Risk Disclosure in relation to Designated Investments and Associated Risks

HSBC UK Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in respect of Global Markets activities in the United Kingdom.

HSBC UK

Introduction

The purpose of this document is to warn you about the risks, whether 'generic' (as detailed in Section A) or 'product specific' (as detailed in Section B) for the products that you may wish to trade with us.

This notice is provided to you, as (i) a professional client and/or eligible counterparty, or (ii) a retail client, in compliance as per classification as per Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments ("**MiFID 2**")

This notice contains information about Designated Investments (as defined in the FCA rules), including guidance on and warnings of the risks associated with those Designated Investments. It has been provided to you so that you are able to understand the nature and risks of the service and of the specific type of Designated Investment being offered and, consequently, take investment decisions on an informed basis.

Further information on your specific Designated Investments is provided, where appropriate, on Key Information Documents ('KIDS'), Term sheets, prospectus's or other product material that is provided by HSBC.

WARNING

Although derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for many investors. Different Designated Investments involve different levels of exposure to risk and in deciding whether to transact in such Designated Investments you should be aware of the following points contained in this Risk Disclosure.

This notice cannot disclose all the risks and other significant aspects of Designated Investments. You should not deal in these products unless you understand their nature and the extent of your exposure to risk and potential loss. Except where HSBC has expressly agreed to provide you with personal recommendations, either upon your request or at the initiative of HSBC, in respect of one or more transactions relating to financial instruments (**Investment Advice**), you should also be satisfied that the Designated Investment 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. You should consider carefully whether or not any Designated Investment is suitable for you in light of your circumstances and financial position, and if in any doubt please seek professional advice.

Section A: General Risks

1. Non-readily realisable investments and disinvestment

Where the Designated Investments include any investments which are (i) government or public securities, or (ii) securities other than those which are or will be admitted to official listing in an EEA state or which are or will be regularly traded on or under the rules of a regulated market or other exchange, there is no certainty that market makers will be prepared to deal in such investments and adequate information for determining the current value of such investments may be unavailable.

Where a Designated Investment has a liquid market at the time you are looking to disinvest, disinvestment should be possible within a reasonable timeframe. Where a Designated Investment is illiquid at the time you are looking to disinvest, it may take longer to disinvest successfully.

Disinvestment may be at cost to you, for example where you 'out of the money' with respect to the market value of your investment. The overall value of the product will impact the level of return you will receive in the event of an early disinvestment. Exit costs may also be levied, such as early exit fees or broker fees. The more illiquid an investment, the harder it may be to exit and therefore the more likely that the overall cost of exit will be higher.

2. Insolvency and resolution

In the event of HSBC's insolvency or default, or that of any other brokers involved with your transaction, positions may be liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash. On request, HSBC will provide an explanation of whether, and the extent to which it will accept liability for any insolvency of, or default by, other firms involved with your transactions.

The BRRD (Bank Recovery and Resolution Directive) covers failing European financial institutions and can involve the cancellation of the liabilities of the failing entity. When you are a counterparty to or exposed to the issuer of a Designated Investment in which you have invested and that counterparty or issuer is a financial institution subject to the BRRD, you could lose some or all of your investment or the terms associated with such financial instruments may be varied or suspended.

3. Suspensions of trading

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

4. Collateral

If you deposit collateral as security with HSBC, 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 Recognised or Designated Investment Exchange, with the rules of that exchange (and the associated clearing house) applying, or trading 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. You should ascertain from HSBC how your collateral will be dealt with.

5. Clearing house protections

On many exchanges, the performance of a transaction by HSBC (or third party with whom it is dealing on your behalf) is 'guaranteed' by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover you, the client, and may not protect you if HSBC or another party defaults on its obligations to you. On request, HSBC will explain any protection provided to you under the clearing guarantee applicable to any on-exchange derivatives in which you are dealing. There is normally no clearing house for off-exchange instruments which are not traded under the rules of a Recognised or Designated Investment Exchange.

Section B: Product specific Risks

1. Debt instruments (including bonds and commercial paper)

Debt instruments (such as bonds or commercial paper) are issued in bearer or registered form by a company or a government body 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 or often linked to reference rates (e.g. EURIBOR or LIBOR). The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

Dealing in debt instruments may involve risks including but not limited to the following:

(a) **Insolvency risk:** The issuer may become temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the debt instrument. The solvency of an issuer may change due to one or more of a range of factors including the issuing company, the issuer's economic sector and/or the political and economic status of the countries concerned. The deterioration of the issuer's solvency will influence the price of the securities that it issues.

(b) **Interest rate risk:** Uncertainty concerning interest rate movements means that purchasers of fixed-rate securities carry the risk of a fall in the prices of the securities if interest rates rise. The longer the duration of the loan and the lower the interest rate, the higher a sensitivity to a rise in the market rates of that debt instrument.

