

## Information on the nature and characteristics of Financial Instruments and their associated risks

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This description of financial instruments and associated risks is to provide existing and potential clients with a summary of the types of products that may be available on the market and should not be considered as a list of products proposed by CACIB.

For further information on the products offered by CACIB, please contact your CACIB representative.

### INTRODUCTION

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The document is not designed to present an exhaustive analysis of the risks associated with financial instruments offered or marketed by CACIB in accordance with its provision of investment or ancillary services. The purpose of this document is to provide clients with summarised information and a general warning about the risks associated with given financial instruments so that clients have a reasonable understanding of the general nature and risks of the financial instrument and as a consequence, are able to make informed investment decisions.

Clients should not undertake deals or transactions without having understood the nature of that deal or transaction, and the extent of his exposure to the associated risks. More generally, any proposed investment must be assessed having regard to the client's knowledge and experience as regards financial instruments, his financial situation and his investment objectives.

The risks described below can occur simultaneously and may have an unpredictable effect on the value of an investment.

All financial instruments contain a certain degree of risk and even "low-risk" investment strategies may contain an element of uncertainty. The relevant risks thus depend on diverse factors including the way the financial instrument was issued or structured.

The MiFID II directive classifies other derivative products as financial instruments, since they are not cash transactions, which are defined as contracts in which the delivery of the underlying is provided within two business days, or contracts for commercial goods.

Before the commencement of any deal or transaction CACIB expects its clients to acquaint themselves with the relevant risks.

Each investor will also receive (if required according to relevant regulations), documentation appropriate and relevant to the transaction or deal under consideration.

The risks set out in this document are defined in the clause 2 below.

This document, as it may be amended from time to time, is available on the website of CACIB [www.cacib.com](http://www.cacib.com) under the section the Markets in financial Instruments Directive II (MIFID II).

### 1. THE NATURE AND CHARACTERISTICS OF RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

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#### 1.1 Shares

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A share is a security which represents a part of the capital of its issuer. Each holder of a share is a "shareholder". A shareholder is entitled to a share of the company's profits through the payment of an annual dividend, the amount of which is in proportion to the shareholder's holding in the company. The shareholder receives a dividend only if the income of the company allows it. Dividends are not guaranteed and a company can decide not to pay a dividend or to distribute only lesser amount.

In buying shares, an investor may also hope to make a profit on the resale of those shares. However, the return on investment is not guaranteed because the price of the share depends on performances of the company, on the market's evaluation of its performance, the economic situation, relevant sector risk and for company specific risk.

An investment in shares thus carries a risk in relation to the payment of dividends but also the possibility of a loss of capital. The admission of shares for trading on a regulated market does not guarantee the liquidity of these shares (see "Liquidity risk").

## 1.2 Debt Securities and Composite Debt Securities

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### 1.2.1 Bonds

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A bond is a security that represents the debt of an issuer to an investor. When an investor buys a bond, he is lending a sum of money to the issuer of the bond which constitutes a debt that must be repaid when due in accordance with the relevant issuing documentation.

If the issuing documentation so provides, the borrower will also have to pay interest (called "coupons") to the bondholder. The rate, amount and frequency of interest payments are set out in the relevant documentation.

An issuer of bonds thus makes a commitment to repay capital plus interest. However, certain bonds known as "zero coupon bonds" do not pay interest during the life of the security. The yield is determined by the difference between the capital effectively paid on the bond issue date and that which is redeemed on maturity. In addition, some securities, in particular Euro Medium Term Notes (EMTN) issued by CACIB or companies in the Credit Agricole Group may not pay a coupon. The redemption amount of these securities (see Structured Products in section 1.4.10 below) is linked to an underlying instrument, a combination of underlying instruments or a formula.

The characteristics of particular types of bonds can vary. For example, subordinated bonds generally have very long if not indefinite terms, a restriction on the rights of investors to request early redemption and a limited ability for the issuer to request early redemption. The redemption of these securities is subordinated to the repayment of the other creditors. The ranking of a subordinated bond issue can vary, from a simple subordination to deep subordination. In this last case, there are no debts with a lower ranking.

