

## RISK DISCLOSURE STATEMENT

### 1. Introduction

- 1.1 This Risk Disclosure Statement is provided to you in accordance with regulation 47DA(1) of the Securities and Futures (Licensing and Conduct of Business) Regulations (Rg 10).
- 1.2 This Risk Disclosure Statement does not disclose all the risks and other significant aspects of the various types of transactions that you enter into under the Investment Account Terms and Conditions of HSBC Bank (Singapore) Limited ("**we**"). Before entering into any transaction, you should therefore be satisfied that you fully understand the precise nature of the transaction, how it works, the extent of your exposure to risks and the potential losses that you could incur. You should also read the relevant product specific terms. This Risk Disclosure Statement also does not deal with issues of taxation or other legal consequences pertaining to any transactions which you enter into.
- 1.3 You should carefully consider whether any proposed transaction is suitable for you in the light of your financial resources, experience, objectives for engaging in the transaction, ability to bear risks and other relevant circumstances. You should consult such professional advisers (including legal, tax, financial and accounting) as may be appropriate. You agree that you assume all the risk of your transactions and that we will not be responsible for any losses you may suffer.

### 2. General Investment Risks

Various risks are associated with investing and trading in capital markets products, including equities, bonds, options, structured products, investment funds, and wealth insurance products with an investment feature. These include but are not limited to the following:

#### 2.1 General and *securities risk*

##### 2.1.1 *Margin financing*

Trading by way of margin financing in any investment arrangement involves the risk that adverse market movements may give rise to losses substantially in excess of the sums deposited by way of margin and the placing of such a margin as security in no way limits your liability in the event of such losses being sustained. You will be liable without limit for all such losses. The use of leverage can therefore lead to large and unlimited losses as well as gains.

##### 2.1.2 *Loss of margin and other amounts*

In the event that at our discretion you trade on a margin basis, you may sustain a total loss of the initial margin funds and any additional funds and assets that you deposit with us to establish or maintain a position in the relative market. If the market moves against your position, you may be called upon by us to deposit substantial amount of additional margin funds, on short notice, in order to maintain your position. If you do not provide the required additional funds or fail to make interest payments within the prescribed time or if the market moves against you further before the receipt by us of the additional funds, notwithstanding that the prescribed time has not elapsed, we at our discretion may (but are not obliged to) close at market rate all or any of your positions that you may have and liquidate your collateral without your consent or prior notice.

##### 2.1.3 *Liquidation may not be possible*

Under certain market conditions, you may find it difficult or impossible to liquidate a position. This can occur, for example, when the market makes a "limit move" or trading is suspended by the relevant exchange. In addition, there may not be a ready market for certain investments and market traders may not be prepared to deal in

certain investments. Some investments may have to be held to maturity, for instance, some index options can only be exercised on the expiry date, whilst other index may be exercised at any time before expiry. Proper information for determining the value of certain investments may not be available.

#### **2.1.4 Limitation orders may not limit loss**

Placing contingent orders, such as “stop loss” or “stop limit” orders will not necessarily limit your losses to the intended amounts, since market conditions may make it impossible to execute such orders. Under certain circumstances, it may be difficult or impossible to assess the value of your position, determine a fair price or assess your exposure to risk.

#### **2.1.5 General securities risk**

Any trading in securities carries investment risks. In particular, the price or value of any securities can and does fluctuate and may even become valueless, resulting in possible loss not only of profit but also of all or part of the principal sums invested. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance of any investment is not necessarily indicative of future performance.

#### **2.1.6 Issuer or counterparty risk**

If the issuer of any securities or other instrument or a trading counterparty becomes unable to meet its obligations then such investments may become worthless and any trading costs and profits irrecoverable.

#### **2.1.7 Country or jurisdiction risk**

If an investment is made in any asset or issued by a party subject to foreign laws or transactions made on markets in other jurisdictions, including markets formally linked to a domestic market, recovery of the sums invested and any profits or gains may be reduced, delayed or prevented by exchange controls, debt moratorium or other actions imposed by the government or other official bodies. Before you trade you should enquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should obtain details about the different types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade. There may be restrictions for foreigners, repatriation of capital investments and profits and there may be withholding or additional forms of taxes.

Any imposition by a country of exchange controls or other limitations or restrictions may cause payments to be made in the local currency instead of the original invested currency or may result in the inability to effect outward remittances of funds from such country, which can affect the value of your investment or your ability to enjoy its benefit.

#### **2.1.8 Currency risk**

Where trading contracts or other investments are denominated in currencies other than your primary reference currency, or where you convert funds from another currency upon making an investment, there is the risk that if the foreign exchange markets move against you, then upon maturity or any earlier dealing the net proceeds converted into your primary reference currency, or the currency from which the initial funds were converted (as the case may be), may be significantly less than the equivalent figure on the date the contract was entered into or the investment made, and that any income or gains made may be entirely negated. Where your indebtedness

to us is secured by assets denominated in a currency different from the currency of the indebtedness, the foreign exchange market may move against you and the risk of loss can be substantial. In the case of foreign currency deposits, the net return on your foreign currency deposit(s) will depend on market conditions prevailing at the time of maturity. In this regard, you may suffer loss as a result of depreciation of the value of the currency paid or as a result of foreign exchange controls imposed by the country/jurisdiction issuing the currency. Such loss may offset the net return on your deposit(s) and may result in losses to such deposit(s). Repayment or payment of amounts due to you may be delayed or prevented by exchange controls or other actions imposed by governmental or regulatory bodies.

