

GENERAL DESCRIPTION OF THE NATURE AND RISKS RELATED TO FINANCIAL INSTRUMENTS

Introduction

This document is not intended to present in an exhaustive manner the risks associated with the financial instruments proposed by the Exane Group when providing investment services or ancillary services.

The purpose of this document is to provide a general overview of the risks associated to those financial instruments so that clients are reasonably able to understand their nature and associated risks and, consequently, make informed investment decisions.

This document is intended for Professional Clients and Eligible Counterparties, as defined in directive 2014/65/UE, known as “MiFID2”.

It is to be used for informational purposes only and cannot be considered to be a contractual commitment on Exane’s part.

Risk typology

The risk described here below may occur simultaneously and/or cumulatively and have unpredictable effects on the investment value.

- Counterparty or credit risk

Counterparty risk, or credit risk, is the risk that the borrowing issuer will not be able to meet its financial commitments. The weaker the financial and economic situation of a financial instrument issuer, the greater the risk for the investor to not be repaid or to be repaid only partially.

- Liquidity risk

Liquidity risk is the risk of not being able to buy or sell an asset quickly. The liquidity of a market depends in particular on its organization (trading venue or over-the-counter market), but also on the particular instrument, knowing that the liquidity of a financial instrument can evolve over time and is directly linked to supply and demand.

- Currency risk

A currency risk exists when the financial instrument is valued in a foreign currency. It reflects the fact that a fall or rise in exchange rates may lead, depending on the case, to a fall or rise in the price of financial instruments denominated in foreign currencies.

- Interest rate risk

Interest rate risk is linked to an unfavorable move in interest rates and the fact that the relative value of a financial instrument, particularly a bond, falls due to an increase in interest rates.

- Leverage effect risk

Leverage effect risk arises when exposed to a market risk on a nominal notional higher than the invested capital (examples: option premiums or futures contracts) which may imply a profit or a loss exceeding the initial investment.

- Volatility risk

Volatility risk is the risk associated with the price movements, either realised or anticipated, specific to an investment or a market. High volatility means a wide range of fluctuation in the price of the financial instrument during a given period.

- Risk of capital loss

A capital loss occurs when the capital initially invested is not fully repaid, in particular when the financial instrument does not benefit from any guarantee or protection, or from a partial guarantee of the capital.

- Underlying valuation risk

The valuation risk of an underlying asset is the risk of obtaining a transfer price significantly different from the reference valuation, given the particular nature of the underlying asset.

Financial instruments and associated risks

Risks related to Equity

- ➔ A share is a title of ownership which represents a part of the capital of the company which issued it. Holders of equity securities are typically entitled to regular payments (as equity securities often pay out dividends), and hold the right to vote at the shareholders' meeting. The shares may be listed on the stock market. It is a high risk investment as it can considerably vary upwards or downwards.

The risk incurred by purchasing equity relates mainly to a decline in the share price. This risk breaks down into two components, a global component involving a decline in the equity markets (general risk), and a component specific to the company and based on its particular business activity; the maximum risk is the loss of the entire investment in the event of bankruptcy.

The risk of a sudden drop in the share price, particularly in the context of a highly volatile market, is even higher for Mid-Cap shares, generally due to a weak market depth (liquidity risk).

Risks related to ETFs

- ➔ Exchange Traded Funds (ETFs) aim to replicate the performance of a predetermined index. They take the form of an index fund that is generally listed on a continuous basis.

The main risk relates to index value changes. If the index value falls, the investment falls in the same proportion with a risk of partial or total loss of the invested capital.

The liquidity of an ETF is guaranteed by market makers; its indicative net asset value is calculated and disseminated through trading platforms. ETFs may give a right to dividends. It should be noted that some ETFs may use derivative products that offer the performance of the index they follow through swap agreements that may give rise to counterparty risk.

Some ETFs carry a leverage effect, the exposure to the underlying is then amplified in order to maximize gains in a favorable scenario, with the risk for the investor to amplify losses in case of an adverse scenario.

Risks related to Bonds

- ➔ A bond is a portion of a loan issued by an issuer (a company, a public sector entity or a government). An investor in bonds becomes a lender and therefore a creditor of the issuer. In return for this loan, an investor generally receives an interest rate paid periodically (the coupon) which may be fixed or variable. The capital (nominal amount) is in principle repaid at maturity. Any resale of a bond before its maturity may result in a gain or a loss.

This type of product is sensitive to variations in interest rates and credit spread. The credit spread compensates the investor in relation to the risk-free rate depending on the issuer's financial soundness and on the market's perception of its ability to honour its debt over time. This spread generally evolves in close correlation with the credit rating that may have been assigned to the issuer by a rating agency. As is the case with equity, the change in this spread can be explained by a general variation in market spreads (general deterioration in the economic climate) or by an issuer-specific risk. Should the issuer default, the investor could lose all of its investment even though a bond is generally considered as carrying less risk than equity.

