Risk warnings

Introduction

This document cannot disclose all the risks and other significant aspects of our investment products and services. You should satisfy yourself that you fully understand the conditions which apply to such investment products and services and the potential risk exposures.

This document is intended to give you information on, and a warning of, the key risks associated with our investment products and services so that you are able to understand the most significant risks associated with the investment products and services being offered and, consequently, to take investment decisions on a more informed basis. You should consider this document carefully before deciding whether or not to invest in any of our investment products.

You must not rely on the guidance contained in this document as investment advice based on your personal circumstances, nor as a recommendation to enter into any investment service or invest in any investment product. Where you are unclear as to the meaning of any of the disclosures or warnings described below, we would strongly recommend that you seek independent legal or financial advice.

You should not invest in any investment product or agree to receive any investment service unless you understand the nature of the contract you are entering into and the extent of your exposure to risk. You should also be satisfied that any product or service is suitable for you in light of your financial position and investment objectives and, where necessary, you should seek appropriate independent advice in advance of making any investment decisions

All financial products carry a certain degree of risk. Even “low risk” investment strategies involve an element of uncertainty. The types of risk that might apply will depend on various matters, including how any relevant product instrument or service agreement is created or drafted. Different instruments involve different levels of exposure to risk.

Risk factors may occur simultaneously and may compound each other resulting in an unpredictable effect on the value of any investment. The value of investments and the income from them can fall as well as rise and you might lose the original amount invested. Fluctuations in such value and income can result from factors such as market movements and variations in exchange rates. Past performance is not a reliable indicator of future results.

Products and investments

Set out towards the end are the major risks that may be associated with an investment in certain types of financial instruments. This Part I should be read in conjunction with Parts II and III.

PART 1- PRODUCTS AND INVESTMENTS

1. **SHARES AND OTHER TYPES OF EQUITY INSTRUMENTS**

1.1 General

When you buy or subscribe for equities issued by a company, you are buying a part of that company and you become a shareholder in it.

The aim is for the value of your shares to grow over time as the value of the company increases in line with its profitability and growth. In addition, you may also receive a dividend, which is an income paid out of the company's profits. A risk with an equity investment is that the company must both grow in value and, if it elects to pay dividends to its shareholders, make adequate dividend payments, or the share price may fall. If the share price falls, the company, if listed or traded on-exchange, may then find it difficult to raise further capital to finance the business. The company's performance may deteriorate in relation to its competitors, leading to further reductions in the share price. Ultimately the company may become vulnerable to a takeover or may fail and a shareholder has not right to the return of capital and the share could become valueless in such situations.

Shares are generally a fairly volatile asset class – their value can go up and down more than other classes. Shares and other types of equity instrument also have exposure to the 'Generic Risk Types' listed in Part II below, which include market risk (e.g. problems in the company's industry sector), and liquidity risk (whereby shares could become very difficult to sell, particularly if the company is private (i.e. not listed or traded on an exchange), or is listed but only traded infrequently).

Note that if a company goes into liquidation, its shareholders rank behind the company's creditors (including its subordinated creditors) in relation to the realisation and distribution of the company's assets – with the result that a shareholder will normally only receive money from the liquidator once all of the creditors of the company have been paid in full, if any proceeds of the liquidation remain.

1.2 Ordinary shares

Ordinary shares are issued by limited liability companies as the primary means of raising risk capital. The issuer has no obligation to repay the original cost of the share, or the capital, to the shareholder until the issuer is wound up (in other words, the issuer company ceases to exist). In return for the capital investment in the share, the issuer may make discretionary dividend payments to shareholders which could take the form of cash or additional shares.

Ordinary shares usually carry a right to vote on certain issues at general meetings of the issuer. There is no guaranteed return on an investment in ordinary shares for the reasons set out in 1.1 above and in a liquidation of the issuer, ordinary shareholders are amongst the last who have a right to repayment of their capital and any surplus funds of the issuer, which could lead to a loss of a substantial proportion, or all, of the original investment.

1.3 Preference shares

Unlike ordinary shares, preference shares give shareholders the right to a fixed dividend, the calculation of which is not based on the success of the issuer company. They therefore tend to be a less risky form of investment than ordinary shares. Preference shares do not usually give shareholders the right to vote at general meetings of the issuer, but shareholders will have a greater preference to any surplus funds of the issuer than ordinary shareholders, should the issuer go into liquidation.

1.4 Depositary receipts

Depositary receipts include American or European Depositary Receipts (ADRs or EDRs), Global Depositary Receipts or Shares (GDRs or GDSs) or other similar global instruments that are receipts representing ownership of shares of a foreign based issuer. They are typically issued by a bank and will represent a specific number of shares in a company. Depositary receipts are designed for U.S. and European securities markets as alternatives to purchasing underlying securities in their corresponding national markets and currencies.

They are traded on a stock exchange which may be local or overseas to the issuer of the receipt. They may facilitate investment in the company due to the widespread availability of price information, lower transaction costs and timely dividend distributions. The risks involved relate both to the underlying share (see 1.1 – 1.3 above) and to the bank issuing the receipt.

1.5 Penny shares

A “penny share” is a term used to describe shares which have a speculative appeal because of their low value. It is likely that there will be a big difference between the buying price and the selling price of these shares. The price may change quickly and it may go down as well as up. If the equities in which you are invested include penny shares, you should be aware that there may be a significant difference between the purchase and sale price of such shares and, if you need to sell the shares, you may get back much less than you paid for them.

