

RISK DISCLOSURE STATEMENT

This General Risk Disclosure (the "Notice") supplements the Lloyds Bank Plc General Terms of Business for Financial Instruments and related services (the "General Terms"), which you may receive from us from time to time and which can be accessed by [clicking here](#) or typing in the following link: <http://commercialbanking.lloydsbank.com/important-information/commercial-banking-regulatory-information/> . Defined terms used in this Notice have the same meaning as those in the General Terms unless otherwise indicated.

This Notice contains information that has been designed to assist you to understand the nature and risks of the financial instruments and services (our "Products" and "Services") we offer, highlighting specific risks and considerations relevant to specific Products, and enabling you to take an informed decision before entering into any contract.

This Notice cannot disclose all of the possible risks or other significant information relating to our Products. It is designed to assist you in understanding the nature of our Products and the possible extent of your exposure to risk and potential loss.

Please note that, by its very nature, the risks described in this Notice are not exhaustive and other risks or combination of risks not set out could have a material impact on a Product or Service.

Various risks may occur simultaneously and/or may compound each other resulting in an unpredictable effect.

You should have regard to your own experience, objectives, financial circumstances or any other circumstances when considering whether to enter into any of our Products or Services and, **where necessary, you should seek appropriate independent advice in advance of any decisions to enter into any Products.**

Retail clients in particular, whilst afforded greater protections under the UK regulatory regime, should not deal in our Products unless they understand their nature and the extent of their exposure to risk. They should also be satisfied that the product is suitable for them in the light of their circumstances and financial position.

Different Products and Services involve different levels of exposure to risk and some of our Products are unsuitable for many clients. You should be aware of and consider each of the following before entering into or dealing in any of our Products or Services:

1. Debt securities (including bonds and notes)

- (a) Debt securities (for example, bonds and notes) are financial instruments which contain a promise by the issuer, normally a company or a government entity, to pay the holder of the instrument a defined amount on or by a specified date (the "maturity date"), usually with interest. Debt securities may be issued in bearer, registered, certificated or dematerialised form. The maturity date of the debt securities as well as the terms and conditions of repayment are determined in advance. Unless otherwise stipulated, debt securities are repaid either at the maturity date, by means of annual or more frequent payments.
- (b) Debt securities may be secured or unsecured. In the case of secured debt, the issuer grants a security interest over particular assets and/or cash flows, which typically can be enforced when the issuer fails to fulfil its obligations. The credit risk in relation to the issuer is to some extent mitigated through this security interest.

- (c) In some cases, payment by the issuer under the debt securities may also be guaranteed by another party. The guarantor will agree to make certain payments under the debt securities in case the issuer fails to make its payments. The credit risk in relation to the issuer is to some extent mitigated through this guarantee.
- (d) Debt securities usually provide for interest payments. Interest rates could include (i) a fixed rate; (ii) a floating rate calculated by reference to a fluctuating benchmark such as LIBOR or EURIBOR, (iii) a variable rate whereby the interest rate will step up or down at certain times or following certain triggers during the life of the debt security, or (iv) a combination of these rates.
- (e) Debt securities may involve risks including but not limited to:
- i. **Insolvency risk:**
The issuer may become insolvent, resulting in its inability to pay interest or redeem the debt security. The solvency of an issuer may change due to one or more of a range of factors including the general or financial prospects of the issuer, the economic sector of the issuer and/or political and economic developments in the countries where the issuer and/or its business is located. The impact of this risk is more limited if the debt securities are secured and/or guaranteed. However, in such cases, the additional protection granted to the investor will have to be assessed on the basis of the assets securing the debt security and/or the status and creditworthiness of the guarantor. The deterioration of the issuer's solvency will influence the price of the debt securities that it issues.
 - ii. **Credit risk:**
A credit risk is the risk of default on a debt security that may arise from an issuer failing to make the required payments. The value of debt securities will fall in the event of an issuer default under the debt security. Generally, the higher the relative rate of interest the higher the perceived credit risk of the issuer.
 - iii. **Rating risk:**
Debt securities can be rated by one or several rating agencies. The rating of a debt security does not necessarily reflect all the risks attached to it or the impact that those risks could have on its value. A rating is not a recommendation for the purchase, sale or holding of debt securities and can, at any time, be suspended, modified or withdrawn by a rating agency. Any suspension, modification or withdrawal of a rating given to a debt security may impact the value of, and/or the costs related to it.
 - iv. **Country risk:**
Payments to which an investor is entitled may be defaulted on in the event of there being no availability of foreign currency, or if limits are imposed on foreign currency transfers. Also, if the debt securities are issued in a foreign currency, as an investor you risk receiving repayments in a currency that may not be convertible because of exchange controls. A country risk may exist even if the issuer of a debt security is solvent.
 - v. **Contract risk:**
If a debt security is issued on a foreign market, it will often be governed by the law of the country of issue. You should enquire about the possible impact of the applicability of such foreign laws on your rights.
Also, in some cases, the exercise of rights by others may impact your investment. For example, a Product such as a bond may permit a majority of bondholders to decide on certain matters whilst such decision will be binding on bondholders who did not take part in such decision or who voted against such decision.
 - vi. **Interest rate risk:**
Fluctuations in interest rates may have adverse consequences on the price or the value of debt securities. Debt security prices have an inverse relationship to debt security yields: when yield rises (for example, because of a general rise in market interest rates), prices will fall. The longer the maturity of the debt security and the lower the interest rate, then the higher a debt securities' sensitivity is to a rise in the market rates. The uncertainty concerning interest rate movements also means that purchasers of