High Yield Bonds are speculative and have a rating that is lower than the investment grade threshold i.e. Moody's rating Baa or Standard and Poor's BBB-. They carry a coupon that is relatively high to reflect the higher level of risk to investors. In the issue documentation, investor protection is through covenants that will, for example, limit or prohibit the issuer from carrying out certain types of transactions or making certain types of investment.

The principle risks encountered by bondholders are credit spread risk and interest rate risk because the price of a bond always moves inversely to the direction of interest rate changes and/or credit spreads. Bondholders are also subjected to risk of default of the issuer and liquidity risk.

### 1.2.2 Composite Bonds

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Composite bonds allow an investor to have access to other financial instruments, in particular, to shares through an initial investment in a bond. The three types of bonds that give access to equity that are most frequently issued are those described below. It is also possible to invest in a combination of these three types of bonds

#### (i) Convertible Bonds

*These bonds can be converted at the request of the bondholders. The maturity and conversion dates are set out in the relevant issuing documentation. The documentation which sets out the characteristics of the securities determines the parity of conversion and can provide for the possibility that the issuer may request early redemption in cash. Bondholder protections are also detailed in the documentation. On conversion of the bonds into equity, a bondholder will become a shareholder and loses his status as bondholder. If bondholders do not convert their bonds into shares, they will retain their status as a creditor of the issuer.*

#### (ii) Exchangeable Bonds

*These bonds can be exchanged by bondholders for existing shares of a third company. The issuers of these securities are companies which hold shares in other companies.*

#### (iii) Bonds Redeemable into Shares

*These bonds are only redeemed for shares at the issuer's option. The bondholder is thus exposed to the same risks that apply to shares.*

The risks inherent in all the above mentioned instruments are related to their composite nature. As long as an investor holds these composite bonds, they are exposed to risks inherent in bonds and to unfavourable movements in the value of the underlying shares and/or to volatility. When bonds are converted, exchanged or redeemed, investors are exposed to the same risks as those that are associated with shares set out in point 1.1 above.

### 1.2.3 Money-Market Instruments

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Money-market instruments or negotiable debt instruments are short term debt securities, having a term that is less than one year, have a value that can be determined at any time and are not considered to be derivatives.

They allow the investor to receive an interest rate and may take the form of certificates of deposit issued by banks, commercial paper issued by corporations or treasury bills issued by government.

Unlike bonds, these instruments are traded on the domestic money markets (organized by local Central Banks) or on the international market. Typically these investments are considered to be lower risk as they are backed by the issuing bank, corporation or government however, as with other debt securities, the holders of these instruments are exposed to most of the general risks described in the second part of this document, and particularly interest rate risk, liquidity and credit risk of the issuer.

### 1.2.4 Title Transfer Collateral Arrangements (TTCA)

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TTCA's are used to provide securities lending where parties are able to transfer the legal title to a security or basket of securities, for a limited period of time, providing collateral to the purchaser, funding to the provider and liquidity for the market.

Although these are not defined as MiFID II instruments, they require the provision on MiFID II investment services or investment activities, such as the reception or transmission of orders. They are covered in more depth under the Securities Financing Transaction Regulation (SFTR) which focuses on their disclosures, but can be viewed here as a special category of money-market instrument further to those described in 1.2.3, that can be described as:

(i) *Securities Financing Transactions (SFT)*

*Typically relate to the transfer of legal ownership of equity securities and so include voting and corporate action rights. Lenders will often include an ability to recall the ownership to retain voting privileges.*

*Retail clients are prohibited from entering into TTCA's for the purposes of securing or covering*

*prospective client obligations, be they present, future, actual or contingent obligations.*

(ii) *Repurchase Agreements (Repos)*

*Repos differ from other SFTs in that they are for general collateral and so represent a need to borrow or lend cash rather than securities. Repo products typically use bonds or other fixed income products as collateral.*

The risks match those described in 1.2.3 where holders are particularly exposed to liquidity and credit risk of the issuer

### 1.3 Units or Shares in Collective Investment Undertakings

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Collective Investment Undertakings ("CIU") are investment vehicle which receive investment funds from investors and which are managed by a professional manager in the name those investors. There are several types of CIU. Distinctions between the various types of CIU can be drawn principally in relation to their structures and their classification. Some CIUs are classified according to their management strategies. Other CIUs are said to be "coordinated". These are said to be "Collective Investment in Transferable Securities (UCITS)". UCITS have rules in place to limit risks to investors. These investment vehicles must invest in liquid assets and in accordance with diversification rules. It is relatively easy to market these investments in the Member States of the European Economic Area.