(c) **Credit risk:** The value of a debt instrument will fall in the event of a default or reduced credit rating of the issuer. Generally, the higher the relative rate of interest (that is, relative to the interest rate on a risk-free security of similar maturity and interest rate structure), the higher the perceived credit risk of the issuer.

(d) **Early redemption risk:** The issuer of a debt instrument may include a provision allowing early redemption of the bond if market interest rates fall. Such early redemption may result in a change to the expected yield.

(e) **Risks specific to bonds redeemable by drawing:** Debt instrument redeemable by drawing have a maturity that is difficult to determine, so unexpected changes in the yield on these bonds may occur.

(f) **Risks specific to certain types of bond:** Additional risks may be associated with certain types of debt instrument, for example floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, reverse convertible notes, indexed bonds, and subordinated bonds. For such instruments, you are advised to make inquiries about the risks referred to in the issuance prospectus and not to purchase such securities before being certain that all risks are fully understood. In the case of subordinated bonds, you are advised to enquire about the ranking of the debenture compared to the issuer's other debentures. Indeed, if the issuer becomes bankrupt, those debt instruments will only be redeemed after repayment of all higher ranked creditors and as such there is a risk that you will not be reimbursed. In the case of reverse convertible notes, there is a risk that you will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

2. Securities which may be subject to stabilisation

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.

The FCA allows stabilisation in order to help counter the fact that, when a new issue comes onto 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 stabilisation 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:

1. Limit the period when a stabilisation manager may stabilise a new issue;
2. Fix the price at which it may stabilise (in the case of shares and warrants but not bonds); and
3. Require it to disclose that it may stabilise but not that it 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.

3. Forward transactions

Transactions in 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 trading means that entering into such transactions 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. Forward transactions have a contingent liability, and you should be aware of the implications of this, in particular the margining requirements set out in paragraph 0 below.

4. Off-exchange derivative transactions

It may not always be apparent whether or not a particular derivative is effected on exchange or in an off-exchange (over-the-counter) derivative transaction. HSBC will obtain your prior express consent, whether in the form of a general consent or in respect of individual transactions, before entering into an off-exchange transaction on your behalf. HSBC will make it clear to you if you are entering into an off-exchange derivative transaction.

While some off-exchange markets are highly liquid, transactions in off-exchange or 'nontransferable' derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may 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. Bid and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what a fair price is.

The performance of such a derivative and therefore your rate of return on the investment will depend on the performance of those assets which the derivative references. Additionally, you will be exposed to the risk of your counterparty failing to meet its obligations under the derivative contract.

5. Foreign markets and foreign denominated securities

Investments in foreign markets will involve additional inherent risks over and above investments within your local market. In some cases the risks will be greater. On request, HSBC will provide an explanation of the relevant risks and protections (if any) which will operate in any foreign markets, including whether, and 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 and securities will be affected by fluctuations in foreign exchange rates.

Investments in Emerging Markets are exposed to additional risks, including accelerated inflation, exchange rate fluctuations, adverse repatriation laws and fiscal measures, and macroeconomic and political distress.

For any investment in a currency other that your own base currency, you should always consider the risk inherent in the product as well as translation risk, which is the risk of fluctuation in the FX markets.

6. Contingent liability transactions

A contingent liability transaction is a transaction under the terms of which you will or may be liable to make further payments (other than charges) when the transaction falls to be completed or upon the earlier closing out of your position. These payments may or may not be secured by an amount in money (or represented by securities) deposited with a counterparty or a broker as a provision against loss on transactions made on account (a **Margin**).

Contingent liability investment transactions for which a Margin is deposited (in other words, which are **margined**) require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

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 will be responsible for the resulting deficit.

If the market is performing well, Margin payments may decrease.

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.

7. Limited liability transactions

Before entering into a limited liability transaction (HSBC's understanding is that a limited liability transaction means a transaction where you and HSBC agree to limit the amount of loss liability that you can sustain in advance of such a transaction being entered into), you should obtain from HSBC, or the firm with whom you are dealing a formal written statement confirming that the extent of your loss liability on each transaction will be limited to an amount agreed by you before you enter into the transaction. The amount you can lose in limited liability transactions will be less than in other Margined transactions, which have no predetermined loss limit. Nevertheless, even though the extent of loss will be subject to the agreed limit, you may sustain the loss in a relatively short time. Your loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial.

8. Capital or principal-protected instruments

In the case of financial instruments that incorporate a guarantee or capital protection, HSBC will provide the client or a potential client with information about the scope and nature of such guarantee or capital protection. When the guarantee is provided by a third party, information about the guarantee shall include sufficient detail about the guarantor and the guarantee to enable the client or potential client to make a fair assessment of the guarantee.