PRODUCT AND SERVICE RISK DISCLOSURES

PART I: INTRODUCTION

RBC Investor & Treasury Services operates from the following entities in the UK: RBC Investor Services Trust, London Branch and RBC Investor Services Bank S.A., London Branch (together, "**RBCIS**").

This Product and Service Risk Disclosure document is for use by Professional Clients of RBCIS and must not be relied on by anyone else.

This Product and Service Risk Disclosure document cannot disclose all the risks and other significant aspects of the services ("**services**") that you may receive from us, or the risks associated with the products that you may subscribe for through us ("**products**"), but is intended to give you information on, and a warning of the risks associated with them so that you are reasonably able to understand the nature and risks of the services and products provided and, consequently, to take your investment decisions on an informed basis. You should also read any product/transaction specific disclosures that may be included in any product/transaction specific documentation provided to you and ensure that any product or service fits within your investment policies.

RBCIS does not provide any aspect of investment counselling, investment management (discretionary or otherwise), portfolio management or advisory services and RBCIS does not review or otherwise evaluate the appropriateness or suitability of any investment, product or service for your circumstances. As such, you must not rely on the guidance contained in this Product and Service Risk Disclosure document as investment advice, nor as a recommendation to enter into any of the services or invest in any of the products listed below. Where you are unclear as to the meaning of any of the disclosures or warnings described below, we would recommend that you seek independent legal or financial advice.

You should not deal in these or any other products or services unless you understand the nature of the contract you are entering into and the extent of your exposure to risk. You should also be satisfied that the product and/or service is suitable for you in light of your circumstances and financial position and, where necessary, you should seek appropriate independent advice in advance of any investment decisions.

Nothing in this Product and Service Risk Disclosure document obliges RBCIS to deal with you in respect of the products or services described.

Where we provide you with information relating to a particular tax treatment, please note that this information may not be tailored to your individual circumstances and may be subject to change in the future.

If we provide you with financial analysis/information in relation to the past, simulated or future performance of financial instruments, a financial index or an investment, please be aware that this is not a reliable indicator of future results or performance.

Risk factors may occur simultaneously and/or may compound each other resulting in an unpredictable effect on the value of any investment. In any of the situations described below, the use of leverage (which has the effect of magnifying potential positive or negative outcomes) may significantly increase the impact on you of any of the risks described. As a result of leverage, minor changes in the price of an underlying security or benchmark may result in a disproportionately significant change in the price of the leveraged product or instrument and lead to sudden and large falls in the value of such products or instruments. Additionally, the insolvency (or other similar process) of an issuer of an underlying security may also have a disproportionately greater impact on a holder of a leveraged product or instument than it would have on the holder of the underlying security without leverage.

All financial products carry a certain degree of risk and even low risk investment strategies contain an element of uncertainty. The types of risk that might be of concern will depend on various factors, including how the instrument is created, structured or contractually drafted. The specific risks of a particular product or transaction will depend upon the terms of the product or transaction and the particular circumstances of, and relationships between, the relevant parties involved in such product or transaction. Different instruments involve different levels of exposure to risk and in deciding whether to trade in such instruments or become involved in any financial products or services you should be aware of the guidance set out below:

PART II: PRODUCTS AND INSTRUMENTS

Set out below is an outline of the major categories of risk that may be associated with certain generic types of financial instruments which should be read in conjunction with Parts III and IV. You must read the information below in the context of the services which we are providing to you and/or transactions which we are entering into with you and the respective service and transaction agreements which we have entered into with you. For example:

- Securities Lending - Where RBCIS provides securities lending agency services to you, you may be exposed to the financial instruments set out in sections 1 to 3 below in the context of agency securities lending as either securities owned by you which you are authorising RBCIS to lend to securities borrowers or as collateral which you are authorising RBCIS to receive from securities borrowers under a securities loan. Counterparties entering into securities loans with RBCIS may borrow shares from RBCIS and/or deliver financial instruments set out in sections 1 to 3 below to RBCIS as collateral under a securities loan.
- Cash Sweep - Where RBCIS provides cash sweep services to you, you may instruct RBCIS to invest your cash balances in units of collective investment schemes (see section 3 below).
- Foreign Exchange – RBCIS may enter into foreign exchange forwards or swap transactions with you. These products are OTC derivatives instruments as set out in section 4 below.

