GENERAL INFORMATION

Investing in Bonds and Money Market Instruments

BNP PARIBAS
WEALTH MANAGEMENT

The bank for a changing world

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THIS DOCUMENT CANNOT DISCLOSE ALL POSSIBLE RISKS OF THE PRODUCTS.

Terms may be defined differently under specific issues. Investors should read and understand the relevant brochures, as well as the termsheet, prospectus/issuance programme (available upon request) and all other offering documents (together, the "Documents"), in particular the risk factors, for further details.

INVESTMENT ALTERNATIVES TO HIGH RISK PRODUCTS

Some bonds may carry a higher risk than the others. They may have one or more of the following characteristics:

- below investment grades
- long maturity
- perpetual
- convertible
- carry loss absorption features

Investors may consider shorter tenor and/or lower risk senior bonds of the same or similar credits as investment alternatives.

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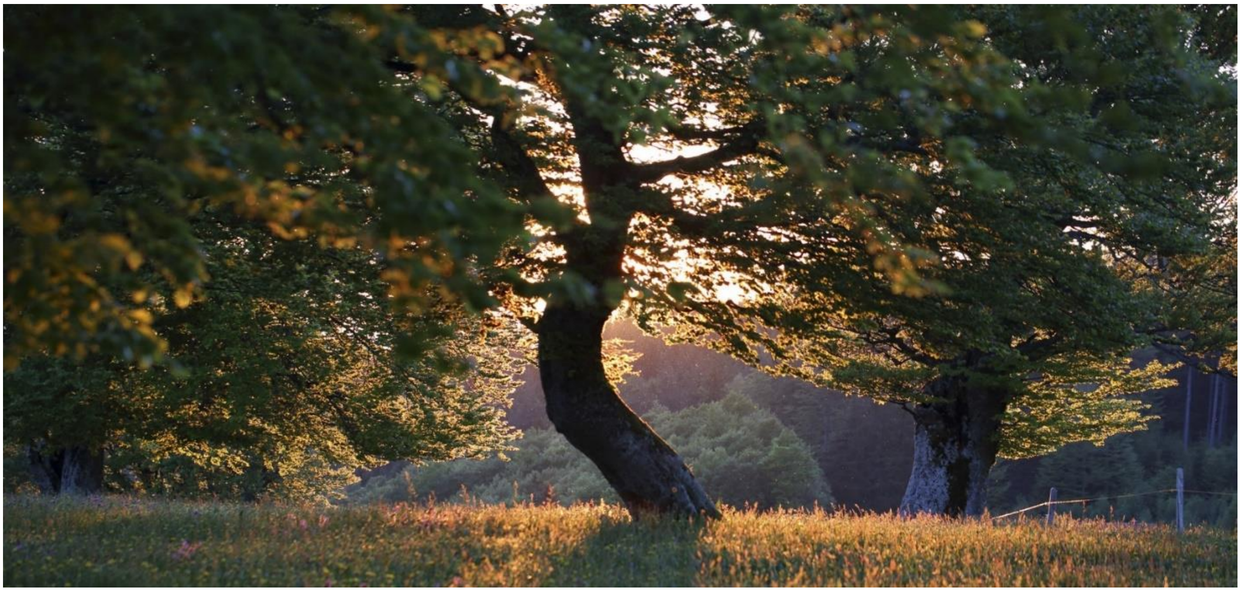


An essential investment for private clients, offering regular and predictable income

Among traditional financial investments, bonds and money market instruments* are often considered as a reassuring type of investment: regular coupon payments and principal repayment at a known date when the issuer does not default.

However, the bond/money market is not an homogenous world. Governed by numerous factors, it offers its investors a wide variety of solutions such as fixed-rate bonds, floating-rate bonds, subordinated bonds, inflation-linked bonds and money market instruments such as certificates of deposit (CDs) and commercial papers (CPs).

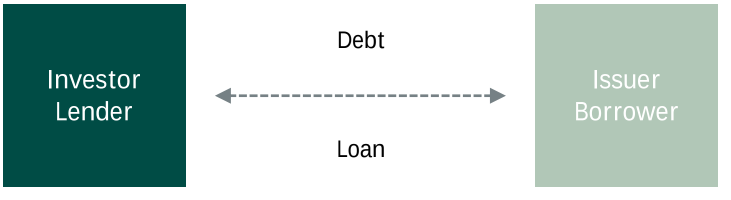
Thus, the choice of a single line investment in bonds and money market instruments depends on many variables, such as the economic context, expectations for long-term reference yields and issuer quality.

Bond Advisory Team
BNP Paribas Wealth Management

* There is no clear border between bonds and money market instruments. Investors usually consider instruments with maturities of one year or less as money market instruments, a large part of which consists of CDs and CPs. However, some issuers also use their CD programmes to issue medium-term notes. For easier illustration, the term *"bond"* used hereinafter refers to both bonds and money market instruments.

What is a bond?

A bond is a security representing a debt and giving the creditor (investor) the right to receive future financial flows (periodic interest and capital redemption at maturity).

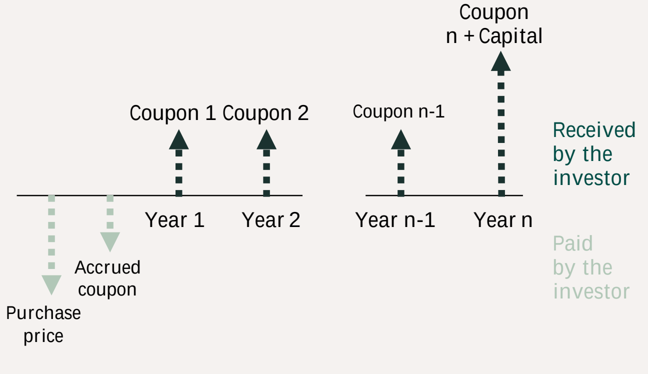


FOR THE INVESTOR

- A bond is a security representing a debt of the issuer.
- It can be likened to a loan for a defined duration in exchange for periodic interest relative to the bond's duration and the issuer's quality.

FOR THE ISSUER

- Financing via bonds on the capital markets is a means of diversifying its funding sources (cost sometimes lower than that of a bank loan, no negative effects on company shares contrary to a capital increase ...).



A **bond's** financial flows

The buyer of a bond benefits from a flow of regular coupons throughout the life of the security and receives his invested capital at maturity. The possibility of non-payment of coupons and non-redemption of the capital exists; this depends on how the issuer's capacity to repay changes.