Regardless of the specific type of CIU, the fund manager invests in various financial instruments. The risks linked to the investments in a CIU thus depend on the nature of assets that make up its investment portfolio. The composition of the portfolio can vary according to the management / risk strategy chosen by the investor (dynamic, balanced or conservative) according to the investor's risk appetite. A CIU can be fully or partially capital guaranteed or protected. In this case, the main risk is the counterparty risk of the guarantor itself. It is therefore important that the investor understands the risk profile of the CIU in which he invests and that particular attention is paid to the guarantee provisions if any, in the prospectus of the CIU.

### 1.4 Derivatives

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#### 1.4.1 Overview

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Derivatives are contracts that give one person the option or right to obtain from another person over the course of the investment period or on maturity of the derivative itself, an asset the price of which is subject to fluctuation, or interest rate, for a price or obligations determined at the

conclusion of the contract. The parties can negotiate on market or by mutual agreement (OTC).

These instruments are referred to as "derivatives" because they represent rights and financial commitments the value of which varies or is derived from underlying assets or liabilities.

There are various types of derivatives differentiated by the nature of the underlying instrument (shares, bonds, money-market instruments, interest rates or exchange rates, stock exchange indices or commodities etc).

There are very many combinations of products in which it is possible to invest and therefore derivatives are characterized by very diverse risk profiles. Some are characterised by limited risk and unlimited potential upside for one party while the other party takes an inverse position because it exposes itself to potentially unlimited losses and potentially limited gains.

In the same way, the mode of settlement of a product may have a significant impact on the types of risks associated with that product. Whilst derivatives that are settled by a cash payment are mainly subject to counterparty risk and market risks, those that are physically settled with the delivery of the underlying instrument are subject to the same risks and directly to risks linked to the relevant underlying instrument after its delivery.

Besides the structure of the relevant product, such of the risk associated with derivatives contracts results from the fact that these contracts are leveraged. This means that it is necessary only to pay a part (by paying a premium or a deposit) of the total exposure to market risk to open and maintain a position. The actual exposure to market risk with derivatives contracts can be an amount that is several times the premium or deposit paid.

For derivatives, market risk encompasses the exposure to changes in the value of market parameters such as interest rates, exchange rates, share prices, index movement or commodities prices, but also exposure to variations in the price of the underlying instrument or to other factors such as the implied volatility or the time value.

Given the wide range of risk profiles as regards derivatives, it is important to understand the specific risk/yield of any strategy in relation with the relevant product.

#### **1.4.2 Option Contracts**

The buyer of an option acquires the right, but not the obligation, to buy (call) or to sell (put) to the seller a given quantity of an underlying

instrument at a price determined beforehand (the strike price), or to receive an amount of monies equal to the difference between the strike price and the current price of the underlying instrument, on a definite date (a "European Option") or at anytime until the maturity date (an "American Option").

The price paid for this right is called the premium. The seller of an option makes a commitment to the buyer to sell (call) or to buy (put) the underlying instrument or to receive an amount equal to the difference in the price of the underlying instrument( see notably 1.4.5.), at the strike price, whatever is the current price of the underlying instrument. Market risk will be limited for the buyer of an option to the amount of the premium (revalued as the case may be) and it will be considerably higher for a seller. The buyer takes counterparty risk on the counterparty with which it has negotiated the option.

##### *(i) Equity Warrants (Equity Options)*

*A warrant is a listed security which gives a buyer the Right, not the obligation, to buy (call) or to sell (put) an underlying instrument, at a price determined initially by the parties, called the "strike price", on a definite date, the "maturity date" (Please note that CACIB warrants are "European Options") for the payment of a premium.*

*The underlying instrument can be a share or a stock exchange index. The bearer does not receive the underlying instrument. The bearer may receive a redemption price in cash which corresponds to an amount equal to the difference between (i) the price of the underlying instrument and the strike price divided by its parity (call), or (ii) the strike price and the price of the underlying instrument divided by its parity (put).*

