be incurred.

Leveraged funds will be subject to the risk of interest rates rises, which could adversely impact returns or result in losses.

Foreign funds or funds with foreign underlying instruments may be affected by political changes or instability in countries where such foreign instruments are located. They may also be affected by foreign exchange rate movements.

***ii) Redemption and liquidity risk:***

You may redeem units in open-ended funds from the fund itself when you want to sell those units. However please note that if the underlying assets in which the fund is investing are illiquid there is a risk that the fund may suspend trading of units if it experiences higher than normal levels of redemption requests from investors. In such instances you may not be able to redeem units that you hold on demand. In contrast units in closed-ended funds however cannot be redeemed until the winding up of the fund and whilst you may trade such investments on a secondary market there is a chance that you will not be able to sell your investment at a fair price when you wish to do so.

***iii) Unregulated vs regulated collective investment schemes:***

Investments in unregulated collective investment schemes are seen to be riskier than those in regulated investment schemes. This is because investments in unregulated collective investment schemes are not subject to regulatory supervision and oversight.

***iv) Buy-sell spread:***

When you purchase units in a collective investment scheme you will typically be invited to buy at a premium to the prevailing Net Asset Value ("NAV") of the scheme. When you sell or redeem units in a collective investment scheme you may be quoted a price that is below the NAV. This reduced price generally accounts for transaction costs and may impact your returns.

***v) Counterparty risks:***

Insolvency of any institution providing services to the schemes (e.g. counterparty to the scheme in other underlying instruments or safekeeping custodial services) may expose the schemes to financial loss or delay in redemptions. Investors remain exposed to the credit risk of underlying securities held within the scheme.

#### **FURTHER INFORMATION**

Further information regarding the risks relating to a particular collective investment scheme can also be found in (i) the scheme's prospectus or other offering documents and (ii) any product information documents regarding that scheme that may be provided under applicable law. Please contact your Private Wealth Management team for guidance on how to obtain such documents.



#### 4. EXCHANGE TRADED FUNDS

##### DESCRIPTION OF INSTRUMENT

Exchange traded funds ("ETFs") are open-ended or closed-ended collective investment schemes or securities, traded as shares on stock exchanges, and typically replicate or are designed to track the performance of certain indices, market sectors, or groups of assets such as stocks, bonds, or commodities. As such, they generally combine the flexibility and tradability of a share with the diversification of a collective investment scheme. Where you purchase ETFs, you will be exposed to certain risks as outlined below. Total return swaps allow ETF managers to replicate the benchmark performance of ETFs without purchasing the underlying assets.

ETF managers may also use other derivative instruments to synthetically replicate the economic benefit of the relevant benchmark. The derivative instruments may be issued by one or multiple issuers.

##### RISKS RELATING TO THE INSTRUMENT

Investments in ETFs put your capital at risk. This means you could lose some or all of your original investment. You should not purchase this product unless you are prepared to sustain a total loss of the capital you invest in the transaction plus any commission or other transaction charges.

**i) Market risk:**

The price volatility of equity markets (the rate at which the price of equity securities increases or decreases) on which ETFs are traded can change quickly and cannot be assumed to follow historic trends. In adverse market conditions investments in ETFs may be subject to increased volatility which can lead to losses. In the worst case, an ETF could fail and investments in that ETF can become worthless.

**ii) Issuer default risk:**

Insolvency of the issuer of the ETF units or any institution providing services to the schemes (e.g. counterparty to the ETFs in other underlying instruments or safekeeping custodial services) may expose the schemes to financial loss or delay in redemptions. Investors remain exposed to the credit risk of underlying securities held within the ETFs.

**iii) Characteristics of underlying assets and scheme characteristics:**

By purchasing units or shares in an ETF you will be exposed to the risks and returns associated with the nature of the financial instruments in which the ETF invests and, where relevant, their concentration in a particular sector, country, region or asset class. The value of an ETF may decrease or increase and, in adverse market conditions, irrecoverable capital losses could be incurred.

Managers of ETFs may use different strategies to achieve the goal of replicating or tracking performance of the underlying index/assets (as described above) but there is no active management by the ETFs of underlying assets and there is no guarantee performance will replicate those of the underlying securities.

Investors must therefore be prepared to bear the risk of loss and volatility associated with the underlying index/assets.

Leveraged ETFs will be subject to the risk of interest rates rises, which could adversely impact returns or result in losses.

Foreign ETFs or ETFs with foreign underlying instruments may be affected by political changes or instability in countries where such foreign instruments are located. They may also be affected by foreign exchange rate movements.

**iv) Tracking errors:**

Tracking errors refer to the disparity in performance between an ETF and its underlying index/assets. Tracking errors can arise due to factors such as the impact of transaction fees and expenses incurred to the ETF, changes in composition of the underlying index/assets, and the ETF manager's strategy for replicating or tracking the performance of the underlying index/assets. The common replication strategies include full replication/representative sampling and synthetic replication which are discussed in more detail below.

v) **Liquidity:**

Your ability to sell an investment in an ETF at a fair price on demand may be impacted by the liquidity of the underlying assets in which the ETF invests. Other factors that can impact the liquidity of an investment in an ETF include the trading volume of the ETF itself and market conditions.

vi) **Unregulated vs regulated collective investment schemes:**

Investments in ETFs that are unregulated collective investment schemes are seen to be riskier than those in ETFs that are regulated investment schemes. This is because investments in unregulated collective investment schemes are not subject to regulatory supervision and oversight.

vii) **Trading at discount or premium:**

An ETF may be traded at a discount or premium to its Net Asset Value (“NAV”). This price discrepancy is caused by supply and demand factors, and may be particularly likely to emerge during periods of high market volatility and uncertainty. This phenomenon may also be observed for ETFs tracking specific markets or sectors that are subject to direct investment restrictions.

viii) **Counterparty default risk involved in ETFs with different replication strategies:**

*Full replication and representative sampling strategies:*

An ETF using a full replication strategy generally aims to invest in all constituent stocks/assets in the same weightings as its benchmark. ETFs adopting a representative sampling strategy will invest in some, but not all of the relevant constituent stocks/assets. For ETFs that invest directly in the underlying assets rather than through synthetic instruments issued by third parties, counterparty default risk tends to be less of a concern.

*Synthetic replication strategies:*

ETFs utilising a synthetic replication strategy use swaps or other derivative instruments to gain exposure to a benchmark, such as swap-based ETFs and derivative embedded ETFs.

ix) **Counterparty default risk for specific types of ETFs:**

In addition to the risks that apply to ETFs generally (as described above), swap-based ETFs are exposed to the risk of counterparty default of the swap dealers and may suffer losses if such dealers default or fail to honour their contractual commitments.

In addition to the risks that apply to ETFs generally (as described above), derivative embedded ETFs are subject to counterparty default risk of the derivative instruments' issuers and may suffer losses if such issuers default or fail to honour their contractual commitments.

For both swap-based ETFs and derivative embedded ETFs, investors may also be exposed to risks associated with investing in derivatives, as outlined in Section 10 below.

Even where collateral is obtained by an ETF, it is subject to the collateral provider fulfilling its obligations. There is a further risk that when the right against the collateral is exercised, the market value of the collateral could be substantially less than the amount secured resulting in significant loss to the ETF.

x) **Additional risks:**

Furthermore, the risks set out in the paragraph entitled “Trading over-the-counter” in the section headed “General Risks When Investing In Financial Instruments” will also be applicable to this instrument.

**IT IS IMPORTANT THAT INVESTORS UNDERSTAND AND CRITICALLY ASSESS THE IMPLICATIONS ARISING DUE TO DIFFERENT ETF STRUCTURES AND CHARACTERISTICS.**

#### **FURTHER INFORMATION**

Further information regarding the risks relating to a particular ETF can also be found in (i) the ETF's prospectus or other offering documents and (ii) any product information documents regarding that ETF that may be provided under applicable law. Please contact your Private Wealth Management team for guidance on how to obtain such documents.

## 5. REAL ESTATE INVESTMENT TRUST

### DESCRIPTION OF INSTRUMENT

A Real Estate Investment Trust (a “REIT”) is a pooled investment vehicle, which invests primarily in income producing real estate or real estate related loans or interests. REITs are sometimes referred to as equity REITs or mortgage REITs. An equity REIT invests primarily in properties and generates income from rental and lease properties. Equity REITs also offer the potential for growth as a result of property appreciation and, in addition, from the sale of appreciated property. Mortgage REITs invest primarily in real estate mortgages, which may secure construction, development or long-term loans, and derive income for the collection of interest payments. REITs are generally organised as companies and their shares are generally listed on a stock exchange.

In some jurisdictions REITs qualify for beneficial tax treatment provided they invest in accordance with certain rules.

### RISKS RELATING TO THE INSTRUMENT

Investments in REITs put your capital at risk. This means you could lose some or all of your original investment. You should not purchase this product unless you are prepared to sustain a total loss of the capital you invest in the transaction plus any commission or other transaction charges.

#### *i) Market risk:*

Like any investment in real estate, a REIT's performance depends on many factors, such as its ability to find tenants for its properties, to renew leases, and to finance property purchases and renovations. In general, REITs may be affected by changes in underlying real estate values, which may have an exaggerated effect to the extent a REIT concentrates its investment in certain regions or property types. For example, rental income could decline because of extended vacancies, increased competition from nearby properties, tenants' failure to pay rent, or incompetent management. Property values could decrease because of overbuilding, environmental liabilities, uninsured damages caused by natural disasters, a general decline in the neighbourhood, losses due to casualty or condemnation, increases in property taxes, or changes in zoning laws. Ultimately, a REIT's performance depends on the types of properties it owns and how well the REIT manages its properties.