fixed rate debt securities carry the risk of a fall in the prices of the securities if interest rates rise.

vii. **Early redemption risk:**

The issuer of a debt security may include a provision allowing early redemption of the debt security if market interest rates fall. Such early redemption may result in a change to the expected yield.

viii. **Unlisted debt securities:**

Unlisted debt securities are not listed (or traded) on an exchange. Investments in unlisted debt securities carry higher risk than listed securities. Unlisted debt securities can often be illiquid and their price formation may be imperfect and lack transparency. There are also fewer information disclosure requirements placed on issuers of unlisted debt securities leading to less transparency than in relation to listed debt securities.

ix. **Risks specific to certain types of debt securities:**

Additional risks may be associated with other types of debt securities including floating rate debt notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, indexed or inflation-linked bonds, subordinated bonds, collateralised debt obligation, collateralised loan obligation, and asset backed securities. For such debt securities, you should make enquiries about the risks referred to in the issuance prospectus and related documentation and you should not purchase such debt securities before being certain that all risks are fully understood.

2. Money market instruments

- a) A money-market instrument is a borrowing for a period, generally no longer than six months but occasionally up to one year, in which the lender takes a deposit from the money markets in order to lend (or advance) it to the borrower.

Unlike in an overdraft, the borrower must specify the exact amount and the period for which they wish to borrow. Similarly to debt securities (see paragraph above), money market instruments may be exposed to the following risks, in particular credit and interest rate risk.

i. **Liquidity risk:**

The insufficiency of liquidity may result from the level of supply and demand as well as from characteristics inherent to the Product in question, or from the market practices. The insufficiency of liquidity due to supply and demand occurs when the supply or the demand for one Product at a certain price is non-existent or extremely low. Under those circumstances it can be impossible to execute transactions immediately, or even to partly execute them, and execution may not be possible on favourable terms. In addition the cost of a transaction may be higher.

The insufficiency of liquidity due to the characteristics inherent to a Product or to market practices may occur, for example, because of long execution delays, a short-term liquidity need that cannot be covered quickly enough by the sale of Product or long lock-in periods that must expire before a transaction may be executed.

Low market liquidity may result in you not being able to enter into transactions, liquidate all or part of your Products, assess a value or your exposure or determine a fair price, as and when you require.

ii. **Foreign exchange risk:**

Currency movements are linked to economic, social and political factors amongst other things, and can fluctuate greatly even during the course of a single day.

Fluctuations in foreign currency rates will have an impact on your profit and loss where a Product involves a foreign currency element (for example, where you are issuing a Product or entering into a Money Market instrument denominated in a currency other than that in which your account is denominated).

iii. **Credit risk:**

Credit risk is the risk of loss caused by counterparties, issuers or other relevant parties failing to fulfil (in other words, "defaulting on") their obligations (including following insolvency) or the risk of such parties' credit quality deteriorating.

The insolvency of, or default by, the counterparty with whom you are dealing may lead to positions being liquidated or closed out without your consent or Products not being returned to you.

iv. **Interest rate risk:**

Interest rates can rise as well as fall. Fluctuations in interest rates, whether short-term or long-term, may have adverse consequences on the price or the value of Products. In addition, interest rate changes may affect price or cost of a Product, Service or Transaction so that your expected return would be reduced in case of an interest rate increase.

3. Derivatives

a) **OTC derivatives:**

A derivative is a financial contract, whose characteristics and value depend upon the characteristics and value of an underlying asset such as currencies, interest rates, commodities or market indices. Our financial derivatives are not traded on an exchange, but are unique contracts arranged by negotiation between two parties and known as “over-the-counter” or “OTC” derivatives.