1. SHARES AND OTHER TYPES OF EQUITY INSTRUMENTS

1.1 General

A risk with an equity instrument is that the company must both grow in value and, if it elects to pay dividends to its shareholders, make adequate dividend payments, or the share price may fall. If the share price falls, the company, if listed or traded on-exchange, may then find it difficult to raise further capital to finance the business, and the company's performance may deteriorate vis à vis its competitors, leading to further reductions in the share price. Ultimately the company may become vulnerable to a takeover or may fail.

Shares have exposure to all the major risk types referred to in Part III below. In addition, there is a risk that there could be volatility or problems in the sector that the company is in. If the company is private, i.e. not listed or traded on an exchange, or is listed but only traded infrequently, there may also be liquidity risk, whereby shares could become very difficult to dispose of.

1.2 Ordinary shares

Ordinary shares are issued by limited liability companies as the primary means of raising risk capital. The issuer has no obligation to repay the original cost of the share, or the capital, to the shareholder until the issuer is wound up (in other words, the issuer company ceases to exist). In return for the capital investment in the share, the issuer may make discretionary dividend payments to shareholders which could take the form of cash or additional shares. Ordinary shares usually carry a right to vote at general meetings of the issuer.

There is no guaranteed return on an investment in ordinary shares for the reasons set out in 1.1 above, and in a liquidation of the issuer, ordinary shareholders are amongst the last with a right to repayment of capital and any surplus funds of the issuer, which could lead to a loss of a substantial proportion, or all, of the original investment.

1.3 Preference shares

Unlike ordinary shares, preference shares give shareholders the right to a fixed dividend, the calculation of which is not based on the success of the issuer company. They therefore tend to be a less risky form of investment than ordinary shares.

Preference shares do not usually give shareholders the right to vote at general meetings of the issuer, but shareholders will have a prior claim to any surplus funds of the issuer compared to ordinary shareholders, should the issuer go into liquidation. There is still a risk that you may lose all or part of your capital.

1.4 Depositary Receipts

Depositary Receipts (ADRs, GDRs, etc.) are negotiable certificates, typically issued by a bank, which represent a specific number of shares in a company, traded on a stock exchange which is local or overseas to the issuer of the receipt. They may facilitate investment in the companies due to the widespread availability of price information, lower transaction costs and timely dividend distributions. The risks involved relate both to the underlying shares (see 1.1 – 1.3 above) and to the bank issuing the receipt. In addition, there are important differences between the rights of holders of ADRs and GDRs, (together, "**Depositary Receipts**") and the rights of holders of the shares of the underlying share issuer represented by such Depositary Receipts. The relevant deposit agreement for the Depositary Receipt sets out the rights and responsibilities of the depositary (being the issuer of the Depositary Receipt), the underlying share issuer and holders of the Depositary Receipt which may be different from the rights of holders of the underlying shares. For example, the underlying share issuer may make distributions in respect of its underlying shares that are not passed on to the holders of its Depositary Receipts. Any such differences between the rights of holders of the Depositary Receipts and holders of the underlying shares of the underlying share issuer may be significant and may materially and adversely affect the value of the relevant instruments. Depositary Receipts representing underlying shares in a foreign jurisdiction (in particular an emerging market jurisdiction) also involve risks associated with the securities markets in such jurisdictions, which, along with other factors such as the performance of the underlying shares, could affect the value and liquidity of the Depositary Receipts. As the legal owner of the shares underlying the Depositary Receipts is a bank, in the event that the bank becomes insolvent it is possible that a purchaser of any such Depositary Receipts may lose its rights in respect of the underlying shares.