*Over the term of the investment, the price of the call or the put varies according to different variables, in particular the price of the underlying instrument, the implied volatility or the risk less interest rate. The passing of time works to the disadvantage of the bearer. For a call, the strike price is the price at which the investor can buy the underlying instrument. For a put it is the price at which the investor can sell the underlying instrument. The buyer of warrants has a buy or sells option that offers the opportunity to realize potentially high gains, while losses are limited to the invested premium. The interest in warrants lies in this "asymmetrical" earnings profile. It is impossible to short sell a warrant.*

*The price of warrants evolves according to variations in the following elements: the relationship between the price of the underlying instrument and the strike price, the maturity date, the level of the interest rate, the dividend yield and the implicit volatility level.*

*Warrants are products intended for clients who are experienced investors. For more information on warrants offered by Crédit Agricole CIB, please consult your CACIB contact (see the Warning section at the end of this document).*

### 1.4.3 Futures Contracts

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A party to a futures contract makes a commitment to receive or to deliver when due, a definite quantity of an underlying instrument, at a price determined at the time the contract is agreed. They can be used to hedge or speculate on volatility in an underlying assets price like an option, but they differ in that options contracts provide the holder the right to option, where futures contracts give the holder an obligation to fulfill the contract.

A party to a futures contract can receive a payment if the value of the underlying instrument increases, while the other party can receive a payment in case of decrease in the value of the underlying instrument between two dates.

Futures are standardized instruments traded on a stock exchange (regulated or organised markets). They are contracts standardized as regards the quantity of the underlying instrument and the due dates for delivery or payment. Futures on commodities or physical goods can be generally distinguished from purely financial futures where the underlying instrument is a financial instrument.

### 1.4.4 Forwards

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Forwards are similar to futures contracts but differ in that they are traded by mutual agreement (OTC) and their terms may be either standardized, or agreed between the buyer and the seller.

In a forward sale, underlying instruments must be delivered at the price at the time the contract is agreed, even if the price of the underlying instrument has risen above this agreed price in the meantime. The risk of loss thus lies in the difference between these two values. In theory as prices can have an unlimited upside, the exposure to potential loss is also potentially unlimited.

In a forward purchase, the delivery of underlying instruments must be at the agreed price at the time the contract is agreed, even if the price of

the underlying instrument has fallen below the agreed price in the meantime. The risk of loss thus lies in the difference between these two values. At most it is possible to lose the amount corresponding to the agreed initial price.

A future rate agreement ("FRA") is a fixed income product particularly used to exchange a difference in interest rates in the same currency at a predetermined date. There is no exchange of any nominal amount, either at the beginning or at the end of the transaction. For example, a FRA allows an interest rate to be locked in. Used as a speculative product (in case the transaction does not provide for any financial instruments to be hedged), this product allows an investor to speculate on the increase (purchase of FRA) or the decrease (sale of FRA) of the reference floating rate. The principal risk in relation to FRAs is linked to their sensitivity to interest rate movement.

### 1.4.5 Swaps

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At its most general, a swap is a contract by which the parties to it exchange interest flows or currencies.

Swaps can be distinguished according to their subject matter, the two main types of swap being the currency swap (or the exchange swap) and the interest rate swap.

The first one is a double transaction on currencies by which one party sells to another party at the spot price, an amount of currency and as a counterpart buys an amount in another currency, and agrees to buy it back at maturity at an agreed price which corresponds to the spot price increased or reduced by the difference in the interest rate between two investments having equivalent term as of the swap in each of the relevant currencies.

The main risk linked to this type of swap is thus interest rate risk on both exchange rates, foreign exchange risk only on the implicit interests, liquidity risk and counterparty risk.

The second type is a contract by which the parties "exchange" interest rates, that is, make a commitment to pay, on an agreed frequency, amounts corresponding to the application to a given nominal amount of different interest rates. The main risk linked to this type of swap is interest rate risk and counterparty risk. There are also swaps which allow the exchange of the performance of an underlying instrument (see 1.4.8 below).

### 1.4.6 Contracts for Difference

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Contracts for Difference are transactions in relation to shares where it is not necessary to hold the shares themselves. The contracts are

short-termed, agreed by the parties, and reflect the performance of a particular share or index. As with shares, the possibilities of profits and losses are determined by the difference between the purchase price and the selling price of the financial instrument.