### **2.1.9 Off-exchange transactions**

Transactions may be traded off-exchange or on an over-the-counter basis. Non-exchange traded or “non-transferable” instruments may not be readily realisable and are not regulated by the rules of any exchange. Situations may arise where no market traders are prepared to deal in them or no proper information may be available to determine their value. Because prices and characteristics of over-the-counter financial instruments are often individually negotiated, there may be no central source for obtaining prices and there can be inefficiencies and a lack of transparency in the pricing of such instruments. Sometimes it may not be possible to obtain a price quotation. Minimum transaction amounts may be imposed and/or changed by traders from time to time.

In entering into an over-the-counter transaction, you will bear the credit risk of your counterparty defaulting. Unlike an on-exchange transaction, there will be no central clearing system that guarantees performance of the transaction.

### **2.1.10 Taxation**

Income or profit from trading in any investments may be subject to withholding tax or capital gains tax or other tax of the country/ jurisdiction of the issuer or the country/ jurisdiction in which such investments are traded. In such event, unless the issuer agrees to gross-up the income or profit received by the investors, the investors will only receive the interest payment or proceeds of sale or redemption of the investment less the withholding tax or capital gains tax or other tax.

### **2.1.11 We have no obligation to make price**

We have no obligation to make a market price to you if your favourable price level cannot be obtained or there is no buyer in the market, nor to buy back any securities or other investments from you unless we have written an option requiring us to do so in certain circumstances.

### **2.1.12 Market movements**

Fixed income instruments may be issued with fixed, floating or zero interest rates. Instruments bearing fixed interest payments or zero coupon instruments issued at a discount will be adversely affected by rising market interest rates and the longer the term of the instrument, the greater the interest rate risk or benefit from the movement of the market interest rate.

### **2.1.13 Commissions and other charges**

Before you begin to trade, you should obtain a clear explanation of all commissions, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

## **2.2 Foreign exchange / commodities risk**

### **2.2.1 Market volatility**

Trading in foreign exchange and/or commodities is entirely speculative and carries inherent risks not ordinarily experienced in less volatile investment arrangements. Foreign exchange markets and/or commodity markets may move abruptly or unpredictably and substantial losses may be incurred. The risk of loss from leveraged foreign exchange trading can be substantial.

### **2.2.2 Alternative currency risk**

Currency option-linked investments are inherently speculative in nature and carry risks not ordinarily experienced in single currency investments. In particular, foreign currency market movements are unpredictable and may result in you receiving, at our determination, on maturity of the investment an amount in the pre-selected currency (the alternative currency) which, if converted at the prevailing exchange rate back to your original investment currency (the base currency), is less than the agreed amount in the base currency payable upon maturity. Other cross-currency arrangements carry similar risk.

## **2.3 Debt instruments risk**

Should you wish to invest in certain debt instruments and any synthetic instruments in respect thereof (including, but not limited to government treasury bills, commercial paper issued or guaranteed by banks or institutions, government bonds and notes, bankers acceptances and bills of exchange) ("**Instruments**") and whether we purchase or sell Instruments from or to you as principal or whether we act as agent, you should also pay special attention to the following further factors:

### **2.3.1 Market movements**

Instruments may be issued with fixed, floating or zero interest rates. Instruments bearing fixed interest payments or zero coupon instruments issued at a discount will be adversely affected by rising market interest rates and the longer the term of the instrument, the greater the interest rate risk or benefit from the movement of the market interest rates.

### **2.3.2 Floating interest rate**

Floating rate instruments are issued with coupons based on a short-term rate index and are reset periodically. Interest rates are usually fixed at the beginning of each interest period and interest payments are effected at the end of that interest period. While fluctuations in the short-term interest rates will affect the price of floating rate notes, the impact is generally less pronounced when compared to that on bonds which have fixed or zero interest and longer maturities.

### **2.3.3 Pre-maturity dealings**

Market movements are unpredictable and unless the Instrument is held to maturity it may not be possible to realise the Instrument either at a reasonable price or at all.

### **2.3.4 Synthetic products**

In circumstances where Instruments constitute synthetic products which have resulted in different currencies, investments and interest terms to that of the underlying Instrument itself, the swaps which may be so involved may mean additional risk or loss to you in the event that there are defaults or problems with the relevant underlying Instruments.

### **2.3.5 Emerging markets instruments**

The purchase of the whole or part of a debt Instrument which is issued by an issuer from, or denominated in a currency of, an emerging market country/jurisdiction may expose you to additional risks and requires careful and independent assessment by you. Emerging markets may include low and medium income countries or countries whose markets' regulatory systems or financial infrastructure are not fully developed. Further, while such investments can yield high gains, there may be additional risks including without limitation sovereign risk, political risks (including confiscation of assets, restriction of your rights of disposal, or declines in the value of assets as a result of state intervention or the introduction of state monitoring and control mechanisms), issuer risk, liquidity risk, foreign exchange controls and high market volatility.