2. **WARRANTS**

2.1 A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities and is exercisable against the issuer of the warrant. The issuer of the warrant might be either the original issuer of the underlying securities or a third party issuer that has set aside a pool of the underlying securities to cover its obligations under the warrants (these are called covered warrants). A relatively small movement in the price of the underlying security could result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

The right to subscribe for any of the investment products listed in 1 above or 3 or 4 below, which a warrant confers, is invariably limited in time with the consequence that if the investor fails to exercise this right within the pre-determined time-scale then the investment becomes worthless (and any money invested in the warrant will be lost).

If subscription rights are exercised, the warrant holder may be required to pay to the issuer additional sums (which may be at or near the value of the underlying assets). Exercise of the warrant will give the warrant holder all the rights and risks of ownership of the underlying investment product.

Each warrant is a contract between the warrant issuer and the holder. You are therefore exposed to the risk that the issuer will not perform its obligations under the warrant.

There is no guarantee that the issuer, which is typically an investment bank, will not default on the arrangement.

A warrant is potentially subject to all of the ‘Generic Risk Types’ listed in Part II below.

You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a covered warrant). For these instruments, see 7.3 below.

3. **MONEY-MARKET INSTRUMENTS**

3.1 A money-market instrument is a borrowing of cash for a period, generally no longer than six months, but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend (or advance) it to the borrower. Unlike in an overdraft, the borrower must specify the exact amount and the period for which he wishes to borrow. Like other debt instruments (see 4 below), money market instruments may be exposed to all of the 'Generic Risk Types' listed in Part II below, in particular credit and interest rate risk.

4. **DEBT INSTRUMENTS/ BONDS/DEBENTURES**

4.1 All debt instruments are potentially exposed to all of the 'Generic Risk Types' listed in Part II below, in particular credit risk and interest rate risk. Debt securities may be subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer, general market liquidity, and other economic factors, amongst other issues. When interest rates rise, the value of corporate debt securities can be expected to decline. Fixed-rate transferable debt securities with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities.

5. **UNITS IN COLLECTIVE INVESTMENT SCHEMES**

5.1 Collective investment schemes and their underlying assets are potentially exposed to all of the 'Generic Risk Types' listed in Part II below.

There are many different types of collective investment schemes. Generally, a collective investment scheme will involve an arrangement that enables a number of investors to 'pool' their assets and have these professionally managed by an independent manager. Investments may typically include gilts, bonds and quoted equities, but depending on the type of scheme may go wider into derivatives, real estate or any other asset. There may be risks on the underlying assets held by the scheme and investors are advised, therefore, to check whether the scheme holds a number of different assets, thus spreading its risk. Subject to this, investment in such schemes may reduce risk by spreading the investor's investment more widely than may have been possible if he or she was to invest in the assets directly.

The reduction in risk may be achieved because the wide range of investments held in a collective investment scheme can reduce the effect that a change in the value of any one investment may have on the overall performance of the portfolio. Although, therefore, seen as a way to spread risks, the portfolio price can fall as well as rise and, depending on the investment decisions made, a collective investment scheme may be exposed to many different major risk types.

Regulated collective investment schemes.

Some collective investment schemes are regulated, which means that there are rules about (and limits on) the types of underlying investments in which the collective investment scheme can invest and the frequency and price at which investments in the collective investment scheme can be redeemed. In particular, the rules applicable to regulated collective investment schemes limit the extent to which they can invest in derivatives or leverage their portfolios. Regulated collective

investment schemes include authorised unit trusts, OEICs (open ended investment companies, which are the same as ICVCs – Investment Companies with Variable Capital), SICAV (Societe d'investissement a capital variable) and FCPs (Fonds communs de placement).

Unregulated collective investment schemes.

Other collective investment schemes are unregulated, which means that there are very few rules (or no rules) about the types of investments in which they can invest or the frequency at which they can be redeemed.

Four of the most common types of unregulated collective investment scheme are hedge funds and fund of funds, private equity funds and real estate funds (in relation to each of which see 6 below), but can also include Enterprise Investment Schemes and Venture Capital Trusts.

Enterprise Investment Scheme (EIS):

An EIS is a tax-efficient way of investing in the new shares of small businesses. Investors will benefit from tax relief on their investment as well as exemptions from capital gains and inheritance tax. The underlying investments in an EIS are in unquoted companies which by their nature involve a higher degree of risk than investing in quoted companies. An EIS is unlisted so there is no secondary market for EISs and you may not be able to sell your investment easily. The investment must be held for a minimum period to qualify for tax relief, currently three years, so should be viewed as a longer term investment. There is a risk that the EIS may fail to qualify as an EIS and so result in it losing the tax reliefs previously obtained and a requirement on the investor to repay any tax rebates on their investment. Dependent on the investments in the EIS, your money could be tied up for a considerable length of time before you start to see a return, especially if the EIS invests in start-up businesses and your capital may only be returned when the underlying investment is sold. The levels of charges for EISs may be greater than for other investments and you may also be charged performance fees.

