

# INFORMATION ABOUT FINANCIAL INSTRUMENTS

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**IMPORTANT: THIS DOCUMENT IS INTENDED ONLY FOR ENTITIES CLASSIFIED AS PROFESSIONALS, AS PER ARTICLE 8 FEDERAL ACT ON FINANCIAL SERVICES (FinSA).**

**IF YOU ARE CLASSIFIED AS RETAIL CLIENT, YOU HAVE TO CONTACT YOUR USUAL INTERLOCUTOR IN SOCIETE GENERALE OR REFER TO THE KEY INFORMATION DOCUMENT WHEN AVAILABLE.**

Any investment may lead to capital losses. In some cases, you may lose more than the capital invested (if any) and potentially up to unlimited losses. In addition you may also have to pay commissions or other transaction charges.

Please read the Important Information at the end of this document

## CASH INSTRUMENTS

### Equities

Equities (or shares) are instruments that represent an ownership position in a company's capital. They represent a claim on a portion of the company's assets and profits (paid in the form of dividends), but this claim is subordinated to the creditor's one. Dividends are not guaranteed. Equity holders will only enjoy distributions from earnings after higher priority claims are met and if the company decides to distribute some of those earnings. Equities expose the equity holder to capital growth and decrease. As their value can fall as well as rise quickly, they are viewed as high risk and, traditionally, long term investments. Clients may therefore lose their capital when investing in equities. As a general rule, in order to determine whether conflicts of interest could arise, Societe Generale takes into account, whether itself or a person directly or indirectly linked by control to the firm is in one of the following situations:

A fundamental aspect of equity ownership is the fact that owners enjoy limited liability. Creditors cannot pursue individual shareholders to satisfy claims against the company and hence, shareholders can lose no more than the capital they paid to acquire their shares.

Some companies issue multiple classes of share, each one with clearly defined rights (preferred shares, common shares, non-voting shares, etc.).

Shares can be traded through on-exchange or off-exchange transactions. The admission of shares for trading on a regulated exchange does not mitigate their liquidity risk.

### Forex

The foreign exchange (FX) market is arguably the largest financial market in the world and exists wherever one currency is traded for another. The value of any currency is always expressed relatively to another currency and changes constantly.

Investors can invest on a given currency by simply converting their cash holding from one currency into another.

There is no regulated exchange to trade currencies.

The evolution of a currency is often linked to the macro economic situation of its home country and may be affected by geopolitical events.

### Bonds

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

The value of debt securities is usually sensitive to fluctuations of interest rates. When interest rates rise, the market value of a bond paying fixed coupons can be expected to decline. Longer term bonds tend to be more sensitive to interest rate movements than those with shorter maturities.

Since bond investors are highly exposed to the credit worthiness of bond issuers (i.e. their ability to meet coupon and principal payments), such issuers are generally grouped by types

- Sovereigns, agencies and supranational issuers refer to governments, supranational entities (e.g. the UN, world bank, etc.) and entities that benefit from an obvious or official backing of the government of its home country.
- Corporate issuers refer to public or private companies issuing debt to finance the development or the operation of their business. They are routinely split into two main sub-groups

Those two sub-groups are:

- “Investment Grade” companies are usually considered suitable for longer term investments and have a credit rating higher than Baa (Moody’s) or BBB- (Standards & Poors).
- “High Yield” companies are considered more risky and only suitable for less risk averse investors. They have a credit rating lower than Baa (Moody’s) or BBB- (Standards & Poors).

## Money Market Instruments

Money market instruments are short-term fixed-income obligations, which generally have remaining maturities of one year or less, and may include Treasury Bills, commercial paper and certificates of deposit. They are generally short term and therefore more liquid than other investments. Investing in money market instruments is generally considered to be lower risk. However just like with any bond investment, in the event of default/insolvency of issuers, the price and availability of market traders for these instruments may be adversely affected and you may suffer capital losses.