### **2.4 Swap transactions risk**

Swap transactions involve the obligation to exchange revenue flows of different types. Movements in exchange rates, the market price of the underlying instruments of the swap transaction may significantly affect your position. Movements in exchange rates, interest rates or the market price of the underlying instruments of the swap transaction can also be affected by various factors, including inflationary fears and weakening currency. There may not be any logical reason for markets to act in a certain way, making it difficult to anticipate such movements.

### **2.5 Options risk**

Trading in options is not suitable for many members of the public and you should carefully consider whether trading in options is appropriate for you bearing in mind the following risks:

#### **2.5.1 Risk of loss**

The risk of loss in trading options can be substantial. Options are wasting assets, which carry special risks. You should familiarise yourself with the type of option (i.e. put or call) which you contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

#### **2.5.2 Nature of option**

Buying options involves less risk than selling or writing options, as the option can be permitted to lapse worthless, but the purchaser will suffer a total loss of the premium paid for the option, plus transaction costs. If you are contemplating purchasing deep out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote. If you exercise a call option then you will expose yourself to any risks specific to the asset acquired.

Selling or writing an option generally entails considerably greater risk than purchasing options and if you sell or write an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you. Although the premium received by you is fixed, you may sustain a loss well in excess of that amount. If you are required to sell an asset which you do not already own, the risk of loss is unlimited. Only persons experienced in trading options should contemplate writing uncovered options and then only after obtaining full details of the applicable conditions and potential risk exposure.

### **2.5.3 Premium**

Certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

### **2.5.4 Terms and conditions of contracts**

You should enquire about the terms and conditions of the specific options which you are trading and associated obligations (e.g. expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of an outstanding options contract (including the exercise price) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

### **2.5.5 Suspension or restriction of trading**

Market conditions (e.g. illiquidity) and/or the operations of the rules of certain markets (e.g. the suspension of trading in any contract month because of price limits or “circuit breakers”) may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If you have sold options, this may increase the risk of loss. Further, normal pricing relationships between the underlying interest and the option may not exist. The absence of an underlying reference price may make it difficult to judge “fair” value.

## **2.6 Disclaimer**

### **2.6.1 No reliance on information provided as investment or tax advice**

Please also note that whilst we may provide information or express opinions from time to time, such information or opinions are not offered as, and should not be relied on by you as, investment or tax advice, unless otherwise expressly communicated by us. You should decide upon any dealing only after having made all such enquiries and assessments as you consider appropriate, and you should place no reliance on us to give advice or make recommendations.

### **2.6.2 Independent advice**

If you are in any doubt about the risks involved in any trading or investment arrangements or you are uncertain of or have not understood any aspect of this Risk Disclosure Statement, you should seek independent advice from a professional financial adviser. However, you should note that the final decision to invest and/or redeem an investment must be based on your own judgment without relying on any information given by us and/or our representatives.

### **2.6.3 Understanding and acceptance of risk disclosures in the relevant investment documents before making an investment**

If you wish to make an investment, you should note that it is your duty to fully understand and accept the nature of the investment and all the risks associated with investing in the investment as highlighted in the relevant documents in relation to your investment including (but not limited to) prospectus, pricing statement, termsheets, factsheets, Product Highlight Sheets, Risk Warning Statement, All-In-One-Document (AIOD), Goal Planner Report, Investment Note, Services Guide and Execution Only Report. These risks include but are not limited to principal risk, market risk, return risk, credit risk, liquidity risk, currency risk, early redemption by the investor risk, early redemption by the issuer risk, hedging risk, potential conflict of interest risk, calculation risk, re-investment risk, interest rate risk, settlement risk, sovereign risk, tax risk, inflation risk



and any other risk that may be valid for the specified investment or any other risk as stated in the relevant documents in relation to your investment. Upon understanding fully the nature of all the risks associated with the investment, you understand that it is your duty to determine whether the investment is suitable for you in light of your experience, objectives, financial position and other relevant circumstances before making the investment. Accordingly, you agree that you will not hold us responsible for any losses that you may suffer in connection with your investment.

#### **2.6.4 Transaction risk**

If you wish to make or redeem an investment, you accept that any price quoted or provided by us and/or our representatives on any investment is indicative and no guarantee as to their accuracy is given and no liability is accepted.

You understand that all redemption proceeds are based on the prevailing market price at the time of redemption, and you may suffer substantial losses if the prevailing market price is lower than the subscription price.

You are aware that you may incur fees and charges as a result of (i) the disposal of, or reduction in interest in, an existing investment product; and (ii) the acquisition of, or increase in interest in, a new investment product. Before switching from one investment product to another, it is your responsibility to find out if you are entitled to free switching (for designated unit trusts) and to consider carefully whether any fees, charges and/or disadvantages arising from the switch may outweigh any potential benefits. In addition, you understand that any decision to switch will be made by you independently.

### **3. Structured Products**

Structured products are created by combining two or more financial instruments. Structured products (including but not limited to both structured investments and structured notes) are complex and an investment in a structured product may involve a high risk of loss of your initial investment. Before engaging in structured product transactions, you should understand the inherent risks involved. In particular, the various risks associated with each financial instrument should be evaluated separately as well as taking the structured product as a whole. Each structured product has its own risk profile and given the unlimited number of possible combinations, it is not possible to detail in this Risk Disclosure Statement all the risks which may arise in any particular case. You should consult your legal, regulatory, tax, financial and/or accounting advisors to the extent you consider it necessary in making your own investment decision.