Venture Capital Trust (VCT):

A VCT is a company, listed on a Regulated Market, which invests in other companies that are not quoted on a stock exchange but which may be listed on the Alternative Investment Market (AIM). There are tax advantages offered to UK investors in new VCTs but these may be lost if you sell your investment early so an investment in a VCT should be considered as a long-term investment. VCTs are complex products and it is important that you understand the risks before investing in them, such as (i) there may be a limited secondary market for shares which may make them hard to sell. To address this issue in part, some VCT managers offer a buy back facility, normally at a discount to the net asset value; (ii) if certain criteria are not met, for example, if the investment is not held for five years or if the VCT does not meet the strict limits laid down by HMRC on what it can invest in, the initial tax advantages can be withdrawn and you may have to repay any tax rebates; (iii) typically, VCTs invest their 30% non- qualifying investment quota in less risky assets such as money market securities, UK government bonds or cash deposits. Some, however, invest part of this in more risky investments which may raise the overall risk profile of the VCT still further; and (iv) the level of charges for VCTs may be greater than for other investments, and you may also be charged performance fees.

6. **HEDGE FUND INVESTMENTS, PRIVATE EQUITY FUNDS AND REAL ESTATE FUNDS**

6.1A hedge fund is an unregulated collected investment scheme. It is an actively managed portfolio which aims to exploit market inefficiencies using a variety of sophisticated investment strategies in order to achieve a positive return in most market conditions.

The investment return may not closely mirror familiar market indices. The managers may buy and sell a wide variety of financial securities including bonds, equities, options and derivatives. The investment techniques employed may include selling securities not already owned with a view to buying them back at a lower price in the future (a technique referred to as short selling), insofar as this technique is permitted under the applicable regulatory regime. Managers may also borrow funds in order to facilitate transactions and to generate improved returns (known as gearing or leverage). These and other techniques introduce additional financial risks, which may not be present in other investments.

Sophisticated monitoring of the current investment positions by the hedge fund managers aims to limit the level of risk involved but unforeseen circumstances may result in part or total loss of your investment.

A “fund of funds” may invest in a portfolio of hedge funds and accounts managed by third party managers, utilising a variety of strategies. Hedge funds are potentially subject to all of the ‘Generic Risk Types’ listed in Part III below. They may also be subject to the following additional risk factors.

(a) Borrowing Effect. They use a variety of financial instruments, loans and short selling which can result in a substantial gearing effect. This gives rise to the possibility that small price movements can have a disproportionate affect on the fund value and sometimes a total loss of capital to the investor.

(b) Dealing. Purchases and sales are usually made through the hedge fund manager. Dealing dates for these funds are typically monthly or quarterly and in extreme market conditions dealing frequency may be extended. You may not be able to realise your investment at short notice. Hedge funds are long-term investments but under certain circumstances may be closed to new investment or may be redeemed.

(c) Pricing and Valuations. Hedge fund managers generally provide calculations of the net asset value on a monthly basis. Orders are placed in advance of the publication of the dealing price.

(d) Regulatory framework. Hedge funds are usually domiciled in countries with minimal or no legal or regulatory framework (so-called “offshore funds”). The legal risks involved in enforcing possible claims may also need to be taken into account.

(e) Potential conflicts of interest. A substantial proportion of the manager’s remuneration is based on a performance fee. Managers can hold a substantial stake in the funds they manage and may have a direct or indirect interest in the underlying investments.

(f) Tax. The tax treatment of hedge funds may differ from your other investments and we recommend that investors get specialist tax advice where they have a concern.

6.2 Investment in real property or property funds involves a number of risks particular to this class of asset, including (i) changes in property market conditions leading to an oversupply of space or a reduction in tenant demand for a particular type of property in a given market; (ii) the quality of property available; (iii) the ability of the owner to recover service charges and other expenditure and to control the cost of these items; (iv) the risk that tenants may be unable to meet their obligations

to the landlord; (v) the risk that the landlord may not be able to lease existing or new properties on favourable terms; and (vi) the potential illiquidity of property investment.

In addition to the above, all property is subject to local risks which may be unique in nature and caused by factors such as the prevailing legal, economic, environmental or political circumstances.

Real property is inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to uncertainty and are a matter of an independent valuer's opinion. Investors in property development funds face additional risks, including (i) risks relating to the availability and timely receipt of planning and other regulatory approvals; and (ii) the cost and timely completion of construction (including risks beyond the developer's control, such as the weather, labour conditions or materials shortages).

These risks could result in substantial, unanticipated delays or expenses and in certain circumstances, could prevent completion of the development and have an adverse impact on the financial condition of the property fund.

Returns available from property funds may be affected by leverage where debt finance is used to finance either the construction or purchase and the property fund may be adversely affected by a lack of debt financing available on favourable terms.

Property funds can be subject to redemption demands at times when performance is comparatively weak. At such times, performance may be adversely affected by the sale of properties to meet redemption demands. Under certain circumstances, the property fund may have the ability to suspend the issue, cancellation, or sale and redemption of interests in the property fund.

6.3 Private equity funds commonly invest in any form of equity or company that is not openly traded via a public investment exchange. The companies concerned will therefore raise finance privately and will not be subject to stringent listing rules or filing requirements as a result. This factor means that private equity funds may invest in a wide range of unlisted companies. They may be small start-up companies with little or no proven track record, and range up to firms which are of a significant size with a long and established trading history.