## Credit Rating

Credit ratings are grades attributed to governments and companies by rating agencies (for example: Moody’s, Standard & Poor’s, Fitch). Such ratings are used by investors as an evaluation of the credit worthiness of issuers. Upgrades and downgrades by rating agencies can have a material impact of the market value of the bonds issued by the company subject to such upgrade/downgrade.

## DERIVATIVE INSTRUMENTS

### Generic description

A derivative is a financial instrument, the value of which is based on market parameters and the nature of the underlying asset (underlying assets may be single assets or baskets of assets). It is an agreement between two or more parties to exchange money, assets or some other value at a future point in time depending on predefined features.

There are many types of derivative, but options, futures and swaps are among the most common. An investor in derivatives often assumes a high level of risk, and therefore investments in derivatives should be made with caution, especially for less experienced investors or investors with a limited amount of capital to invest.

On-exchange derivatives are subject to the risks of exchange trading generally, including potentially the requirement to provide margin. Off-exchange derivatives may take the form of unlisted transferable securities or bi-lateral “over the counter” contracts (“OTC”).

OTC derivatives are individually negotiated. As the terms of the transactions are not standardised and no centralised pricing source exists (as exists for exchange traded instruments), the transactions may be difficult to value. Different pricing formulas and financial assumptions may yield different values, and different financial institutions may quote different prices for the same transaction. In addition, the value of an OTC derivative will vary over time and may be affected by many factors, including the remaining time until maturity, the market price of the underlying asset, price volatility and prevailing interest rates.

Derivatives can be used for speculative purposes or as hedges to manage other investment or economic risks. In all cases the suitability of the transaction for the particular investor should be very carefully considered.

Investors can go long or short derivative instruments resulting in very different risk exposures. For example, whereas long call positions may lead investors to lose their full investment in a worst case scenario, short call positions may result in unlimited losses.

## Options and Warrants

Options/warrants involve one of the parties having the right (but not the obligation) to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle your position with cash, at a predefined point in time and at conditions preset at launch. Options/warrants' underlying assets can be single assets, baskets of assets or indices. They can also reference several types of assets. 5

Generally, the underlying assets will be shares, debentures, government securities, indices, baskets of securities or currencies.

Buyers of options/warrants pay a premium upfront and have the right to execute them according to predefined conditions. Their potential loss is limited to the premium paid. Over the term of the investment, the price of the option/warrant varies according to different variables, in particular the price of the underlying asset, the implied volatility or the risk free interest rate. The passing of time works to the disadvantage of the buyer.

Option/warrant writers (i.e. sellers) receive the premium upfront and have the obligation to execute the terms of the option/warrant when/if the buyer decides to execute it. Their potential loss may be unlimited, as in the case of naked short call positions. Only experienced investors should contemplate writing uncovered options/warrants, and then only after securing all details of the applicable conditions and potential risk exposure.

American vs. European options/warrants: with an American option/warrant, the buyer has the right to execute it at any time over the life of the option/warrant. With a European option/warrant, the buyer can only execute it at its maturity.

Although warrants operate in a similar way to options, warrants are different in that they are securities that are exercisable against the original issuer of the warrant (and your counterparty risk under a warrant is against such issuer). Options/warrants may become worthless if the price of their underlying asset falls below the strike price (or rise above the strike price depending on the type of option/warrant)

## Forwards and Futures

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

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

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

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

In a forward/future purchase investors can lose the amount corresponding to the agreed notional amount.

However in a forward/future sale, as prices can have an unlimited upside, the exposure to potential losses is also potentially unlimited.

## Repurchase Agreements

A Repurchase Agreement (Repo) involves the sale of securities alongside an agreement for the seller to buy back the securities at a specified time and predefined price.

They typically use bonds or other fixed income products as collateral.

Whilst legally a Repo is the sale and subsequent repurchase of a security, it has the economic effect of a secured loan. The original seller acts as a borrower, using their security as collateral for a secured cash loan at a fixed rate of interest. If the repoed security pays a dividend, coupon or partial redemption during the repo, it is repaid to the original owner.