#### 1.4.7 Indexed certificates (Capped & Floored certificates)

These are financial instruments issued for a fixed term that allow a synthetic investment in an index, share, basket of shares or any other underlying instrument the terms of repayment of which are defined by the issuer at the issue date. At maturity, the indexed certificates are redeemed according to the actual price of the underlying instrument.

At maturity of the Capped Certificates, the yield is maximised if the underlying instrument is above the high threshold. If the underlying instrument is below the low threshold, there is no repayment, the total investment is lost.

At maturity of the Floored Certificates, the yield is maximised if the underlying instrument is below the low threshold. If the underlying instrument is above the high threshold, there is no repayment, the total investment is lost.

When purchased and over the term of a Capped Certificate, the higher the thresholds in relation to the price of the underlying instrument, the greater the risk. Conversely, for a Floored Certificate, the lower the thresholds in relation with regard to the price of the underlying instrument, the greater the risk.

Capped and Floored Certificates are products intended for customers who are experienced investors.

#### 1.4.8 Credit Derivatives

Credit Derivatives are generally products off-balance sheet which are negotiated by mutual agreement (OTC). Their objective is to transfer the credit component of risks of an underlying instrument. These transactions generally put two counterparties together, one acting as "seller" of credit risk (or buyer of protection) and the other as "buyer" of this risk (or seller of protection). Although certain debt securities secured by a portfolio of receivables or loans also allow a transfer of credit risk, there are essentially three categories of Credit Derivatives which can qualify as derivatives:

##### (i) Credit Default Swaps or CDS

*In this type of product, the buyer of protection wishes to protect himself against the events that affect the credit of the debtor of the underlying assets held (called «credit event», a wide notion*

*that may encompass upon agreement of the parties, in particular the « bankruptcy», the non-payment or the degradation of the rating of the debtor). Thus, the buyer of protection makes a commitment to pay, according to a set frequency and until the debt matures (or until there is a credit event), a fixed premium.*

*This is in consideration of the commitment by the seller of protection to pay, on a credit event, a flow equal to the loss in connection with the underlying assets and corresponding to the difference between its par value and its market value or of the commitment by the seller to repurchase the underlying asset at par value.*

##### (ii) Credit Spread Derivatives or CSD:

*This product guarantees a buyer the future spread between the yield of the underlying instrument and the yield of a benchmark instrument. The buyer of protection pays a premium to the seller. Generally, the buyer is looking to protect himself against the degradation of an underlying instrument, by taking as a reference another asset (for example, a government bond) or an index.*

*There are two variants of this product: (i) the first is the credit spread forward: at maturity, the difference between the spread and the guaranteed amount is calculated and settled either by the buyer or by the seller depending on whether this difference is positive or negative; (ii) the second is a credit spread option: the buyer of protection receives the difference mentioned above if he exercises the option and receives no flow at maturity if he decides not to exercise the option.*

##### (iii) Total Return Swaps or TRS

*This product allows an investor to hedge the performance of an asset bought from a counterparty, by setting up a contract that exchanges the performance of an asset with a variable reference rate such as Euribor (European Interbank Offered Rate). The buyer of protection can transfer its entire credit risk and the market risk generated by the underlying assets to the seller of protection. The seller pays the buyer an amount that corresponds in our example, to Euribor, plus or minus a margin determined by the parties.*

*The payment of flows can occur either at maturity (which is necessarily before the maturity of the underlying asset) or periodically according to the terms of the initial agreement. In that case, the buyer pays the proceeds from the assets adjusted by any variation corresponding to the revaluation of the asset (either positive or negative as appropriate). The seller makes a periodic payment that corresponds to Euribor plus or minus the agreed margin*

### 1.4.9 Other derivatives

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MiFID II categorises for other derivatives to be as a financial instrument provided they are not spot trades and not for commercial purposes. Further to this it must be either traded on a third country trading venue, which is still to be defined but must be subject to the rules of a regulated market or is equivalent to a product traded on a trading venue.

If it is standardised so the price, terms or delivery date can be determined by published materials then it could also qualify as an other derivative contract.