In general, during periods of rising interest rates, REITs may lose some of their appeal for investors who may be able to obtain higher yields from other income-producing investments, such as long-term bonds. Higher interest rates also mean that financing for property purchases and improvements is more costly and difficult to obtain. During periods of declining interest rates, certain mortgage REITs may hold mortgages that mortgagors elect to prepay, which can reduce the yield on securities issued by mortgage REITs. Mortgage REITs may be affected by the ability of borrowers to repay debts to the REIT when due and equity REITs may be affected by the ability of tenants to pay rent.

#### *ii) Characteristics of REITs:*

Certain REITs have relatively small market capitalisation and their securities can be more volatile than - and at times will perform differently from - large-cap stocks. In addition, because small-cap stocks are typically less liquid than large-cap stocks, REIT stocks may sometimes experience greater share-price fluctuations than the stocks of larger companies. Further, REITs are dependent upon specialised management skills, have limited diversification, and are therefore subject to risks inherent in operating and financing a limited number of projects.

#### *iii) Liquidity:*

Investments in REITs may be less liquid than other pooled investment vehicles that invest in different underlying assets and other financial instruments. This is because real estate is typically less liquid than other asset classes.

#### *iv) Industry concentration risk:*

As REITs concentrates its assets in real estate investments, industry concentration risk is high and investors may be exposed to adverse developments affecting the real estate industry and real property values which may cause REITs to underperform the overall stock market and in turn disproportionately affect investment returns.

#### **FURTHER INFORMATION**

Further information regarding the risks relating to a particular REIT can also be found in (i) the REIT's prospectus or other offering documents and (ii) any product information documents regarding that REIT that may be provided under applicable law. Please contact your Private Wealth Management team for guidance on how to obtain such documents.

## 6. ALTERNATIVE INVESTMENTS

### DESCRIPTION OF INSTRUMENT

“Alternative investments” is the collective term for a broad category of private funds, including hedge funds and private equity / debt / real estate funds, that commonly trade in non-standard assets or using non-standard investment strategies.

Hedge funds are generally unregulated collective investment schemes that use derivatives for directional investing, may hold short positions and may use significant leverage through borrowing. Additionally, hedge funds may be less constrained in the choice of assets (including illiquid and distressed securities), markets (including emerging markets) and trading style, including a lack of asset diversification.

Private equity / debt / real estate funds are generally unregulated collective investment schemes that invest in various equity / debt securities that are not openly traded on a public market or may be distressed or in real estate (including properties that may need significant development or improvements) and generally use significant leverage through borrowing. These funds typically have a fixed term, which may be as long as 10 or more years. Investor contributions are drawn over the term of the fund.

### RISKS RELATING TO THE INSTRUMENT

Investments in alternative investments put your capital at risk. This means you could lose some or all of your original investment. You should not purchase these products unless you are prepared to sustain a total loss of the capital you invest in the transaction plus any commission or other transaction charges.

#### ***i) Market risk and scheme characteristics:***

By purchasing interests in alternative investments, you will be exposed to the risks and returns associated with the nature of the financial instruments or assets in which the fund invests and, where relevant, their concentration in a particular sector, country, region or asset class. The value of a fund may decrease or increase and in adverse market conditions, irrecoverable capital losses could be incurred.

Lack of diversification can lead to over-exposure to poor market conditions in particular sectors.

Leveraged funds will be subject to the risk of interest rates rises, which could adversely impact returns or result in losses.

Foreign funds or funds with foreign underlying instruments may be affected by political changes or instability in countries where such foreign instruments are located. They may also be affected by foreign exchange rate movements.

#### ***ii) Legal and tax considerations:***

Alternative investments may involve complex tax and legal considerations and can give rise to considerable risks. Investors in alternative investments may also have limited rights with respect to their investment interest, including limited voting rights and limited participation in the management of the alternative investment.

#### ***iii) Effect of “leverage” or “gearing”:***

Alternative investments often engage in leverage and other speculative investment practices, which involve a high degree of risk. Such practices may increase the volatility of performance of alternative investments and the risk of investment loss, including the loss of the entire amount that is invested.

#### ***iv) Liquidity:***

Interests in alternative investments are often highly illiquid and should be considered a long term investment as there is no public market for such interests and they are often only transferable with consent. The illiquid nature of such investments can mean interests can be difficult to value and can render transfer (particularly within a required timeframe) difficult. Alternative investments may themselves invest in instruments that may be highly illiquid and difficult to value. Alternative investments may also not be required to provide you with periodic pricing or valuation information. Again, this may limit your ability to redeem or transfer your investment or delay receipt of redemption

proceeds. In the case of private equity funds these typically have a long initial fixed term that can be subject to further extensions.

**v) Fees:**

It should be noted that alternative investments may impose significant fees and charges, including management fees that are based upon a percentage of the assets under management or capital commitments regardless of performance returns.

**vi) Regulation:**

Although often in the form of collective investment schemes, alternative investments are often not subject to the same regulatory requirements or oversight as traditional collective investment schemes.

However, the Alternative Investment Fund Managers Directive (the “**AIFMD**”) is a European Union legislative measure which has sought to regulate (i) managers of alternative investment funds (“**AIFs**”) and (ii) how AIFs are marketed/distributed to investors throughout the EEA. An AIF includes hedge funds and private equity / real estate / debt funds (including fund of funds structures). AIFMD requires managers of alternative investments to, for example and among other things, make appropriate disclosures to investors and regulators.

**vii) Capital calls:**

In the case of private equity / real estate / debt funds the capital that you commit may be drawn down by the fund on various occasions throughout the capital commitment period. You should only invest in these types of funds if you are sure that you will be able to meet all capital calls made throughout the commitment period.

#### **FURTHER INFORMATION**

Further information regarding the risks relating to a particular alternative fund can also be found in (i) the fund’s prospectus or other offering documents and (ii) any product information documents regarding that fund that may be provided under applicable law. Please contact your Private Wealth Management team for guidance on how to obtain such documents.

## 7. WARRANTS

### DESCRIPTION OF INSTRUMENT

A warrant is a security that gives an investor the right, but not the obligation, to either buy or sell an underlying asset at specific pre-determined “**strike**” price. Investors may choose to buy a warrant to express a view on an underlier or to hedge an existing exposure to the relevant underlier. Generally, the underlying asset will be shares, debentures, loan stock, government securities, indices, baskets of securities or currencies. Warrants are issued by (i) the issuer of the relevant underlying instrument (for example, a corporate issuer) or (ii) by a financial institution.

A warrant is a type of derivative because its value is dependent upon, or derived from, one or more underlying assets.

Warrants may be available and traded on listed exchanges or traded OTC (i.e. in an off exchange transaction).

Buying a warrant give the holder the right, but not the obligation, to either (i) buy a particular underlier at the specific strike price within a specified time period (in this case, an investor is purchasing a “**call warrant**”) or (ii) sell a particular underlier at a specific price within a specified time period (in this case, an investor is purchasing a “**put warrant**”). When purchasing a warrant, the investor will pay a “**premium**” as the price of the warrant.

The exercise of a warrant can be “**physically settled**”, in which case the purchaser will either acquire or deliver the underlying asset (as applicable).

Alternatively, in some cases, a warrant may be “**cash settled**”, in which case the market value of the underlier at the date of exercise is compared to the strike price of the warrant and the difference (if favourable to the warrant holder) is paid to the warrant holder; if such difference is zero or unfavourable to the warrant holder, then the warrant will expire worthless. A warrant may be cash settled if the underlier is not easily transferred or delivered, for example a warrant over a share index.

Although warrants operate in a similar way to options, warrants are different in that they are securities that are exercisable against the original issuer of the warrant (and your counterparty risk under a warrant is against such issuer). Accordingly, issuers are able to issue a wide variety of warrants with different strike prices and maturity dates, but the number of warrants issued may be limited and can affect the premium that you may pay. However, certain warrants may in fact be options e.g. a covered warrant whereby there is a right to acquire securities exercisable against an entity other than the issuer of the warrants. In such instances, you are advised to refer to Section 8 of this Part for further information on options.

### RISKS RELATING TO THE INSTRUMENT

Investing in warrants puts your capital at risk. This means you could lose some or all of your original investment. You should not purchase this product unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

#### *i) **Time limited:***

It is essential when considering whether to purchase warrants to understand that the right to acquire or sell underlying assets that a warrant confers is invariably limited in time with the consequence that if you fail to exercise this right within the predetermined timescale then the investment becomes worthless. In addition, in certain circumstances a warrant may lapse before its expiry date, for instance if the underlying securities are delisted. Please also note that a holder of a warrant does not have any voting, shareholding or dividend rights in respect of the underlying securities to which the warrant relates.

#### *ii) **Market risk:***

The price of the underlying security may, as a result of market conditions, fall below the strike price at any point before the expiry of the warrant, and in such cases the warrant may become worthless. The price of a warrant may also fall if there is a reduction in the time remaining to the maturity date or a decrease in the price volatility of the underlying assets. Such factors may lead to capital losses if you seek to sell the warrant prior to the maturity date.



**iii) Effect of “leverage” or “gearing”:**

Transactions in warrants carry a high level of risk. The initial upfront premium payment is small relative to the value of the contract that gives you the right to acquire or sell the underlying assets such that transactions are leveraged or geared. Prices of warrants can be volatile; they are therefore risky since a relatively small movement in the price of the underlying assets results in a disproportionately large movement, unfavourable or favourable, in the price of the warrant.

