FirstRand

FINANCIAL INSTRUMENT RISK DOCUMENT

April 2022

TABLE OF CONTENTS

1. GENERAL INFORMATION ON FINANCIAL INSTRUMENTS 3

2. KEY RISKS 3

3. FINANCIAL INSTRUMENTS 4

1. GENERAL INFORMATION ON FINANCIAL INSTRUMENTS

This document provides a summary description of the key risks, which must be considered when investing in financial instruments in respect of which FirstRand Bank Limited (London branch) ('FirstRand') and FirstRand Securities Limited (together FirstRand, we, our or us) may offer services to you. You should not engage in transactions in financial instruments without the knowledge and experience to understand the risk exposure. Also, you should satisfy yourself that the product is suitable for you considering relevant factors such as your current financial position. Investment risks can be managed or mitigated using certain financial instruments; however, these instruments may not be suitable for all investors as individual financial instrument carry specific risks and you should consider this in making any investment decision.

2. KEY RISKS

Credit Risk:
Credit risk is the risk of a borrower defaulting on a loan, or related financial obligation. In the event of a default event, or where the issuers credit rating is reduced, the value of issuers debt securities will fall.

Issuer default risk:
Default risk is the possibility that a bond's issuer will go bankrupt and will be unable to pay its obligations in a timely manner if at all. If the bond issuer defaults, the investor can lose part or all the original investment and any interest that was owed. The solvency of an issuer can be impacted by economic, political, or business related events.

Liquidity Risk:
Liquidity risk is defined as the risk of incurring losses resulting from the inability to meet payment obligations in a timely manner when they become due or from being unable to do so at a sustainable cost.

Currency risk:
Currency risk defines the exposure to exchange rate fluctuations and the resultant unpredictable gains or losses due to changes in the value of one currency in relation to another currency. Currency risk can be mitigated by investing in a singular domestic currency.

Performance risk:
The performance of a company or investment either now or in the future cannot be guaranteed. Past performance should not be used to indicate future performance. The performance of an investment performance may be less than expected, and as a result can cause the price of the issuer's securities to fall.

Inflation risk:
Inflation risk is the risk that the purchasing power of your investment returns will be reduced by increasing inflation. Rising inflation that causes an increase in prices effectively lowers the real return of a given investment

Market Risk:
Market risk can be defined as the risk arising from changes in stock prices, interest rates, exchange rates, and commodity prices. All investments are exposed to this risk.

Country Risk:
Country risk is concerned with factors, such as currency controls or devaluation, political, socio-economic events, for example, military conflicts, the destabilisation of governments, and any significant changes in regulation that may impact the ability of a company to operate .

Interest rate risk:
Fluctuations in interest rates impact both money markets and capital markets and has a direct impact on the prices of fixed-interest securities. If interest rates rise this will typically have a negative impact on market prices in both equities and bonds. If interest rates fall, interest rates typically have a positive impact on market prices.

Operational risk:
Operational risk can be defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Settlement risk:
Settlement risk is the exposure to the possibility that one or more parties will fail in its contractual obligation to deliver within the terms of a contract on the agreed date.

Fraud risk:
Fraud Risk is the exposure to financial, material, or reputational loss resulting from the fraudulent actions of a person or persons that are internal or external to the company.

Legal risk:
Legal risk can be defined as the risk of financial or reputational loss due to a lack of awareness or misunderstanding of, or any ambiguity in, or reckless indifference to, the way in which laws and regulations apply to a business, its relationships, processes, products, and services.

Tax risk:
Tax risk means a risk can be defined as the complexity of tax laws of individual countries that may be applicable to you. Therefore, you should consider the tax consequences of investments in financial instruments.

3. FINANCIAL INSTRUMENTS

3.1 Debt securities

Debt securities are financial instruments entitling owners of these securities to receive interest payments and then to receive back their capital upon maturity. Bonds, such as government bonds, corporate bonds and municipal bonds are examples of debt securities and are commonly issued for a fixed term and redeemed by the issuer at the end of that term.

Early redemption risk:
The issuer of debt securities may include provisions permitting early redemption of the debt securities. This is typically where market interest rates fall. Such early redemption may result in a change to the expected yield.