#### **3.1 Principal risk**

Your principal is at risk when you invest in structured products. It is possible that the redemption proceeds at maturity is lower than the principal invested in structured products, and it is even possible that you will experience a loss of your principal at maturity. In the worst case scenario, there is a possibility that you will not receive any of the principal invested at maturity.

#### **3.2 Market risk**

Structured products can be volatile instruments and may be subject to considerable fluctuations in value and other risks inherent in investing in securities and/or derivatives. The value of a structured product may fall as rapidly as it may rise due to numerous factors, including, but not limited to, systemic risks, variations in the frequency and magnitude of changes in interest rates, inflation outlook and the price/level of any underlying reference to which the structured product relate (e.g. securities, commodities, funds, rates and/or indices). The value of structured products may increase or decrease throughout their tenor.

### **3.3 Return risk**

Structured products have an investment element and returns may vary. Potential return on structured products may be less than returns on a non-structured fixed coupon bond or a direct investment in the underlying assets or other investments. You may receive no return for the entire tenor of the investment. Also, the redemption amount at maturity is subject to the performance of the underlying. There is no guarantee that structured products will produce yields in excess of those available on other investments. There can be no assurance that structured products will return at maturity more than the amount initially invested, in which case, you would have foregone any potential return that may have been earned on a direct investment in the underlying assets, commodities, interest rates, fixed income investment of similar amount and tenor.

### **3.4 Credit risk**

You should be aware that receipt of any sums due at maturity by you is subject to the credit risk of the issuer of the structured product (the “**Issuer**”). You assume the risk that Issuers will not be able to satisfy their obligations. Except where specifically provided otherwise, structured products will constitute general and unsecured contractual obligations of Issuers and such obligations will rank equally with all other unsecured contractual obligations of Issuers. Structured products will also rank pari passu with subsequent unsecured obligations of the Issuer. In the case of an insolvency of the Issuer, preferred liabilities of the Issuer will have priority over unsecured obligations such as these structured products. Any stated credit rating of the Issuer reflects the independent opinion of the referenced rating agency as to the creditworthiness of the rated entity but is not a guarantee of credit quality of the Issuer. Any downgrading of the credit ratings of the Issuer or its parent or affiliates, by any rating agency could result in a reduction in the value of structured products. In the event that bankruptcy proceedings or composition, scheme of arrangement or similar proceedings to avert bankruptcy are instituted by or against the Issuer, the payment of sums due on structured products may be substantially reduced or delayed.

### **3.5 Liquidity risk**

You may not be able to liquidate or sell some or all of your investment in a structured product as and when you require or at an amount equal to or more than the principal. There is currently no active or liquid secondary trading market for these structured products and they are not traded on any regulated markets or listed on any exchange. There can be no assurance that anyone intends to make a market in structured products, or that if anyone does so, that they will continue to do so, or that a market-maker in structured products (if any) will offer an amount equal to or greater than the principal of structured products, or that if a market-maker does offer a price for the structured product which is equal to or greater than the principal, that it will continue to do so. There can be no assurance that you will be able to obtain a firm bid price for the structured products for an amount at which they wish to sell. Therefore, these structured products may not be marketable and as such may not be able to be liquidated or sold before maturity, or if liquidated/sold, may only realise an amount that is at a significant discount to the principal paid by you. Liquidity on these investments is relatively less than similar grade non-structured fixed coupon bonds. **Mark to market valuations on structured products may not be available or provided to you on any regular basis prior to maturity. Any such valuations provided would be indicative only and not binding on the Issuer.**

In addition, you cannot transfer your units in structured products to anyone apart from the Issuer. This may further limit the liquidity of structured products.

### **3.6 Early redemption by the customer risk**

Subject to the existence of normal market condition as determined by Issuers, you may redeem structured products prior to their maturity. You may sell but you shall not be entitled to withdraw all or part of your investment without the Issuer’s prior consent (which, if granted, may be subject to such conditions and terms as the Issuer may require). Such



conditions to include (without limitation) the date and time of redemption of structured products which shall occur on a business day as determined by the Issuer after written request for early redemption is received from you.

Without prejudice to the foregoing, Issuers reserve the right to determine conclusively acting in good faith the amount of deduction to be made to the principal amount of structured products for breakage costs. Such breakage costs shall include the costs, expenses, liabilities or losses incurred or suffered by Issuers as a consequence of breaking its hedge, or funding arising directly or indirectly from your written request for early withdrawal. Such request for early withdrawal shall only be made by you on the 15th (or the next business day if the 15th is not a business day) or last business day of each calendar month or such other day as the Issuer or we may determine at its or our discretion.

Your attention is drawn to the fact that the total amount repaid on early redemption of structured products at your request may be less than the principal amount. Please note that unless expressly permitted, you may not have the right to terminate the transaction before its maturity date or there may be a lock-up period during which early withdrawal is not permitted. If withdrawal or termination occurs, for whatever reason, you will be required to pay all damages (including any replacement costs incurred) resulting or arising from such withdrawal or termination.