2. DEBT INSTRUMENTS/BONDS/DEBENTURES

All debt instruments are potentially exposed to the major risk types in Part III below, in particular credit risk and interest rate risk.

Debt securities may be subject to the risk of the issuer's inability to meet principal and /or interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer, general market liquidity, and other economic factors, amongst other issues. When interest rates rise, the value of corporate debt securities can be expected to decline. Fixed-rate transferable debt securities with longer maturities/lower coupons tend to be more sensitive to interest rate movements than those with shorter maturities/higher coupons.

Debt securities issued by banks, certain other financial services firms and, in some cases, their parents and other affiliates may be vulnerable to "bail-in" or equivalent measures, where the issuer (or an affiliated bank or firm) undergoes a resolution (or bank rescue) procedure. In a bail-in, a governmental or other regulatory body (known in the EU as a "resolution authority") may require investors' rights under such securities to be written-off in whole or in part, or converted into equity. The purpose of such a bail-in is to prevent the bank (or other firm) from entering into insolvency proceedings: and will therefore precede formal insolvency. This means that the holders of bank and related debt securities may lose some or all of their investment, where the issuer is in financial difficulty, even outside of an insolvency scenario and absent the technical default of the issuer.

However, depending on the applicable regulatory regime, certain safeguards or exclusions may operate so as to protect, or mitigate the loss to, such investors. For example, under the applicable EU regime (the Bank Recovery and Resolution Directive), secured creditors (including secured bond holders) are protected from bail-in (but only to the extent of the value of the collateral/security) and, in principle, no such creditor should be put in a worse position than they would have been in the event of the formal insolvency of the issuer.

3. UNITS IN COLLECTIVE INVESTMENT SCHEMES

Collective investment schemes and their underlying assets are potentially exposed to all of the major risk types referred to in Part III below, including insolvency risk relating to the issuer of the underlying assets.

There are many different types of collective investment schemes. Generally, a collective investment scheme will involve an arrangement that enables a number of investors to 'pool' their assets and have these professionally managed by an independent manager. Investments may typically include gilts, bonds and quoted equities, but depending on the type of scheme, may comprise derivatives, real estate or any other asset. There may be risks on the underlying assets held by the scheme and investors are therefore advised to check whether the scheme holds a number of different assets, thus spreading its risk. Subject to this, investment in such schemes may reduce risk by spreading the investor's investment more widely than may have been possible if he or she were to invest in the assets directly.

The reduction in risk may be achieved because the wide range of investments held in a collective investment scheme can reduce the effect that a change in the value of any one investment may have on the overall performance of the portfolio. Although they are therefore seen as a way to spread risks, the portfolio price can fall as well as rise and, depending on the investment decisions made, a collective investment scheme may be exposed to many different major risk types.

The valuation of a collective investment scheme is generally controlled by the relevant fund manager or the investment adviser (as the case may be). Valuations are performed in accordance with the terms and conditions governing the collective investment scheme. Such valuations may be based upon the unaudited financial records of the collective investment scheme and any accounts pertaining thereto. Such valuations may be preliminary calculations of the net asset values of the collective investment schemes and accounts. The collective investment scheme may hold a significant number of investments which are illiquid or otherwise not actively traded and in respect of which reliable prices may be difficult to obtain. In consequence, the relevant fund manager or the investment adviser may vary certain quotations for such investments held by the collective investment scheme in order to reflect its judgement as to the fair value thereof. Valuations may therefore be subject to subsequent adjustments upward or downward. Uncertainties as to the valuation of the collective investment scheme assets and/or accounts may have an adverse effect on the net asset value of the relevant collective investment scheme where such judgements regarding valuations prove to be incorrect.