Risks related to Convertible Bonds

- A convertible bond is a hybrid product. It is a debt instrument issued by a company giving the holder the right to convert this debt into equities under specific conditions defined in the issue prospectus.

This hybrid asset is exposed to the above-mentioned risk factors for Equity and Bond-type products: interest rate risk, spread risk and risk of a decline in the price of the share underlying the conversion right. The optional nature of this right presents an additional risk factor for this product: volatility risk. The valuation of the conversion right depends on the market's estimate of the future change in the price of the underlying instrument. The main risk of an investment in convertible bonds is also the risk of the issuer's default, in which case almost all of the investment could be lost.

Risks related to Futures / Forwards

- A Future is a contract through which a buyer and a seller agree to exchange a reference asset at a future date and at a price determined when the contract is entered into. This contract can entail either the physical delivery of the reference asset or a cash payment matching the difference between the contract value at the negotiation date and the value of the contract at maturity.

The value of this contract and thus the risks related to owning it depend on the performance of the reference asset. Futures contracts can relate to stock market indices, interest rates, commodities or spread indices.

Therefore, depending on the nature of the underlying instrument, the holder is exposed to interest rate, spread, equity market, commodity market or issuer spread risks. Finally, leverage effect is high on these instruments as the initial investment is often low compared to the nominal value of the contract. Only the future changes in the contract value are subject to margin calls between the parties.

Futures contracts are standardised instruments regarding the quantity of underlying instruments and expiry dates; they are traded on trading venues.

Forwards contracts are traded over-the-counter. Their specifications are either standardised or agreed between the buyer and the seller.

Risks related to Options

- Option contracts enable their holders to buy (Call option) or sell (Put option) a reference asset at a price and a date determined when the contract is entered into.

The market risks relating to the holding of these products are similar in nature to those of the reference asset (mainly price risk on the underlying asset, rate risk, and volatility risk). The risks borne by the option buyer and the seller are not symmetrical ; buyers have the right to exercise (or not) their options (their loss is limited to the initial premium) whereas the seller must buy or sell at the price set at the conclusion of the contract in the event that it has been exercised. When options are traded on an organised market, these products have no counterparty risk. However, if they are traded over the counter, the buyer of the option bears counterparty risk on the seller should the latter not honour his commitment if the option is exercised.

The price of options changes according to the variation of the following elements: ratio between the level of the underlying and the strike price, maturity date, interest rate level, dividend and volatility level.

Risks associated to Warrants

- A warrant is a listed instrument issued by a credit institution or an investment firm, which entitles, but does not bind, the buyer to buy (call) or sell (put) an underlying at a fixed price called “strike price” and at a specific date, called “expiry date”, against the payment of a premium. The underlying instrument may be, but is not limited to, a stock or a stock index. Warrants are financial securities whereas options are contracts.

The price of warrants changes according to the variation of several elements and in particular the ratio between the underlying price and the strike price, the maturity date, the interest rate level, the dividend and the volatility level.

Risks related to structured products

- A structured product is a financial instrument that is built as a security or a contract and is tailored to the specific needs of a client. A structured product is the combination of several components indexed to a risk-bearing asset (e.g. a stock, fund, or index), often in the form of an option, which determines the ultimate profitability of the structure, and a rate component (to ensure a given level of protection or yield). Structured products are for example available in the form of Certificates.
- Certificates are securities representing a debt claim on the issuer, like bonds. These securities are issued on a continuous basis as part of a broad issuance program that defines the common characteristics of each sub-issue. Yet each sub-issue carries its own specifications in terms of amount, duration, redemption method, coupon payments, currencies and underlying instruments (shares, indices, baskets, etc.) and which are described in the issuance programs.

Structured products may offer guaranteed or non-guaranteed capital, or conditional or partial guarantee, carry or not barriers or have different maturities and a wide range of underlying assets.

More broadly, structured products aim at:

- i) optimising the indexing to the underlying asset, through a progressive investing or disinvesting
- ii) generating yield through offering coupons higher than those of the market, or
- iii) improving diversification, either by overweighting certain assets or by playing different asset classes.

EXANE distinguishes between:

- flow (or tactical) products, which are used to optimise stock selection; and
- strategic allocation products, which are used as part of a portfolio management strategy. These products are mainly traded over-the-counter and are presented in marketing brochures which describe their characteristics in terms of risk and investment protection.

With the exception of capital-guaranteed products, the losses at maturity of the product may theoretically represent the entire investment in the event of an adverse change in the reference variables.

The main risk arises in the event of an early exit of the product and when the net asset value is lower than the investment date value.

The investor is also exposed to the default risk of the product issuer. The investor can lose all or part of the invested capital in case of default of the issuer.

Glossary of the Autorité des Marchés Financiers: <http://www.amf-france.org/En-plus/Lexique>