A number of attributes of private equity investment give rise to unique risk factors such as (i) non-transferable investments or a long lock- up period during which the investment cannot be sold. Even if a buyer is found, it may not be possible to sell and any sale which is permitted may not occur at a price which reflects fair value; (ii) the committed capital may be drawn down during a capital commitment period. Before investing you must ensure that you are capable of making payments as and when due to satisfy the capital calls made throughout the commitment period; (iii) a focused portfolio of investments, which could lead to exposure to an undiversified economic exposure to the underlying assets; (iv) possible use of significant leverage or borrowing, which amplifies possible risks; (v) a possible lack of scrutiny or accountability of management to shareholders for decisions they make; and (vi) distributions are generally made in cash, however if a fund is unable to sell its interest in a private company, it may distribute minority interests in these companies to investors.

7. DERIVATIVES, INCLUDING OPTIONS, FUTURES, SWAPS, FORWARD RATE AGREEMENTS, DERIVATIVE INSTRUMENTS FOR THE TRANSFER OF CREDIT RISK, FINANCIAL CONTRACTS FOR DIFFERENCES

The risks set out in 7.1 – 7.5 below may arise in connection with all types of derivative contract, whether it is in the form of a listed instrument, an OTC instrument, or a securitised product such as a note or a certificate.

7.1 Derivatives Generally

A derivative is a financial instrument, the value of which is derived from an underlying asset's value. Rather than trade or exchange the asset itself, an agreement is entered into to exchange money, assets or some other value at some future date based on the underlying asset. A premium may also be payable to acquire the derivative instrument. There are many types of derivative, but options, futures and swaps are among the most common. An investor in derivatives often assumes a high level of risk, and therefore investments in derivatives should be made with caution, especially for less experienced investors or investors with a limited amount of capital to invest.

Derivatives usually have a high risk connected with them, predominantly as there is a reliance on the performance of underlying assets, which is unpredictable. Options or futures can allow a person to pay only a premium to have exposure to the performance of an underlying asset, and while this can often lead to large returns if the investor has made correct assumptions with regard to performance, it could lead to a 100% loss (the premium paid) if incorrect. Options or futures sold "short" or uncovered (i.e. without the seller owning the asset at the time of the sale) may lead to great losses if, depending on the nature of the derivative, the price of the underlying asset falls or rises significantly.

If a derivative transaction is particularly large or if the relevant market is illiquid (as may be the case with many privately negotiated off-exchange derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price.

On-exchange derivatives are subject, in addition, to the risks of exchange trading generally, including potentially the requirement to provide margin. Off-exchange derivatives may take the form of unlisted transferable securities or bi-lateral "over the counter" contracts ("OTC"). Although these forms of derivatives may be traded differently, both arrangements may be subject to credit risk of the Issuer (if transferable securities) or the counterparty (if OTCs) and, like any contract, are subject also to the particular terms of the contract (whether a one-off transferable security or OTC, or a master agreement), as well as all of the 'Generic Risk Types' listed in Part III below. In particular, with an OTC contract, the counterparty may not be bound to "close out" or liquidate this position, and so it may not be possible to terminate a loss-making contract.

Derivatives can be used for speculative purposes or as hedges to manage other investment risks. In all cases, the suitability of the transaction for the particular investor should be very carefully considered.

You are therefore advised to ask about the terms and conditions of the specific derivatives and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of an underlying asset and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or Clearing House to reflect changes in the underlying asset.

Normal pricing relationships between the underlying asset and the derivative may not exist in all cases. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to assess 'fair' value.

The points set out below in relation to different types of derivative are not only applicable specifically to these derivatives but are also applicable more widely to derivatives generally. All

derivatives are potentially subject to all of the 'Generic Risk Types' listed in Part II below, especially market risk, credit risk and any specific sector risks connected with the underlying asset.

7.2 Futures/Forwards/Forward rate agreements

Transactions in futures or forwards involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The 'gearing' or 'leverage' often obtainable in futures and forwards trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures and forwards transactions have a contingent liability, and you should be aware of the implications of this, in particular margining requirements: these are that, on a daily basis, with all exchange-traded, and most OTC off-exchange, futures and forwards, you will have to pay over in cash losses incurred on a daily basis and if you fail to, the contract may be terminated. See, further, 1 and 2 of Part III below.

7.3 Options

An option gives the buyer of the option the right (but not the obligation) to acquire an underlying security or other asset at a future date and at a pre-agreed price. There are many different types of options with different characteristics subject to the following conditions.

Put option: a put option is an option contract that gives the holder (buyer) of the option the right to sell a certain quantity of an underlying security to the writer of the option at a specified price (the strike price) up to a specified date (the expiration date).

Call option: a call option is an option contract that gives the holder (buyer) the right to buy a certain quantity of an underlying security from the writer of the option, at a specified price (the strike price) up to a specified date (the expiration date).

Buying options: Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you must acquire the future. This will expose you to the risks described under 'futures' and 'contingent liability investment transactions'.

Writing options: If you write an option, the risk involved is considerably greater than buying options.

You may be liable for margin to maintain your position (as explained in 7.2 above) and a loss may be sustained well in excess of the premium received. 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.

If you already own the underlying asset which you have contracted to sell (known as 'covered call options') the risk is reduced. If you do not own the underlying asset (known as '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.

Traditional options: Certain London Stock Exchange member 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 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.

Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

7.4 Contracts for differences

Certain derivatives are referred to as contracts for differences. These can be options and futures on the FTSE 100 index or any other index of an exchange, as well as equity, currency and interest rate swaps, amongst others. However, unlike other futures and options (which may, depending on their terms, be settled in cash or by delivery of the underlying asset), these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option as referred to in 7.2 and 7.3 above. Transactions in contracts for differences may also have a contingent liability (see Part III).