A collective investment scheme and any collective investment scheme components in which it may invest may utilise (inter alia) strategies such as short-selling, leverage, securities lending and borrowing, investment in sub-investment grade or non-readily realisable investments, uncovered options transactions, options and futures transactions, foreign exchange transactions and the use of concentrated portfolios, each of which could, in certain circumstances, magnify adverse market developments and losses. A collective investment schemes, and any collective investment scheme components in which it may invest, may make investments in markets that are volatile and/or illiquid and it may be difficult or costly for positions therein to be opened or liquidated. The performance of each collective investment scheme and any collective investment scheme component in which it may invest is dependent on the performance of the collective investment scheme managers in selecting collective investment scheme components and the management of the relevant collective investment scheme components.

In addition, the opportunities to realise an investment in a collective investment scheme is often limited in accordance with the terms and conditions applicable to the scheme and subject to long periods of advance notice (during which the price at which interests may be redeemed may fluctuate or move against you). There may be no secondary market in the collective investment scheme and therefore an investment in such a scheme may be (highly) illiquid.

4. DERIVATIVES

The risks set out in 4.1 and 4.2 below may arise in connection with all types of derivative contracts, whether it is in the form of a listed instrument, an OTC instrument, or a securitised product such as a note or a certificate.

4.1 Derivatives Generally

A derivative is a financial instrument, the value of which is derived from an underlying asset's value. Rather than trade or exchange the asset itself, an agreement is entered into to exchange money, assets or some other value at some future date based on the underlying asset. A premium may also be payable to acquire the derivative instrument.

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.

Derivative instruments have a limited life, and may (unless there is some form of guaranteed return to the amount invested in the product) expire and be worthless if the underlying asset does not perform as expected. If a derivative transaction is particularly large or if the relevant market is illiquid (as may be the case with many privately negotiated off-exchange derivatives where there is no exchange market on which to close out an open position), it may not be possible to initiate a transaction or liquidate a position at an advantageous price.

On-exchange derivatives are subject, in addition, 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 bilateral "over the counter" contracts ("**OTC**"). Although these forms of derivatives may be traded differently, both arrangements may be subject to credit risk of the issuer (if transferable securities) or the counterparty (if OTCs) and, like any contract, are subject also to the particular terms of the contract (whether a one-off transferable security or OTC, or a master agreement), as well as the risks identified in Part III below. In particular, with an OTC contract, the counterparty may not be bound to "close out" or liquidate this position, and so it may not be possible to terminate a loss-making contract. Off-exchange 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 off-exchange derivative will vary over time and is affected by many factors, including the remaining time until maturity, the market price, 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 considered very carefully.

You are therefore advised to ask about the terms and conditions of the specific derivatives and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of an underlying asset). Under certain circumstances the specifications of outstanding contracts may be modified by the exchange or Clearing House to reflect changes in the underlying asset. Normal pricing relationships between the underlying asset and the derivative may not exist in all cases.

All derivatives are potentially subject to the major risk types in Part III below, especially market risk, credit risk and any specific sector risks connected with the underlying asset.

4.2 Foreign Exchange (FX) Forward and Swap Transactions

Transactions in foreign exchange (FX) forwards involve the obligation to make, or to take, delivery of the underlying currency of the contract at a future date, or in some cases to settle the position with cash. The 'gearing' or 'leverage' often obtainable in futures and forwards trading means that a small deposit or down payment can lead to large losses as well as gains. They carry a high degree of risk. 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. Forward transactions have a contingent liability, and you should be aware of the implications of this, in particular margining requirements: these are that, on a daily basis, with all exchange-traded, and most OTC off-exchange forwards, you will have to pay over in cash losses incurred on a daily basis and if you fail to, the contract may be terminated. See further, 1 and 2 of Part IV below.

A FX swap agreement is a derivative where two counterparties exchange one stream of cash flows against another stream, calculated by reference to an "underlying" (in this case, currencies).

A major risk of OTC derivatives, (including FX swaps) is known as counterparty risk, whereby a party is exposed to the inability of its counterparty to perform its obligations under the relevant financial instrument.

The swap market has grown substantially in recent years, with a large number of banks and investment banking firms acting both as principals and as agents utilising standardised swap documentation to cover swaps trading over a broad range of underlying assets. As a result, the swap market for certain underlying assets, such as currencies, has become more liquid but there can be no assurance that a liquid secondary market will exist at any specified time for any particular swap.

