CommonwealthBank

Appendix 1

Risk Warning Disclosures

Commonwealth Bank of Australia
CBA Europe Ltd

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1. Introduction

The purpose of this information is to assist you in understanding the nature and risks of the Investment services and activities ("services and activities") provided by CBA Europe Ltd ("CBAE") and the Commonwealth Bank of Australia ("the bank"), and the specific type of designated investments that are being offered so that you are able to take investment decisions on an informed basis. This notice is provided to you in compliance with the rules of the Financial Services Authority ("FSA") as amended in accordance with the implementation of the Markets in Financial Instruments Directive ("MiFID").

2. Nature of Financial Instruments and their associated risks

The risks detailed relate to, and in varying magnitudes, those financial instrument/s as defined by MiFID ("financial instrument/s") where you are provided with any services and activities by either CBAE or the bank in those financial instruments. Although this notice cannot disclose all the risks and other significant aspects of designated investments, we have set out the general nature of the greatest volume of products traded with us by clients.

The investment risks detailed should be considered by clients in regard to their portfolio and investment strategies. You should be mindful of situations where you have an exposure to any of the risks set out below, or other risks, and be aware of the magnitude of that risk in terms of your overall position. The following list is not exhaustive and investors should consider how these risks might apply to their own circumstances.

You should not deal in financial instruments unless you understand their nature and the extent of your exposure to risk. You should also be satisfied that the product is suitable for you in the light of your circumstances and financial position. Different instruments involve different levels of exposure to risk, and in deciding whether to trade in such instruments, you should be aware of the following specific points and the additional risks identified.

3. Generic risks to consider

A very conservative risk appetite has been adopted by the bank, which is managed, measured and mitigated comprehensively as part of our governance structure. There are general risks associated with our business, inherent in our products and services, and we have identified these risks as follows:

3.1. Market Risk

Market risk is the risk of an unfavourable outcome for your investment position arising from adverse movements and/or volatility in market prices to which your investment position has an exposure. Market risk is comprised of the risk of movements of variables including:-

- Price;
- Interest Rate;
- Currency; and
- Commodities.

All of our financial instruments may be exposed to one or more components of market risk.

3.2. Credit Risk

Credit risk is the risk of loss arising from adverse changes in the quality associated with a financial instrument, or a credit default on behalf of the issuer, to which your investment position has an exposure. A credit default due to insolvency or other credit default situation could result in a significant or total loss where you have an exposure. A change in the quality of the credit of an issuer could have a significant impact on the market value of their financial instruments, including in both the primary and secondary markets.

Credit ratings may not reflect all risks. One or more independent credit rating agencies may assign credit ratings to many financial instruments. The ratings may not reflect the potential impact of all risks related to structure, market or additional factors discussed above, and other factors that may affect the value of the financial instruments. A credit rating is not a recommendation to buy, sell or hold financial instruments and may be revised or withdrawn by the rating agency at any time. Investors should be familiar with the credit rating process of each agency before investing in financial instruments. Investors must always be mindful of the risk of credit default and possibility that all or some of their investments may be lost irrespective of the credit rating at the time of purchase.

Credit risk is most evident in financial instruments which have exposure to a company or entity's credit rating. Examples of products that may be exposed to credit risk include (but are not limited to) debt securities, equities, derivatives and structured products.

3.3. Liquidity Risk

Liquidity risk is the risk of not being able to trade at all, or having to trade at an unfavourable price relative to the price that would have been set in a market with multiple active buyers and sellers, and arises from a lack of interest from participants on the opposing side of the market in the relevant financial instrument.

Financial instruments may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to close out their existing investment positions easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for financial instruments that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies, or have been structured to meet the investment requirements of limited categories of investors.

3.4. Political Risk

Political risk is the risk that a change in political circumstances results in an unfavourable outcome for, or inability to trade in, your investment position. Numerous political developments, including political unrest or conflict, may result in an unfavourable outcome, including inability to trade, in some or all of your positions held with an exposure to a specific country or region, or other countries and regions as applicable.

3.5. Operational Risk

Operational Risk is the risk of an unfavourable outcome for, or inability to trade your investment position resulting from the following operational problems:

- Management and supervisory failure;
- System failure;
- Fraud;
- Human error; and
- Inadequate controls, procedures or systems.

3.6. Legal and Taxation Risks

Different laws, regulations and taxation requirements apply within different jurisdictions. Where there are variations to the laws, regulations and taxation requirements of a jurisdiction this may result in an unfavourable outcome for, or inability to trade in, some or all of your positions held with an exposure to that jurisdiction, or other jurisdictions as applicable.