As a result of entering into a repurchase agreement you will cease to be the owner of the relevant securities which may affect your tax position.

## Swaps

A swap is a derivative instrument whereby two counterparties exchange one stream of cash flows against another stream, calculated by reference to an “underlying”. Swaps can be traded on a very large scope of underlying assets such as securities’ indices, bonds, currencies, interest rates, commodities or more intangible items such as volatility or correlation

The most common form of swaps are interest rate swaps whereby investors exchange fixed versus floating interest rate cash flows. Cash flows of a fixed rate loan are therefore exchanged for those of a floating rate loan, the most common using a 3 month or 6 month Libor rate (or Euribor) as the floating rate. Swaps can also be customized (non vanilla) and are categorized according to the nature of the cash flow streams exchanged. An asset swap is customized to change the character of a specific asset.

Another example of swaps on intangible assets is variance swaps. Under a variance swap, both parties exchange the variance of a predefined underlying asset for a preset nominal and over a given time horizon. One counterparty typically pays a floating amount that equals the realized variance of the underlying asset over the life of the swap; the other counterparty pays a fixed amount usually corresponding to the implied variance of the same underlying asset over the same period of time.

## Contracts for Difference

A Contract For Difference (CFD) is a derivative agreement to

exchange the difference between the purchase price and the selling price of the underlying asset. This can be an option or a future on an index, equity, bond, commodity or the value of any asset of any description, as well as currency and interest rates.

A CFD can only be settled in cash and carries the same risks as investing in futures or options.

## Dynamic Portfolio Swap

Dynamic Portfolio Swap (DPS) is a swap platform.

It provides leveraged exposure to multiple underlying assets under one unique derivative contract.

A DPS offers exposure to a vast range of assets (long and short): single stocks, equity rights, customized baskets, indices, ETFs and convertible bonds. 8

A DPS gives access to a wide variety of markets, both developed and emerging, through a single DPS contract.

A DPS's payoff is similar to that of a TRS or a CFD. The client receives the performance of the underlying against a fee. As with other forms of OTC derivatives, investors bear counterparty risk on Société Générale as well as various market risks on the underlying assets.

## Credit Default Swaps

A Credit Default Swap (CDS) involves a protection buyer and a protection seller. The protection buyer pays the other a fixed periodic coupon for the specified life of the agreement with the intention of transferring credit risk from one party to another. The protection seller makes no payment unless a specified credit event occurs. Counterparties to a CDS transaction are therefore exposed to the credit risk of the other counterparty and to the credit risk of the reference entity. Credit events are agreed upon at the time the trade is entered into and many CDS contracts are traded with some but not all of the following credit events as triggers: reference entity bankruptcy, failure to pay, restructuring, obligation acceleration, repudiation and moratorium and government intervention. When a credit event occurs settlement of the CDS contract can be either physical or in cash. The auction process used to determine the recovery value of a Reference Entity following a credit event is governed and monitored by the International Swaps and Derivatives Association.

## Total Return Swaps

A Total Return Swap (TRS) is a specific type of swap by which one party makes payments based upon the total return (coupons or dividends plus capital gain/loss) of a specified reference asset. The other, makes payments based on a set rate, either fixed or floating. Both parties' payments are based upon the same notional amount. The reference asset can be almost any asset, index or basket of assets.

TRS can be seen either as a hedging instrument to transfer the entire credit risk and market risk of an asset or as an instrument allowing to derive the economic benefit of owning the asset without having to own it.

## Emission Allowances

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

As the privilege is transferable a market has been established to trade the allowances and MiFID II further ratifies this by defining emission allowances as a financial instrument under MiFID II.

As with all commodities, emission allowance prices may be volatile and will be affected by a variety of factors that are unpredictable including changes in demand/availability, legal and regulatory changes. As this market is heavily dependent on targets and corresponding regulatory obligations set on certain participants, changes in policy and regulations may affect prices significantly. These factors may also affect the availability of counterparties to the trades.