Some key features

ISSUER

This is the entity issuing the bond.

ISSUER TYPE

Indicates the nature of the issuer: a State, a company, a bank, a supranational organisation (IMF, EBRD …), etc.

RANKING

Specifies the order of debt repayment should the issuer default: senior debt (repaid first), subordinated debt (repaid just before the shareholders, but with a low recovery rate).

ACCRUED COUPON

Corresponds to the coupon amount accrued since the last coupon payment. When a trade takes place on the secondary market, the buyer pays the seller the amount of the accrued coupon.

COUPON RATE

Used to calculate the interest (on the basis of the bond's face value) received by the investor.

It can be fixed or floating (pegged to inflation, to the 3-month interest rate …). Its frequency is variable (quarterly, half-yearly or annual).

MATURITY [1]

Refers to the bond's expiry date, the date on which the capital invested (principal) will be repaid (except in the case of issuer default).

ISSUE CURRENCY

Main currencies used: USD, EUR, GBP, CHF, JPY, SEK, etc.

YIELD TO MATURITY

Corresponds to the rate of return of the bond, that is to say the expected profitability of the bond, calculated at maturity, taking into account its current price, the coupons and final repayment.

RATING

A rating corresponds to a level of credit risk assigned to the issuer by an independent credit rating agency (at the issuer's request and expense). It evaluates the default probability.

PRICE

It is expressed as a percentage of the nominal, coupon excluded.

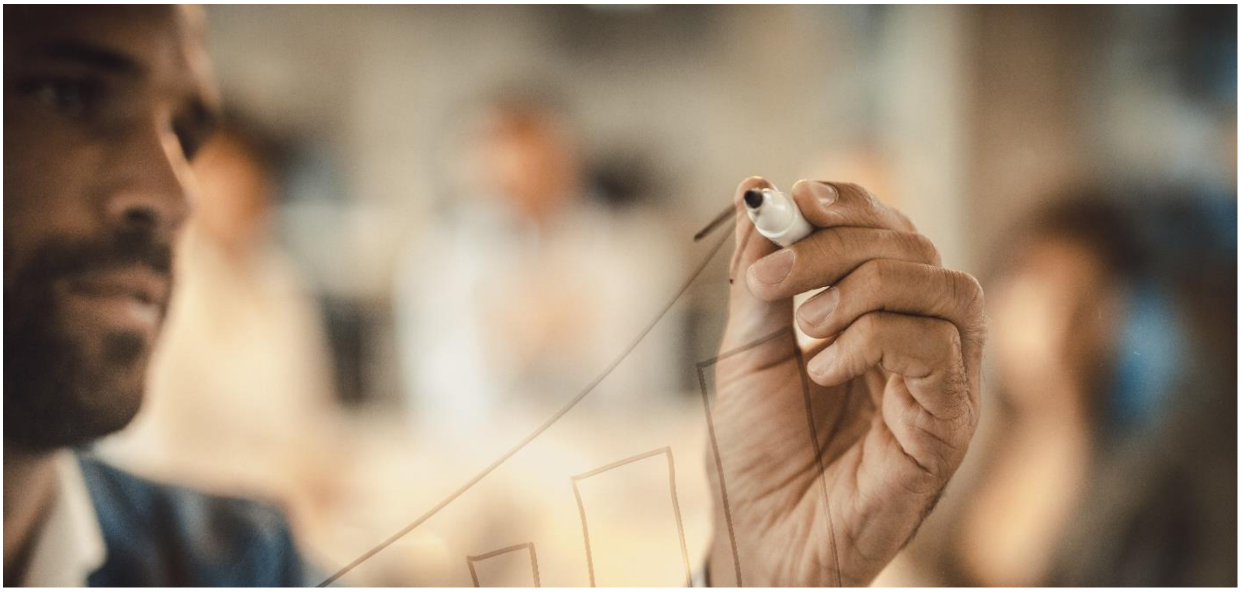
ISSUE SIZE

Refers to the total amount borrowed by the issuer for this bond.

DENOMINATION

Gives the minimum amount that can be purchased.

[1] Early termination: Please refer to the termsheet / product documentation on early termination features/clauses (if any).



Why and how do bond prices and yields vary? (1/2)

The yield of a bond can be broken down into two components:

- The benchmark rate (AAA German sovereign yields in Euros, US Treasury yields in USD),
- The credit spread (additional yield linked to the risk of the issuer concerned).

The diagram on p.9 summarises the factors influencing these two elements.

Some economic factors have a direct impact on benchmark yields. The two most influential factors are the economic cycle and inflation expectations.

The credit spread is mainly influenced by the change in the issuer's credit rating (current and expected by the market), such rating depending on any change in the issuer's fundamentals and the soundness of its financial structure.

Why and how do bond prices and yields vary? (2/2)

Change in risk aversion
Investor appetite for risky assets can change considerably depending on the macroeconomic and market situation

Change in the issuer's financial profile
Leverage, future cash flows, business nature and level, management, investment policy, dividend distribution policy, funding capacity ...

Change in rating

Market expectations
The market often anticipates changes in issuer quality more quickly than the credit rating agencies do

Factors influencing the credit spread

Corporate and financial bonds generally offer a yield pick-up (credit spread) since the issuer risk (default risk) is higher. It is expressed in basis points.

Overall bond yield

Bond credit spread

Rate on a AAA government bond of equivalent duration and in the same currency

AAA sovereign issues
Constitute the benchmark: very reduced rate of non-payment of coupons and of non-repayment of the nominal at maturity.

Change in bond yield

Change in bond price

Yield / price relationship
The price of a fixed-rate bond increases when interest rates decrease and decreases when rates rise.

Factors influencing AAA government bond yields

- Inflation expectations
- Monetary policies (Fed and ECB)
- Public deficit levels and trends
- Economic growth trend
- Change in risk aversion
- Market expectations

Importance of issuer quality (1/2)

Scale of ratings

	S&P/Fitch	Moody's
Investment Grade	AAA	Aaa
	AA+	Aa1
	AA	Aa2
	AA-	Aa3
	A+	A1
	A	A2
	A-	A3
	BBB+	Baa1
	BBB	Baa2
	BBB-	Baa3
High Yield	BB+	Ba1
	BB	Ba2
	BB-	Ba3
	B+	B1
	B	B2
	B-	B3
	CCC+	Caa1
	CCC	Caa2
	CCC-	Caa3
	CC	Ca
	C	C
	D	D

THE ISSUER'S RATING

- Before buying, investors must verify the risk level of the bond they intend to buy because coupon payment default, or even the non-repayment of the principal at maturity, is possible.