3.7. Settlement Risk

Settlement risk is the risk of unfavourable outcomes, including additional costs, for your investment position, or settlement thereof, resulting from problems such as:

- Delays in settlement process;
- Non delivery of the subject of the settlement;
- Your counterparty failing to meet their settlement obligations, which can include situations where you have already met your obligations; and
- Unforeseen variations in the agreed settlement process; this is particularly relevant where settlement requires physical, or non-standard, delivery of assets.

Where the principal transaction is between you and the Bank, your settlement risk is with the Bank, meaning that you are reliant on the Bank to meet its obligations.

3.8. Leverage Risk

Many financial instruments/positions offer clients opportunity to gain an exposure to leveraged positions that may benefit from magnified gains dependent on favourable movements in variables underlying the position. Clients should be aware that any financial instruments/positions that offer the potential of magnified gains also pose the risk of magnified losses.

Leverage risk is most evident in (but not limited to) derivatives and structured products.

4. Bonds

Bonds are negotiable debt instruments issued in bearer or registered form: by a company or a government body to creditors and whose par value at issuance represents a fraction of the total amount of debt. The duration of the debt as well as the terms and conditions of repayment are determined in advance. Unless stipulated otherwise, the bond is repaid either at the maturity date, by means of annual / semi-annual payments, or at different rates determined by drawing lots. The interest payments on bonds may be either: (i) fixed for the entire duration; or (ii) variable and often linked to reference rates. The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

Dealing in bonds may involve the following specific risks:

Insolvency risk: the issuer risks becoming temporarily or permanently insolvent, resulting in its incapacity to repay the interest or to redeem the bond. The solvency of an issuer may change according to the issuing company, the issuer's economic sector and/or the countries concerned, as well as political developments with economic consequences. The deterioration of the issuer's solvency will influence the price of the securities that it issues and of any existing securities already in issue.

4.1. Interest rate risk: uncertainty concerning interest rate movements means that purchases of fixed-rate securities carry the risk of fall in the prices of the securities if interest rates rise, the longer the duration of the security (ie: loan by the entity concerned) and the lower the interest rate, the higher a bond's sensitivity to a rise in market rates.

4.2. Credit risk: the value of a bond will fall in the event of a default or reduced credit rating of the issuer. Generally, the higher the rate of interest, the higher the perceived credit risk of the issuer.

4.3. Early redemption risk: the issuer of a bond may include a provision allowing early redemption of the bond if market interest rates fall. Such early redemption may result in a change to the expected yield

4.4. Risks specific to bonds redeemable by early drawing have a maturity which is difficult to determine, so unexpected changes in the yield on these bonds may occur.

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

5. Futures

Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or some cases to settle the position with cash. The 'gearing' or' 'leverage' often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures transactions have a contingent liability and you should be aware of the implications of this, in particular the margin requirements which are set out in this document.

6. Options

There are many different types of options, with different characteristics and subject to the following conditions.

6.1. Buying options:

Buying options involves less risk than selling options, because if the price of the underlying asset moves against you, the option can be allowed to lapse. Maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks described under ‘futures’ and ‘contingent liability investment transactions’ (section 11).

6.2. Writing options:

If you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you own the underlying asset which you have contracted to sell, in which case the option is known as a ‘covered call options’, the risk is reduced. If you do not own the underlying asset, an ‘uncovered call options’, the risk can be unlimited; only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

7. Contracts for differences

Some futures and options contracts can also be referred to as contracts for differences. These can be options and futures on various underlying instruments such as indices, as well as currency and interest rate swaps. Investing in a contract for differences carries the same risks as investing in a future or an option, and you should be aware of these as set out in other sections of this document. Transactions in contracts for differences may also have a contingent liability and you should be aware of the implications of this as detailed in this disclosure.

While some off-exchange markets are highly liquid, transactions in off-exchange or ‘non transferable’ derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess exposure to risk. Bid prices and offer prices may not always be quoted, and where they are, they will be established only by dealers in those instruments. Consequently it may be difficult to establish what is a fair price.

8. Equities

An equity is a certificate representing a shareholder’s rights in a company. Equities may be issued in bearer or registered form. A single equity represents a fraction of a corporation’s share capital. Dividend payments and an increase or decrease in the value of the security are both possible. The shareholder has financial and ownership rights which are determined by law and the issuing company’s articles of association. Unless otherwise provided, transfers of bearer equities do not entail any formalities. However, transfers of registered equities are often subject to limitations.

Dealing in equities may involve the following specific risks:

8.1. Company risk: an equity purchaser does not lend funds to the company, but makes a capital contribution and, as such, becomes co-owner of the corporation. He or she thus participates in its development as well as in chances for profits and losses, which makes

it difficult to forecast the precise yield on such an investment. An extreme case would be if the company went bankrupt, thereby wiping out the total sums invested in equities.

8.2. Price risk: equity prices may undergo unforeseeable price fluctuations causing risks of loss. Price increases and decreases in the short-medium and long term alternate without it being possible to determine the duration of those cycles. General market risk must be distinguished from the specific risk attached to the company itself. Both risks, jointly or in aggregate, influence the evolution of equity prices.