## Structured Products

Structured products form a broad range of synthetic investment and hedging instruments custom made to meet the specific needs of clients that cannot be met using standardised products available in the market. Structured products usually embed derivatives (e.g. options, swaps, futures). They are commonly used to implement specific investment or risk hedging strategies either to perform in specific market conditions, bring diversification or match the exact asset allocation of a client.

A typical structured product might combine an element of capital protection with a degree of participation in the return from a higher performing but riskier underlying asset.

Structured products are not standardized which makes them hard to compare from the various banks offering them.

They may embed many different types of underlying assets and derivative instruments which may render them particularly complex to understand. Refer to your usual interlocutor.

Examples of structured products are Asset Backed Security (ABS), Residential Mortgage Backed Securities (RMBS), Commercial Mortgage Backed Securities (CMBS), Collateralized Loan Obligations (CLO), Collateralised Debt Obligation (CDO) and Asset Backed 10

Commercial Paper (ABCP). ABS, RMBS, CMBS and CLO expose the investor to the credit risk of underlying assets like,

- in the case of ABS, a portfolio of credit card receivables, consumer loans,
- in the case of CLOs, a portfolio of commercial, high-yield or structured finance loans
- in the case of RMBS: residential mortgage loans
- in the case of CMBS: commercial mortgage loans
- in the case of ABCP: trade receivables

These underlying assets constitute the collateral assets of the issuer of these bonds. The payment of any interest and principal in respect of such bonds will depend on the performance of such underlying assets, notably credit risk but also interest rate risk or FX risk to the extent unhedged or, if hedged, to the extent of any credit risk of such hedge provider.

Some ABS or ABCP may be guaranteed (partially or in whole) and in such a case, the payment of any interest and the redemption of principle would also depend on the credit risk of the guarantor.

By investing in CDOs the investor is exposed to the credit risk of third party entities through the use of CDS contracts.

## **UNITS & SHARES IN FUNDS OR COLLECTIVE INVESTMENT SCHEMES**

### **Collective Investment Schemes**

Collective investment schemes (such as investment funds and open-ended investment companies) invest funds paid in by purchasers of units or shares in the collective investment scheme in the various types of investments provided for in their investment rules. Open-ended investment funds, for example, allow investors to invest or disinvest by buying or selling fund units on the basis of the value of a unit, plus or minus the relevant commissions. By purchasing units or shares in a collective investment scheme you will be exposed to the risks and returns associated with the nature of the financial instruments in which the collective investment undertaking invests and, where relevant, their concentration in a particular sector, country, region or asset class including derivative instruments and any borrowings and/or leverage embedded.

### **Alternative Investments**

Alternative Investments are investments in hedge funds and other private investment funds.

Although often in the form of collective investment schemes, alternative investments are often not subject to the same regulatory requirements or oversight as traditional collective investment schemes. Sponsors or managers of alternative investments may also not be registered with any government agency or regulatory authority. They may involve complex tax and legal considerations; they can expose investors to high risks and may limit the ability for investors to redeem their investments through weekly, monthly or quarterly redemption windows.

## Exchange Traded Funds

Exchange traded funds ("ETFs") are collective investment schemes, traded as shares on stock exchanges, and typically replicate a stock market index, market sector, commodity or basket of assets. As such, they generally combine the flexibility and tradability of a share with the diversification of a collective investment scheme. ETFs may expose you to similar risks as collective investment schemes.

ETFs are generally passive forms of investment: they typically implement an investment strategy set at launch of the scheme (i.e. replication of a market index, static exposure to an industry sector, static exposure to an investment theme, etc.) and no manager actively oversees the asset allocation of the scheme. ETFs usually feature lower entry and management fees than other types of collective investment schemes

## ISSUERS & WRAPPERS

### EMTN

Vanilla EMTNs are flexible debt instruments similar to bonds and bear the same risks.

However, structured EMTNs have non-standard terms and are generally more complex. They should therefore be considered as securitised derivatives. Two distinct structured EMTNs could also have very different risk profiles.