The rating of the issuer (or of the issue itself in the case of subordinated debt) provides the investor with a first indicator to guide him in his choice.

- Three main agencies assign credit ratings for issuers and issues: Standard & Poor's (S&P), Moody's and Fitch. Each credit rating agency does not necessarily give the same rating to the same issuer at a given moment in time.
- Ratings fall into two categories:
  - Investment Grade: for issuers whose credit quality is sound (limited risk).
  - High Yield: for issuers whose repayment capacity is weak (high risk).
- Ratings can be downgraded or upgraded throughout the life of the bond.
- Not every bond is rated, but this is not necessarily an indication of bad quality.
- In addition, the yield level of a bond is also a good risk indicator and is often more reliable than a rating since it is more responsive to market situations. Thus, a bond offering a higher yield will always be more risky, especially in a context of very low money market rates or AAA/AA Government yields.

Importance of issuer quality (2/2)

THE IMPORTANCE OF A BOND'S RANKING

The ranking of a bond indicates the priority of possible debt repayment should an issuer default. Senior bonds take priority over so-called subordinated bonds, and each bond has its own rating. So a subordinated bond has a rating several notches lower than a Senior bond and consequently will be riskier. An issuer can therefore issue bonds with different rankings.

Issuer call

An issuer's call is to be found in many bonds with a subordinated ranking as well as in some High Yield bonds with a Senior ranking. It enables the issuer to repay the bond in full on the call date, at a pre-defined price and well before the bond's official maturity date. For perpetual bonds (with no maturity date) market practice is repayment at the first call date. If this were not the case, the bond price would fall and the coupon would become variable depending on the pre-defined conditions.

Rank	Terminology	Key features	Example of ratings for the same issuer
Senior debt	Senior	■ Maturity date known ■ No issuer call ■ Coupons paid so long as there is no default	A+
Subordinated debt	Tier 2	■ With or without a maturity date (perpetual) ■ With or without a call ■ Coupons paid so long as there is no default ■ Loss absorption clause	BBB
Subordinated debt (Hybrid securities*)	Tier 1	■ Perpetual, with an issuer call ■ Coupon that becomes floating if the call is not exercised ■ Coupons that might not be paid ■ Loss absorption clause	BB+
	Additional Tier 1 (AT1 / Cocos)	■ Perpetual, with an issuer call ■ If the call is not exercised, the coupon becomes floating ■ Coupons that might not be paid ■ Total or partial loss of the principal or conversion into shares if the capital ratio (CET1) falls below a defined threshold	BB

* Hybrid securities

Tier 1 and AT1 bonds are hybrid securities, half-way between equities and bonds. With a rating several notches lower than that of the Senior debt of the same issuer, hybrids offer a higher yield but for a higher level of risk.

Each issue prospectus defines the particularities of these securities. In all cases, even without the issuer defaulting, it is possible that coupons may not be paid.

With hybrids, there is usually no date scheduled for repayment of the principal (or the date is extremely far off) but there is an issuer call, that may not be exercised (risk of longer maturity for the bond holder). Finally, the principal may even be reduced in order to absorb possible losses in the case of an issuer's net negative results.

Why hold bonds in a portfolio?

- To protect your capital if the bonds are held until maturity (and if the issuer does not default).
- To ensure a regular revenue until maturity or until a possible call.
- To benefit from a higher yield than on the money market.
- To select an asset that is generally less volatile than equities (provided the issuer has a good quality rating).
- To benefit from an asset class that is sought after when risk aversion increases (only valid when Investment Grade bonds have been chosen).
- To seek capital gain and to sell before maturity (by playing interest rate trends or by anticipating improvements in the issuer's fundamentals).
- Some investors seeking higher returns turn to bonds in currencies other than their base currency. The yield pick-up results from local monetary policies and more volatile economic fundamentals. Investors count on the local currency not depreciating at the end of their investment.

Please refer to risk factors or risk disclosures for further details.

Building your bond portfolio

WHAT BUILDING PLAN TO RESPECT

- Be **selective** in terms of sector, issuer, country, type of bond (fixed- or floating-rate) and ranking (senior or subordinated).
- Choose the bond type depending on the expected scenario for money market rate trends. For instance, prefer fixed- rate bonds with a short maturity (or floating-rate bonds whatever the maturity) if higher yields are expected.
- Always **diversify** by spreading investments over several bonds.
- Base your issuer selection on the analysis of the quality of issuers' fundamentals (business, leverage, positioning on their market, generation of financial flows, investment policy, etc.)
- Limit the weighting of each line in the portfolio. Be aware of the overall risk level of your portfolio (exposure to interest rate risk and to issuer risk).

FROM THE PRIMARY MARKET TO THE SECONDARY MARKET

- Generally, when a bond is issued, it goes through a rapid phase of being placed with institutional investors on the primary market (securities cannot yet be traded). The primary market phase is often short (half a day, a few hours). Afterwards these securities are quoted on the secondary market and can then be traded between investors.
- The characteristics of the bond being issued become available very gradually. Thus, an indicative coupon rate is announced when the collection of orders starts, but will be adjusted up or down depending on the final purchase volume requested by institutional investors. If the coupon is significantly higher than the first estimates, the issuer may cancel the operation.
- A reduction in final allocation is common when demand is high (the amount allocated to investors being lower than that requested).
- Bond issue placements may be public or private (public placements offer a more protective framework for the investor since they are more regulated: more detailed information on the issue and the issuer, more time to subscribe, etc.)

What factors enable a bond to be selected?

LIMITED ISSUER RISK

- Choose an issuer that holds a leading position in its sector and is monitored by credit analysts.
- Prefer issuers benefiting from a favourable view as to the stability of or a possible improvement in their rating. A downgrade in the rating usually causes a decrease in the bond price, especially in the case of a downgrading into the High Yield category.
- An in-depth analysis is necessary for selecting High Yield bonds because their more volatile financial profiles lead to higher risks.

DURATION ADAPTED TO THE FORTHCOMING TRENDS ON INTEREST RATES

- The yield to maturity of the bond must sufficiently offset the level of interest rate risk borne by the investor. A bond with a long maturity generally has a higher yield and entails a higher level of risk.
- The longer a bond's maturity, the more sensitive its price will be to market interest rate changes. However, prices can vary in a way that is unfavourable for investors. In order to avoid having to sell in a context that would generate capital loss, the investor must be able – as soon as he buys a bond – to see himself holding it until maturity. Extra caution is needed with High Yield bonds since visibility on any change in the issuer's financial profile may be low (6 months to 1 year in some contexts).