3.2 Securities Lending and Repurchase Transactions

Sale and repurchase agreements (‘repos’) are an important feature of the financial markets. They enable a company to obtain a form of secured loan, using securities it owns as collateral, and they help

promote trading in securities. Repos are generally carried out by banks and other financial institutions but are also entered into by treasury departments of large corporates, both as lenders and borrowers.

In essence repos involve a temporary transfer of the legal ownership of securities, while the economic ownership is retained by the original owner. Interest or dividends received by the temporary owner are passed to the original owner in the form of 'manufactured payments'.

A key difference between repo and securities lending is that the repo market overwhelmingly uses bonds and other fixed-income instruments as collateral, whereas an important segment of the securities lending market is in equities.

Counterparty risk:
Collateralisation does not change the probability of default of a counterparty, so collateral taken from risky counterparties is more likely to be tested by a default and may turn out to be worth less than expected due to fluctuations in price, the impact of liquidation, and possible legal and operational problems.

3.3 Money Market Instruments
Money market instruments facilitate the lending and borrowing of money on a short-term basis i.e., generally a period of one year or less. The money market is, therefore, different from the capital market, which is concerned with medium and long-term credit. The definition of money for money market purposes is not confined to bank notes but includes a range of assets that can be turned into cash at short notice, such as Treasury Bills, certificates of deposit and commercial paper.

General risks:
Although these instruments are deemed to be lower risk you may still be exposed to interest and market risks when markets are volatile.

3.4 Exchange Traded Funds
An Exchange traded fund (ETF) is a basket of securities of closed end securities that you can buy or sell on a stock exchange. ETFs are offered on virtually every conceivable asset class from traditional investments to so-called alternative assets like commodities or currencies. ETFs are commonly used to track indices, securities, or investment strategies. ETFs are exposed to market risk and performance risk, described in section 2 above.

3.5 Derivatives
Investments in derivative instruments typically carry additional risks, for example the failure of a counterparty to meet contractual obligations because of insolvency, liquidity issues, market disruption or volatility or even bankruptcy.

Securitised Derivatives:
Securitised derivatives are transferable securities whose value is based upon underlying assets. These financial instruments typically carry an increased level of risk caused by the effects of gearing. A small initial payment or deposit can result in larger potential gains but also losses. Additionally, this can also mean that relatively small price movements can result in a proportionately larger movements in the value of your investment. Securitised derivatives typically have a limited life and can expire without any remaining value if the underlying securities does not perform as expected, and you should therefore consider your risk appetite and ability to sustain losses of this extent before entering into a transaction.

Over the counter (OTC) Derivatives:
In some circumstances, where it is not clear whether the transaction is to be executed OTC or on exchange , FirstRand will endeavour to make it clear to you if you are entering into an OTC transaction. OTC trades are executed directly between two parties, without the supervision of an exchange. When executing OTC transactions, you will lose some of the benefits of using an exchange, for example, liquidity and transparency. Accordingly, OTC transaction expose you to the risk of being unable to close out your position or to establish a fair price.

Contingent Liability Investment Transactions:
A contingent liability is derivative transaction under the terms of which you (a client) will or may be liable to make further payments (other than charges) when the transaction falls to be completed or upon the earlier closing out of your position. Derivatives such as credit default swaps or options may involve contingent liabilities. This may result in a client incurring losses greater than the amount originally invested or any premium received (sold options) based upon market events, for example, an asset reaching a strike price.

3.6 Futures and Forwards
A forward contract or simply a forward is a non-standardised contract between two parties to buy or sell an asset at a specified future time at a price agreed on at the time of conclusion of the contract, making it a type of derivative instrument. A futures contract (sometimes called futures) is a standardised legal agreement to buy or sell something at a predetermined price at a specified time in the future, between parties not known to each other. The asset transacted is usually a commodity or financial instrument. These types of financial instrument carry specific risks as noted below:

Gearing:
The effect of gearing, which is typically used in futures and forwards trading, is that a small initial payment or deposit can result in larger potential gains but also losses. Additionally, this can also mean that relatively small price movements can result in a proportionately larger movements in the value of your investment.

Market risk:
The duration of futures or forwards contracts are normally fixed on the trade date and, accordingly, timing can potentially impact the performance of the contract. The value of the transaction can vary positively or negatively based on market fluctuation in the price of the underlying asset, interest rates, dividends, and volatility.