### Deposits

Structured deposits are deposits or savings which are fully repayable at maturity on terms under which interest or a premium will be paid or is at risk, according to factors and criteria set at launch (e.g. index, financial instrument, commodities or foreign exchange rates or combinations thereof). Structured deposits are not the same as conventional time deposits and involve a higher degree of risk as they may not offer any protection on the invested principal and/or its potential return.

### Secured securities

Secured securities offer an additional feature to protect the principal invested by investors in the case of a default by the issuer of such securities. It usually consists of a pool of assets segregated from the balance sheet of the issuer. Investors in such secured securities are allowed to trigger the sale of such assets and claim the proceeds up to their initial investment in the case of the issuer being unable to fulfill its contractual obligations.

Although secured securities offer a greater safety to investors compared to unsecured securities, there is no guarantee that the proceeds from the sale of such assets will be enough to repay in full the claimed amounts.

## RISKS

### Generic definition of investment risks

Investments provide a return relative to the amount of risk they pose. The value of the investment can go down as well as up and can be subject to volatility due to a range of factors such as economic, social, political factors, price changes in the underlying instrument and interest rates. You may lose the entire amount invested, if any (including premium) and you may be exposed to unlimited losses in some specific situations. It is important to remember that past performance is no indication or guarantee of future performance.

The nature and extent of investment risks varies between countries and from investment to investment. These investment risks will vary with, amongst other things, the type of investment being made, including how the financial products have been created or their terms drafted, the needs and objectives of particular investors, the manner in which a particular investment is made or offered, sold or traded, the location or



domicile of the Issuer, the diversification or concentration in a portfolio (e.g. the amount invested in any one currency, security, country or issuer), the complexity of the transaction and the use of leverage.

Risks can compensate as well as magnify each other.

## Capital protection

Some products feature a predefined agreement to repay part or all of the principal amount at maturity. Most debt securities are based on the assumption that the issuer will repay the principal in full at maturity. Structured products may also feature some protection of the invested principal.

Unlike savings accounts, capital protection provisions usually only protect investors' principal at maturity. Any redemption prior to maturity typically depends on the prevailing market conditions at the time of redemption. In case of adverse market conditions, investors exiting their investments may bear losses.

## Credit / Issuer / Counterparty / Settlement risk

These risks are linked to the risk of loss caused by borrowers, bond obligors, guarantors or counterparties failing to fulfill their contractual obligations or to such parties' credit quality deteriorating.

Credit risk can take many forms and can be referred to as 'counterparty risk', 'issuer risk' or 'settlement risk'. Settlement risk increases where different legs of a transaction settle in different time zones or in different settlement systems where netting is not possible. If a transaction does not settle by the settlement date, interest may start to accrue against the party which has failed to deliver.

A variety of measures are used to analyse and assess credit risk, and in addition to an upfront assessment, a number of measures can be used to manage and mitigate credit risk, such as the use of covenants, credit derivatives, the posting of collateral assets, diversification and the application of credit risk limits.

Most financial instruments expose investors to some degree of credit risk but some simple or structured products may be particularly sensitive to it (e.g. bonds, credit linked notes, asset backed securities, collateralized loan obligations, etc.)

## Listed vs. OTC products

Whereas financial products listed on a regulated exchange offer investors the additional safety provided by clearing houses to protect them from the risk of their counterparty not fulfilling its contractual obligations, such protection doesn't exist with products traded over-the-counter (OTC). Investors can lose the entire amount invested with listed products while for OTC products the potential loss can be unlimited.

By trading OTC products, investors bear some credit risk on the counterparty of the trade, potentially for the entire duration of the trade.

## Market risk

Market risk is the exposure of investments to movements in asset prices in financial markets, including observable variables such as interest rates, exchange rates and equity market indices, and others which may be only indirectly observable such as sector, political and economic factors as well as volatility, correlation or forward rates

## Interest rate risk

Interest rate risk is the risk that interest rates will fluctuate and adversely impact the value of an investment. Bonds are especially sensitive to interest rate fluctuations; zero coupon bonds and longer maturity bonds being particularly exposed to interest rate moves.