7.5 Swaps

A swap is a derivative where two counterparties exchange one stream of cash flows against another stream.

A major risk of off-exchange derivatives (including swaps) is known as counterparty risk, whereby a party is exposed to the inability of its counterparty to perform its obligations under the relevant Financial Instrument. If a party, A, wants a fixed interest rate loan and so swaps a variable rate loan with another party, B, thereby swapping payments, this will synthetically create a fixed rate for A. However, if B goes insolvent, A will lose its fixed rate and will be paying a variable rate again. If interest rates have gone up a lot, it is possible that A will struggle to repay.

The swap market has grown substantially in recent years, with a large number of banks and investment banking firms acting both as principals and as agents, utilising standardised swap documentation to cover swaps trading over a broad range of underlying assets. As a result, the swap market for certain underlying assets has become more liquid, but there can be no assurance that a liquid secondary market will exist at any specified time for any particular swap.

8. **COMBINED INSTRUMENTS**

8.1 Any combined instrument, such as a bond with a warrant attached, is exposed to the risk of both those products and so combined products may contain a risk which is greater than those of its components generally, although certain combined instruments (such as principal protected instruments) may contain risk mitigation features.

9. **STRUCTURED PRODUCTS**

Structured products is the generic phrase for products which provide economic exposure to a wide range of underlying asset classes. The level of income and/ or capital growth derived from a structured product is usually linked to the performance of the relevant underlying assets. However, the potential return from a structured product may be different to that which may be achieved by the underlying assets. Some structured products provide capital protection so that an investor’s exposure to the performance of the underlying assets will not fall below a certain level. Other structured products may expose the investor’s capital to risk.

Structured products are issued or provided by financial institutions and the structured product is additionally exposed to the credit risk of the issuer. If the issuer is unable to repay sums due under the terms of the product this may affect the returns under the structured product. Some products include a guarantee to support the credit risk of the issuer but you should be aware that the return of capital at the end of the investment is not guaranteed and you may not get back the full capital sum you invested, when the product matures.

Before you make a decision to invest in a structured product you should review all of the product's documentation to make sure that you understand both the nature of the underlying assets and the level of your economic exposure to these.

Some structured products may offer high income or a high level of capital growth. Such products do not generally offer capital protection and any that is offered may be dependent on a financial index, basket of indices or reference asset meeting certain conditions over the lifetime of the structured product, for example a minimum value. These structured products typically include leverage or gearing to enhance the potential investment returns and as a result their value can be volatile and subject to sudden large falls. In particular, if the returns from a structured product incorporate conditional protection, if the protection barrier is breached the capital invested will be exposed to the full risk of the underlying assets. You should only be prepared to invest in structured products which have conditional or no capital protection if you are prepared to lose all of the money you have invested plus any commission or other transaction charges.

There are commonly two types of capital protection barrier, the point beyond which your capital becomes at risk, referred to as the European-style or American-style. A European-style barrier measures the level of the index or reference asset associated with the product at the start and end of the product's term whereas with an American-style barrier the level of the relevant index or reference asset is observed every day, sometimes continuously. For European-style structured products an investor will suffer a loss if the index or reference asset linked to it has fallen below the barrier at maturity. With American– style structured products the investor will suffer a loss if the index or reference asset has fallen below the barrier at any time. The implication for both styles is that there is a risk of losing your capital even if the counterparty does not default but with American-style products there is an enhanced risk of capital loss as a detrimental fluctuation in the index or reference asset value at any point, not just at maturity, will affect the return.

You should also be aware that the terms of a structured product apply from inception of a structured product until the end of the lifetime of the product. This means that investors who purchase the structured product in the secondary market or exit the investment prior to its maturity may suffer a capital loss, even where the product terms protect the return of the nominal amount on the maturity of the investment.

An issuer may provide information to us about the intended tax treatment of a structured product in relation to a UK resident investor, but this tax treatment is not guaranteed by the issuer and should not be considered tax advice. There is a risk that a structured product may be treated differently by HMRC (or other tax authority) which results in adverse tax consequences for an investor.

10. **EXCHANGE TRADED FUNDS (ETFs) AND EXCHANGE TRADED PRODUCTS (ETPs)**

ETFs and ETPs are investment funds that are traded like shares and which invest in a diversified pool of assets such as shares, bonds or commodities. In general they track the performance of a benchmark or financial index and the value of your investment will fluctuate accordingly. They can

track a wide variety of sector specific, country specific or broad market indices and can therefore be used to provide an inexpensive way of diversifying a Portfolio.

Some ETFs and ETPs employ complex techniques or hold riskier assets to achieve their objectives, for example they may invest in derivatives (please see 7 above for further details) which carry, amongst other risks, counterparty risk.

ETFs can be complex instruments that carry significant risks with many having compounding, daily reset and leverage features that may increase the inherent risks of ETFs, particularly during periods of high market volatility. As such, ETFs are intended to be medium to long term investments.

PART II- GENERIC RISK TYPES

1. GENERAL

1.1 The price or value of an investment will depend on fluctuations in the financial markets outside of anyone's control. Past performance is no indicator of future performance.

