DERIVATIVE RISK NOTICE

Effective from 3 January 2018

Introduction

This notice is provided to customers that enter into derivative and foreign currency transactions. The purpose is to give you, the customer, a clear understanding of the risks associated with these types of products.

Derivatives are financial instruments that derive their value from underlying assets or other factors ("**underliers**") such as interest rates, foreign exchange rates, equities, commodities, or other financial or economic interest or property of any kind.

For the purposes of this notice "derivatives" are over the counter (non-exchange traded) products including interest rate swaps, cross currency swaps, options (both interest rate and currency, caps, floors, collars, swaptions and bond options), forward rate agreements, forward foreign exchange contracts and commodity derivatives.

This brief notice does not disclose all of the risks and other significant aspects of trading in derivatives. It is intended to provide you with guidance and an indication of prudential requirements with respect to derivatives.

Before Dealing

Trading in derivatives may entail significant risk. The risk depends on the type of transaction and the nature of the underlier.

As your arm's length contractual counterparty to derivatives transactions, our interests are directly adverse to yours. Therefore, you alone are responsible for assuming the risks associated with the derivatives transactions into which you enter.

Before dealing in derivatives, you should ensure that you understand the following points:-

- the terms and conditions of the specific derivative product which you are trading and associated obligations;
- the products characteristics, benefits and risk;
- your powers under legislation to undertake derivative transactions;
- your ability to monitor the position;
- the extent of the risk of loss which you are exposed to as a result of entering into a derivative transaction; and
- the accounting and tax consequences of entering into such derivative products.

Whilst derivative instruments can be utilised for the management of investment risk, some investments are unsuitable for many investors. Different instruments involve different levels of exposure to risk, and in deciding whether to trade in such instruments you should be aware of the following derivative risks:

Market Risk

Market risk is the risk of loss arising from adverse changes in the value of a derivative instrument because of movements in the underlying market rate.

The market risk of a derivatives transaction may increase if a derivatives transaction includes complex pay-out calculations or a leveraged element. Transactions with such features may be subject to significant changes in value because of relatively small changes in the prices or levels of an underlier or other market factor. Such features include, but are not limited to: leverage, multipliers and option-like pay-outs, transactions with knock-in or knock-out rights, etc.

Credit Risk

Credit risk is the risk that a counterparty may fail to meet its contractual payment obligations through insolvency or default. For derivatives, the amount at risk is not the face value of the transaction but the positive fair value or replacement value of the transaction.

Because of the credit risk, our and your (and your guarantor's, if any) creditworthiness is a material consideration when entering into or determining the terms of a derivatives transaction, and this has an impact on the pricing of the transaction.

Liquidity Risk

Liquidity risk is the risk of losses attributable to a lack of liquidity (i.e. very few market participants) in a particular market. This is usually indicated by wide bid/offer spreads and very few transactions being done in a particular product or market. The risk is that changes in the underlying market price may be infrequent but very large, and that an open position in the market cannot be effectively hedged.

In assessing this risk, you should consider that derivatives transactions might be terminated, modified or transferred pursuant to the terms of the particular transaction or by mutual agreement of the parties only. If our consent is required, we may withhold it for a variety of reasons, which we are not required to disclose to you. Further, even though market makers and dealers may quote indicative prices or mid-market valuations, there is no assurance that another dealer is willing to accept a transfer of your rights and obligations under a particular transaction between you and us.

Accordingly, it may not be possible for you to modify, terminate or transfer your rights and obligations, or your exposure to the risks associated with a particular transaction, prior to its scheduled termination date.

Pricing Risk

For complex derivative transactions, pricing is completed using various assumptions and mathematical models. Pricing risk is the risk that these models do not accurately reflect conditions in the market, and that this mispricing causes a loss.

Operational Risk

In this context, operational risk covers a wide-ranging number of risks such as losses arising from inadequacies in, or failures of, procedures, systems or controls in connection with derivatives transactions.

Examples of operational risks include:

- recording, monitoring and quantifying risks and contractual rights and obligations;
- making payments or deliveries;
- exercising rights before they expire, including option rights, in a manner that complies with the terms of the relevant transactions;
- meeting regulatory filing, reporting and other requirements; and
- detecting human errors or computer systems failures.

Losses from operational risk can be substantial, including the entire value of a transaction, for example an unexercised and expired in-the-money option.

Legal risk

Legal and documentation risks include the risk that transactions and/or their related framework arrangements may not be legally enforceable or that the conduct of the parties violates applicable laws and regulations.

Framework agreements

The framework agreement under which you trade in derivatives contains various events of default provisions entitling a non-defaulting party to terminate all or some of the transactions under such a master agreement. If you are subject to events that may constitute a default under the framework agreement, we have no obligation to consider your interests in determining whether or when to terminate a transaction.

There are EU-based rules on recovery and resolution for distressed financial institutions such as banks (the BRRD) to be applied under certain conditions as an alternative to bankruptcy proceedings. The designated national resolution authority may take a variety of actions of a preventive, early intervention or resolution nature, which may lead to restrictions on your ability to terminate and otherwise exercise your rights under a framework agreement. Further, under certain conditions, the resolution authority has a number of resolution tools and powers, including the right to exercise certain so-called bail-in powers, involving the write-down of certain eligible liabilities of the distressed institution, delay performance and/or convert certain claims against the distressed institution, into other types of claims, such as shares.

A safeguard under the BRRD is that counterparties to a distressed institution cannot incur losses greater than what they would suffer if the institution were to go into bankruptcy.

Taxation

Trading in foreign currency and derivatives is subject to specific tax rules. The tax rules that apply depend on:

- the type of instrument;
- whether you are a private individual or a legal person; and
- whether fulfilment occurs on delivery of the underlying assets.

Due to the complex nature of the tax rules, we recommend that you consult an accountant, tax adviser or other professional adviser to clarify tax and accounting consequences before you enter into a derivatives transaction.

Other Considerations

Commissions

Before you begin to trade, you should obtain details of all commissions 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 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.

Suspension of Trading

Under certain trading conditions, 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. 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.

Summary

This brief notice does not disclose all of the risks and other significant aspects of trading in OTC Derivatives.

In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent to your exposure to risk.

You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.