8.3. Dividend risk: the dividend per equity mainly depends on the issuing company's earnings and on its dividend policy. In case of losses or even low profits, dividend payments may be reduced or not made at all.

9. Foreign markets

Foreign markets will involve different risks from the UK markets. In some cases the risks will be greater. The potential for profit or loss from transactions or foreign markets or in foreign denominated contracts will be affected by fluctuations in foreign exchange rates.

10. Emerging markets

Emerging markets are less developed countries which may have less stable economic and/or political conditions than larger mature western economies. Investing in emerging markets is generally characterised by higher levels of risk than investing in fully developed markets. Accounting, corporate governance and financial reporting standards that prevail in some of these countries are often not equivalent to those in countries with more developed markers. Tax and legal regimes may be subject to uncertainty and to significant and unpredictable changes, and repatriation of investments and profits may be restricted by exchange controls. There may also be less well developed regulation of markets, issuers and intermediaries. Markets may lack the liquidity of those in developed countries, leading to difficulty in valuing assets. Instability in such markets has previously led to / may continue to lead to investor losses. Settlement transactions carried out on such markets may be lengthier and less secure than in developed markets.

11. Contingent liability investment transactions

Contingent liability investment transactions, which are margined, require you to make a series of payments against the purchase price instead of paying the whole purchase price immediately.

If you trade in futures, contracts for differences or sell options, you may sustain a total loss of the margin you deposit to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you will be responsible for the resulting deficit. Even if a transaction is not margined, it may still carry an obligation to make further payments, in certain circumstances over and above any amount paid when you entered into the contract.

12. Complex financial instrument Risk

Where financial instruments are themselves composed of two or more different financial instruments, services, activities or other components, there are likely to be greater risks with such investments in terms of the interaction of the different components within the financial

instrument. Unfavourable movement/s in any or all of the underlying financial instruments may act in combination in such a way as to increase the overall potential risk of an unfavourable outcome.

13. Suspension of trading

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

14. Disclaimer

This risk warnings disclosure:

- is provided as information only;
- is not advice, including investment advice;
- is not a personal recommendation;
- is not an assessment of the appropriateness or suitability of any product group, or financial instrument thereof, for you;
- is not designed for any particular client;
- should be assessed, with the help of an investment professional in terms of its applicability, if any, to your particular needs and circumstances;
- is not an exhaustive list of risks, or their management; and
- is provided on a best endeavours basis and is not represented by CBAE or the bank as a definitive guide on the matters raised within.

It is possible that the risks raised within, or other risks that are not included in this Risk Analysis, may attach to the financial instruments, services or activities provided by CBAE and/or the bank in ways not identified in this document. In providing meaningful information in terms of risk the focus of this document is to highlight key risks that clients should be aware of however no member of the Commonwealth Bank Group, including CBAE or the bank, guarantee that this document has identified all risks that you need to be aware of in regard to your financial needs and circumstances.

15. Definitions and reference to MiFID text

Investment services and activities (“services and activities”) - Means services and activities as defined in the Directive on Markets in Financial Instruments, and any regulations and implementing directives, in 2004/39/EC of the European Parliament and the Council of 21 April 2004.

MiFID Financial Instrument/s (“financial instrument/s”) - Means Financial Instruments as defined in the Directive on Markets in Financial Instruments, and any regulations and implementing directives, in 2004/39/EC of the European Parliament and the Council of 21 April 2004.

DIRECTIVE 2004/39/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 21 April 2004 on markets in financial instruments

ANNEX I

MiFID - LIST OF SERVICES AND ACTIVITIES AND FINANCIAL INSTRUMENTS

Section A

Investment services and activities

(1) Reception and transmission of orders in relation to one or more financial instruments.
(2) Execution of orders on behalf of clients.
(3) Dealing on own account.
(4) Portfolio management.
(5) Investment advice.
(6) Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis.
(7) Placing of financial instruments without a firm commitment basis
(8) Operation of Multilateral Trading Facilities.

Section B

Ancillary services

(1) Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management;
(2) Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;
(3) Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings;
(4) Foreign exchange services where these are connected to the provision of investment services;
(5) Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments;
(6) Services related to underwriting.
(7) Investment services and activities as well as ancillary services of the type included under Section A or B of Annex 1 related to the underlying of the derivatives included under Section C – 5, 6, 7 and 10 - where these are connected to the provision of investment or ancillary services.

Section C

Financial Instruments

(1) Transferable securities;
(2) Money-market instruments;
(3) Units in collective investment undertakings;
(4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
(5) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
(6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or an MTF;
(7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in C.6 and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls;
(8) Derivative instruments for the transfer of credit risk;
(9) Financial contracts for differences.
(10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.