Other products could also be impacted. There are additional interest rate related risks in relation to floating rate instruments and fixed rate instruments; interest income on floating rate instruments cannot be anticipated. If the terms and conditions of the relevant instruments provide for frequent interest payment dates, you will be exposed to reinvestment risk if market interest rates decline.

Interest rate derivatives may also expose investors to the interest rate curve i.e. the difference between short term rates and long term rates.

Most financial instruments embed to some extent an exposure to interest rates.

## **Credit risk (Credit Default Swaps)**

Credit Default Swaps (CDS) allow credit protection sellers to buy credit risk from credit protection buyers in return of the payment of a premium.

The definition of credit risk in the case of CDS may in some cases significantly change from the usual definition of credit risk. CDS contracts are governed by rules set by the International Swaps and Derivatives Association (ISDA) and as such obey to very specific definitions of the types of credit events on the reference entity that trigger the payment from the protection seller to the protection buyer.

CDS may be embedded and therefore influence the mechanism of some structured products (e.g. credit linked notes, collateralized debt obligations, etc.)

Investors are advised to carefully review the documentation before entering into such contracts.

## **Currency risk**

In respect of foreign exchange transactions, transactions in derivatives and securities that are denominated in a currency other than that in which your account is denominated, or when the underlying asset(s) is/are quoted and/or expressed in a foreign currency and/or, in the case of an index or an asset basket, it contains components expressed and/or quoted in one or several foreign currency(ies), the value of the investment may increase or decrease as a result of the value of such currency(ies) against the euro or any other currency in which the product is expressed, unless the product includes a currency exchange guarantee.

A movement in exchange rates may have a material impact on the gain or loss achieved on such transactions.

The weakening of a country's currency relative to a benchmark currency or the currency of your portfolio will negatively affect the value of an investment denominated in that currency. Currency valuations are linked to a large range of economic, social and political factors and can fluctuate greatly, even during intra-day trading. Some countries have foreign exchange controls which may include the suspension of the ability to exchange or transfer currency, or the devaluation of the currency.

## **Commodity risk**

Commodity risk is the risk of commodity prices fluctuating and adversely impacting the value of your investments.

The prices of commodities may be volatile, and, for example, may fluctuate substantially if natural disasters or catastrophes (such as hurricanes, flooding, fires or earthquakes) or political events (such as conflicts, wars or embargos) affect the supply and demand balance. If any interest and/or the redemption amount payable in respect of any product is linked to the price of a commodity, any change in the price of such commodity may result in the reduction of the amount of interest and/or the redemption amount payable.

In addition to those risks, commodity derivatives may be impacted by the shape of future commodity prices (i.e. forward curve) which can be subject to sudden and significant changes.

## Equity risk

Equity risk is the risk of share prices evolving and negatively impacting equity related investments.

Equity markets can be volatile and are sensitive to a large range of political and economic indicators.

The share price of a company may be influenced by a number of risk factors which are both inside and outside the control of the company. Such factors may include the financial performance and prospects of the company, the performance and prospects for the industry in which the company operates, economic situation and financial and stock market conditions, particularly where the company is listed.

There is an extra risk of losing money when shares are bought in some smaller companies. There may be a material difference between the buying price and the selling price of these shares. If they have to be sold immediately, the client may get back much less than he paid for them

## Volatility risk

Volatility risk is the risk linked to the price fluctuations of a security. Volatility is high if the security is subject to wide price movements over a relative period of time. Conversely, volatility is low when prices fluctuate within a narrow range over the same length of time.

Most options have some degree of sensitivity to volatility and some options may be highly sensitive to it.

Derivative prices are sensitive to implied volatility (i.e. the anticipation by the market of future volatility). Implied volatility cannot be easily observed by investors and may be subject to sudden and sharp fluctuations.

## Correlation risk

Correlation risk is the risk that fluctuating correlation among the assets underlying a derivative instrument might impact its value. Correlation is an indication of how several assets move in a coordinated way (i.e. rise or fall at the same time and with the same magnitude). A correlation of 1 signals assets that are perfectly coordinated ; a correlation of 0 signals assets with completely unrelated price behaviors.