- b) The objective of investing in OTC derivatives is to manage the risk associated with an underlying asset, to protect against fluctuations in value. OTC derivatives are limited to the term agreed in the contract (the “Maturity Date”), and may expire worthless. These Products therefore carry a high degree of risk and can be highly complex. You should only enter into OTC derivatives if you are prepared to sustain a total or substantial loss of the money you have invested plus any commission or other charges or costs.
- c) You should consider carefully whether these Products are suitable for you in light of your own personal circumstances and financial position and, if in any doubt, you should seek independent financial advice.
- d) Our hedging activities related to a Product may impact the price of the underlying asset.
- e) Specific risks relating to OTC derivatives include but are not limited to the following:

i. **Liquidity risk:**

Transactions in off-exchange or non-transferrable derivatives may involve greater risk than investing in on-exchange derivatives, because there is no open market in which to close out a position. It may be difficult to liquidate an existing position which may result in partial execution or executing on unfavourable terms, to assess the value of the position or the exposure to risk or loss. Bid and offer prices need not be quoted, and even where these are quoted, they will be established by dealers and it may therefore be difficult to establish what a ‘fair’ price is.

ii. **Valuation:**

The price or value of an OTC derivative can go up or down depending upon the time to maturity, market supply and demand of the underlying asset, as well as the market’s perception as to future prices, the prices of any underlying or allied investments, or general economic factors. The sensitivity of an OTC derivative to these factors also varies throughout its lifetime. Consequently it will not be possible to calculate the value an OTC derivative prior to maturity from publicly available market data alone.

iii. **Risk mismatch:**

It may not be possible to provide an OTC derivative that perfectly manages your underlying risks. Consequently you may retain some level of residual risk which will require ongoing management.

iv. **Combination risk:**

Hybrid Products, for example a swap linked to foreign exchange rates, are exposed to both interest rate and foreign exchange risks. Consequently the combined Product may be exposed to risks that might be greater than the risks of its component parts.

- v. **Currency risk:**
OTC derivatives involving more than one currency (e.g. cross currency swaps) can be used to increase or decrease the exposure to any one currency, but may not completely eliminate exposure to exchange rate changes.
- vi. **Price risk:**
The price of Products may go up and down depending on market supply and demand, investor perception, the prices of any underlying or linked Products, macroeconomic processes, or other factors which are outside of anyone's control (such as natural disasters) and may not be predictable.
- vii. **Country risk:**
Country risk is the risk of exposure to losses caused by adverse events in a particular country or region, which has a direct or indirect impact on a Product or Service.
For example, it may happen that a foreign debtor, although solvent, cannot pay interest or repay the principal on his debt or may even completely default on its debt due to the unavailability of foreign currency or to currency exchange controls triggered, for instance, by economic, political or social instability in the relevant country.
The unavailability of foreign currency or currency exchange controls may lead to defaults on payments. Also, if you are entitled to payments in a foreign currency, you risk receiving payments in a currency which may not be convertible because of exchange controls.
Even in the absence of a crisis, state intervention may impact the value of, your rights in relation to, or any payments under any Product or Service. Such state intervention may include, for example, the imposition or removal of taxes, the confiscation of assets including nationalisation, the imposition or removal of trade quotas or tariffs or both, the passage of legislation making previously acceptable business practices or ownership structures now illegal or subject to censure.
- viii. **Leverage risk:**
Leverage, the strategy of using borrowed money to increase the potential return of an investment, can be significantly increased with the use of OTC Derivatives. This means that potential positive or negative outcomes can be magnified, significantly increasing the impact of the risks described in this Notice.
- ix. **Regulatory / legal / tax risk:**
There are regulatory, legal and/or tax risks in all Transactions.
New or changes in legislation and regulations (or any interpretation thereof), any unclear legislation or regulations or any court ruling may impact the price or value of any Product, Service or Transaction. It may also impact liquidity, lead to additional costs or even make a Product, Service or Transaction illegal for any party involved. Possible changes in applicable tax assessment and withholding procedures may increase expenses or make you become subject to additional tax payments in respect of your Transaction.
- x. **Contract risk:**
The legal terms and conditions of a Product or Service may contain provisions which could operate against your interests. For example, they may permit early redemption or termination at a time which is unfavourable to you, or they may give wide discretion to the issuer of a Product to revise the terms applicable to the Products (without requiring the consent of the holder of the Product). In other cases, there may be limits on the amounts in relation to which rights attaching to the Products may be exercised and in the event that you hold too many (or too few) Products, your interests may be prejudiced.
- f) **Swaps:**
Swaps are OTC derivatives where two parties agree to exchange predefined cash flows. The most common swap is an Interest Rate Swap ("IRS") where a fixed rate is exchanged for a floating interest rate. An example of the use of an IRS might be where a borrower, obliged to pay the lender interest at a floating rate, enters into an IRS with a third party where the borrower agrees to pay the third party a fixed rate; in return the third party pays to the borrower, the floating rate which the borrower is obliged to pay on their loan. The result to the

borrower is a fixed rate on the loan. Another type of swap commonly used is a cross-currency swap, where fixed rate cash flows in one currency are exchanged for floating rate cash flows in another currency.