FAVOURABLE CARRY

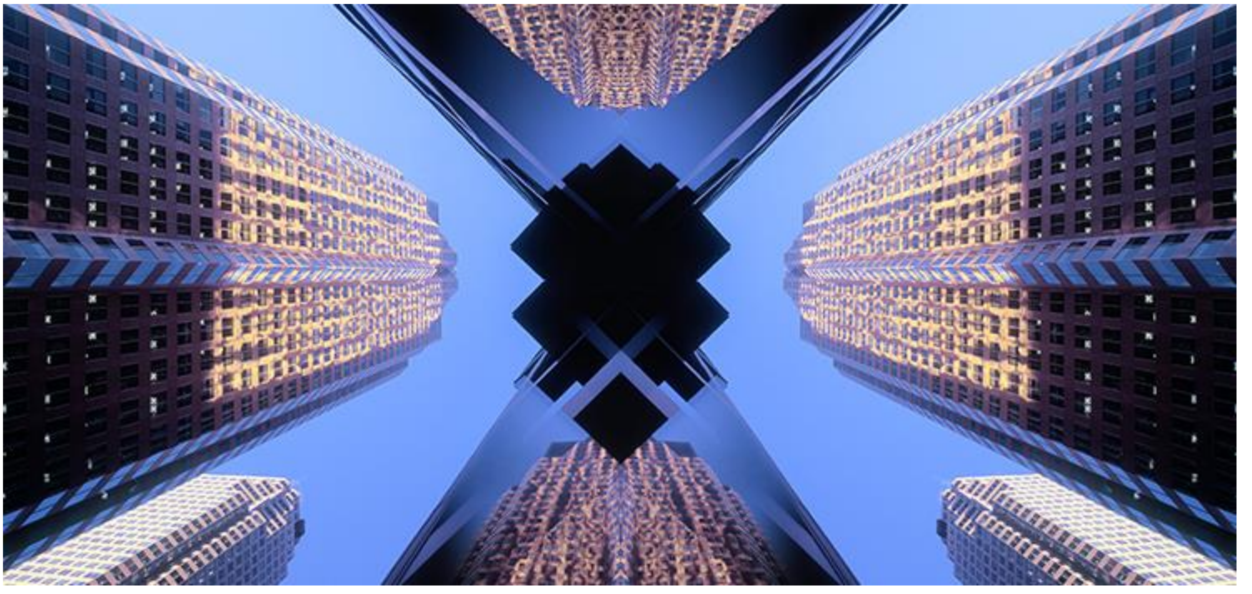
- Only accept to take a risk on bonds if the yield spread provided by the bond's coupon rate is significant compared with the money market rate.

SUFFICIENT LIQUIDITY

- In general, "benchmark" size issues, more than or equal to 500 million euros or equivalent, are more liquid. However, in times of market uncertainty, liquidity on the bond market can be very low if not inexistent.

Also...

- **A moderate minimum investment amount**, allowing healthy diversification of your bond portfolio.
- **Features that are appropriate for** the investor's **risk profile** (yield, issuer, technicality).
- **Sufficiently attractive issue conditions** given all the risks and comparable bonds already on the market (same duration, rating and currency).



Taking market yield changes into account

- Economists establish forecasts for short- and long-term yields, based largely on the economic scenario they are expecting (economic growth trend, future inflation, etc.). If long-term yields are expected to be significantly lower, then fixed-rate bonds with a long maturity must be chosen (and, in the opposite case, short-maturity bonds with high fixed-rate coupons, or even floating- rate coupons).
- Avoid investing in AAA bonds when their yield is too low, for instance, less than or equal to 2%. They will be rapidly penalised when long-term yields go back up.

Criteria to favour depending on the coming yield trend

Type of duration and coupon to prefer depending on the yield scenario expected	Coming trend on long-term yields	↗	↘
	Maturity	Short	Long
	Coupon	Fixed-rate (high) or floating-rate	Fixed-rate (low)

How to invest in bonds

There are different ways to invest in bonds:

- Holding physical securities enables great precision in the choice of sectors and issuers, but requires diversification and regular monitoring.
- Bond funds offer management carried out by experienced managers as well as strict risk control and optimal diversification. This type of investment is wholly appropriate for investments in niche market segments (such as emerging bonds or High Yield bonds) or in more technical bonds (such as bonds pegged to inflation or convertible bonds).
- Management mandates also enable bond management to be delegated to experts in this type of product, whilst being adaptable to the individual needs of each private investor.
- Structured investments offer a wide range of solutions satisfying numerous risk/return profiles. For instance, they enable access to bond baskets.

GENERAL RISKS (1/4)

Investors should note that investment involves risks. The risk considerations and disclaimers in relation to bonds as set out below are not intended to be exhaustive. Investors should refer to the relevant offering documents/prospectus for details and product features, in particular the risk factors.

Full principal is at risk.

Credit risk

Investments in debt and debt-related securities are exposed to credit risk. Credit risk is the risk of default on a debt that a borrower (bond issuer) fails to meet its obligations (pay principal and/or interest on redemption date). The issuer's credit quality and security values may be adversely affected by factors which include, but are not limited to, changes in economic and political conditions or the issuer's (and/or the guarantor's) financial conditions. It should also be noted that credit ratings assigned by credit rating agencies do not guarantee the creditworthiness of the issuer.

Credit ratings

Investors should review the issuer's credit ratings including ratings assigned by two of the major credit rating agencies (Moody's and S&P), if available. These ratings broadly gauge perceptions of the issuer's creditworthiness and its ability to meet its financial obligations, in response to which the product's value fluctuates. However, such ratings are only the opinions of the rating agencies and are not absolute guarantees as to credit quality. Such ratings may be subject to revision, suspension or withdrawal at any time and from time to time by the assigning rating agencies, which would have a negative consequential impact on the price of the bonds in the market. The value of a bond is likely to decline in the case of a downgrade of the issuer's credit rating(s). In any event, investors must make their own independent determination of the suitability of the investment.