**iv) Liquidity:**

Warrants are typically issued in small and limited quantities; this may impact your ability to sell a warrant for a fair price on the secondary market. Your ability to sell a warrant for a fair price on the secondary market may also be influenced by the liquidity of the underlying assets.

**v) Terms and conditions of warrants:**

You should ask the firm with which you deal about the terms and conditions of the specific warrants which you are trading and associated obligations (e.g. the circumstances under which you may become obliged to buy or sell the underlying assets). Where a warrant is traded on a listed exchange, under certain circumstances the terms of outstanding warrants may be modified to reflect changes in the underlying instrument.

**vi) Issuer default risk:**

Under a warrant, your right to purchase or sell the underlying assets is exercisable against the issuer of the warrant. Accordingly, you are exposed to the risk that the issuer will not perform its obligations under the warrant.

In the event of insolvency of the issuer, your claims for recovery of the right to purchase or sell the underlying assets will generally be subordinated to the claims of both preferred or secured creditors of the issuer. This means that you will normally only receive any money from a liquidator if there are any remaining proceeds of the liquidation once all of the creditors of the company have been paid in full. It may take a significant amount of time to obtain any money that you are entitled to receive.

**vii) Additional risks:**

Furthermore, the risks set out in the paragraphs entitled “Trading over-the-counter” and “Suspension or restriction of trading and pricing relationships” in the section headed “General Risks When Investing In Financial Instruments” will also be applicable to this instrument.

**FURTHER INFORMATION**

The features and terms of warrants may vary between different issuances. Further information regarding the risks relating to a particular warrant, and any risks regarding the issuer of that warrant, can be found in the prospectus or other offering documents regarding that issuance. In addition, information regarding the specific warrant that you are investing in may also be found in product information documents that may be provided under applicable law. Please contact your Private Wealth Management team for guidance on how to obtain such documents.

## 8. OPTIONS

### DESCRIPTION OF INSTRUMENT

Options are contracts that provide the holder the right, but not the obligation, to either buy or sell an underlying asset at a specific pre-determined “**strike**” price. Investors may choose to buy options to express a view on an underlier or to hedge an existing exposure to the relevant underlier.

An option is a type of derivative because its value is dependent upon, or derived from, one or more underlying assets.

Options contracts may be available and traded on listed exchanges or entered into on a bilateral basis with another counterparty as an OTC derivative (see Section 10 of this Part for further details on OTC derivatives).

Buying options give the holder the right, but not the obligation, to either (i) buy a particular underlier at a specific price within a specified time period (in this case, an investor is purchasing a “**call option**”) or (ii) sell a particular underlier at a specific price within a specified time period (in this case, an investor is purchasing a “**put option**”). The buyer pays a premium to a seller for this right.

Investors may also choose to write or sell options to collect premium from buyers of such options. If the buyer of the relevant call or put option then decides to exercise the option (as applicable), the option writer / seller is obliged to sell or buy the underlying instrument at the strike price specified under the terms of the option (as applicable).

The exercise of an option can be “**physically settled**”, in which case the purchaser will either acquire or deliver the underlying asset (as applicable).

Alternatively, an option may be “**cash settled**”, in which case the market value of the underlier at the date of exercise is compared to the strike price of the option and the difference (if favourable to the option holder) is paid to the option holder; if such difference is zero or unfavourable to the option holder, then the option will expire worthless. An option may be cash settled if the underlier is not easily transferred or delivered, for example an option over indices or commodities.

Purchasers or writers / sellers of options can also effectively close their position by entering into an offsetting options trade with exactly the same strike price and expiration date. For example, a purchaser of a call option can write or sell a call option with the same terms to offset their original position. Similarly, a writer / seller of a put option can offset their position by purchasing a put option with the same term.

Although listed options operate in a similar way to warrants (see Section 7 of this Part for further information on warrants), listed options are different in that they are contracts created and traded on the options market. Accordingly, listed options contracts tend to be more standardised than warrants, but there are an unlimited number of options contracts available within a particular series of option and the number of options traded should not affect the price of an option. Also, for a listed option, your counterparty risk will be different in that you will be facing an exchange or clearing house as counterparty to the contract (rather than the issuer in the case of a warrant).

Investors may choose to deploy an option strategy whereby two or more options are acquired based on the same underlying which may differ in option types, strike price, maturity dates or types of positions or even more than one underlying. Exotic options may be linked to additional conditions whereby their price movements may be different. Given the potential combinations, you are advised to consider and understand the particular risks involved in each such combination. The risks set out below are those typically found in vanilla options.

**RISKS RELATING TO THE INSTRUMENT**

Investing in options can lead to the loss of the initial capital invested and any additional funds deposited with the counterparty to maintain your position under the options contract. You should not purchase this product unless you are prepared to sustain losses that exceed the original money you have invested and any commission or other transaction charges.

Transactions in options 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. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

*i) **Buying call or put options:***

The purchaser of a call or put option may either exercise the option or allow the option to expire. As such, buying call or put options involves less risk than writing / selling options because, if the price of the underlying asset to which the option relates moves against you, you can simply allow the option to lapse. If the purchased options expire worthless, the maximum loss for the purchaser is limited to the premium, plus any commission or other transaction charges.

If you are contemplating purchasing deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Certain exchanges or options markets in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

The value of an option is a combination of the price level of the underlying compared with the strike price ("intrinsic value") and the time remaining to maturity and volatility of the underlying price ("time value"). The value of a call option may therefore drop over time even when the value of the underlying instrument remains constant or even rises as the time value falls or market demand for the option is unfavourable. The shorter the time remaining until maturity and the larger the unfavourable intrinsic value the greater the risk.

*ii) **Writing / selling call or put options:***

If you write an option, the risk involved is considerably greater than buying options. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. You may be liable to post margin to maintain your position and although the premium received is fixed; you may sustain a loss well in excess of that amount.

You will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest.

If you already own the underlying asset which you have contracted to sell (when the options will be known as "**covered call options**") the risk is reduced. If you do not own the underlying asset ("**uncovered call options**") the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

*iii) **Traditional options:***

Certain London Stock Exchange firms under special exchange rules write a particular type of option called a 'traditional option'. These may involve greater risk than other options. Two way prices are not usually quoted and there is no exchange market on which to close out and balance any risk which a person may expose themselves to (an "**open position**") or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess its value or for the seller of such an option to manage his exposure to risk.

**iv) Binary Options:**

Binary option is a type of option whereby the return is structured as “all or nothing” based on a pre-determined level of a reference price of the underlying asset at a specified time or date or during a specified range of dates or times. These can be standalone option contracts or embedded into other products. The return is fixed and payoff will occur automatically with no further action required from the investor. Binary options are utilised as a hedge on an identified risk or to express a view on a specific and precise movement of the underlying asset. Binary options are therefore exposed to market fluctuations on the price of the underlying asset with profits capped (i.e. limited) at the specified rate at the time of entering into the investment. The trigger for any return may be dependent on small movements in price of the underlying reference assets. Investors should note that hedging and risk management transactions activities by market traders may disrupt the market and give rise to potential conflict of interest issues which may affect the underlying reference asset although GS has the relevant policies and procedures in place to minimise such impact and risks. These are considered illiquid investments as there is no secondary markets for trading them and investors must usually wait until the options expiry date or a triggering event during the term of the options contract to get a return/loss on investment. In the event of an adverse market movement, you will lose your entire investment.

v) **Effect of “leverage” or “gearing”:**

Transactions in options carry a high degree of risk. The initial upfront payment is small relative to the value of the options contract so that transactions are “leveraged” or “geared”. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit; this may work against you and create significant losses in a short period of time.

If the market moves against your position or margin levels (the percentage value of available usable margin for securing a transaction) are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated early at a loss, collateral may be sold to cover your obligations and you will also be liable for any resulting deficit. Leveraged or geared transactions therefore involve the possibility of greater loss than transactions for which you are not borrowing money. If the value of the assets in your Account falls, you may be required to deposit additional assets. Alternatively, GS may sell your assets to meet any liabilities owed to GS as a result of entering into margined transactions without prior notice to you and at a loss or at lower prices than under other circumstances. You will be solely liable for any shortfalls whatsoever arising out of GS selling your assets in this way.

vi) **Market risk:**

Between the date on which the options contract is entered into and the date on which the option can be exercised the value of the transaction may vary positively or negatively as a result of changes in market factors such as the price of the underlying asset, interest rates, dividends, and volatility

vii) **Terms and conditions of contracts:**

You should ask the firm with which you deal about the terms and conditions of the specific options which you are trading and associated obligations (e.g. expiration dates and restrictions on the time for exercise). Where an option is traded on a listed exchange, under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the relevant exchange or clearing house to reflect changes in the underlying interest. In addition, options traded on different exchanges on the same underlying interest may have different terms.

viii) **Deposited cash and property:**

You should familiarise yourself with the protections given to money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which had been specifically identifiable as your own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

**ix) Trading facilities:**

Electronic trading facilities are supported by computer-based component 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. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or participant firms. Such limits may vary: you should ask the firm with which you deal for details in this respect.

**x) Fixed time horizon:**

The length of an options contract is typically fixed and therefore timing is an important component impacting performance. For instance, an investor that has entered into an options contract to obtain the option to buy an underlying asset at a specific price in 12 months will not be able to benefit, under that options contract, from any price movement of the underlying asset in 13 months as the specified date on which the option may be exercised will have passed by this point.