5. STRUCTURED PRODUCTS

Structured products, designed to fulfil a particular trading or market objective, may combine the features of two or more financial instruments such as a bond and a derivative, with derivatives tending to constitute an integral part of structured products. Structured products may involve an element of leverage, so a relatively small movement in the value of the relevant underlying asset or index can have a significant effect on the value of a structured product. Structured products are often high risk investments and investors can face the risk of losing some or all of the money invested in them.

Structured products are generally not traded on regulated markets and investors take the risk on the counterparty creating the structure. In the absence of a recognised market for structured products, there can be limited liquidity in the secondary market and prices are less transparent than products traded in the primary market. It can be difficult for investors to obtain reliable information about the value of their investments and the extent of the risks to which they are exposed. The lack of a recognised market and the customised nature of structured products may also negatively affect the liquidity of the structured product.

Further information about the specific risks associated with particular structured products may be made available to you at the time of your investment.

6. FX TRADING

Engaging in FX trading (buying one currency in exchange for another) exposes investors to the risk of adverse changes in exchange rates. Exchange rates can be volatile and are driven by a variety of factors relating to the economies of the territories whose currencies are being traded.

Some FX transactions have a contingent liability, which means that investors may be liable for margin to maintain their position and losses may be sustained well in excess of the premium received. Investors may sustain a total loss of any margin they deposit to establish or maintain a position. If the market moves against an investor, it may be called upon to pay substantial additional margin at short notice to maintain the position. If an investor fails to do so within the time required, its position may be liquidated at a loss and it will be responsible for the resulting deficit.

RBCIS' insolvency or default, or that of any other dealers involved with your FX transaction, may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash.

7. EXCHANGE TRADED FUNDS

An Exchange Traded Fund (“ETF”) is an investment fund that tracks an index, market sector, commodity or basket of assets but is traded on an exchange. An ETF can be a physically replicated fund that owns at least some of its assets, or a synthetic ETF that invests in derivatives, which is a more complex type of fund with different risk characteristics. As such, they generally combine the flexibility and tradability of shares with the diversification of a collective investment scheme and may expose you to similar risks as detailed for shares and units in collective investment schemes. They may also trade for less than their net asset value.

The net asset value of an ETF will be subject to the generic risk types referred to in Part III below.

In light of the wide range of ETFs available, its prospectus and any other relevant documentation published by the provider of the ETF should be read prior to investing.

8. **PACKAGES / TRANSACTIONS THAT COMBINE MULTIPLE INSTRUMENTS OR SERVICES**

Transactions which combine a number of different instruments or services (for example, a bond and an FX swap) will entail exposure to the risks associated with each individual product or service. As a result, such transactions may entail a risk which is greater than the risks of the individual components. However, some transactions may contain features aimed at mitigating risk (for example, principal protection).

PART III: GENERIC RISK TYPES

1. **GENERAL**

The price or value of an investment will depend on fluctuations in the financial markets outside of anyone's control. Past performance is no indicator of future performance.

The nature and extent of investment risks varies between countries and from investment to investment. The 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.

The risk types set out below could have an impact on each type of product/investment described above:

2. **LIQUIDITY**

The liquidity of an instrument is directly affected by the supply and demand for that instrument and also indirectly by other factors, including market disruptions (for example a disruption on the relevant exchange) or infrastructure issues, such as a lack of sophistication or disruption in the securities settlement process. Under certain trading conditions it may be difficult or impossible to liquidate or acquire a position. This may occur, for example, at times of rapid price movement if the price rises or falls to such an extent that under the rules of the relevant exchange trading is suspended or restricted. In some cases, unless the contract terms so provide, a party may not have to accept early termination of a contract or buy back or redeem the relevant product and there may therefore be zero liquidity in the product. In other cases, early termination, realisation or redemption may result in you receiving substantially less than you paid for the product or, in some cases, nothing at all.