### **3.7 Early redemption by the Issuer risk**

You must hold your investment in structured products until maturity to benefit from any repayment of principal amount. Unless otherwise specified, repayment of the principal at maturity does not apply if the structured product is early terminated by the Issuer prior to the maturity date. In the event of such early termination, the market value of structured products may be substantially less than their principal. Additionally, you should be aware that a general condition of structured products may be that Issuers may, at their discretion, redeem or terminate structured products prior to maturity upon notice to you under a variety of conditions and/or circumstances set forth in the Issuers' offering documents such as for additional disruption events, tax reasons, illegality and regulatory.

Particular attention is drawn on the fact that Issuers may, at any time, give as soon as reasonably practicable irrevocable notice to you in accordance with the terms and conditions of structured product of their intention to redeem all, but not some only, of structured products in the event that a change in applicable law or regulation occurs that results, or will result, solely by reason of structured products being outstanding, in Issuers being required to be regulated by any additional jurisdiction or regulatory authority, or being subject to any additional legal requirement or regulation considered by Issuers to be materially onerous to it. Such notice shall also specify the redemption valuation date. Issuers will redeem structured products at the early redemption amount on the date specified in such notice.

There may be other conditions that affect the value of structured products and you should refer to Issuers' offering documents for further details.

### **3.8 Hedging risk**

The market price of the underlying securities may depend upon the hedging transactions of Issuers or any of its affiliates, which in turn will depend upon market conditions at the time of such hedging. The market may be affected by such hedging.

### **3.9 Potential conflict of interest risk**

Issuers or one or more of its affiliates may from time to time engage in transaction involving the securities underlying structured products for their proprietary accounts and for other accounts under their management. Such trading may influence the value of the underlying securities and therefore the value of structured products.

### **3.10 Calculation risk**

None of the calculation agents, the Issuers, the guarantors or the distributor shall have responsibility to holders of structured products for good faith errors or omissions in the calculation agent's calculations and determinations as provided in the offering documents, whether caused by negligence or otherwise. The calculations and determinations of calculation agents shall be made in accordance with the offering documents (having regard in each case to the criteria stipulated in the offering documents and where relevant on the basis of information provided to or obtained by employees or officers of the calculation agent responsible for making the relevant calculation or determination) and shall, in the absence of manifest error, be final, conclusive and binding on the holders of structured products. Holders of structured products shall not be entitled to make any claim against calculation agents, Issuers, guarantors or the distributor.

### **3.11 Re-investment risk**

You need to consider the ability to re-invest the principal investment amount plus the coupon (if paid) in other suitable products with similar returns and tenors, where structured products have been early redeemed.

### **3.12 Foreign exchange risk**

When investing in structured products denominated in non-local currency, you should be aware of the risk of exchange rate fluctuations that may result in a loss of principal when converted to your local currency. Exchange controls imposed by the relevant authorities may also adversely affect the applicable exchange rate and result in the receipt of reduced principal.

### **3.13 Interest rate risk**

You are exposed to the movement of interest rates whenever your structured products are redeemed, tendered or sold prior to maturity. From an economic perspective, the structured product typically comprise of a zero coupon bond and an option. Movements in interest rates will have an impact upon both the value of zero coupon bond and the option. As interest rates move upwards, the value of structured products generally falls. Moreover, the longer the tenor of structured products, the more sensitive structured products will be to interest rate changes.

### **3.14 Settlement risk**

Upon purchasing structured products, you assume all settlement risks relating to Issuers failing to settle structured products on the primary settlement date, and unless stated otherwise.

### **3.15 Sovereign risk**

In the event Issuers or any of the underlying referenced link/asset/security is issued by a sovereign or governmental entity or quasi-governmental entity, repayment of structured products and applicable coupon/interest may be subject to sovereign risks. This includes the potential default by such sovereign, government/quasi government issuer or the occurrence of political or economic events resulting in governmental action such as declaration of a moratorium on debt repayment or negating repayment obligations of the sovereign issuer. If any such event were to occur, you may lose up to all of their initial investment in structured products.

### **3.16 Tax risk**

Tax burden, if any, imposed by or arising from regulatory requirement changes, for any payable by the Issuer to us under structured products or by us to you under these structured products will be borne by you.

### **3.17 Inflation risk**

**You will need to consider the effect** that inflation may have on the real value of your investment at maturity (or early call) during the tenor of structured products.

### **3.18 Issuer or counterparty risks**

If the issuer of any securities or other instrument or a trading counterparty becomes unable to meet its obligations then such investments may become worthless and any trading costs and profits irrecoverable.

### **3.19 We have no obligation to make price**

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### **3.21 Floating interest rate**

Floating rate instruments are issued with coupons based on a short-term rate index and are reset periodically. Interest rates are usually fixed at the beginning of each interest period and interest payments are effected at the end of the interest period. While fluctuations in the short-term interest rates will affect the price of floating rate notes, the impact is generally less pronounced when compared to that on bonds which have fixed or zero interest and longer maturities.

### **3.22 Pre-maturity dealings**

Market movements are unpredictable and unless the instrument is held to maturity it may not be possible to realise the instrument either at a reasonable price or at all.

### **3.23 Synthetic products**

In circumstances where instruments constitute synthetic products which have resulted in different currencies, investments and interest terms to that of the underlying instruments itself, the swaps which may be so involved may mean additional risk or loss to you in the event that there are defaults or problems with the relevant underlying instruments.