**xi) Counterparty default risk:**

If you hold an uncleared OTC option and the counterparty to that option defaults or goes into bankruptcy, your return may be substantially impaired and you will be an unsecured creditor of the counterparty. This means that your claims for recovery of sums owed to you by the counterparty will generally be subordinated to the claims of both preferred or secured creditors of the counterparty. This may lead to positions being liquidated or closed out without your consent. It may be difficult or impossible to liquidate investments, assess value or risk exposure or determine a fair price. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash.

If you hold a listed option (or an OTC option that is cleared through a clearing house), the counterparty to that transaction will be an exchange or clearing house. The exchange or clearing house will contract with both you and the other party to the trade in order to guarantee both sides of the trade, reducing the risk of counterparty default for the parties to the trade. Please note that this type of arrangement does not completely eliminate the risk of counterparty default as you will still be exposed to the risk of the exchange or clearing house (as counterparty) defaulting.

**xii) Options as an OTC derivative:**

If an option is entered into as an OTC derivative, the risks relevant to OTC derivatives will also be applicable as set out in Section 10 of this Part below. It may also be possible to enter into options contracts on an OTC basis that have additional features or terms that may make it more risky.

**xiii) Additional risks:**

Furthermore, the risks set out in the paragraphs entitled "Trading over-the-counter" and "Suspension or restriction of trading and pricing relationships" in the section headed "General Risks When Investing In Financial Instruments" will also be applicable to this instrument.

**FURTHER INFORMATION**

The features and terms of listed option contracts may vary. Further information regarding the specific listed option contract that you are investing in may also be found in product information documents that may be provided under applicable law. In addition, for options entered into as an OTC derivative, you should refer to the derivatives documentation relevant to your OTC derivative transaction, including any derivatives trading master agreements or individual terms for a specific transaction, for the applicable terms and conditions governing your transaction. Please contact your Private Wealth Management team for guidance on how to obtain such documents.

## 9. CONTRACT FOR DIFFERENCE (“CFD”)

### DESCRIPTION OF INSTRUMENT

A CFD is a contract between two parties known as a “**buyer**” and a “**seller**”, under which the seller will pay to the buyer the difference between value of an underlying asset at the point the contract is opened and the value of the underlying asset at the predetermined point at which the contract is closed. So, if the value of the asset has increased by the time the contract is closed, the seller will pay the difference to the buyer; if the value of the asset has fallen then the buyer will need to pay the difference to the seller.

A CFD is a type of derivative because its value is dependent upon, or derived from, one or more underlying assets.

A CFD can only be “**cash settled**” as described above – a buyer will never take delivery of the underlying asset. Also, in contrast to futures and options, generally CFDs do not have expiry dates; if there is no expiry date, an investor will need to enter into an opposite CFD to the original trade in order to close out the original trade.

CFDs are generally entered into between two parties as an OTC derivative, although some CFDs may be available and traded on listed exchanges.

### RISKS RELATING TO THE INSTRUMENT

Investing in CFDs can lead to the loss of the initial capital invested and any additional funds deposited with the counterparty to maintain your position under the CFD contract. You should not purchase this product unless you are prepared to sustain losses that exceed the original money you have invested and any commission or other transaction charges.

#### *i) **Effect of “leverage” or “gearing”:***

Transactions in CFDs carry a high degree of risk. The initial upfront payment is small relative to the value of the CFDs so that transactions are “leveraged” or “geared”. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit; this may work against you and create significant losses in a short period of time.

If the market moves against your position or margin levels (the percentage value of available usable margin for securing a transaction) are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated early at a loss, collateral may be sold to cover your obligations and you will also be liable for any resulting deficit. Leveraged or geared transactions therefore involve the possibility of greater loss than transactions for which you are not borrowing money. If the value of the assets in your Account falls, you may be required to deposit additional assets. Alternatively, GS may sell your assets to meet any liabilities owed to GS as a result of entering into margined transactions without prior notice to you and at a loss or at lower prices than under other circumstances. You will be solely liable for any shortfalls whatsoever arising out of GS selling your assets in this way.

#### *ii) **Terms and conditions of contracts:***

You should ask the firm with which you deal about the terms and conditions of the specific CFD which you are trading and associated obligations (e.g. the circumstances under which you may become obliged to make a payment under a CFD).

#### *iii) **Deposited cash and property:***

You should familiarise yourself with the protections given to money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specific legislation or local rules. In some jurisdictions, property which had been specifically identifiable as your own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.



**iv) Transactions in other jurisdictions:**

Transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may expose you to additional risk. Such markets may be subject to regulation which may offer different or diminished investor protection. Before you trade you should enquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you deal for details about the types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

**v) Trading facilities:**

Electronic trading facilities are supported by computer-based component 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. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or participant firms. Such limits may vary: you should ask the firm with which you deal for details in this respect.

**vi) Counterparty default risk:**

If you hold an OTC CFD and the counterparty to that CFD defaults or goes into bankruptcy, your return may be substantially impaired and you will be an unsecured creditor of the counterparty. This means that your claims for recovery of sums owed to you by the counterparty will generally be subordinated to the claims of both preferred or secured creditors of the counterparty. This may lead to positions being liquidated or closed out without your consent. It may be difficult or impossible to liquidate investments, assess value or risk exposure or determine a fair price. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash.

If you hold a listed CFD or an OTC CFD that is cleared through a clearing house, the counterparty to that transaction will be an exchange or clearing house. The exchange or clearing house will contract with both you and the other party to the trade in order to guarantee both sides of the trade, reducing the risk of counterparty default for the parties to the trade. Please note that this type of arrangement does not completely eliminate the risk of counterparty default as you will still be exposed to the risk of the exchange or clearing house (as counterparty) defaulting.

**vii) CFDs as an OTC derivative:**

If a CFD is entered into as an OTC derivative, the risks relevant to OTC derivatives will also be applicable as set out in Section 10 of this Part below.

**viii) Additional risks:**

Furthermore, the risks set out in the paragraphs entitled "Trading over-the-counter", "Suspension or restriction of trading and pricing relationships" and "Risk reducing orders or strategies" in the section headed "General Risks When Investing In Financial Instruments" will also be applicable to this instrument.

**FURTHER INFORMATION**

The features and terms of CFDs may vary. Further information regarding the specific CFD that you are investing in may also be found in product information documents that may be provided under applicable law. In addition, for CFDs entered into as an OTC derivative, you should refer to the derivatives documentation relevant to your OTC derivative transaction, including any derivatives trading master agreements or individual terms for a specific transaction, for the applicable terms and conditions governing your transaction. Please contact your Private Wealth Management team for guidance on how to obtain such documents.

## 10. OVER-THE-COUNTER TRANSACTIONS IN DERIVATIVES

### DESCRIPTION OF INSTRUMENT

In some jurisdictions, and only then in restricted circumstances, firms are permitted to effect derivative contracts as OTC transactions i.e., as a bilateral contract with a derivatives counterparty. This includes derivatives referred to elsewhere in this Part (such as options and CFDs – see Sections 8 and 9 respectively) and other derivative transactions, including:

- Forward contract: a contract between two parties to buy or sell a financial instrument (for example, shares, commodities, currencies) at a specific future date and at a specific price or level.
- Swap contract: a contract between two parties to exchange cash or payment flows related to an underlying financial instrument or asset over a certain period. For example, one of the most common types of swap is an interest rate swap, where two parties swap interest payments on specified amounts in the same currency – this is often used by parties to swap fixed rate payments for variable rate payments or vice versa.

As noted elsewhere in this Part, a derivative is a contract with a value that is dependent upon, or derived from, one or more underlying assets. However, please note that the terms and conditions of an OTC derivative transaction are generally specific to the transaction you are entering into and will be individually negotiated with you. As such, it is important to review the terms of each OTC derivative transaction that you enter into to understand how the relevant underlying asset impacts the value of your OTC derivative transaction and your obligations under the relevant derivatives contract, which may include obligations to make certain payments to your OTC derivative counterparty.

It may not always be apparent whether or not a particular derivative is effected on exchange or OTC. We will endeavour to make it clear to you if you are entering into an OTC derivative transaction.

### RISKS RELATING TO THE INSTRUMENT

Investing in OTC derivatives can lead to the loss of the initial capital invested and any additional funds deposited with the counterparty to maintain your position under the OTC derivative contract. You should not purchase this product unless you are prepared to sustain losses that exceed the original money you have invested and any commission or other transaction charges.

#### *i) **Counterparty default risk:***

If you hold an uncleared OTC derivative, the counterparty to that derivative will be the firm with which you are dealing. If the counterparty defaults or goes into bankruptcy, your return may be substantially impaired and you will be an unsecured creditor of the counterparty. This means that your claims for recovery of sums owed to you by the counterparty will generally be subordinated to the claims of both preferred or secured creditors of the counterparty. This may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash. This is in contrast to listed derivatives or OTC derivatives that are cleared through a clearing house, where counterparty default risk is reduced (but not eliminated) as the counterparty to both sides of the transaction is an exchange or clearing house.

#### *ii) **Pricing:***

The price of each OTC derivative transaction is individually negotiated between GS and each counterparty and GS cannot guarantee that the prices for which it offers OTC derivative transactions are the best prices available. You may therefore have trouble establishing whether the price you have been offered for a particular OTC derivative transaction is fair. OTC derivatives may trade at a value that is different from the level inferred from interest rates, dividends and the underlier. The difference may be due to factors including, but not limited to, expectations of future levels of interest rates and dividends, and the volatility of the underlier prior to maturity. The market price of the OTC derivative transaction may be influenced by many unpredictable factors, including economic conditions, the creditworthiness of GS, the value of any underlier, and certain actions taken by GS.