3. **CREDIT RISK**

Credit risk is the risk of loss caused by borrowers, bond obligors, guarantors, or counterparties failing to fulfil their obligations or the risk of such parties' credit quality deteriorating.

4. **MARKET RISK**

4.1 **General**

The price of instruments goes up and down depending on market supply and demand, investor perception and the prices of any underlying or allied instruments or, indeed, sector, political and economic factors. These can be totally unpredictable.

4.2 **Overseas markets**

Any overseas instrument or investment with an overseas element can be subject to the risks of overseas markets which may involve different risks from those of the home market of the investor. In some cases the risks will be greater. The potential for profit or loss from transactions on foreign markets or in overseas denominated contracts will be affected by fluctuations in foreign exchange rates.

4.3 **Emerging Markets**

Price volatility in emerging markets, in particular, can be extreme. Price discrepancies, low trading volumes and wide pricing spreads can be common and unpredictable movements in the market not uncommon. Additionally, as news about a country becomes available, the financial markets may react with dramatic upswings and/or downswings in prices during a very short period of time. Emerging markets generally lack the level of transparency, liquidity, efficiency, market infrastructure, legal certainty and regulation found in more developed markets. For example, these markets might not have regulations governing market or price manipulation and insider trading or other provisions designed to "level the playing field" with respect to the availability of information and the use or misuse thereof in such markets. They may also be affected by sector, economic and political risk. It may be difficult to employ certain risk and legal uncertainty management practices for emerging markets investments, such as forward currency exchange contracts or derivatives. The impact of the imposition or removal of foreign exchange controls at any time should be considered, as well as potential difficulties in repatriating assets. The risks associated with nationalisation or expropriation of assets, the imposition of confiscatory or punitive taxation, restrictions on investments by foreigners in an emerging market, sanctions, war and revolution should also be considered.

5. **LIMITATIONS OF CLEARING HOUSE PROTECTIONS/SETTLEMENT RISK**

On many exchanges, the performance of a transaction may be "guaranteed" by the exchange or clearing house. However, this guarantee is usually in favour of the exchange or clearing house member and cannot be enforced by a client of that exchange or clearing house member who may, therefore, be subject to the credit and insolvency risks of the exchange or clearing house member through which/whom the transaction was executed.

There is, typically, no clearing house for off-exchange OTC instruments which are not traded under the rules of an exchange (although unlisted transferable securities may be cleared through a clearing house).

Settlement risk is the risk that a counterparty does not deliver the asset (or its value) in accordance with the agreed terms after the other counterparty has already fulfilled its part of the agreement to so deliver. Settlement risk increases where different legs of the transaction settle in different time zones or in different settlement systems where netting is not possible. This risk is particularly acute in FX transactions and currency swap transactions.

Lenders of securities may also be subject to settlement risk if they do not leave sufficient time to recall their loaned securities. Delays in settlement could result in failed sale transactions and penalties if lenders do not recall securities in a timely manner (or instruct their lending agents to do so).

6. **INSOLVENCY**

The insolvency or default of the firm with whom you are dealing, or of any brokers involved with your transaction, may lead to positions being liquidated or closed out without your consent or, indeed, instruments not being returned to you. There is also insolvency risk in relation to the instrument itself, for example of the company that issued a bond or of the counterparty to off-exchange derivatives (where the risk relates to the derivative itself and to any collateral or margin held by the counterparty).

7. **CURRENCY RISK**

In respect of any FX transactions and transactions in derivatives and securities that are denominated in a currency other than that in which your account is denominated, a movement in exchange rates may have a favourable or an unfavourable effect 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 instrument denominated in that currency. Currency valuations are linked to a host 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. Hedging can increase or decrease the exposure to any one currency, but may not eliminate completely exposure to changing currency values.