Country risk

Political developments, changes in government policies, taxation, restrictions on foreign investments and other developments in the laws and regulations of the country of issuance can affect the price and liquidity of an issue. Major political instability can result in events such as civil war or a shutdown in industry. International debt (emerging market or non-emerging market) extends over one or many countries, and there are economic and political considerations affecting the decision to purchase these bonds securities (e.g., exchange rates, devaluation of currency, inflation, restrictive or changes to monetary policy, and interest rates of a specific country). In addition, since the issuer or its related companies may be domiciled or does business in a foreign country, legal remedies to investors, in the event of default, are or could be significantly restricted. Emerging market bonds may be exposed to a higher risk of political, economic and regulatory changes. Such products may be more volatile and less liquid than those issued by non-emerging market borrowers.

Interest rate risk

Bonds are more susceptible to fluctuations in interest rates and generally prices of bonds will fall when interest rates rise. Changes in interest rates will impact the performance of the investors' investments. As long term interest rates rise, the capital value will likely to decrease. In general, securities with longer maturities and higher interest rate sensitivity involve higher degree of risk.

Currency risk

Bonds are offered in a variety of currencies. Some of these currencies may not be freely convertible. Currency repatriation or wide fluctuations in the value of the currency may impact liquidity or cause severe price movements in the value of the debt security. Generally, fluctuations in exchange rates may have an adverse impact on investment return on bonds.

Price transparency

Unlike other listed securities, bonds are primarily traded over-the-counter (OTC) in a dealer to dealer market, making price discovery (i.e. transparency) relatively challenging.

GENERAL RISKS (2/4)

Secondary market and liquidity risk

Some investments may not have active secondary markets. Investors should be prepared to invest in bonds until maturity as it may be difficult or impossible to sell these investments before maturity. Even where the bonds are listed, there is no assurance that an active trading market can be developed or sustained. An illiquid market for bonds may have an adverse impact on the price. Investors should be willing to expect that the bond market may be highly illiquid for an indefinite period. Unwinding of unlisted investment products before maturity can be expensive and may result in significant loss before maturity.

Mark-to-market risk

The market value of a bond is expected to fluctuate significantly according to various factors including but not limited to the financial, political, economic and other events as well as level of the performance of the issuer, interest rates and time remaining to maturity. Investors seeking to sell the bond prior to maturity may be subject to the prevailing market value which may be substantially less than the original purchase price.

Bonds callable by the issuer

Callable bonds are callable and investors face reinvestment risk when the issuer exercises its right to redeem the bond before it matures.

Bonds with discretionary coupons, variable / deferred interest payment terms or extendable maturity dates

Some bonds have discretionary coupons, variable and/or deferral of interest payment terms. For any such bonds, investors would face uncertainty over the amount and time of the interest payments to be received, or investors may not receive any coupons.

Some bonds have an extendable maturity date and investors would not have a definite schedule of principal repayment.

Subordinated bonds

Investors should pay attention to the credit information in relation to the bond and the implications of its “subordinated” nature. Investors should note that holders of subordinated bonds will bear higher risks than holders of senior bonds of the issuer due to a lower priority of claim in the event of the issuer’s liquidation.

Bonds with multiple credit support providers and structures

Bonds with special feature “multiple credit support providers and structures” cover structures such as a bond having multiple guarantors. Such bonds are considered as complex products given that some of these bonds may have multiple credit support providers with no material operations, or may involve complex structures which subordinate the bondholders’ rights to those of the multiple credit support providers.

Risks of investing in high-yield bonds

High yield bonds are sub-investment grade bonds or non-rated bonds. High yield bonds are issued by companies which might have a greater risk of default on interest and/or principal payments. Investors are subject to the generic risks of investing in bonds and also subject to the following risks:

Higher credit risks –high yield bonds are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default.

Vulnerability to economic cycles – during economic downturns such bonds typically fall more in value than investment grade bonds as investors become more risk averse and default risk rises.

Investors should understand that high-yield bonds are generally of higher risk than investment-grade bonds and hence generally have a higher risk of default and higher price volatility.

GENERAL RISKS (3/4)

Perpetual bonds

Investors should note that perpetual bonds do not have a maturity date, and the coupon payments may be deferred or even suspended subject to the terms and conditions of the issue. Furthermore, as perpetual bonds are often callable and / or subordinated, investors should note the reinvestment risk, and / or a lower priority of claims (e.g. on liquidation of the issuer), as the case may be.

Financial bonds (bonds related to the financial sector)

When investing in financial bonds with convertible or exchangeable features, such investments will be subject to both equity and bond investment risk. Bonds that have contingent write down or loss absorption features may be written-off fully or partially or converted to common stock on the occurrence of a trigger event. Some financial bonds (including subordinated or even senior bonds), though are not classified by the market as Contingent Convertibles (Cocos) with explicit capital trigger for loss absorption, may also have loss absorption features, including (1) those with contractual loss absorption at point of non-viability (PONV), (2) those in countries with statutory bail-in, and/or (3) those in countries that are likely to have statutory bail-in before the maturities of these bonds. Holders of subordinated debentures will bear higher risks than holders of senior debentures of the issuer due to a lower priority of claim in the event of the issuer's liquidation.

Contingent convertible (1) or bail-in (2) bonds

Given contingent convertible and bail-in bonds are hybrid debt-equity instruments that may be written off or converted to common stock on the occurrence of a trigger event, investors should note the product nature, the trigger events, and implications of any trigger to the investors.

(1) "Contingent convertible bonds" refer to bonds that contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event. These bonds generally absorb losses while the issuer remains a going concern (i.e. in advance of the point of non-viability). (2) "Bail-in" generally refers to (a) contractual mechanisms (i.e. contractual bail-in) under which bonds contain a clause requiring them to be written off or converted to common stock on the occurrence of a trigger event, or (b) statutory mechanisms (i.e. statutory bail-in) whereby a national resolution authority writes down or converts bonds under specified conditions to common stock. Bail-in bonds generally absorb losses at the point of non-viability. Investors should note that investment in these bonds will be subject to both equity and bond investment risk and also the risk of partial write down or full written off

Sovereign debt risk

When investing in sovereign debts, the investors should note that sovereign debt issued by governments of certain developing countries or their agencies and instrumentalities ("government entities") is a riskier investment than sovereign debt issued by governments of developed countries.

The stability of the issuing government is an important factor to consider as they may not be able or willing to repay the principal and/or interest. Key factors affecting the governmental entity's possibility or willingness to repay the principal and interest include, but are not limited to, its variance of cash flow, debt service ratio, foreign reserves, the probability of sufficiently foreign exchange on payment day and the political risk.

A governmental entity will be requested to conduct sovereign debt restructuring and to extend further loans if it cannot meet its debt obligations.