**iii) Liquidity:**

While some OTC markets are highly liquid, transactions in OTC or "non-transferable" derivatives may involve greater risk than investing in exchange traded derivatives because there is no exchange market on which to close out an open position and you will therefore be taking the credit risk of your counterparty to the OTC derivative transaction. It may be impossible to liquidate an existing position, to assess the value of the position arising from an OTC transaction, to determine a fair price or to assess the exposure to risk. Bid and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish an independently verifiable fair price.

There may not be another market trader 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).

**iv) Market risk:**

There may be exposure to fluctuations in the value of the underlying financial instrument, asset, commodity, rate or index. 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). Such adjustments may involve an element of discretion on the part of the calculation agent. Exposure to an underlying via an OTC derivative may not correspond in all cases with exposure obtained by holding the underlying directly.

For uncovered swap transactions there is risk which is directly related to the risk of the different instruments swapped and you should note that these risks are not offsetting in effect and should be viewed instead in aggregate and may be unlimited based on the full amounts contracted.

**v) Effect of "leverage" or "gearing":**

Transactions in OTC derivatives carry a high degree of risk. The initial upfront payment is small relative to the value of the OTC derivative so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit; this may work against you and create significant losses in a short period of time.

If the market moves against your position or margin levels (the percentage value of available usable margin for securing a transaction) are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated early at a loss, collateral may be sold to cover your obligations and you will also be liable for any resulting deficit. Leveraged or geared transactions therefore involve the possibility of greater loss than transactions for which you are not borrowing money. If the value of the assets in your Account falls, you may be required to deposit additional assets. Alternatively, GS may sell your assets to meet any liabilities owed to GS as a result of entering into margined transactions without prior notice to you and at a loss or at lower prices than under other circumstances. You will be solely liable for any shortfalls whatsoever arising out of GS selling your assets in this way.

**vi) Terms and conditions of contracts:**

You should ask the firm with which you deal about the terms and conditions of the specific OTC derivative transaction which you are trading and associated obligations (e.g. the circumstances under which you may become obliged to make a payment under the OTC derivative transaction).

**vii) Early termination:**

The provisions of an OTC derivative transaction may allow for early termination and, in such cases, either you or your counterparty may be required to make a potentially significant termination payment depending upon whether the OTC derivative transaction is in-the-money at the time of termination.

**viii) Regulatory considerations:**

OTC transactions may be less regulated or subject to a separate regulatory regime to listed derivatives. Before you undertake such transactions, you should familiarise yourself with applicable rules and any contractual terms that govern your relationship with the counterparty including any master agreement and related schedules, credit support documents, addenda and exhibits.

**ix) Treatment of collateral:**

If you deposit collateral as security with a counterparty under an OTC derivative transaction, the treatment of that collateral by the counterparty may vary from how it would be treated by a counterparty under a listed derivative transaction. Deposited collateral may no longer be considered your property once dealings are undertaken on your behalf. Even if your dealings under the OTC derivative transaction are profitable, you may not get back the same collateral that you deposited and may have to accept cash payment instead. It is therefore important that you carefully read the terms of any OTC derivative contract in order to understand how your collateral will be treated.

**x) Inability to assign:**

OTC derivative transactions entered into with one or more affiliates of GS cannot be assigned or otherwise transferred without GS' prior written consent and, therefore, in some cases, it may be impossible for you to transfer any OTC derivative transaction to a third party. The same restriction on assignment may apply where the counterparty is a firm that is not an affiliate of GS.

**xi) Limited liability transactions:**

Before entering into any transaction OTC where you are seeking to limit liability (a "**limited liability transaction**") you should obtain from GS or the firm with whom you are dealing a formal written statement confirming that the extent of your loss liability on each transaction will be limited to an amount agreed by you before you enter into the transaction. The amount you can lose in limited liability transactions will be less than in other margined transactions, which have no predetermined loss limit. Nevertheless, even though the extent of loss will be subject to the agreed limit, you may sustain the loss in a relatively short time.

#### **FURTHER INFORMATION**

You should refer to the derivatives documentation relevant to your OTC derivative transaction, including any derivatives trading master agreements or individual terms for a specific transaction, for the applicable terms and conditions governing your transaction. Further information regarding a particular OTC derivative transaction may also be available in any product information documents that may be provided under applicable law. Please contact your Private Wealth Management team for guidance on how to obtain such documents.

## 11. STRUCTURED PRODUCTS, INCLUDING SECURITISED DERIVATIVES AND STRUCTURED CAPITAL AT RISK PRODUCTS (SCARPS)

### DESCRIPTION OF INSTRUMENT

Structured Products is the generic phrase for products which provide economic exposure to a wide range of underlying asset classes. The level of income/capital growth derived from a structured product is usually linked to the performance of the relevant underlying asset(s). However, the potential return from your structured product may be different to that which may be achieved by directly holding the underlying assets. They usually carry a higher degree of risk as risks associated with each component of the underlying assets may be connected and amplified.

The range of structured 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 rates or commodities.

Certain structured products provide capital protection such that an investor will not have economic exposure to performance of the underlying asset(s) below a certain level. However, other structured products may put your capital at risk – these include products that are known as Structured Capital At Risk Products or “**SCARPs**”. SCARPs are designed to provide you with an agreed level of income or growth over a specified investment period. The return of the capital you initially invested into a SCARP may be linked to the performance of an index tracking or representing a particular market or type of stock, a “basket” of selected stocks or other factors. If the SCARP has performed within specified limits, you will be repaid the capital you initially invested but if not, you could lose some or all of your initial capital. Investing in SCARPs can put the capital you initially invested at risk and SCARPs are not 100% protected.

Structured products can be structured in a variety of different ways and include various features or terms, such as participation rates and caps on maximum returns or losses, that can significantly impact your eventual payoff. Structured products can come in a variety of forms, with products being issued as debt securities or as derivatives (which are referred to as “**securitised derivatives**” and include instruments such as warrants). It is therefore important that you review the terms of each structured product in which you wish to invest.

A securitised derivative is a type of derivative because its value is dependent upon, or derived from, one or more underlying assets and are normally exercisable against someone other than the entity issuing that investment. Alternatively they may also give you rights under a contract for differences (see Section 9 of this Part for a description of this financial instrument) which allow for speculation on fluctuations in the value of assets of any description or an index, such as the FTSE 100 index.

A structured product may be available and traded on listed exchanges or traded OTC (i.e. in an off exchange transaction).

### RISKS RELATING TO THE INSTRUMENT

Investments in structured products put your capital at risk. This means you could lose some or all of your original investment. You should not purchase this product unless you are prepared to sustain a total loss of the capital you invest in the transaction plus any commission or other transaction charges.

Certain structured products may offer principal protection however this protection may be subject to the performance of the product and may not apply if performance is worse than expected.

#### *i) Time:*

You should be aware that the product terms described only apply to investors who invest at launch and who hold the product until final maturity. Investors should be aware that early redemption or secondary market purchase could result in a capital loss and you may not gain the maximum benefit of the investment and may receive a return less than the initial capital invested, even where the product terms protect or guarantee return of the nominal amount purchased. Early redemption penalties may be applicable in some circumstances.

In addition, some structured products that come in the form of a securitised derivative may have a time-limited right to purchase or sell the underlying assets of the securitised derivative (such as warrant structures). As such, if you fail to exercise this right within the predetermined timescale then the investment becomes worthless. In addition, in certain

circumstances a securitised derivative may lapse before its expiry date, for instance if the underlying securities are delisted. Please also note that a holder of a securitised derivative does not have any voting, shareholding or dividend rights in respect of the underlying securities to which the securitised derivative relates.

**ii) Characteristics:**

Structured products may give investors a right (whether for a fixed or indefinite term) to buy or sell one or more types of investments which are either exercisable against the issuer or someone other than the issuer or give investors rights under contract for proceeds payable by the counterparty as a result of fluctuations in value of underlying investments of any description (for example, shares, an index, other financial investments). In such instances, the extent of loss due to market and price movements may be substantial and amplified by such connectivity with different components of the investments.

The initial capital you invest may be placed into high risk investments such as non-investment grade bonds or instruments linked to commodities or indices on commodities. Investments linked to the performance of an index do not include an allowance for any return or reinvestment of dividend income from the underlying constituents of the index (unless the index reinvests the dividends automatically, such as a total return equity index). The stated rate of growth or income in relation to an investment may depend on specified conditions being met, including the performance of the relevant index/indices, basket of selected stocks or other specified factor(s).

Risks inherent to each investment and each component within each investment should be considered separately as well as evaluated as a whole.

**iii) Market risk:**

The value of the underlying reference asset and the fixed income element of the structured product may change over the life of the transaction in a manner which causes you to experience a loss. Structured investments are not principal protected, therefore you may lose all or a portion of the principal amount that you invested.

Some structured products do include an element of principal protection, at a level which is stated at the time of the initial investment, so that on maturity of the investment you are assured of the return, at a minimum, of the stated proportion of your initial capital invested (subject always to the credit of the issuer of the product). In respect of some products which include an element of principal protection, the return of the stated proportion of your initial capital invested may depend on a pre-agreed level of performance being achieved or the product being held to maturity. If the performance is not attained or the product is not held to maturity the element of principal protection will not apply.

For structures with downside protection, it is important to note that the downside protection generally relates to the nominal principal amount paid and does not offer inflation protection (i.e. downside protection that keeps pace with the rate of inflation).