8. **INTEREST RATE RISK**

Interest rates can rise as well as fall. A risk with interest rates is that the relative value of a security, especially a bond, will worsen due to an interest rate increase. This could have a negative impact on other products. There are additional interest rate risks in relation to floating rate instruments and fixed rate instruments, for example interest income on floating rate instruments cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield from floating rate instruments at the time they purchase them, so that their return on investment cannot be compared with that of investments which have longer fixed interest periods. If the terms and conditions of the relevant instruments provide for frequent interest payment dates, investors are exposed to reinvestment risk if market interest rates decline. That is, investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.

Changes in market interest rates have a substantially stronger impact on the prices of zero coupon bonds than on the prices of ordinary bonds because the discounted issue prices are substantially below par. If market interest rates increase, zero coupon bonds can suffer higher price losses than other bonds which have the same maturity and credit rating.

9. **REGULATORY / LEGAL RISK**

All investment products and instruments could be exposed to regulatory, legal or structural risk.

Returns on all, and particularly new, investments are at risk from regulatory or legal actions and changes which can, amongst other issues, alter the profit potential of an investment. Legal changes could have the effect that a previously acceptable investment or product becomes illegal. Changes to related issues such as tax may also occur and could have a large impact on profitability. Such risk is unpredictable and can depend on numerous political, economic and other factors.

For this reason, this risk is greater in emerging markets but does apply everywhere. In emerging markets, there is generally less government supervision and regulation of business and industry practices, stock exchanges and over-the-counter markets.

The type of laws and regulations with which investors are familiar in the EEA may not exist in some places, and where they do, may be subject to inconsistent or arbitrary application or interpretation and may be changed with retroactive effect. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. Judges and courts in many countries are generally inexperienced in the areas of business and corporate law. Companies are exposed to the risk that legislatures will revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that an overseas investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in overseas courts.

10. **OPERATIONAL RISK**

Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can have an impact on all financial products. Business risk, especially the risk that the business is run incompetently or poorly, could also have an impact on shareholders of, or investors in, such a business. Personnel and organisational changes can severely affect such risks and, in general, operational risk may not be apparent from outside the organisation.

11. **CONFLICTS**

In the ordinary course of their respective businesses, RBCIS will be subject to various actual and potential conflicts of interest which may operate against your interests.

PART IV: TRANSACTION AND SERVICE RISKS

1. **COLLATERAL**

1.1 If you deposit collateral as security with a firm, the way in which it will be treated will vary according to the type of transaction and where it is traded and the terms of any product contract you have entered into with such firm. There could be significant differences in the treatment of your collateral, depending on whether you are trading on a regulated market (see 2 below), with the rules of that exchange (and the associated clearing house) applying, or trading on another exchange or, indeed, off-exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets which you deposited, and may have to accept payment in cash. You should ascertain from such firm how your collateral will be dealt with.

1.2 Effect of absolute title transfer

Where your collateral is subject to total title transfer to us, you should note that:

(a) The assets cease to be your assets and you will no longer have a proprietary claim over them. They will not be held subject to the rules of the FCA's Client Assets Sourcebook or of another applicable regulator in safe custody (where they are financial instruments) or subject to FCA's Client Money Rules or other applicable client money protection (where they are cash). The assets become our assets and we can deal with them in our own right;

(b) You will have an unsecured contractual claim against us for re-transfer of equivalent assets; and

(c) As a result, the assets will not be subject to a trust or otherwise insulated in our insolvency. And, in such event, you may not receive back everything so transferred to us and you will only rank as a general creditor. The FCA's Client Money Distribution Rules which are set out in the CASS 7A of the FCA Handbook ("**Client Money Distribution Rules**") will not apply to these assets where they are cash and you will not be entitled to share in any distribution under the Client Money Distribution Rules.

2. **OFF-EXCHANGE TRANSACTIONS**

The FCA has categorised certain exchanges as recognised or designated investment exchanges. A list of these exchanges can be found on the FCA website. Transactions which are traded elsewhere may be exposed to substantially greater risks.

3. **CUSTODY RISKS**

Risks associated with the custody of assets and protections accorded to you in case of insolvency or bankruptcy have been disclosed to you separately where you have appointed RBCIS as custodian or depositary (which disclosure may be updated from time to time).