### **3.24 Emerging markets instruments**

The purchase of the whole or part of a debt instrument which is issued by an issuer from, or denominated in a currency of, an emerging market country/jurisdiction may expose you to additional risks and requires careful and independent assessment by you. Emerging markets may include low and medium income countries or countries whose markets' regulatory systems or financial infrastructure are not fully developed. Further, while such investments can yield high gains, there may be additional risks including without limitation sovereign risk, issuer risk, liquidity risk, foreign exchange controls and high market volatility.

### **3.25 Dual currency investments**

Dual currency investments ("DCIs") are exchange-rate-related instruments that enable the buyer to obtain a higher return than on a money market instrument. When a DCI matures, the buyer will receive payment of principal and interest either in the primary or the alternative currency. If payment is in the alternative currency, the strike rate will be used for conversion. DCIs are suitable for buyers who wish to see a high return on their investments and accept the risk of repayment in the alternative currency at the strike rate. The higher the potential earnings, the greater the risk that payment will be made in the alternative currency at the strike price. DCI buyers do not enjoy downside protection, and thus investing in DCIs involves substantial risks.

### **3.26 Structured Products with equities as underlying**

Structured Products with equities as underlying may be viewed as combining a debt instrument with an option that allows a bull (rising), bear (falling) or range view. The return on such Structured Products is usually determined by the performance of a single security, a basket of securities or an index.

Structured Products with a bull (rising) view combine a traditional deposit with the premium received from writing a put option on the chosen securities. If the value of these securities falls to a level less than the strike price minus the premium received, the buyer will suffer a loss. The maximum potential loss could be the entire capital sum. Although such Structured Product offers a higher yield than traditional deposits, it is only suitable for investors who are prepared to accept the risk of receiving the underlying securities if the value of the securities falls below the strike price at maturity.

Structured Products with a bear (falling) view combine a deposit with the premium received by selling a call option on the chosen securities. Upon maturity, the amount that the issuer of such Structured Product will repay the investor depends on the strike price and the market value of the securities at maturity. Buyers of such Structured Products must be prepared to accept the risk of losing the entire capital invested if the market value of the securities is above the strike price.

Structured Products with a range view combine a traditional deposit with the premium received by selling both a put option and a call option on the chosen securities.

You should always refer to the terms specified in the relevant documents including (but not limited to) confirmation note, All-In-One-Document (AIOD) on the return on investment of Structured Products. You should also note that there is no guarantee that you will receive the principal amount invested or derive any return on your investment in a Structured Product. In addition, there is a limited secondary market for outstanding Structured Product issues.

### **3.27 Physical settlement of notes**

The issue document may provide that the Issuer may at its election or otherwise, as provided in the issue document, physically settle its payment obligations under the notes. When such notes are physically settled, the Issuer will not pay you cash in discharge of its payment obligations, whether in respect of principal, interest or otherwise under the notes but will deliver to you the reference shares, which may for example be shares (or any other form of securities) specified in the applicable issue document. There is no guarantee that there will be any market or liquidity in relation to such assets or if you would be able to dispose or realize such reference assets for an amount equivalent to the payment obligations of the Issuer under such notes. Therefore, if the Issuer physically settles any of its payment obligations under such notes, you may upon realisation of such reference assets, receive less cash than if the Issuer had settled its payment obligations under such notes in cash. The amounts payable in respect of interest and/or principal are determined by a formula linked to the value of certain underlying share(s). Movement in the value of the underlying share(s) may therefore adversely affect the return on such notes, and may also adversely affect the market value of such notes prior to or at maturity. Where provided for in terms of the pricing supplement (or term sheets), the Issuer may deliver the principal in the form of underlying share(s), the value of such underlying share(s) received may become worthless and the entire principal may be at risk.

If the Issuer is required to deliver the underlying share(s) at maturity and a market disruption event and/or a settlement disruption event has occurred on the valuation date, the Issuer may have a right to pay you the cash value of the underlying share(s) in lieu of share delivery. In this instance, you would have crystallised your loss on the underlying share(s) as the cash value of the underlying share(s) will be less than the original amount invested.

Should an adjustment event or extraordinary event occur in relation to the underlying share(s), this will affect the value of the underlying share(s) and the Issuer may adjust the terms of the notes or redeem the notes at their fair market value. If the Issuer redeems the notes before the maturity date due to the occurrence of such an extraordinary event, you may receive substantially less than the original amount invested.

### **3.28 Conflict of interests**

HSBC Holdings plc ("**HSBC**") and its subsidiaries and affiliates may act in a number of capacities in relation to the Notes, including without limitation, as the arranger, the issuing and paying agent, the calculation agent, the registrar and such other capacities which may be specified in the applicable issue document. The economic interests of HSBC and/or its subsidiaries and affiliates in each such capacity may be opposed to the interests of investors and potential and actual conflict of interest may arise from the different roles played by HSBC and its subsidiaries and affiliates. As a result, investors could be potentially exposed not only to the credit risk of HSBC and/or its subsidiaries and affiliates, but also the operational risks arising from the potential or actual conflicts of interest of HSBC and/or its subsidiaries and affiliates in assuming their duties and obligations. In addition, HSBC and/or its subsidiaries and affiliates, in connection with their other business activities, may from time to time engage in business with or possess or acquire material information about the reference assets or entities or any other asset or entity whose condition the payment on notes are dependent. Such activities and information may cause consequences adverse to the investors in notes. Such actions may include, without limitation, the exercise of voting powers, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. HSBC and any of its subsidiaries and affiliates have no obligation to disclose such information about any asset or entity. HSBC, its subsidiaries and affiliates and its or their officers and directors may engage in any such activities without regard to investors or the effect that such activities may directly or indirectly have on investors and owe no duty to investors to avoid such conflict of interests. You should seek independent advice as you seem appropriate to evaluate the risk of this potential conflict of interests.