#### 1.4.10 Structured products

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A structured product is a financial instrument that takes the form of a security or a contract which is adapted to the specific needs of a client. These products are usually identifiable by one or more of the following characteristics: (i) performance determined according to an underlying instrument, to a combination of underlying instruments (interest rate, equities, indices etc) or by a formula, (ii) a leveraged effect, (iii) other characteristics agreed between the parties such as redemption provisions or the existence of a guarantee, (iv) a product that does not allow a preliminary request for quote from various financial institutions, or (v) a non-existent secondary market or a secondary market which is not liquid.

Examples of structured products could include Asset Backed Securities (ABS) or Asset Backed Commercial Paper (ABCP) which allow investors an alternative to trading in bonds; instead a client trades an asset backed by a financial security other than a mortgage.

Each structured product contains its own risk profile. Because of the large number of possible combinations, the risks inherent in every product cannot be described here in detail. Before entering into transactions for structured products, a customer should make detailed and specific enquires.

#### 1.4.11 Emissions allowances

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The European Commission in 2003 established a scheme for trading greenhouse gas emissions allowances. The emissions allowances are defined as the right to emit one tonne of carbon dioxide equivalent during a specific period. This scheme has since been restricted to the trading of carbon emissions.

As the privilege is transferable a market has been established to trade the allowances and MiFID II further ratifies this by defining emissions

allowances as a financial instrument under MiFID II.

## 2.0 Other

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### 2.0 Euro Medium Term Notes (EMTN)

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Vanilla EMTNs are flexible debt instruments, issued to the market with maturities of less than 5 years and are considered to be bonds with the risks detailed in section 1.2 of this document.

However, where EMTNs are structured with non-standard terms they should then be considered to be a more complex instrument and categorised as a securitised derivative.

The obligation falls on the trading venue to categorise the product but clients should be aware that two distinct products categorised as EMTNs could have significantly different risk profiles.

### 2.2 Stock lending and borrowing (SLB)

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Stock lending and borrowing allows a party to either borrow shares they don't already own or lend stocks that they don't yet own for a period of up to 12 months. Like a swap, the Financial Instrument generates an interest rate for the parties but this is based on the market value of the underlying stocks.

In buying or selling an SLB the investor will hope to make a profit on the performance of the stock, often lending when intending to short sell a product that the investor believes will fall in value. The return is not guaranteed however and investors will be subject to performance risk of the stock in addition to liquidity risk. In addition, lenders of stocks will have the right to recall the shares during the tenure of the SLB.

### 2.3 Energy Derivatives

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Energy derivatives are products that provide exposure to underlying energy product asset which could be oil, gas, coal or electricity. The derivatives can take the form of swaps, options, futures or forwards or other derivative contracts, they can be settled via cash or physically and traded OTC or via a trading venue. However, if the contract is required to maintain the balance or supply of energy at a given time or is entered into with an administrator of an energy network then it would be categorised as for commercial purposes.

The risk will reflect the type of derivative purchased, the trading venue and the associated underlying asset and if the trade is for commercial purposes.

### 3.0 General Risks

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As well as the specific risks related to particular types of financial instruments set out in section one, there are certain risks that apply to any type of financial instrument.

The types of risks described below can thus impact every type of investment.

#### 3.1 Market risk

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Market risk covers exposures in the change of the value of a market indicator such as interest rates, exchange rates, credit spreads, share prices, index prices commodities prices or variation in volatility.

Market risk does not cover exposures to (i) credit events linked to market transaction counterparties, or (ii) settlement/ delivery risks, and legal or operational risks. The different types of market risk are as follows:

##### (i) Interest rate risk

Interest rate risk is the risk linked to an unfavourable fluctuation of interest rates. Interest rate risk also includes the cost of carry. The cost of carry is positive or negative if the financing cost of the asset is respectively lower or higher than the received interest. Thus, the cost of carry for a floating rate loan can increase with a rise in rates.

Fluctuations in interest rates can expose the holder of financial instruments to the risk of capital loss, the importance of this risk differs according to the type of financial instrument.

##### (ii) Foreign exchange risk

Foreign exchange risk exists when an underlying asset is valued or indexed in a currency other than the currency of the investor. A decrease or an increase of exchange rates can cause, as the case may be, a fall or a rise in the value of the financial instrument, where the financial instrument is denominated in foreign currency. If the underlying asset is indexed to a benchmark/reference rate denominated in a specific currency and valued in another currency that is not the initial currency, it is described as quanto risk.