Correlation risk only affects derivatives with several underlying assets (e.g. options on baskets of assets, options on spread, options on indices, quanto currency exposure, etc.) and may be a significant driver of the value of some structured products (e.g. Collateralized Debt Obligations, Collateralized Loan Obligations, etc.)

## Leverage risk

Leverage risk is the increased exposure to the movement in price or the level of an underlying asset and can therefore magnify both gains and losses, For financial products that include leverage, a relatively small movement in the price of the underlying security may result in a disproportionately large movement, unfavorable or favorable, in the price of the financial instrument. The price of such financial instruments can therefore be volatile and they may as a result of market conditions become worthless.

You should note that leveraged products involve a higher level of risk and that whenever there are losses such losses may be higher than those of other financial products that are not leveraged.

In some cases the degree of leverage could exceed the value of the financial product and result in a total loss. You should therefore only enter into leveraged transactions if you fully understand the effects of leverage.

Derivatives often embed leverage. Options, futures and forwards trading for example 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 in the market 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.

## **Risks relating to unfavorable market conditions**

Derivative contracts may have a contingent liability, and you should be aware of the implications of this. In particular, the fluctuations in the marked-to-market value of the product may require the counterparty to pay margin calls, make provisions, or resell the product in whole or in part before maturity, in order to enable the counterparty to comply with its contractual or regulatory obligations. As a consequence, the counterparty may have to liquidate the product under unfavourable market conditions, which may notably result in the partial or total loss of the invested amount (if any). This risk will be even higher if the product includes leverage.

## **Liquidity risk**

Liquidity risk is the financial risk arising from uncertain supply and demand and also indirectly by other factors such as market disruptions (e.g. disruption on an exchange) or infrastructure issues (e.g. disruption in the securities settlement process).

Certain exceptional market circumstances may have a negative effect on the liquidity of products, and even render them entirely illiquid, which may make it impossible to withdraw from such investments and result notably in the partial or total loss of the invested amount (if any).

Certain investments are designed to be held to maturity and may have limited to no established trading market to allow your capital or investment to be returned prior to maturity. If a trading market does develop, it may not be very liquid. Therefore, you may not be able to sell or divest from your investment easily or at prices that will provide you with a rate of return comparable to similar investments that have a developed secondary market. This is particularly the case for financial products that are designed for specific investment objectives or to meet the needs of specific investors. As such certain investments would generally have a more limited secondary market and more price volatility than other conventional investments, such as shares.

The lack of liquidity may result in a capital loss or lower return.

When Société Générale proposes prices for its products over their life, this commitment may depend on (i) general market conditions and (ii) the liquidity conditions of the underlying instrument(s) and, as the case may be, of any other hedging transactions. The price of such products (in particular, the “bid/offer” spread that Société Générale may propose from time to time for the early termination of its products) may include, inter alia, the hedging and/or unwinding costs generated by such an early termination for Société Générale.

## **Early Redemption risk and callable securities**

Certain securities may contain provisions permitting their early redemption and such early redemptions will likely impact the expected yields achieved on these securities.

Such early redemption may be predefined or at the issuer’s discretion. Common forms of callable securities are callable preferred stocks, callable bonds and callable structured products. All or part of an issuance may be called. Investors whose securities are called are paid a specified call price.

Early redemption provisions may force investors to terminate a product at a time which is unfavorable to them and may be detrimental to their performance potential.

## **Delivery risk**

For products settled by physical delivery, the risk of delivery corresponds to a market participant’s inability to comply with its obligations as a seller under sales agreements (e.g. the delivery of a relevant underlying

under the forward contract, etc.). This participant will then have to unwind its position which will trigger an increase in the price of the relevant transaction. Such increase will be greater if the position is significant and the time of delivery is approaching. This may result in a loss of profit.