The nature and extent of investment risks varies between countries and from investment to investment. These investment risks will vary with, amongst other things, the type of investment being made, including how the financial products have been created or their terms drafted, the needs and objectives of particular investors, the manner in which a particular investment is made or offered, sold or traded, the location or domicile of the Issuer, the diversification or concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer), the complexity of the transaction and the use of leverage. The 'Generic Risk Types' set out below could have an impact on each type of investment product or service.

2. LIQUIDITY

2.1 The liquidity of an instrument is directly affected by the supply and demand for that instrument and also indirectly by other factors, including market disruptions (for example a disruption on the relevant exchange) or infrastructure issues, such as a lack of sophistication or disruption in the securities settlement process. Under certain trading conditions it may be difficult or impossible to liquidate or acquire a position. This may occur, for example, at times of rapid price movement if the price rises or falls to such an extent that under the rules of the relevant exchange, trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to intended amounts, but market conditions may make it impossible to execute such an order at the stipulated price. In addition, unless the contract terms so provide, a party may not have to accept early termination of a contract or buy back the relevant product.

3. CREDIT RISK

3.1 Credit risk is the risk of loss caused by borrowers, bond obligors, or counterparties failing to fulfil their obligations, or the risk of such parties' credit quality deteriorating.

4. MARKET RISK

4.1 General

The price or value of an investment will depend on fluctuations in the financial markets outside our control such as market supply and demand, investor perception and the prices of any underlying or allied investments.

4.2 Overseas markets

Any overseas investment or investment with an overseas element will be subject to the risks of overseas markets, which may involve different risks from your home market. In some cases the risks will be greater. The potential for profit or loss from transactions on overseas markets, or from contracts denominated in a currency that is different from your home currency, will be affected by fluctuations in exchange rates.

4.3 Emerging markets

Price volatility in emerging markets, in particular, can be extreme. Price discrepancies can be common and unpredictable movements in the market not uncommon. Additionally, as news about a country becomes available, the financial markets may react with dramatic upswings and downswings in prices during a very short period of time. Emerging markets generally lack the level of transparency, liquidity, efficiency, market infrastructure, and regulation found in more developed markets. For example, these markets might not have regulations governing manipulation and insider trading or other provisions designed to "level the playing field" with respect to the availability of information and the use or misuse thereof in such markets. They may also be affected by political risk. It may be difficult to employ certain risk and legal uncertainty management practices for emerging markets investments, such as forward currency exchange contracts or derivatives.

5. **CLEARING HOUSE PROTECTIONS**

5.1 On many exchanges, the performance of a transaction may be "guaranteed" by the exchange or clearing house. However, this guarantee is usually in favour of the exchange or clearing house member and cannot be enforced by the client who may, therefore, be subject to the credit and insolvency risks of the firm through whom the transaction was executed.

6. **INSOLVENCY**

6.1 The insolvency or default of the firm with whom you are dealing, or of any brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent or, indeed, investments not being returned to you. There is also insolvency risk in relation to the investment itself, for example of the company that issued the bond or of the counterparty to the off-exchange derivatives (where the risk relates to the derivative itself and to any collateral or margin held by the counterparty).

7. **CURRENCY RISK**

7.1 In respect of any foreign exchange transactions and transactions in derivatives and securities that are denominated in a currency other than that in which your account is denominated, a movement in exchange rates may have a favourable or an unfavourable effect on the gain or loss achieved on such transactions.

The weakening of a country's currency relative to a benchmark currency or the currency of your portfolio will negatively affect the value of an investment denominated in that currency. Currency valuations are linked to a host of economic, social and political factors and can fluctuate greatly, even during intra-day trading. Some countries have foreign exchange controls which may include the suspension of the ability to exchange or transfer currency, or the devaluation of the currency. Hedging can increase or decrease the exposure to any one currency, but may not eliminate completely exposure to changing currency values.

8. **INTEREST RATE RISK**

8.1 Interest rates can rise as well as fall. A risk exists with interest rates that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could impact negatively on other products.

9. **REGULATORY/LEGAL RISK**

9.1 All investments could be exposed to regulatory or legal risk. Returns on all, and particularly new, investments are at risk from regulatory or legal actions and changes which can, amongst other issues, alter the profit potential of an investment. Legal changes could even have the effect that a previously acceptable investment becomes illegal. Changes to related issues such as tax may also occur and could have a large impact on profitability. Such risk is unpredictable and can depend on numerous political, economic and other factors. For this reason, this risk is greater in emerging markets but does apply everywhere. In emerging markets, there is generally less government supervision and regulation of business and industry practices, stock exchanges and over-the-counter markets

The type of laws and regulations with which investors are familiar in the EEA may not exist in some places, and where they do, may be subject to inconsistent or arbitrary application or interpretation and may be changed with retroactive effect. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. Judges and courts in many countries are generally inexperienced in the areas of business and corporate law. Companies are exposed to the risk that legislatures will revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that an overseas investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in overseas courts.

10. **OPERATIONAL RISK**

10.1 Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can impact on all financial products. Business risk, especially the risk that the business is run incompetently or poorly, could also affect shareholders of, or investors in, such a business. Personnel and organisational changes can severely affect such risks and, in general, operational risk may not be apparent from outside the organisation.

11. **LIQUIDITY AND DISCRETIONARY INVESTMENT SERVICES ACCOUNTS**

11.1 Withdrawals that you make from Discretionary Investment Services accounts of debt repaid from such accounts may adversely affect the overall performance of your portfolio. Furthermore, where you instruct us to purchase or liquidate sizeable assets in a given portfolio with concentrations in a particular market, then this may affect the price: e.g. a significant withdrawal from a portfolio may compel us to sell positions at a price that we normally would not have sold at.