GENERAL RISKS (4/4)

Risk of Inflation-linked bonds

When investing in inflation-linked bonds, such investments are subject to deflation risk. The capital value of inflation linked bonds tends to be lower than other bond categories during deflationary periods. In addition, the full principal invested may not be returned at maturity for inflation-linked bonds during times of deflation. Lastly, inflation-linked bonds are generally less liquid than traditional bonds as they are primarily bought by buy-and-hold investors.

Conflicts of interest

Various potential and actual conflicts of interest may arise from the overall investment activities or the roles of the parties involved in any investment product or transaction, their investment professionals and/or their affiliates. In particular, the counterparty / issuer / provider or its related entities or affiliates can offer or manage other investments which interests may be different to the interest of your investments in that investment product or transaction; or for cases where the product counterparty or issuer is BNP Paribas or its related entity or affiliate, BNP Paribas may also act as distributor, guarantor, calculation agent and/or arranger of the same product.

RISK DISCLOSURE ASSOCIATED WITH RMB DEPOSITS, INVESTMENTS AND PRODUCTS (1/3)

The deposits, investment transactions or financial products you enter into or purchase may be linked to or denominated in RMB (collectively, the "RMB Investment Products"). If that is the case, please note that entering into or investing in the RMB Investments Products entails certain risks. The following are examples of such risks, which are in addition to other risk disclosure statements sent to you, and it should not be viewed as an exhaustive list.

RMB is not freely convertible at present. The government of the People's Republic of China ("PRC") continues to regulate conversion between RMB and foreign currencies, including the Hong Kong dollar and Singapore dollar, despite the significant reduction over the years by the PRC government of its control over routine foreign exchange transactions under current accounts. The People's Bank of China ("PBOC") has established a clearing and settlement system pursuant to the Settlement Agreement on the Clearing of RMB Business between PBOC and Bank of China (Hong Kong) Limited. However, the current size of RMB and RMB denominated financial assets in Hong Kong and Singapore is limited, and its growth is subject to many constraints which are corollary of PRC laws and regulations on foreign exchange.

RMB currency risk

There can be no assurance that access to RMB funds for the purposes of making payments under the RMB Investment Products or generally may remain or will not become restricted.

Exchange rate risk

The value of the RMB against the Hong Kong dollar, Singapore dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. As a result, the value of RMB payments may vary with the prevailing exchange rates in the marketplace. If the value of the RMB depreciates against the Hong Kong dollar, Singapore dollar or other foreign currencies, the value of an investor's investment in Hong Kong dollar, Singapore dollar or other applicable foreign currency terms will decline.

In addition, if the RMB Investment Products are not denominated in RMB or if the underlying(s) to which the RMB Investment Products are linked is not denominated in RMB, such RMB Investment Products may be subject to multiple currency conversion costs (including but not limited to multiple currency conversion costs involved in making investments and liquidating investments), as well as the RMB exchange rate fluctuations and bid/offer spreads when assets are sold to meet redemption requests and other capital requirements, where applicable. Such costs (if any) will be borne by the investors.

Risk related to the underlying(s)

If the RMB Investment Products you purchase or enter into are linked to the underlying(s), the movements in the price of the underlying(s) may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices and the timing of changes in the relevant price of the underlying(s) may affect the actual yield to investors, even if the average level is consistent with their expectations.

If the RMB Investment Products you purchase or enter into are denominated in RMB but the underlying(s) is denominated in another currency, investors may lose all or a substantial portion of their investment if (i) the value of the underlying(s) appreciates but RMB depreciates against the Hong Kong dollar, Singapore dollar or other foreign currencies; (ii) RMB appreciates against the Hong Kong dollar, Singapore dollar or other foreign currencies but the value of the underlying(s) depreciates; or (iii) both the underlying(s) and RMB depreciate.

If the RMB Investment Products you purchase or enter into do not have access to invest directly in the Mainland China, their available choice of underlying investments denominated in RMB outside Mainland China may be limited and such limitation may adversely affect the return and performance of such RMB Investment Products.

RISK DISCLOSURE ASSOCIATED WITH RMB DEPOSITS, INVESTMENTS AND PRODUCTS (2/3)

For RMB Investment Products with a signification portion of non-RMB denominated underlying investments, please note that there is a possibility of not receiving the full amount in RMB upon redemption. This may be the case if the issuer of such RMB Investment Product is not able to obtain sufficient amount of RMB in a timely manner due to the exchange controls and restrictions applicable to the currency.

Interest rate risk

If the RMB Investment Product you purchase or enter into which are, or may invest in, RMB debt instruments, please note that such instruments are susceptible to interest rate fluctuations, which may adversely affect the return and performance of such RMB Investment Product.

Liquidity risk

No representation is made as to the existence of a market for the RMB Investment Products.

The RMB Investment Products may be designed to be held until the maturity date of such RMB Investment Products. You should not make an investment in such RMB Investment Products if you do not intend to invest for its full term. You will not be able to realise the value of your investment if, for example, your view on the underlying(s) to which the RMB Investment Products relates changes after you have made your investment but before its expiry.

The RMB Investments Products may involve a long period of investment. Investors who seek to redeem their investment before the maturity date or during the lock-up period (if applicable) may incur a significant loss of principal where the proceeds may be substantially lower than the invested amount. Investors may incur early surrender/withdrawal fees and charges as well as loss of bonuses (where applicable) as a result of redemption before the maturity date or during the lockup period. In addition, the current size of RMB and RMB denominated financial assets is limited in Hong Kong and Singapore, which may adversely affect the liquidity of the RMB Investment Products. You must therefore realize that the inability to realize the value of your investment prior to its expiry is a significant risk.

The secondary prices (if any) for RMB Investment Products may be at a substantial discount from the principal amount even in the case where the price of the underlying(s) has appreciated since the issue date. The price of the RMB Investment Products including the price at which the bank, the issuer, its affiliate or any other person may be willing to repurchase may be affected by a number of factors including the changes in the price of the underlying(s) and numerous economic and market factors including the expected volatility of the underlying(s); the outstanding principal amount; the time to maturity of the RMB.

Investment Products; the dividend rate on the underlying(s); the interest and yield rates in the market; the credit spreads, the exchange rate and the volatility of the exchange rate; the economic, financial, political, regulatory or judicial events that affect the underlying(s) or stock markets generally and which may affect the underlying closing prices on any valuation date; and the creditworthiness of the bank or the issuer.