### **Risk of partial or over-hedge**

When the product corresponds to the counterparty's estimate of its hedging needs at the time a transaction is entered into, a change in these hedging needs may render the level of the hedge oversized. In such event, the counterparty must inform Société Générale which will propose solutions to adjust the level of the hedge to the counterparty's needs.

### **Economic risk**

Certain investments may expose investors to the risk that the economy of a country or a region may underperform. This is particularly true for investments in emerging markets that are exposed to additional risks including accelerated inflation, exchange rate fluctuations, and macroeconomic distress.

### **Geopolitical risk**

The political systems of many emerging countries have been the subject of substantial and positive reforms. The relative infancy of some of these political systems may mean that they are more vulnerable in the face of popular dissatisfaction with reform, political or diplomatic developments, or social, ethnic or religious turmoil. Such developments, if they were to occur, could in turn lead to increased political instability, a backlash against foreign investments, adverse repatriation laws and fiscal measures and, in a worst case scenario a shift toward a centralized planned economy and state ownership of assets. This could involve the compulsory nationalization or expropriation of foreign-owned assets without adequate compensation, or the restructuring of particular industry sectors in a way which could adversely affect private investors in such sectors.

The occurrence of geopolitical events may often trigger other unfavorable side effects such as currency depreciation or the illiquidity of financial assets.

### **Regulatory, Tax & Legal risk**

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

### **Bank Recovery and Resolution Directive**

The Bank Recovery and Resolution Directive (BRRD) provides "resolution authorities" across the European Union with a comprehensive set of tools to deal with failing European financial institutions by using amongst other things the "bail-in" powers enabling them to reduce unsecured liabilities of the failing entity potentially down to zero, to convert such liabilities into equity and to postpone the maturity of these liabilities.

The exercise of the "bail in" and other powers under the BRRD resolution regime may not constitute an event of default under the terms of your investments.

### **Re-use Risks and Consequences**

Where you provide financial instruments to Société Générale under a title transfer collateral arrangement or if Société Générale exercise a right of use in relation to any financial instruments that you have provided to us by way of collateral under a security collateral arrangement containing a right of use, we draw your attention to the following Re-use Risks and Consequences:

- i. your rights, including any proprietary rights that you may have had in those financial instruments will be replaced by an unsecured contractual claim for delivery of equivalent financial instruments;
- ii. in the event of our insolvency or default, you may not receive such equivalent financial instruments or recover their full value;
- iii. in the event that a resolution authority exercises its powers, your claim may be reduced or converted into equity; or a transfer of assets or liabilities may result in your claim on us, or our claim on you, being transferred to different entities;
- iv. you will not be entitled to exercise any voting, consent or similar rights attached to the financial instruments, we will have no obligation to inform you of any corporate events in relation to them, you will not benefit of any client asset protection right, you will not be entitled to receive any dividends, coupon or other payments, interests or rights payable in relation to those financial instruments;
- v. in the event that we are not able to readily obtain equivalent financial instruments to deliver to you at the time required: you may be unable to fulfil your settlement obligations in relation to those financial instruments.

Refer to the following link for full disclosure: [cib.societegenerale.com/en/who-are/compliance-regulatory-information/market-regulation/sftr/](https://cib.societegenerale.com/en/who-are/compliance-regulatory-information/market-regulation/sftr/)

## IMPORTANT INFORMATION

The contents of this document are given for purely indicative purposes and have no contractual value.

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This document does not constitute an offer, or an invitation to make an offer, from Societe Generale to purchase or sell a product.

The purpose of this document is to provide general information on risks associated with specific financial instruments.

Investors must not rely exclusively on the information contained herein to take investment decisions and should not consider it as investment advice, as investment recommendation or as a recommendation to enter into any particular product detailed in this document.

Investors are advised to take investment decisions based on their personal circumstances, financial position, risk tolerance and financial goals and seek independent financial, fiscal or accounting advice if required.

The risks described in this document can occur simultaneously and may have unpredictable effects on the value of your investments.

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

This document may be updated from time to time and the last version is available on December 2024

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