12. **U.S. DEPOSITOR PREFERENCE**

12.1 In the liquidation or other resolution of a U.S. insured depositary institution, deposits in U.S. offices and certain claims for administrative expenses and employee compensation are afforded a priority over other general unsecured claims, including deposits in offices outside the U.S.

<u>PART III- TRANSACTION AND SERVICE RISKS</u>

1. **CONTINGENT LIABILITY INVESTMENT TRANSACTIONS**

1.1 Contingent liability investment transactions, which are margined, require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately. If you trade in futures, contracts for differences or sell options, you may sustain a total loss of the margin you deposit with your firm to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you must be responsible for the resulting deficit. Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when you entered the contract.

Margined or contingent liability transactions that are not traded on a recognised or designated investment exchange may be exposed to substantially greater risks.

Where we are managing investments for you and your account includes an uncovered open position in a contingent liability transaction, we will report to you any loss exceeding any predetermined threshold agreed between us no later than the end of the business day on which the threshold is exceeded or (where it is exceeded on a non-business day), the next business day.

2. **COLLATERAL**

2.1 If you deposit collateral as security with us, the way in which it will be treated will 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 (see 4 below), with the rules of that exchange (and the associated clearing house) applying, or trading on another exchange or, indeed, off-exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets which you deposited, and may have to accept payment in cash. We will notify you of how we will deal with any collateral that you deposit with us, including if your collateral is subject to total title transfer. Effect of absolute title transfer Where your collateral is subject to total title transfer to us, you should note that:

(a) the assets cease to be your assets and you will no longer have a proprietary claim over them. They will not be held subject to the rules of the applicable regulator in safe custody (where they are financial instruments) or subject to client money protection (where they are cash). The assets become our assets and we can deal with them in our own right;

(b) you will have an unsecured contractual claim against us for re-transfer of equivalent assets; and

(c) as a result, the assets will not be subject to a trust or otherwise insulated in the event of our insolvency. And, in such event, you may not receive back everything so transferred to us and you will only rank as a general creditor.

3. **SHORT SALES**

3.1 Selling "short" means to sell equity shares that you do not own at the time of the sale. You have an obligation to deliver the product sold at the settlement date which will generally be a few days later than the trade date, so you will either go into the market to buy the shares for delivery or you will "borrow" the shares under a stock lending arrangement (for further detail on this see 12 below). Short selling is a technique used by investors who want to try and profit from the falling price of a share. If the price of the share drops after the investor has sold short (in other words at the time when he is buying or borrowing the shares for delivery), the investor will make a profit. If however the price of the share rises after the investor has sold short, the investor will have automatically

made a loss, and the loss has the potential to get bigger and bigger if the price of the share continues to rise before the investor has gone into the market to buy or borrow the share to settle the short sale.

4. **OFF-EXCHANGE TRANSACTIONS**

4.1 Certain financial services authorities have categorised certain exchanges as recognised or designated investment exchanges. A list of these exchanges can be found on the relevant regulators website. Transactions which are traded elsewhere (i.e. "off-exchange") may be exposed to substantially greater risks. Unless you instruct us otherwise, we may deal for you in circumstances in which the relevant transaction is off-exchange. Such transactions may not be subject to the same investor protection standards as transactions executed on a recognised or designated investment exchange.

5. **LIMITED LIABILITY TRANSACTIONS**

5.1 Before entering into a limited liability transaction, you should obtain from the firm 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. Your loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial.

6. **COMMISSIONS**

6.1 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 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.

7. **SUSPENSIONS OF TRADING AND GREY MARKET INVESTMENTS**

7.1 Under certain trading conditions it may be difficult r 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 stoploss 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. Transactions may be entered into in:

(a) a security whose listing on an exchange is suspended, or the listing of or dealings in which have been discontinued, or which is subject to an exchange announcement suspending or prohibiting dealings; or

(b) a grey market security, which is a security for which application has been made for listing or admission to dealings on an exchange where the security's listing or admission has not yet taken place (otherwise than because the application has been rejected) and the security is not already listed or admitted to dealings on another exchange. There may be insufficient published information on which to base a decision to buy or sell such securities.

8. DEPOSITED CASH AND PROPERTY

8.1 A cash account will earn an income return or interest, the amount of which will generally be determined by the general level of interest rates. However, the investment returns from cash and near cash may be lower than for bonds or equities and at times of high inflation the real value of the cash deposited can fall.

8.2 You should familiarise yourself with the protections accorded to you in respect of money or other property you deposit for domestic and foreign transactions, particularly in the event of a firm insolvency or bankruptcy. Certain property may be held by a third party outside the UK (which may also be outside the European Economic Area ("EEA")), and as such, the legal and regulatory regime applying to (and therefore your rights relating to) any such property may be different from that of the UK (or elsewhere in the EEA). It may not be possible for that property (other than cash) to be separately identifiable. For this reason, you may not get back the same assets which you deposited. The extent to which you may recover your cash or other property may also 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.

Your cash or other property may be deposited with a third party who may have a security interest, lien or right of set-off in relation to that property.

9. STABILISATION

9.1 Transactions may be carried out in securities where the price may have been influenced by measures taken to stabilise it.

Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. Regulations allow stabilisation in order to help counter the fact that, when a new issue comes on to the market for the first time, the price can sometimes drop for a time before buyers are found.

Stabilisation is carried out by a 'stabilisation manager' (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilising manager follows a strict set of rules, he is entitled to buy back securities that were previously sold to investors or allotted to institutions which have decided not to keep them.

The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.

The Stabilisation Rules:

(a) limit the period when a stabilising manager may stabilise a new issue;

(b) fix the price at which he may stabilise (in the case of shares and warrants but not bonds); and

(c) require him to disclose that he may be stabilising but not that he is actually doing so.

The fact that a new issue or a related security is being stabilised should not be taken as any indication of the level of interest from investors, nor of the price at which they are prepared to buy the securities.

10. NON-READILY REALISABLE INVESTMENTS

10.1 Both exchange listed and traded and off-exchange investments may be non-readily realisable. These are investments in which the market is limited or could become so.

Accordingly, it may be difficult to assess their market value and to liquidate your position.

11. **LIFFE: EXCLUSION OF LIABILITY**

11.1 ICE Futures Europe is one of many futures and options exchanges globally, as operated by Intercontinental Exchange (ICE).

(a) You understand that business on ICE Futures Europe may from time to time be suspended, restricted or closed for such period as may be determined in the interests of maintaining a fair and orderly market in accordance with the Rules of ICE Futures Europe. Any such action may result in our, and through us your, being prevented from or hindered in entering into transactions in accordance with the Rules of ICE Futures Europe.

(b) We and the exchange wish to draw to your attention that, inter alia, business on the market may from time to time be suspended or restricted, or the market may from time to time be closed for a temporary period or for such longer period as may be determined in accordance with ICE Futures Europe's Rules on the occurrence of one or more events which require such action to be taken in the interests of, inter alia, maintaining a fair and orderly market. Any such action may result in our being unable, and through us, you being unable to enter into contracts in accordance with ICE Futures Europe's Rules. Furthermore we, and through us you, may from time to time be prevented from or hindered in entering into contracts in accordance with ICE Futures Europe's Rules as a result of a failure of some or all market facilities. We and the exchange wish to draw the following exclusion of liability to your attention. Unless otherwise expressly provided in ICE Futures Europe's Rules or in any other agreement to which the exchange is party, we and the exchange shall not be liable to you for loss (including any indirect or consequential loss including, without limitation, loss of profit), damage, injury or delay, whether direct or indirect, arising from any of the circumstances or occurrences referred to above or from any act or omission of the exchange, its officers, employees, agents or representatives under ICE Futures Europe's Rules or pursuant to the exchange's obligations under statute or from any breach of contract by or any negligence howsoever arising of the exchange, its officers, employees, agents or representatives.

12. **STOCK LENDING/REPO**

12.1 The effect of lending (or repo'ing) securities to a third party is to transfer title to them to the borrower (or repo purchaser) for the period that they are lent (or repo'ed). At the end of the period, subject to default of the borrower (or repo purchaser), the lender (or repo seller) receives back securities of the same issuer and type. The borrower's (or repo purchaser's) obligation to transfer equivalent securities is secured against collateral (which is usually transferred by a title transfer mechanism pursuant to market standard agreements). There is, accordingly, credit risk. Lending (or repo'ing) securities may affect your tax position.

13. **STRATEGIES**

13.1 Particular investment strategies will carry their own particular risks. For example, certain strategies, such as 'spread' position or a 'straddle', may be as risky as a simple 'long' or 'short' position.

Professional disclosure

Except where noted, this Part III of these Risk Factors will not apply to you unless you have been classified as a Professional Client.

Please note (as for retail clients) that we will send you regular reports on the services we provide to you and will include in those reports the costs associated with the transactions and services we undertake for you.

We may provide you with services in relation to all types of financial instruments, including: transferable securities, money market instruments, units in collective investment undertakings, options, futures, swaps, forward rate agreements and any other derivatives contracts relating to: commodities, whether cash or physical settled and whether or not traded on a regulated market or MTF, climatic variables, freight rates, commission allowances or inflation rates or other official economic statistics, derivative instruments for the transfer of credit risk, financial contracts for differences, other derivative contracts.

As for retail clients, we will send you a confirmation of each transaction undertaken with or for you, promptly after entering into that transaction with or for you. We will promptly send you the essential information concerning the execution of the order.

In deciding to deal with us in such financial instruments generally, and in any particular case, you must have already assessed the risks involved in those financial instruments and in any related services and strategies, which may (as relevant) include any of, or a combination of any of, the following: credit risk, market risk, liquidity risk, interest rate risk, FX risk business, operational and insolvency risk, the risks of OTC, as opposed to on exchange, trading, in terms of issues like the clearing house ‘guarantee’, transparency of prices and ability to close out positions, contingent liability risk, regulatory and legal risk.

In relation to any particular product or service there may be particular risks which are drawn to your attention in the relevant term sheet, offering memorandum or prospectus.

You must not rely on the above as investment advice based on your personal circumstances, nor as a recommendation to enter into any of the services or invest in any of the products listed above. Where you are unclear as to the meaning of any of the above disclosures or warnings, we would strongly recommend that you seek independent legal or financial advice.

14. INTERNATIONAL MARKETS

International markets will involve different risk from the UK markets, particularly where investments are made in emerging markets, they will carry additional risks such as political risks, exchange rate risk, market risk and legal risk.