In relation to securitised derivatives where you may exercise a right to purchase or sell underlying securities, the price of the underlying security may, as a result of market conditions, fall below the exercise price at any point before the expiry of the securitised derivative. In such cases the securitised derivative may become worthless. The price of a securitised derivative may also fall if there is a reduction in the time remaining to the maturity date or a decrease in the price volatility of the underlying assets. Such factors may lead to capital losses if you seek to sell the securitised derivative prior to the maturity date.

**iv) Issuer default risk:**

In the event of insolvency of the issuer of the structured product, your claims for recovery of (i) your investment or (ii) any right to purchase or sell the underlying assets will generally be subordinated to the claims of both preferred or secured creditors of the issuer. This means that you will normally only receive any money from a liquidator if there are any remaining proceeds of the liquidation once all of the creditors of the company have been paid in full. It may take a significant amount of time to obtain any money that is owed to you by a liquidator. In this situation, you may lose your entire investment even if you hold the investment to maturity. You must therefore evaluate the credit risk of doing business with the issuer.

In addition, under a securitised derivative, your right to purchase or sell the underlying assets are exercisable against the issuer of the securitised derivative. Accordingly, you are exposed to the risk that the issuer will not perform its obligations under the securitised derivative.

**v) Effect of “gearing” or “leverage”:**

These investments may involve a degree of gearing, 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 out to you on maturity of the investment.

If the product has performed within specified limits, you will be repaid the capital you initially invested but if not, you could lose some or all of your initial capital. Structured products may not be 100% protected and may include leverage (i.e. borrowing or agreeing to incur potential liabilities in an attempt to boost investment returns), so their value can be subject to sudden and large falls. Investors in structured products which have either conditional or no capital protection should only invest in them if they are prepared to sustain a total or substantial loss of the money they have invested, plus any commission or other transaction charges.

Transactions in securitised derivatives also carry a high degree of risk. The initial upfront payment may be small relative to the value of the securitised derivatives so that transactions are “leveraged” or “geared”. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit; this may work against you and create significant losses in a short period of time.

**vi) Liquidity risk:**

It is important to understand that 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. Issuers of structured products will allow you to sell structured products prior to their maturity date on a best efforts basis. However, there is no public market for structured products and issuers are not obligated to repurchase them. You should not deal in these investments unless you are prepared to sustain a loss of the money you have invested (a loss which may be total or may be partial as specified in the relevant terms and conditions) plus any commission or other transaction charges.

In addition, securitised derivatives are typically issued in small and limited quantities; this may impact your ability to sell a securitised derivative for a fair price on the secondary market. Your ability to sell a securitised derivative for a fair price on the secondary market may also be influenced by the liquidity of the underlying assets.

**vii) Terms and conditions of contracts**

You should ask the firm with which you deal about the terms and conditions of the specific structured product which you are trading and associated obligations (e.g. the circumstances under which you may become obliged to make a payment under a structured product).

Where a structured product is traded on a listed exchange, under certain circumstances the terms of outstanding structured product may be modified by the relevant exchange or clearing house to reflect changes in the underlying instrument.

**viii) Payoff structure:**

Structured products may have complicated payoff structures that can make it difficult to accurately assess their value, risk and growth potential for the term of the product. Assessing the performance of a structured product can be complex. Performance can vary significantly depending on how the product is structured. Notes can be structured in a wide variety of ways and factors such as participation rates and caps on maximum returns can impact your eventual payoff. It is therefore important that you review the terms of any structured product in which you wish to invest.

There is no guarantee that all of the initial capital invested by you will be returned to you on maturity of the investment. You may therefore get back a smaller amount than you originally invested.



**ix) Regulatory considerations:**

When you invest in a structured product you may not be protected by certain regulatory protections or compensation schemes in the event that a scheme operator acts unlawfully and causes a loss to you when managing assets.

**x) Additional risks:**

Furthermore, the risks set out in the paragraphs entitled “Trading over-the-counter” and “Suspension or restriction of trading and pricing relationships” in the section headed “General risks when investing in financial instruments” will also be applicable to this instrument.

#### **FURTHER INFORMATION**

Further information regarding the risks relating to a particular structured product, and any risks regarding the issuer of that security, can also be found in (i) the prospectus or other offering documents regarding that issuance and (ii) any product information documents regarding the structured product that may be provided under applicable law. Please contact your Private Wealth Management team for guidance on how to obtain such documents.

Given the wide variety of pay-offs available through a structured product, you should also review any materials or documentation provided to you in respect of a specific structured product, including any termsheets or other terms and conditions for that specific product.



## 12. STOCK LENDING

### DESCRIPTION OF INSTRUMENT

Stock lending involves the temporary transfer for securities that you own to a third party (a borrower) in return for collateral which secures the stock lending and a fee (which may be paid periodically). The lender is contractually obliged to return the securities on demand within a pre-defined settlement period. As a result of lending securities you will cease to be the owner of them, although you will have the right to reacquire at a future date equivalent securities (or in certain circumstances their cash value or the proceeds of redemption).

### RISKS RELATING TO THE INSTRUMENT

Transactions in stock lending put your capital at risk. This means you could lose some or all of your original investment. You should not enter into a stock lending transaction unless you are prepared to sustain a total loss of the capital you invest in the transaction plus any commission or other transaction charges.

***i) Borrower default risk:***

Your right to the return of securities is subject to the risk of insolvency or other non-performance by the borrower. Whilst it is common to reduce exposure to the risk of borrower default by demanding that the borrower posts collateral to secure the loan, this does not eliminate borrower default risk.

***ii) Collateral risk:***

Stock lending transactions are typically secured by collateral that the borrower provides. There is a risk that the value of the collateral falls below the replacement cost of the stock that is being lent. In such instances, if the borrower defaults you will suffer losses equal to the difference in value between the collateral and the stock.

***iii) Cash collateral reinvestment risk:***

Where you take cash as collateral as part of a stock lending transaction, you may wish to reinvest that cash in order to generate a return. You will be liable to the borrower for any losses suffered on reinvestment of the cash collateral.

***iv) Voting rights and operational risk:***

Since you are not the owner of the securities during the period that they are lent out, you will not have voting rights. Nor will you directly receive dividends or other corporate actions in respect of the securities that you have lent out. However, you will normally be entitled to a payment from the borrower equivalent to the dividend you would otherwise have received and the borrower will be required to account for you for the benefit of corporate actions.

Delivery failure could occur due to non-settlement or delay in settlement of transactions, or failure to deliver securities due to illiquid market conditions in respect to the specific securities at any given time, with the securities difficult to source. This could result in an event of default and termination of the stock lending transaction. Depending on the market value of the securities at such time, may result in a loss to a party even where the termination is as a result of an external event.

***v) Tax disclaimer:***

Stock lending may affect your tax position and you should consult a tax adviser before proceeding. GS does not provide tax or legal advice.

### FURTHER INFORMATION

Full details of the provisions governing the stock lending transaction will be contained in any stock lending agreement you enter into and the above description is subject to the terms of any such document.



## **PART II – EMERGING MARKETS RISK STATEMENT**

## 1. INTRODUCTION

This section sets out some of the risks associated with making investments in emerging markets, you should carefully consider these risks before choosing to invest in emerging markets.

Whilst countries other than those with well-developed legal systems and securities markets have been working to develop their legal, judicial and regulatory infrastructure there is still a high degree of legal uncertainty concerning the rights, duties and legal remedies of market participants in some of these countries.

Emerging markets can carry significantly greater risks than those typically associated with investing in more developed markets. The nature and extent of these risks will vary from country to country. Before making any investment in these markets, you should independently satisfy yourself that you understand and appreciate the significance of the relevant risks set out below, and that such an investment is suitable for you and any clients for whom you are acting in a fiduciary capacity.

This statement is intended to summarise some of these risks, but does not purport to be an exhaustive list, nor should it be regarded as offering advice on the suitability of these investments for you or your clients.

## 2. EMERGING MARKET RISKS

### 2.1. Market characteristics

The securities markets of emerging countries are in the early stages of their development and many of them generally lack the levels of transparency, liquidity, efficiency and regulation characteristic of the more developed markets. In some of these markets, standard practices, market customs and usages have yet to evolve and be readily identifiable as such by market participants. The credit rating of local financial institutions may not be high and there is often limited trust in such institutions.

Government supervision of securities markets, investment intermediaries and of quoted companies may be considerably less well-developed than in many countries with well-established markets and, in some cases, effectively non-existent. Many regulations are unclear in their scope and effect, and there may be a greater risk than in more developed countries of activities conducted in good faith on the basis of professional advice subsequently being regarded as not in compliance with fiscal, currency control, securities, corporate or other regulatory requirements. In addition, where a system of regulation is present, it may lack any, or any adequate, mechanism to enforce compliance by participants.

The valuation of both enterprises and securities in some of these countries has sometimes proved problematic in the absence of efficient secondary markets. In particular, the illiquidity of the markets in general or of particular securities in some of these countries may make it difficult to determine an accurate valuation for a particular security or whether such security could actually be sold at such a price. In addition, due to historic difficulties in acquiring securities in certain of these countries, depository receipts or derivatives relating to certain of such securities have been created which may not be mutually interchangeable with each other or the securities underlying or relating to such depository receipts or derivatives. This might lead to such depository receipts or derivatives trading at substantial premiums or discounts to the underlying or related securities.

### 2.2. Economic risk

Many emerging countries lack a strong infrastructure. Telecommunications generally are poor, and banks and other financial systems are not always well developed, well regulated or well integrated. These countries may also have considerable external debt, which could affect the proper functioning of their economies with a corresponding adverse impact on the performance of their markets. Tax regimes may be subject to the risk of a sudden imposition of arbitrary or onerous taxes, which could adversely affect foreign investors.