g) **Options:**

An option is a financial derivative which represents a contract sold by one party (the one writing the option) to another (the one buying the option). The option buyer has the right, but not the obligation, to buy or sell a financial asset at an agreed price during a specified period of time or on a specified date. A premium is paid, usually but not always upfront, by the buyer to the seller of the option.

You should ensure you understand the exercise and expiration process and your rights and obligations upon exercise or expiry.

There are many different types of options with different characteristics and risks such as:

- i. **Buying options:** this usually involves less risk than selling options because you can simply allow the option to lapse where the price of the underlying moves against you. The maximum loss is limited to the premium paid to purchase the option, plus any commission or transaction charges.
- ii. **Writing options:** If you write (i.e. sell) an option, the risk involved is considerably greater than with buying an option as you will have potentially unlimited loss dependent on the movement of the price of the underlying asset.
- iii. By writing an option you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however much the market price has moved away from the exercise price. Consequently, if the market price of the underlying asset is much higher than the exercise price, you may make correspondingly large losses.
- iv. If you do not already own the underlying asset, the risk of loss can be unlimited. Only experienced persons should consider writing these types of options, and then only after ensuring that they fully understand all of the applicable conditions and potential risk exposures.

h) **Forward Contracts:**

A forward contract is a non-standardised OTC derivative contract between two parties to buy or to sell an asset, at a specified future time but at a price agreed upon today, making it a type of derivative instrument. The assets often traded in forward contracts including foreign currencies. Settlement occurs at the end of the forward contract.

The parties to a forward contract tend to bear more credit risk because there is no clearinghouse involved that guarantees performance. Thus, there is always a chance that a party to a forward contract will default, and the harmed party's only recourse may be to sue. As a result, forward-contract prices often include premiums for the added credit risk.

The forward price of the contract is mainly based on the current spot price of the underlying asset. Although the contract has no intrinsic value at the inception, over time, a contract may gain or lose value.

i) **Commodity Derivatives:**

Commodity derivatives are another type of non-standardised OTC derivatives contract, the value of which depends upon that of an underlying commodity, including but not limited to grains, energy or metals. Commodity derivatives with us may only be settled in cash.

j) **Repurchase Agreements:**

A repurchase agreement is a form of short term borrowing where one party sells to the other a specific quantity of certain financial instruments for a certain period of time and on certain terms and conditions, and at the same time commits to repurchase those financial instruments at a certain date in the future, at a specified price and for a pre-agreed amount of money.

The effect of the repurchase agreement is to transfer title to these financial instruments to the purchaser for the duration of the repurchase agreement. At the end of this period the seller

receives back securities of the same issuer and type. The purchaser's obligation to transfer equivalent securities is secured against collateral. Both parties to a repurchase agreement are exposed to credit risk, although this may be mitigated by the posting of collateral. Repurchase agreements may also affect your tax position.

4. Structured Investment Products:

These Products can be complex and may involve a high risk of loss. Before entering into a combined product Transaction you should consult with your own legal, regulatory, tax, financial and accounting advisors to the extent you consider it necessary, and make your own investment, hedging and trading decisions (including decisions regarding the suitability of these Products) based upon your own judgment and advice from those advisors you consider necessary. Our hedging activities related to a Product may impact the price of the underlying asset and may affect the likelihood that any relevant information barrier is crossed.

In addition to the more complex Products listed above, this Notice also contains information that has been designed to assist you to understand the nature and risks when dealing in **Foreign Exchange Spot transactions:**

- a) A Spot Foreign Exchange Contract or spot is allows the exchange of a certain amount of currency to take place at the current market rate. A spot deal will typically settle two working days after the deal is struck, although certain currencies may have other settlement conventions.
- b) Currency movements are linked to economic, social and political factors amongst other things, and can fluctuate greatly, even during the course of a single day. Fluctuations in foreign currency rates will have an impact on profit and loss where a Transaction involves a foreign currency element.
- c) Our hedging activities related to a Product may impact the price of the underlying asset and may affect the likelihood that any relevant information barrier is crossed.