4. **SECURITIES LENDING**

The effect of lending securities to a third party is to transfer title to the securities to the borrower for the period that they are lent. At the end of the period, subject to default of the borrower, the lender receives back securities of the same issuer and type. The borrower's obligation to transfer equivalent securities is secured against collateral (which is usually transferred by a title transfer mechanism pursuant to market standard agreements). There is, accordingly, credit risk. Lending securities may also affect your tax position.

Lending or borrowing securities lending transactions may be subject to the major risk types in Part III above, especially credit risk. However, the following points (and the subsequent paragraphs) are particularly important considerations for lenders:

- Legal and beneficial title to both the loaned securities and non-cash collateral passes between the lender and borrower.
- Once the loaned securities have been "acquired" by the borrower, the borrower has the right to sell or lend them on to another party. It is acknowledged that the borrowing for proxy voting is not endorsed and may not be permitted in certain circumstances and the lender would have rights to recall the loaned securities.
- The borrower is entitled to the economic benefits of the loaned securities (e.g. dividends) but the agreement with the lender will oblige the borrower to make ("manufacture") equivalent amounts back to the lender.
- A lender of securities would need to recall the loaned securities to sell, vote, tender etc. and would still be exposed the risks of ownership e.g., price changes of the loaned securities.

For lenders (or participants in RBCIS' securities lending agency program), there is a counterparty/credit risk if the borrower fails to return the loaned securities when they are due (e.g., due to insolvency or inability to source the securities in the market). In such event, the lender would be exposed to market price and FX rate changes as the market value of the collateral might be insufficient to replace the undelivered securities. Additionally, there may be liquidation risk involved in closing out the loan transactions as the securities and/or collateral may not be liquid resulting in longer times to close-out. Stress markets could also impede market liquidity and/or increase volatility.

5. **COMMISSIONS/TRANSACTION COSTS**

Before you begin to trade, you should obtain details of all commissions and other charges for which you must be liable.

When products are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the current price of the security. These incidental costs may significantly reduce or even exclude the profit potential of the products. For instance, credit institutions as a rule charge their clients for own commissions which are either fixed minimum commissions or pro-rata commissions depending on the order value. To the extent that additional domestic or foreign parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, you must take into account that you may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of products (direct costs), you must also take into account any follow-up costs (such as custody fees). You should inform yourself about any additional costs incurred in connection with the purchase, custody or sale of an investment before investing. The effect of transaction costs (for example on a new issue of securities) may result in the issue price of such securities falling below the market value when trading starts.

6. **SUSPENSIONS OF TRADING AND GREY MARKET INVESTMENTS**

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 to such an extent that under the rules of the relevant exchange trading is suspended or restricted.

Transactions may not be entered into in:

(a) A security whose listing on an exchange is suspended, or the listing of or dealings in which have been discontinued, or which is subject to an exchange announcement suspending or prohibiting dealings; or

(b) A grey market security, which is a security for which an application has been made for listing or admission to dealings on an exchange where the security's listing or admission has not yet taken place (otherwise than because the application has been rejected) and the security is not already listed or admitted to dealings on another exchange.

There may be insufficient published information on which to base a decision to buy or sell such securities.

7. STABILISATION

Transactions may be carried out in securities where the price may have been influenced by measures taken to stabilise it.

Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it. Regulations allow stabilisation in order to help counter the fact that, when a new issue comes on to the market for the first time, the price can sometimes drop for a time before buyers are found.

Stabilisation is carried out by a 'stabilisation manager' (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilising manager follows a strict set of rules, they are entitled to buy back securities that were previously sold to investors or allotted to institutions which have decided not to keep them.

8. NON-READILY REALISABLE INVESTMENTS

Both exchange listed and traded and off-exchange instruments may be non-readily realisable. These are instruments in which the market is limited or could become so. Accordingly, it may be difficult to assess their market value and/or to liquidate your position.