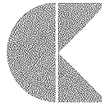



CARL KLIEM S.A.
INTERBANK AND SECURITIES BROKER

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**RISK WARNING STATEMENT**

These risk warnings shall apply to you, and you acknowledge and agree that you have read and understood them. This risk warning statement does not purport to disclose all the risks or other relevant considerations of entering into transactions in financial instruments pursuant to the Terms of Business. You should refrain from entering into any transactions in financial instruments unless you fully understand all such risks. The specific risks presented by a particular transaction necessarily depend upon the terms of that transaction and your circumstances.

## 1. Bonds

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

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

- **Issuer risk:** The value of the bond and the payment of any amounts are also dependant on the creditworthiness of an issuer, which may vary over the term of the bond. Any ratings of the issuer reflect the independent opinion of the rating agencies as to the safety of payments of principal and coupon. These ratings are not a guarantee of credit quality. The ratings do not take into consideration any risk associated with fluctuations in the market value of the bonds, or where factors other than the issuer's credit quality determine the level of principal and coupon payments.

- **Tax:** An investment in bonds may give rise to tax consequences. Any tax liability is dependent on the taxpayer's personal circumstances. The basis and level of any taxes may change during the term of the bond.

- **Currency Risk**: Investors whose base currency is not the settlement currency of the bonds should be aware of exchange-rate risk.

- **Secondary Market Risk:** Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid or sustainable. Therefore, investors may not be able to sell their bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed liquid secondary market. This is particularly the case for bonds that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors or for notes, the outstanding number of which is very low. These types of bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of bonds. Accordingly, the bonds should not be viewed as trading instruments and investors should be prepared to hold the bonds to maturity.



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**2. Repo**

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

Repo transactions are generally short-term, with the term ranging from overnight to one year and can also be used for structured financing transactions with a longer term to maturity.

Repo transactions may involve risks including but not limited to the following:

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

- **Operational Risk**: operational risk may arise due to the non-settlement or delay in settlement of securities, or failure to deliver securities due to illiquid market conditions in respect to the specific securities at any given time, with the securities difficult to source. Delivery failure could result in an event of default and termination of the Repo transaction.

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

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

- **Collateral**: Repo transactions also involve risks relating to the re-use of collateral provided to the counterparty.

## 3. Derivatives

These risk warnings cannot disclose all the risks and other significant aspects of warrants and/or derivative products such as futures, options, and contracts for differences. You should not deal in these products unless you understand their nature and the extent of your exposure to risk. You should also be satisfied that the product is suitable for you in the light of your circumstances and financial position. Certain strategies, such as a 'spread' position or a 'straddle', may be as risky as a simple 'long' or 'short' position.

Although warrants and/or derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for certain 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 points.

### 3.1. OTC Derivatives

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

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

In general, OTC derivatives may involve risks including but not limited to the following:

- **Market Risk**: as derivatives transactions are priced on the basis of an underlying asset, the customer will be exposed to the market risks that affect the underlying asset. However, the economic return of a derivative transaction may not be identical to the economic return of holding the underlying asset, and may include an adjustment for fees or commissions, financing charges, hedging costs or break costs.

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

- **Loss of investment**: there is a risk that the customer will pay an upfront amount, but never receive any benefit from the transaction. An example of this could be if an option purchased is not in-the-money at the time it can be exercised.

- **Contingent liabilities**: derivatives transactions such as credit default swaps or options may involve contingent liabilities. This can result in the customer incurring losses much greater than its original investment (if any) or premium received (in the case of sold options) should certain conditions be met, such as the occurrence of a credit event or an asset reaching a strike price.

- **Unlimited loss**: losses under certain derivatives transactions can theoretically be unlimited. In the context of an interest rate or FX swap, for as long as the interest or exchange rate continues to rise so too will the customer's loss if it is required to pay the variable rate under the transaction.

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

- **Legal risk**: if a counterparty goes into default and the derivative is terminated, the ability to recover value from the transaction is ordinarily dependent on netting gains against losses across different transactions and the value of the transactions against the value of the collateral. If the legal netting mechanism is not recognised in any jurisdiction, it may be that losses will be incurred.

- **Collateral risk**: parties to derivatives contracts are often required to post collateral to mitigate their credit exposure to one another. If the market value moves against their position, the investor may be called upon to pay substantial additional collateral on short notice. Failure to post collateral may lead to the contracts being closed out which could crystallise a loss position. There is no guarantee that collateral which is posted by the customer will be returned to the customer. Where collateral is held by a third-party custodian, the return of such collateral is subject to the credit and operational risk of that custodian.

- **Basis risk**: where a derivative transaction has been entered into to hedge price or other risks arising from ownership of a particular underlying, the performance of the derivative and the performance risk of the underlying may not be perfectly correlated, resulting in residual 'basis' risk.

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

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

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

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

- **Risk of Adjustments**: the occurrence of certain events relating to the underlying of the derivative transaction may trigger the right of the calculation agent to make certain adjustments to the economic terms (e.g. market disruption events, stock splits, or the payment of unexpected or extraordinary dividends, currency controls). Such adjustments may involve an element of discretion on the part of the calculation agent. Exposure to an underlying via a derivative may not correspond in all cases with exposure obtained by holding the underlying directly.

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

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

### 3.1.1. Swaps

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

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

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

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

### 3.1.2. Forwards

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

If the price of the asset on maturity of the forward is lower than the agreed forward purchase price, the buyer under the forward/future will lose money; if the price on maturity is higher than the agreed forward price, the seller under the forward/future will lose money.

## 4. General Risks

### 4.1. Stabilisation

We may deal for you in investments that may have been the subject of stabilisation.

Stabilisation is a price fixing 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 artificially 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 the price of the new issue may also be affected.

This process 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).

### 4.2. Foreign Markets

Foreign markets will involve different risks from domestic markets. In some cases the risks will be greater. On request, we must 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 be affected by fluctuations in foreign exchange rates.

### 4.3. Legal and Tax Risks

If there is a change in law which affects an investment, or the manner in which it is traded or held, additional costs might be incurred or, in extreme circumstances, investments lost.

Some markets investments or the holding of each may be subject to different or diminished investor protection and the protections accorded money or other property you deposit in respect of transactions which may put your assets at additional risk.

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

### 4.4. Third Party Risk and Fraud Risk

Certain investments may need third parties to act in relation to investments traded or held by you (e.g. custodians, settlement agents, exchanges). Your investments may be at risk in the event of failure and/or fraud in respect of one of these third parties.

If there is a fraud in relation to investments which you hold, you may be at risk of losing your investment.