##### (iii) Spread risk

Spread risk measures the loss associated with an unfavourable changes in the probability of implicit failure (estimated by the market) of a debtor, measured (if appropriate) by the rating of the issuer.

##### (iv) Leverage risk

Leverage Risk is characterized by an exposure to a market risk based on a notional amount that is

higher than the invested capital (examples: option premiums or futures contracts).

##### (v) Risk of depreciation over time

The risk of depreciation over time is the risk of seeing an underlying instrument depreciating over time in unchanged market conditions (examples: time value of an option or negative cost of carry).

##### (vi) Correlation risk

Correlation is an indication that measures the degree according to which the variations in two variables are linked. Correlation risk intervenes mainly in quantos (see Foreign exchange risk above) and in options on spreads, options on curve etc.

##### (vii) Option risk

When the asset has a component which is an option, the value of the asset may be affected by variations of some particular factors:

- Volatility: a measure of the variability of the price of the underlying asset of the option.
- Time value: the value of the option excluding its intrinsic value. This includes the cost of carry and the probability that the option can be exercised.
- Intrinsic value: the amount by which an option is in the money, that is, its relative value with regard to the forward price inferred by the market at the time of the revaluation.
- The "without risk" rate: the rate of an investment without risk.

In case of "exotic" options, in some circumstances the risk can result from the functions of the underlying asset as much as from conditions in relation to its evolution (corridors, options with average, barrier options etc).

##### (viii) Basic risk

The basic risk is the risk that the cost of a hedge product does not move in line with that of the asset to be protected (example: a future contract with regard to its underlying asset).

##### (ix) Risk of early redemption

This risk is similar to the risk of reinvestment in the case of a bond or a swap that can be terminated prior to maturity which is the risk that an investor cannot find the same investment conditions in the market if an existing investment is cancelled.

##### (x) Risk of relative performance

The risk that an asset does not match the performances of the benchmark index.

##### (xi) Specific risk

The risk of variation in the price of an asset due to factors specific to that asset contrary to the general risk of market which reflects a general movement of rates or the equity market.

### 3.2 Market risk

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Liquidity risk is the risk that an asset cannot be bought or sold quickly. The liquidity of a market depends on how it is organised (stock exchange or over-the-counter) but also of the relevant underlying instruments. Indeed, it can be easy to buy or to sell a common product, but more difficult in the case of a very specialized product. If a market is not liquid, it may not be possible to find a buyer or a seller at the required time. The liquidity of a financial instrument can change over time.

### 3.3 Volatility risk

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This is the risk linked to the movements of specific prices in a security. Volatility is high if the security is subject to wide movements over a relative time period (ie daily for some types of instrument and longer for others). The risk of volatility is calculated on the basis of the average difference between the lowest prices and the highest prices of 3 financial instruments over a given period.

### 3.4 Counterparty risk

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Counterparty risk is the risk that a debtor does not pay his debt in time. It takes into three factors: the amount of the debt, the probability of default and the proportion of the debt which should be recovered in case of default. This is to measure the loss in connection with the probability of failure of a debtor. For example, an investor must consider the quality of the issuer of securities, which is the issuer's capacity to repay or redeem (as appropriate). In respect of OTC derivatives, transactions which do not involve debt, at any given time counterparty risk corresponds to the replacement value of the relevant derivative instrument if this value is positive.

### 3.5 Valuation risk

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Valuation Risk is linked to the unfavourable change in the estimated variables that are used to the valuation of an investment, which is volatility, interest rate and/or as the case may be the estimated dividend yield.

### 3.6 Risk of place of execution

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This risk is linked to the location of the market of the underlying asset. Where the market is not the same as the "home" market of the investor, the investor may also be subject to foreign exchange risk.

#### (i) Overseas markets:

Any foreign investment or investment that contains a foreign element can be subject to the risks of the relevant overseas market. These risks could be different to those of the market

where the financial instrument is issued or the investor is located.

#### (ii) Emerging markets

Investments on emerging markets involve risks not always encountered on traditional markets. This risk also exists where the issuer or the sponsor of a product has his head office in an emerging country or carries out the main part of his business there. Investments on these markets may often have a speculative character. Investments in emerging markets should be considered carefully and include an assessment of the various risks inherent in the relevant market.