The issue price of a RMB Investment Product may not accurately reflect its market value at the issue date and the price, if any at which the issuer, its affiliate or any other person is willing to purchase the RMB Investment Products in the secondary market (if any), is likely to be lower than the issue price due to the inclusion of agents' compensation, compensation of an affiliate of the agents, any fees and charges incurred by the issuer and expected profit from hedging in the original issue price. In addition, any such prices may differ from values determined by pricing models used by the agents, as a result of such compensation or other transaction costs. In addition, different market participants may have different pricing models leading to different results.

RISK DISCLOSURE ASSOCIATED WITH RMB DEPOSITS, INVESTMENTS AND PRODUCTS (3/3)

Non-guaranteed returns

The returns of the RMB Investment Products may not be guaranteed. Where there are any statements of illustrative return which is not guaranteed or partly not guaranteed, investors should note that the return (or the part of the return, as the case may be) is not guaranteed and should take note of the assumptions on which the illustrations are based.

Additional risks associated with leveraged trading

If you use your leveraged trading facilities to purchase or enter into RMB Investment Products, please note that such leveraging heightens the investment risks by magnifying prospective losses. Please ensure you understand the terms and conditions of the borrowing arrangement, including but without limitation to the circumstances under which you will be required to place additional margin deposits (and which may be required at short notice) and that your collateral may be liquidated without your consent.

Moreover, please also be aware that market conditions may make it impossible to execute contingent orders, such as “stop-loss” orders. Moreover, you are also be reminded of your exposure to interest rate risk and for example, your cost of borrowing may increase due to interest rate movements.

Counterparty and Insolvency risk

If you make an investment in RMB Investment Products, you are relying upon the creditworthiness of your counterparty or the issuer (as appropriate). As you are subject to the issuer and the counterparty credit risk and insolvency risk, you may lose your total investment even though the underlying of the RMB Investment Product is performing in the direction and/or magnitude you expect.

Therefore, please ensure that you are aware of the identity of your contractual counterparty, e.g. the issuer, the relevant guarantor (if applicable) or other parties involved in the RMB Investment Products as they may have different rights and obligations under the terms of the RMB Investment Products. You will be purchasing an unsecured obligation of such counterparty (as opposed to an obligation of a central clearing corporation as would be the case with exchange traded futures and options) and should evaluate the comparative credit risk of such counterparty before making an investment in the RMB Investment Products. A RMB Investment Product from the counterparty will not represent a deposit account and will not be insured by any government entity. Your counterparty will not accept any fiduciary obligations towards you, nor is it willing to undertake such obligations.

To the extent that the RMB Investment Products may invest in RMB debt instruments not supported by any collateral, you should note that such products are fully exposed to the credit risk of the relevant counterparties. Where a RMB Investment Product may invest in derivative instruments, counterparty risk may also arise as the default by the derivative issuers may adversely affect the performance of the RMB Investment Product and result in substantial loss.

Credit-ratings

The issuer’s and the counterparty’s long-term credit ratings do not necessarily reflect their credit worthiness and/or their ability of performing their obligations under the RMB Investment Products. Further, there is no assurance that its long-term credit ratings will remain unchanged for any given period of time or that a downgrading, a suspension or withdrawal of any such credit ratings will not occur in the future. An investor should not solely rely on the long-term credit ratings of the Issuer when evaluating its creditworthiness.

Not a deposit

The RMB Investment Products which are investment transactions or financial products (e.g. dual currency structured deposit/investment and the equity linked notes denominated in RMB) are not deposits and are therefore not protected under any legislation applicable to deposits. In particular but without limiting the foregoing, they are neither protected by the Hong Kong Deposit Protection Scheme in Hong Kong nor the Deposit Insurance Scheme in Singapore.

Not an exhaustive list

The risk considerations and disclaimers in relation to the investment of the RMB Investment Products as set out in this document are not intended to be exhaustive and may be supplemented by additional risk disclosures from time to time.

GENERAL RISK DISCLOSURE FOR EXCHANGE TRADED FUNDS ("ETFS"), SYNTHETIC ETFS, AND LEVERAGED PRODUCTS AND/OR INVERSE PRODUCTS STRUCTURED AS ETFS (1/3)

Risk associated with ETFs

The principal objective of an ETF is to track the performance of an underlying index, or a group of assets such as commodities instead of an index, as the case may be.

The performance of units in an ETF is unpredictable. It depends on financial, political, economic and other events as well as the ETF's earnings, market position, risk situation, shareholder structure and distribution policy.

In case of the transaction that is linked to the performance of an ETF, you should also note that the value of an interest in the ETF will generally decline in line with the decline of any securities which comprise the benchmark portfolio or the value of any benchmark index linked to the relevant ETF. Investment in the transaction linked to an ETF involves risks similar to those of investing in the equity securities traded on an exchange that comprise the benchmark portfolio or index to which the ETF is linked, such as market fluctuations caused by, amongst other things, economic and political developments, changes in interest rates and currency rates and market liquidity.

Whilst the net asset value of units in an ETF will reflect the market value of the ETF's portfolio, trading prices of the units in an ETF on the stock exchange may be lower or higher than the net asset value per unit. Although the investment strategy of an ETF is typically designed to replicate the movements in the benchmark index or the underlying asset pool to which the ETF is linked, there may be divergence between the performance of the ETF and the performance of the benchmark index or portfolio that the ETF is designed to track due to certain tracking errors as a result of a number of factors (or combination thereof). These contributing factors may include, but are not limited to, any failure of the tracking strategy, fees and expenses that are deducted from the ETF's returns, currency differences in the constituents that comprise the index or the underlying asset pool which the ETF is designed to track. In particular, where the benchmark index or market that the ETF tracks is subject to restricted market access, for instance, an emerging market index, the efficiency in the unit creation or redemption of units/interests in the ETF to keep the price of the ETF in line with its net asset value may be impeded or disrupted due to the lack of liquidity in its constituents, causing the ETF to trade at a higher premium or discount to its net asset value. There is no guarantee of the repayment of principal or that investment objective of the ETF will be met.

Although the ETF is traded on stock exchange, investors should be aware that there may be no liquid trading market for the units of the ETF. There can be no assurance that active trading markets for units of the ETF will continue to develop, nor is there a certain basis for predicting the actual price levels at, or sizes in, which units may trade.

Following are some risks associated with ETFs with special features. The list is not exhaustive. Investors should always refer to the relevant ETF / product prospectus(es) for details, in particular, the risk factors.