### **3.29 Other risks**

Aside from movements of the underlying asset's market value, you should also be aware of other risks and considerations associated with structured products, such as:

- (a) The return payable for structured products is determined at a specific time on the specific date, irrespective of the fluctuations in the underlying asset's market value before or after that specific time; and
- (b) There is no guarantee that you will get a return on your investment or any yield.

## **4. Securities**

### **4.1 General securities risk**

Any trading in securities carries investment risks. In particular the price or value of any securities can and does fluctuate and may even become valueless, resulting in possible loss not only of profit but also of all or part of the principal sums invested. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance of any investment is not necessarily indicative of future performance.

### **4.2 Risk of trading Hong Kong Growth Enterprise Market stocks**

Hong Kong Growth Enterprise Market (GEM) stocks involve a high investment risk. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. GEM stocks may be very volatile and illiquid.



One should make the decision to invest only after due and careful consideration and seek independent professional advice if uncertain of or have not understood any aspect of this risk disclosure statement or the nature and risks involved in trading of GEM stocks.

#### **4.3 Commission and other charges**

Before you begin to trade, you should obtain a clear explanation of all commissions, fees and other charges for which you would be liable. These charges would affect your net profit (if any) or increase your loss.

### **5. Bonds**

#### **5.1 General features**

A bond is a certificate issued by a government or corporation acknowledging the investors' extension of credit to them. When an investor purchases bonds, he/she is considered to be a creditor and is lending money to either a government or corporation, broadly known as issuers. Bonds are also known as fixed income securities because most bonds pay a steady stream of interest income at periodic intervals throughout the life (also known as the term or tenure) of the bond. This interest is known as the "coupon" and the coupon rate is expressed as a percentage of the principal, known as the "face" or "par" value of the bond. Bond prices are usually expressed as a percentage of face value. Upon maturity, bonds are redeemed at face value and bondholders are paid 100% of face value, subject to the risks outlined below. Some bonds do not offer coupons at all – these are known as "zero-coupon bonds" and are priced at a discount to their face value. At maturity, you will receive the face value (which includes the accrued interest on the note). Bonds can be called bills, notes, debt securities or debt obligations.

The yield on a bond depends primarily on the credit quality of the bond issuer. In any local market, the highest quality bonds are usually government bonds. They are usually followed by quasi-government or government linked entities, banks and then companies.

Do note that when comparing bonds across different countries, an emerging market government bond may not necessarily be safer than a well-rated corporate bond.

Some bonds, bond funds or bond ETFs may constitute Specified Investment Products (SIPs).

Issuers of bonds may use the money to finance their operations or investments. The issuer generally pays the bondholder income at a specified rate and on specified dates during the life of the bond (except for zero-coupon bonds).

#### **5.2 Issuer default/credit risk**

Bondholders are subject to the risk that the issuer of the bond may default. In the event of an issuer default, the issuer will be unable to make good on their promise to make either timely interest payments or to repay principal at maturity. Credit risk is gauged by quality ratings assigned to issuers by commercial rating companies such as Moody's or S&P. In general, the lower the credit rating of the bond, the higher the risk of carrying the bond, and bondholders will be compensated for the risk with higher yield.

#### **5.3 Interest rate risk**

The value of a bond typically moves in the opposite direction to a change in interest rates. When interest rates falls, the bond value increases. Conversely, when interest rates rises, the bond value decreases, causing bondholders to realise capital loss if they choose to sell the bond at that particular time. The longer the time to a bond's maturity, the greater the interest rate risk.

#### **5.4 Inflation risk**

The value of cash flows from a bond in terms of their purchasing power will decrease in times of inflation. Bondholders are subject to inflation risk as the payments of a bond (with the exception of floating rate notes) are fixed during the tenor of the bond.



### **5.5 Reinvestment risk**

In the event that interest rates decrease, bondholders have to reinvest any interest income and/or principal return at lower prevailing rates.

### **5.6 Risks associated with investing in derivatives**

Bondholders may be exposed to risks associated with investing in derivatives in two ways. Firstly, the issuer may use the funds derived from the debt instrument to invest in derivatives. Secondly, convertible bonds are considered to be derivative securities as they contain options on the underlying common stock and the straight debt of their issuer.

As such, bondholders need to be aware of the main risks associated with investing in derivatives:

i. **Principal Risk**

It is possible that the maturity or redemption proceeds are lower than the principal invested depending on the features of the derivative instrument.

ii. **Market Risk**

Derivatives can be subjected to considerable fluctuations in value which will impact the value of the instrument. The value of the instrument may fall as rapidly as it may rise due to factors such as systemic risks, changes in interest rates and inflation outlook.

iii. **Credit Risk**

The receipt of any sums due at maturity is subject to the credit risk of the Issuer.

iv. **Systemic Risk**

A potential domino effect in which the default in one derivative contract spreads to other contracts and markets, ultimately threatening the entire financial system.