### 3.7 Operational risk

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Operational risk is the risk of loss resulting from inadequate or failing internal processes, employees, or systems, or external events. This risk covers human error, the fraud and malicious behaviours, failures of information systems, problems linked to the staff management, commercial disputes, as well as external events such as accidents, fires, floods etc.

### 3.8 Settlement risk

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Settlement risk is the risk that transactions in a financial instrument are not settled on the agreed delivery date. The risk is thus equal to the difference between the price of the asset at the theoretical delivery date and the price of the asset at the actual delivery date. It is about the difference between the settlement price agreed for the financial instrument and its current market value at the actual time of settlement, when this difference could result in a loss.

Capital markets have different procedures for settlement and delivery and, on certain markets, settlement procedures may be affected by the volume of the transactions thereby compromising their execution. Inability to settle because of these types of problems could prevent an investor from taking advantage of other investment opportunities. An inability to sell securities because of settlement problems could either expose an investor to losses due to later variations in the value of the securities, or, if an investor entered into a contract to sell those securities, that investor might be liable for failure to complete the subsequent transaction with the buyer.

### 3.9 Custody risk

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Investments on certain markets, notably on emerging markets, for which rules and regulations relating to custody systems may be less developed in terms of investor protection in comparison to those markets that have strict custody rules. Assets on such markets entrusted to sub-custodians, where a sub-custodian is

required, can be exposed to risks linked to the failure of the sub-custodian to properly discharge his or her duties or to its bankruptcy. This risk is exacerbated if the relevant market does not have a system of compensation for investors or, when such a system exists, an investor is not eligible for the protection offered by this system.

### 3.10 Political or legal risk

The risk that a government (or any other relevant authority) imposes new taxes, regulatory or legal obligations or limitations on securities which an investor has already acquired. For example, a country's government can decide to prohibit the repatriation of assets in custody from this country.

### 3.11 Other risks

#### (i) Performance assessment of a financial instrument

Where the performance of a financial instrument is disclosed to investors, this disclosure is of performance as at the date of disclosure. Past performances are not indicative of future performances.

#### (ii) Change of terms of financial instruments

In certain cases, a general meeting of securities holders can modify the terms of securities.

#### (iii) Rating

Financial instruments can be rated by one or several rating agencies. The rating of financial instruments does not necessarily reflect all the risks attached to those financial instruments or the impact that those risks (including those described above) could have on the value of the financial instrument. A rating is not a recommendation for the purchase, sale or holding of financial instruments and can, at any time, be suspended, modified or be the withdrawn by any rating agency.

#### (iv) Gross up

As a general rule, financial instruments do not benefit from a clause which requires the payment of the withholding tax by the debtor where withholding tax might be due on revenues paid to non-residents ("Gross-Up" clause). In the absence of such a clause, potential investors take the risk that their investments may attract withholding tax and that they may be liable to pay that withholding tax.

#### (v) Force majeure

Separate to the risks set out above, force majeure is the risk linked to natural or industrial disasters, or to decisions taken by regulatory authorities or market operators, for example in relation to the suspension of the listing of a financial instrument. None of the issuer, the market or Crédit Agricole CIB are responsible for

force majeure events, but these events, if they are of importance, can affect the capacity of the issuer to meet its commitments or the market to operate.

### WARNING

Potential investors must consult their own advisers in particular in relation to the legal, tax and ancillary aspects of any investment in a financial instrument. Each potential investor must be able to determine, on the basis of an independent assessment and with the assistance of appropriate advisers that the potential investor considers necessary useful under the circumstances, that the acquisition of a financial instrument (i) corresponds to its needs and its financial objectives, (ii) complies with any relevant applicable regulation or restriction on investment and (iii) an appropriate investment, whatever the risks in connection with the acquisition and the holding of financial instruments.

Some potential investors are subjected to a strict regulation as regards investments. These investors will have to consult their legal advisers to determine if relevant laws and deregulations authorise them to invest in financial instruments or markets, if the investment in these instruments is compatible with their other investments and consistent with their risk profile and investment strategy and if any other restrictions in relation to the acquisition (and/or subsequent divestment) of financial instruments are applicable to them.

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