Businesses in these countries may have a limited history operating in market conditions. Accordingly, when compared to companies in more developed markets, such businesses may be characterised by a lack of management who are experienced in market conditions and a limited capital base with which to develop their operations.

### **2.3. Political risk**

The political systems in the majority of emerging countries have been the subject of substantial and positive reforms. The relative infancy of some of these political systems may mean that they are more vulnerable in the face of popular dissatisfaction with reform, political or diplomatic developments, or social, ethnic or religious instability. Such developments, if they were to occur, could in turn lead to a reversal of some or all of the democratic reforms, a backlash against foreign investment and, in a worst case scenario in some countries, a return to a centralised planned economy and state ownership of assets. This could involve the compulsory nationalisation or expropriation of foreign-owned assets without adequate compensation, or the restructuring of particular industry sectors in a way which could adversely affect private investors in such sectors.

### **2.4. Investment, foreign exchange and repatriation restrictions**

Foreign investment in emerging countries is in some cases restricted. Some of these countries have non-convertible currencies and the value of investments may be affected by fluctuations in available currency rates and exchange control regulations (which could change at any time). The repatriation of investors' funds and profits may therefore be restricted or difficult and could involve significant cost. Moreover, considerable delays may occur in the transfer of funds within, and with repatriation of monies out of, these countries.

### **2.5. Tax risks**

In some countries the tax position is complex and subject to more frequent change than in western countries. It may not be possible to reclaim tax even where this is theoretically possible due to practical and timing issues.

### **2.6. Legal risks**

Many emerging countries do not yet have a legal system comparable to those of more developed countries. Legal reforms may not always correspond to market developments, resulting in ambiguities and inconsistencies which increase the risk of investing in these countries. Legislation to safeguard the rights of private ownership and control as well as establishing intellectual property concepts may not yet be in place, and there is risk of conflicting rules and regulations. Laws and regulations governing investment in securities markets may not exist or may be subject to inconsistent or arbitrary interpretation or application. The independence of the judicial systems, and their susceptibility to economic, political or nationalistic influences, remains largely untested. It may be impossible to predict whether a foreign investor would obtain effective redress in the local courts in respect of a breach of local laws or regulations, or in an ownership dispute.

### **2.7. Settlement risk**

The concepts of ownership of and procedures for the transfer of securities in emerging countries may differ radically from those in more developed markets. In some markets, for example, the term "dvp" (delivery versus payment) does not imply that securities and cash move at the same time. Registration of shares may not be subject to standardised procedures or to a centralised system, and may be effected on an ad hoc basis. The concept of nominee ownership is undeveloped and, in some cases, not recognised at all. As a result, registration can be administratively cumbersome and time consuming, leading to delays in settling trades, ownership disputes and constraints on trading. The realisation of rights of ownership, for example the exercise of shareholders' rights, cannot be assumed. Moreover, in some markets the risk of conflicts of interest on the part of those responsible for the conduct of the registration procedures, and the risk of fraud (for example, in connection with physical certificates) or of a registrar refusing to effect registration without justification (or of a registrar deleting a registration once it has occurred, with a consequential total loss of investment) is higher in many cases than in more developed markets.

### **2.8. Shareholder risks**

Rules in emerging countries regarding ownership and corporate governance of domestic companies (for example, limiting the ability of management to effect transactions with affiliates or to sell or otherwise dispose of their company's assets) may not exist or may confer little practical protection on minority shareholders. Disclosure and reporting requirements are in many cases less than in more developed countries and may be non-existent or basic. Anti-dilution protection may also be very limited. Redress for violations of shareholder rights may be difficult in the absence of a system of derivative or class action litigation.

**2.9. Accounting practices**

Accounting, auditing and financial reporting standards in many emerging countries are not yet equivalent to those applicable in more developed countries and in some of these countries are of virtually no assistance to an investor. The availability, quality and reliability of corporate information (including official data) is likely to be lower than that in respect of investments in more developed markets.

**PART III – KEY RISKS ASSOCIATED WITH INVESTMENTS  
ISSUED BY EUROPEAN BANKS THAT ARE SUBJECT TO THE  
EUROPEAN BANKING RECOVERY AND RESOLUTION  
DIRECTIVE**

## 1. INTRODUCTION:

### 1.1 What is the Banking Recovery and Resolution Directive (the “BRRD”)?

BRRD is a European directive that establishes a framework for the recovery and resolution of certain European banks and investment firms (the “**Resolution Regime**”). In order to avoid using public funds to “bail-out” failing institutions, BRRD gives European regulators the power to “bail-in” certain investments issued by such institutions. This may include, but is not limited to, certain equity and debt securities issued by European banks and investment firms you may hold these in-scope investments in your Account.

### 1.2 Executive summary

This disclosure aims to provide a summary of the risks of investing in instruments subject to the Resolution Regime which include bonds, subordinated debt, structured notes and other unsecured products and equities. These risks will also be relevant when investing in financial products that provide investors with a significant exposure to instruments that are subject to the Resolution Regime, such as funds investing in these instruments and structured products / OTC derivatives referencing these instruments.

It is therefore not a full description of all the risks of investing in the relevant instruments – other parts of this Booklet provide general descriptions of the nature and risks of particular investments you may be making.

If you invest directly in instruments or securities issued by an institution that is subject to the Resolution Regime, you should be aware that European regulators may use their “bail-in” powers if that institution is failing or likely to fail. This means they can convert your investment into equity or write down your investment to zero. This could result in the loss of the entire capital you have invested in that instrument or security.

**Example:**

A bond issued by a European bank may be written down before the bank enters into insolvency so that the outstanding amount due to you is reduced to zero.

Even when you are not investing directly in instruments subject to the Resolution Regime, you may be investing in a product with exposure to such in-scope instruments, for example a fund that invests in these instruments or a structured product / OTC derivative referencing these instruments. As such, if those underlying instruments are subject to “bail-in” that could have an impact on the performance of the product you have invested in depending on the terms of the relevant product and the level of exposure to such instruments.

**Example:**

The value of your holdings in a fixed income fund that invests in European bank bonds may correlate to the value of the investments it holds. Therefore, if the European bank bonds that the fund holds are written down then the value of the fund you have invested in may decrease as well.

Please note that deposits that are protected by a deposit guarantee scheme cannot be “bailed-in” by the European regulators and deposits which exceed the coverage level under the deposit guarantee scheme also rank higher than ordinary unsecured, non-preferred creditors in the “bail-in” hierarchy. You should be aware that instruments and securities of a Regulated entity that you invest in may not be protected by a deposit guarantee scheme.

It is inherently unpredictable how and when the powers of the European regulators under the Resolution Regime will be applied or invoked. You are unlikely to be able to anticipate the exercise of recovery and resolution measures and the European regulators are not required to give you prior notice of their decision to exercise such measures. The manner in which recovery and resolution measures are applied is in the hands of the European regulators, to the exclusion of investors.

Furthermore, the exercise of “bail-in” powers and the other resolution measures shall not (subject to limited exceptions) constitute an event of default under the terms and conditions of your investments and you may only have limited opportunities to challenge the intended use of resolution measures.

### 1.3 Structure of this Part

To help you assess the potential impact and consequences of investing in securities or instruments that are subject to the BRRD, we have provided further information below:

- Section 2 provides more information on the scope of BRRD, including which types of entities and instruments / securities would be subject to BRRD;
- Section 3 describes the powers of the European regulators under the Resolution Regime, including which instruments or securities would be “bailed-in” first by regulators; and
- Section 4 outlines some of the key risks of investing in instruments subject to the Resolution Regime.

Please note that this disclosure is not intended to be an exhaustive explanation of the Resolution Regime or a full description of all the risks of investing in the relevant instruments. GS cannot provide you with legal advice and you should consult your own legal counsel to determine how the Resolution Regime may impact your investments.

### 1.4 Additional information

Product documentation (such as prospectuses or other offering documents) may also provide additional information on how the Resolution Regime may impact the relevant investment. For example:

- a share or bond prospectus issued by an EU bank may contain information on how its regulator may exercise its bail-in powers to those specific shares or bonds; or
- a fund’s prospectus may highlight the risks that arise if the fund invested in securities that may be “bailed-in” under the Resolution Regime.

Please speak to your Private Wealth Management team if you would like to see a copy of relevant product documentation.

## 2. SCOPE OF BRRD

During the course of our relationship, you may invest in financial instruments issued by (i) EEA credit institutions and large investment firms, (ii) certain EEA subsidiaries of credit institutions or large investment firms, or (iii) other EEA companies within financial groups (“**Regulated Entities**”). These investments may be made on our recommendation, on your instruction or in the exercise of our discretionary authority to manage your portfolio.

Certain financial instruments issued by Regulated Entities will be subject to the Resolution Regime under the BRRD, which can apply before or instead of an insolvency situation.

Under the Resolution Regime, European regulators have tools and powers to intervene in unsound or failing (or likely failing) Regulated Entities or their groups. They are aimed at ensuring the continuity of the entity or group’s critical financial and economic functions, whilst minimising the impact of the entity’s failure on the financial system and the public by avoiding the need for a “bail-out”. The powers of the European regulators under the Resolution Regime may arise automatically under national legislation and therefore there may be no reference to such powers in the product documentation. A description of these powers and the recovery and resolution measures that may be taken under the Resolution Regime can be found in Section 3 below.

## 3. POWERS OF EUROPEAN REGULATORS UNDER THE BRRD

The recovery and resolution measures available under the Resolution Regime include (i) preparatory and preventative measures, (ii) early intervention measures, (iii) pre-resolution measures (including “bail-in” of regulatory capital instrument), and (iv) resolution measures (including “bail-in” of other financial instruments).