### **5.7 Call risk**

Declining interest rates may accelerate the redemption of a callable bond, causing a bondholder's principal to be returned sooner than expected.

### **5.8 Currency risk**

Foreign currency denominated bonds may be exposed to foreign exchange risk upon conversion to the bondholder's home currency.

## **6. Investment Funds**

Investment funds or collective investment schemes may take a variety of legal forms such as investment companies, partnerships or unit trust structures. Investment funds can be "regulated" or "unregulated", or "closed-end" or "open ended". An investment in funds will expose you to different risks depending on the form of the fund, its manager and its investment strategy.

When you invest in a fund, you will not have control over the assets of the fund but the assets will instead be managed by a manager. Income and profits (or losses) are pooled before being distributed to investors.

### **6.1 General risks associated with funds**

#### **6.1.1 Interest rate risk**

Investments in a fund are subject to interest rate risk. In general, the prices of debt securities rise when interest rates fall, whilst their prices fall when interest rates rise.

#### **6.1.2 Valuation risk**

Valuation of a fund's investments may involve uncertainties and judgmental determinations. If such valuation turns out to be incorrect, this may affect the calculation of the net asset value of the fund.

### **6.1.3 Exposure to underlying assets**

A fund is exposed to the movement in price of the assets underlying the fund. If the value of the underlying assets depreciate, it is very likely that the value of a unit in the fund will also depreciate.

### **6.1.4 Limited diversification of investments**

Some funds may have very narrow investment parameters. This may expose the fund to substantial unhedged losses in the event of a fall in the general price of the relevant investments.

### **6.1.5 Risks associated with collateralised and/or securitised products**

If a fund invests in collateralised and/or securitised products, such as asset backed securities, these may be highly illiquid and prone to substantial price volatility. These instruments may be subject to greater credit, liquidity and interest rate risk compared to other debt securities.

### **6.1.6 Use of leverage**

Some funds may use leverage in order to increase the level of funds for investing. This may reduce (or completely eliminate) the funds available for distribution to investors.

### **6.1.7 Performance fees**

Performance fees may encourage the manager of a fund to make riskier investments than would be the case in the absence of a performance-based incentive system. Further, performance fees may be paid on unrealised gains which may never be realised by the fund.

### **6.1.8 Unregulated funds generally**

Unregulated funds are not authorised or regulated by regulators. As such they are subject to fewer restrictions than regulated funds and therefore may carry additional risks.

Units in unregulated funds may be hard to dispose of as there may not be a ready market for their purchase. An unregulated fund may invest in assets which are difficult to sell or otherwise have restrictions placed on their sale. This could make it difficult for an unregulated fund to realise investments and/or prevent losses.

### **6.1.9 Risks associated with collateralised and/or securitised products**

If a fund invests in collateralised and/or securitised products, such as asset backed securities, these may be highly illiquid and prone to substantial price volatility. These instruments may be subject to greater credit, liquidity and interest rate risk compared to other debt securities.

## **6.2 Futures and options funds**

These include funds with the primary objective of investing in financial and/or commodity derivative contracts. Such funds may invest in exchange-traded futures and options contracts, including over-the-counter options, forwards and swaps. These funds tend to be highly volatile and you should therefore assess if you are able to understand and tolerate the risks associated with trading in such funds.

## **6.3 Property funds**

These are funds that invest or propose to invest in real estate and real estate related assets. The fund may or may not be listed or traded on an exchange. An investment in real estate may be by way of direct ownership or a shareholding in an unlisted corporation whose sole purpose is to hold/own real estate. Some examples of the risks specific to investing in property funds include (but is not limited to) the following:

- **Diversification:** Property funds tend to be less well-diversified than general securities funds.
- **Illiquidity of properties:** The underlying properties in a property fund are often illiquid. Property may have to be sold to make distributions if market conditions change, or to meet redemptions if the fund is unlisted or delisted; the property fund may be unable to do this expediently where the need arises.
- **Valuation:** Property valuation, which affects the offer price of units in a property fund, is subjective.
- **High Gearing:** Property funds tend to be more highly geared than securities funds. This could be risk if interest rates rise sharply.

## **7. General risks associated with environmental, social and governance products**

There is no guarantee that an investment approach which considers environmental, social and governance (ESG) or impact investing factors will produce returns similar to those which don't consider these factors. Investments which consider ESG or impact investment factors may diverge from traditional benchmarks, returns and risk.

In addition, there is no standard definition of, or measurement criteria for ESG or impact investment. ESG and impact investment measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors, and across different investment product manufacturers.

HSBC undertakes due diligence when selecting third party managers/ product manufacturers. However, HSBC relies on the ESG impact measurement criteria reported by third parties and does not conduct its own specific due diligence in relation to ESG impact measurement criteria.

There is no guarantee that: (a) the nature of the ESG impact of an investment will be aligned with any particular investor's ESG impact goals; and (b) the stated level or target level of ESG impact will be achieved.

Regulations in this area, and as to what constitutes ESG impact investments, are evolving. Changes in the investment strategy or in the way investment results are reported may not always be notified to investors.