3.7 Options
An option is a financial instrument that is based on the value of underlying securities. An options contract provides the buyer with the opportunity to buy or sell, depending on the type of contract they hold, the underlying asset. Each contract has a specific expiration date by which the holder must exercise their option. The stated price on an option is known as the strike price. The most common options are put options and call options. These types of financial instrument carry specific risks, some of which are noted below:

Writing Options:
As an options holder, you risk the entire amount of the premium you pay. But as an options writer, you take on a much higher level of risk. For example, if you write an uncovered call, you face unlimited potential loss, since there is no cap on how high a stock price can rise.

Buying Options:
Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges.

Traditional Options:
A traditional options contract gives a holder a choice or right to buy or sell the underlying asset at an established price before or on the expiration date. These contracts do not obligate the holder to transact the trade.

3.8 Swaps
A swap is an agreement between two counterparties to exchange financial instruments or cashflows or payments for a certain time. Typically, swaps involve cash based on a notional principal amount. Swaps are exposed to changes in interest rate risks and market, described in section 2 above.

3.9 Structured Products
Structured products are financial instruments whose performance or value is linked to that of an underlying asset, product, or index. The scope is very wide but can often include a basket of securities, options, debt issuance, currencies, or a mixture of these. Some of the associated risks are shown below:

Capital risk:
When the performance of a structured product depends on the performance of underlying assets or indices, the fluctuation of related price movements can result in the loss of capital.

Liquidity risk:
Typically, investors will not be able to access to their capital for term of the structured product, without exposure to the risk of loss on the principal.

Issuer Risk:
As per risks in section 2 above.

3.10 Structured Capital-at-Risk Products (SCARPS)
SCARPS refers to a product, other than a derivative, which provides an agreed level of income or growth over a specified investment period and displays the following characteristics:

a) the customer is exposed to a range of outcomes in respect of the return of initial capital invested
b) the return of initial capital invested at the end of the investment period is linked by a pre-set formula to the performance of an index, a combination of indices, a 'basket' of selected stocks (typically from an index or indices), or other factor or combination of factors; and
c) if the performance in (b) is within specified limits, repayment of initial capital invested occurs, but if not, the customer could lose some or all the initial capital invested.

SCARPS are typically share-based investments and can offer attractive returns. However, poor performance may result in you losing some or all the capital you invested. SCARPS can invest in a wide range of financial investments to include shares or debt securities. Debt securities include both government and corporate bonds.

3.11 Foreign Markets and Foreign Denominated Securities
Transactions conducted on foreign markets will involve different risks from transactions conducted on UK markets.

On a request only basis, FirstRand will endeavour to provide an explanation of the relevant risks and protections in any foreign markets, including the extent to which it will accept liability for any default of a foreign firm through whom it deals. In certain circumstances, you may be exposed to increased and/or difference risks, some of which are shown below:

Transactions conducted on foreign markets may expose you to the follow risks; Currency, Inflation and Country risk as per risks in section 2 above.

3.12 Non-readily realisable securities

A non-readily realisable security is a security which is not any of the following:
(a) a readily realisable security
(b) a packaged product
(c) a non-mainstream pooled investment
(d) a mutual society share
(e) a deferred share issued by a credit union
(f) credit union subordinated debt; or
(g) a speculative illiquid security.

These are investments in restricted markets and where you may be prohibited from unwinding or terminating the instruments, or from exercising rights. Market makers may be unwilling to deal in these securities or to provide information sufficient for determining the current value of such securities. In certain circumstances you may be unable to liquidate a position, assess the value of securities or and you may expose yourself to significant losses.

3.13 Collateral

Financial collateral is an asset provided by a borrower to a lender. It minimises the risk of financial loss to the lender if the borrower fails to meet their obligations. If you deposit collateral as security with FirstRand, the way in which it will be treated will often vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral depending on whether you are trading on a regulated market, with the rules of that market (and the associated clearing house) applying or trading off-exchange. Deposited collateral may lose its identity as your property and therefore you may not get back the same assets which you deposited, and you may have to accept payment in cash.

3.14 Commissions

A commission is a service charge assessed by a broker or investment advisor for providing investment advice or handling purchases and sales of securities for a client. Prior to placing orders with us, you should obtain details of all commissions, together with any other associated charges for which you will be liable. If any charges are not expressed in money terms but expressed as a percentage of contract value, you should obtain a written explanation clarifying what such charges mean in specific money terms.