### (i) Preparatory and preventative measures

Preparatory and preventative measures and obligations are aimed at avoiding failure of the Regulated Entities or their groups. These include an obligation to draw up a (group) recovery plan to be executed in case of a



deteriorating financial position and an obligation on European regulators to draw up resolution plans allowing for expedient intervention should the winding up of the failing Regulated Entity or its group become inevitable.

**(ii) Early intervention measures**

In situations where the financial condition of the Regulated Entity or its group is significantly deteriorating, European regulators have powers to intervene before it reaches a point at which authorities have no choice but to resolve it. The intervention measures include, among other things:

- the launch of a previously drawn-up recovery plan;
- the identification and execution of measures aimed at recovery of the entity;
- the convening of a meeting of shareholders;
- the replacement of managers or management;
- the drawing up of a plan for the restructuring of debt; and
- changes to business strategy and/or operational structure.

**(iii) Pre-resolution measures (including “bail-in” of regulatory capital instruments)**

In situations where the Regulated Entity or its group reaches a point of non-viability, European regulators may take pre-resolution measures. The point of non-viability may coincide with the moment at which resolution measures may be taken, or may occur at such earlier moment at which the European regulator determines that, if its capital instruments were not written down or converted, the Regulated Entity or its group will no longer be viable.

Pre-resolution measures in relation to regulatory capital instruments include (i) writing down and cancelling shares, and (ii) writing down regulatory capital instruments and converting them into shares (this is known as the “bail-in” of regulatory capital instruments). Regulatory capital instruments include but are not limited to contingent convertible notes and “Tier 2” subordinated instruments.

Therefore, if your investments include equity, it may be written down and cancelled, and if your investments include regulatory capital instruments, those instruments will be at increased risk of being reduced to zero or being converted into equity.

**(iv) Resolution measures (including “bail-in” of other financial instruments)**

In situations where the Regulated Entity or its group reaches a point where (i) its winding up is (likely to be) inevitable, (ii) there is no reasonable prospect that any alternative private sector measures (including early intervention measures and pre-resolution measures) would prevent its failure within a reasonable timeframe, and (iii) resolution action is necessary in the public interest, then a European regulator may take resolution measures.


The general resolution measures that European regulators may take are (i) the sale of the Regulated Entity or its group’s business, (ii) the transfer of the Regulated Entity or its group’s business to a bridge institution, (iii) the separation of the assets of the Regulated Entity or its group enabling European regulators to effect a transfer of assets, rights or liabilities to an asset management vehicle, and (iv) discontinuing the listing and admission to trading of financial instruments issued by the Regulated Entity.

The resolution measures that European regulators may take in respect of financial instruments issued by the Regulated Entity include (i) modifications to the terms of debt instruments and most other liabilities of the Regulated Entity (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension on payments), and (ii) a more general “bail-in” power which allows European regulators to write down to zero (or reduce the principal amount of, or the outstanding amount payable of) most unsecured debts of the Regulated Entity and/or to convert such debts into equity.

**(v) How “bail-in” powers will be applied to in-scope financial instruments**

The BRRD sets out the sequence in which European regulators should apply the “bail-in” power to write down or convert financial instruments and obligations of a Regulated Entity under resolution.

In terms of which instruments and obligations would be bailed-in first, the following hierarchy would apply:

<b>FIRST</b>  <b>LAST</b>	<b>Common Equity “Tier 1” regulatory capital instruments</b> (for example, ordinary shares)
	<b>“Additional Tier 1” regulatory capital instruments</b> (for example, contingent convertible notes)
	<b>“Tier 2” regulatory capital instruments</b> (for example, some subordinated debt)
	<b>Other subordinated debt not falling within any of the categories above</b> (these instruments would be bailed-in in accordance with the hierarchy of creditor claims that would apply if the Regulated Entity was subject to normal insolvency proceedings)
	<b>All other liabilities eligible for bail-in not falling within any of the categories above</b> (these instruments would be bailed-in in accordance with the hierarchy of creditor claims that would apply if the Regulated Entity was subject to normal insolvency proceedings)

Some liabilities are not eligible for bail-in. These include but are not limited to secured liabilities, client money and deposits protected by the applicable deposit guarantee scheme (which covers eligible deposits by natural persons and micro, small and medium-sized enterprises up to a limit of EUR 100,000 per person or per institution). Deposits which exceed the coverage level under the deposit guarantee scheme also rank higher than ordinary unsecured, non-preferred creditors.

**4. RISKS OF INVESTING IN INSTRUMENTS SUBJECT TO THE RESOLUTION REGIME**

The resolution measures described above are intended to be taken prior to insolvency and it is inherently unpredictable how and when such measures will be applied or invoked. You are unlikely to be able to anticipate the exercise of recovery and resolution measures and the European regulators are not required to give you prior notice of their decision to exercise such measures. The manner in which recovery and resolution measures are applied is in the hands of the European regulators, to the exclusion of investors.

Furthermore, the exercise of bail-in powers and the other resolution measures described above shall not (subject to limited exceptions) constitute an event of default under the terms and conditions of your investments and you may only have limited opportunities to challenge the intended use of resolution measures.

**(i) Credit / counterparty default risk**

The outstanding amount under the instruments subject to the Resolution Regime may be reduced to zero (written down) or converted into ordinary shares or equity-like instruments. Regulatory capital instruments – such as contingent convertible notes and “Tier 2” subordinated instruments – are at increased risk of being written down or converted, as are any other subordinated instruments (albeit at lower risk than regulatory capital instruments). In any case, senior and subordinated financial instruments subject to the Resolution Regime will bear losses prior to deposits by natural persons and micro, small and medium-sized enterprises which exceed the coverage level provided for under the applicable deposit guarantee scheme. Investments in financial instruments issued by Regulated Entities are not subject to the deposit guarantee scheme.

Therefore, if you are a natural person or a micro, small or medium-sized enterprise, investing in financial instruments issued by Regulated Entities is riskier than investing in deposits that are subject to the applicable deposit guarantee scheme, even where investments by such parties exceed the EUR 100,000 that is covered under the scheme.

You will have no further claims in respect of any amount written off, converted into equity or otherwise applied to absorb losses as a result of the exercise of resolution measures. In addition, key terms of debt instruments and most other liabilities of the Regulated Entity (other than deposits covered by the applicable deposit guarantee scheme) may be altered by the European regulators, including their maturity and the amount of interest payable thereunder, including by suspending payment for a temporary period. The use of the resolution measures 'sale of business' and 'transfer to a bridge institution' may also limit the ability of your contractual counterparty to meet its obligations under the investments.

In a resolution scenario, the impact on you will depend on how your investment ranks in the resolution creditor hierarchy, which may have changed since you made the investment where preference is accorded to certain deposits, and on the quantum of capital or financial instruments ranking junior or equal to your own claim. However, the law provides that you should not be worse off than you would have been in an ordinary insolvency situation of the Regulated Entity. Accordingly, if you were treated less favourably than you would have been treated under normal insolvency proceedings, you may have a right to compensation based on an independent valuation. However, it is unlikely that such compensation would be equivalent to all the losses suffered by you in the resolution process, and it is likely that such payments would be made considerably later than in the event of insolvency.

**(ii) Liquidity risk**

As described above, due to the unpredictability of when and how resolution measures may be exercised and the fact that public financial support should be considered a final resort, it is likely that trading behaviour in respect of financial instruments issued by Regulated Entities would not follow the same trading patterns as other investments. Any distress in the financial markets and any indication or (perceived) likelihood that the instruments will be the subject of resolution measures could have a significant adverse effect on the market price and liquidity of the instruments.

Existing liquidity arrangements with the issuer of the instruments, such as a repurchase agreement, may not protect you in situations of financial distress. Despite such arrangements, you may be required to sell your investments at significant discounts or may not be able to sell your investments at all.

**(iii) Concentration risk**

Where your investment portfolio is not sufficiently diversified and includes financial instruments subject to the Resolution Regime, your non-diversification risk may be amplified. Additionally, you should avoid an excessive concentration of investments in financial instruments subject to the Regulation Regime issued by one Regulated Entity or entities within its group.

**(iv) Risks in relation to financial products that have direct or indirect exposure to instruments subject to the Resolution Regime**

While the risks highlighted above apply to investments that are subject to the Resolution Regime, you should also consider these risks when you are investing in a financial product that has direct or indirect exposure to such instruments, for example a fund investing in these instruments or structured products / OTC derivative referencing these instruments.

The exercise of recovery and resolution measures in relation to in-scope financial instruments of a Regulated Entity may have an impact on (amongst other things) the value, performance or liquidity of the product you have invested in, depending on the terms of the relevant product and the product's level of exposure to such instruments. For example, the value of a fixed income-orientated fund that invests in bonds issued by European banks may correlate to the value of the investments it holds. Therefore, if the European bank bonds that the fund holds are written down then the value of the fund you have invested in may decrease as well.

**5. OTHER RESOLUTION OR INSOLVENCY REGIMES**

This disclosure focuses on the Resolution Regime at a European level. However, instruments and securities issued by non-EU banks and investment firms may be subject to their own local regimes that provide local regulators with "bail-in" powers or other powers to assist with the recovery and resolution of such institutions.

In addition, more broadly, applicable insolvency regimes will also determine whether you are able to recover amounts you have invested in an issuer's securities if an issuer becomes insolvent – further information on insolvency risks can be found in the “General Risks When Investing In Financial Instruments” section of Part I of this Booklet.