Risk associated with Synthetic ETFs

Due to market accessibility, the efficiency in unit creation or redemption to keep the price of the synthetic ETF in line with its net asset value ("NAV") may be disrupted, causing the synthetic ETF to trade at a higher premium or discount to its NAV. Such risks may have a negative impact on the potential return of the product. If an ETF adopts a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments, you should note that (i) by investing in financial derivative instruments, the ETF is exposed to the credit, potential contagion and concentration risks of the counterparties who issued the financial derivative instruments, and the market value of any collateral held by the ETF may have fallen substantially when the ETF seeks to realise such collateral; and (ii) the ETF may be exposed to higher liquidity risk if such financial derivative instruments do not have an active secondary market.

GENERAL RISK DISCLOSURE FOR EXCHANGE TRADED FUNDS ("ETFS"), SYNTHETIC ETFS, AND LEVERAGED PRODUCTS AND/OR INVERSE PRODUCTS STRUCTURED AS ETFS (2/3)

Synthetic ETF products may include different kinds of strategies, including but not limited to index tracking, replication strategy, leverage strategy, or any combination of derivatives with collateral requirements. Investor should refer to the respective ETF prospectus and be familiar with particular features and risk.

The major risks associated with synthetic ETFs are highlighted below:

(1) Market risk – the clients are exposed to the political, economic, currency and other risks related to the synthetic ETF's underlying index.

(2) Counterparty risk – where a synthetic ETF invests in derivatives to replicate the index performance, the clients are exposed to the credit risk of the counterparties who issued the derivatives, in addition to the risks relating to the index. Further, potential contagion and concentration risks of the derivatives issuers should be taken into account (e.g. since derivative issuers are predominantly international financial institutions, the failure of one derivative counterparty of a synthetic ETF may have a "knock-on" effect on other derivative counterparties of the synthetic ETF). Some synthetic ETFs have collateral to reduce the counterparty risk, but there may be a risk that the market value of the collateral has fallen substantially when the synthetic ETF seeks to realise the collateral.

(3) Liquidity risk – a higher liquidity risk is involved if a synthetic ETF involves derivatives which do not have an active secondary market. Wider bid-offer spreads in the price of the derivatives may result in losses.

(4) Tracking error – there may be disparity between the performance of the synthetic ETF and the performance of the underlying index due to, for instance, failure of the tracking strategy, currency differences, fees and expenses.

(5) Trading at a discount or premium – where the index/market that the synthetic ETF tracks is subject to restricted access, the efficiency in unit creation or redemption to keep the price of the synthetic ETF in line with its NAV may be disrupted, causing the synthetic ETF to trade at a higher premium or discount to its NAV. Investors who buy a synthetic ETF at a premium may not be able to recover the premium in the event of termination.

Risk associated with Leveraged Products and/or Inverse Products structured as ETFs **("L&I Products")**

Leveraged products structured as ETFs ("Leveraged Products") typically aim to deliver a return equivalent to a multiple of the underlying index return that they track. On the other hand, inverse products structured as ETFs ("Inverse Products") typically aim to deliver the opposite of the return of the underlying index that they track. To produce the specified leveraged or inverse return, these ETFs have to rebalance their portfolios, typically on a daily basis. L&I Products are different from the buy-to-hold characteristics of conventional ETFs. Investors should normally not hold L&I Products for longer than the rebalancing interval, which is typically one day. L&I Products are designed as a trading tool for short-term market timing or hedging purposes, and are not intended for long term investment. L&I Products are only suitable for sophisticated trading-oriented investors who constantly monitor the performance of their holdings on a daily basis; and the performance of L&I Products, when held overnight, may deviate from the underlying indices.

Leveraged Products aim to obtain leveraged exposure to an index. The ETFs may be leveraged by borrowing, by entering into futures contracts and through the use of other financial derivatives. Whilst leveraging provides the ETFs with significantly more market exposure and hence an opportunity for greater total returns than it would have where no leveraging is being used, it also exposes the ETFs to a greater risk of loss arising from adverse movements in the index and a fall in the value of the index will trigger a greater and accelerated fall in the net asset value of the ETFs.

GENERAL RISK DISCLOSURE FOR EXCHANGE TRADED FUNDS ("ETFS"), SYNTHETIC ETFS, AND LEVERAGED PRODUCTS AND/OR INVERSE PRODUCTS STRUCTURED AS ETFS (3/3)

Due to the use of leverage and effects of compounding, the performance of the ETFs will be magnified (either in an upward or downward market) as compared with that of the index. The performance of the ETFs for periods longer than a single day, especially in periods of volatility, may differ significantly from the performance of the index over the same period of time.

Investors of any Inverse Product shall lose money when the index rises, which is a result that is the opposite from traditional index tracking ETFs. There is no guarantee that the Inverse Product will achieve a high degree of inverse correlation to the index and therefore achieve its inverse leveraged investment objective.

Inverse leveraged products structured as ETFs ("Inverse Leveraged Products") seek investment results of a certain multiple of the inverse (or opposite) of the performance of an index. The Inverse Leveraged Products are different and much riskier than most ETFs that do not use leverage, and are suitable for investors who have sufficient knowledge and understand the risks associated with shorting and the use of leverage and intend to actively monitor and manage their portfolios.

Risks associated with the Use of Financial Derivatives

Prices of financial derivatives may be affected by many factors. An illiquid market may adversely affect the price of financial derivatives and therefore the value of the ETFs. In particular, over-the-counter financial derivatives are normally less liquid than exchange traded financial derivatives. When an exchange traded financial derivative is de-listed, its liquidity and price may be adversely affected.

ETFs investing in futures contracts are particularly volatile. The prices of futures contracts may be affected by many factors apart from the values of the underlying assets. The low initial margin deposits normally required to establish a position in futures contracts permit a high degree of leverage. As a result, a relatively small movement in the price of a futures contract may result in a profit or loss which is greater than the amount of margin deposits initially placed with the intermediaries. ETFs will be subject to the counterparty risk with regard to financial derivatives which it holds and in the event of the insolvency of any counterparty or of any broker through which the fund manager trades for the account of the ETFs, the ETFs may only rank as an unsecured creditor in respect of the sums due to the ETFs under the relevant margin account or otherwise and any losses arising there from will be borne by the ETFs.

As a result of the above, the price of units in the ETFs may be volatile. Investors should note that whilst the ETFs will use financial derivatives to achieve its investment objective, investors' liabilities are limited to the amount they invest in the ETFs.

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