

Risk Notice

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Risk Notice (UK and EEA)

This risk notice and disclosure document is provided by CreditSCRIPT UK Limited acting through its platform www.CreditSCRIPT.com in the UK and EEA (“CreditSCRIPT”, “we”, “us”, “our”), and is provided to CreditSCRIPT’s clients (“you”).

1. Introduction

THESE RISK DISCLOSURES SHALL APPLY TO ALL CLIENTS.

THIS BRIEF STATEMENT DOES NOT PURPORT TO DISCLOSE ALL THE RISKS OR OTHER RELEVANT CONSIDERATIONS OF ENTERING INTO TRANSACTIONS. YOU SHOULD REFRAIN FROM ENTERING INTO ANY SUCH TRANSACTIONS UNLESS YOU FULLY UNDERSTAND ALL SUCH RISKS AND HAVE INDEPENDENTLY DETERMINED THAT THE TRANSACTION IS APPROPRIATE FOR YOU. ANY EVALUATION OF TRANSACTIONS SHOULD BE MADE ONLY AFTER SEEKING ADVICE FROM INDEPENDENT PROFESSIONAL ACCOUNTING, FINANCIAL, INVESTMENT, LEGAL, REGULATORY, TAX AND OTHER ADVISORS.

Before deciding to transact in any financial products and investments, you will need to have assessed the risks inherent in those financial instruments, or other financial products and in any related services and strategies (for the purposes of this disclosure, referred to as “financial products”, “investments” or “products” interchangeably). The specific risks presented by a particular transaction necessarily depend upon the terms of that transaction and your circumstances and such the risk disclosures in respect of a variety of products as provided herein are not exhaustive and need to be reviewed considering your specific transaction, contractual relationship and circumstances. You should therefore also read any relevant documentation, for example term sheets and offering memoranda or supplemental terms, which may highlight a non-exhaustive set of additional risks particular to a financial product or service.

As in any financial transaction, you should ensure that you understand the requirements (including investment restrictions), if any, applicable to you that are established by your regulators or by your board of directors or other governing body. You should also consider the legal, tax and accounting implications of entering any transaction. To the extent appropriate considering the specific transaction, and your circumstances, you should consult such professional advisers as you consider appropriate to assist you to make your own evaluation of the risks and the merits of the transaction and the suitability of the transaction for you. If you are acting in the capacity of financial adviser, agent, or fiduciary, you should evaluate the foregoing matters considering the circumstances applicable to your client or principal and any obligations or limitations imposed on you as adviser, agent or fiduciary.

You should not enter transactions unless you understand the nature of the transaction and the relevant financial product, and the extent of your exposure to risk and potential loss. You should also be satisfied that the financial product is suitable for you in the light of your circumstances and financial position.

Past performance is no guide to future performance, and the value of investments may go down as well as up. There can be no guarantee against loss resulting from an investment, nor can there be any assurance that strategies to mitigate risk will be successful or that investment objective(s) will be attained. Neither we, nor any of our worldwide affiliated entities, guarantee the performance or any future return of any investment.

In this CreditSCRIPT Risk Disclosure Notice, “we”, “our”, “ours” and “us” refer to CreditSCRIPT (or, where CreditSCRIPT is acting on behalf of another person, including where that person is an affiliate, that person), and “you”, “your” and “yours” refer to the client.

Investment risk involves the risk of gains or losses; however this document seeks to inform you primarily of risks that can result in potential losses and does not cover potential gains.

If you use our MIFID II investment services, you (the Client) will be participating in a test that we are undertaking as part of the FCA’s regulatory sandbox. The regulatory sandbox allows firms to test innovative offerings in a live environment. More information on the FCA’s regulatory sandbox can be found [here](#).

There are risks that will apply generally to any investment. These include (but are not limited to):

- 1.1.1 Currency risk: if investments are denominated in a currency other than that in which the investor’s initial investment was made, returns could be reduced, or losses incurred, due to currency fluctuations.
- 1.1.2 Change in law risk: if there is a change in law or regulation which affects an investment, or the manner in which it is traded or held, additional costs might be incurred or, in extreme circumstances, investments lost.
- 1.1.3 Tax risk: a change in tax law to impose a new tax on the transfer or holding of an instrument could result in costs being incurred when realising one’s investment.
- 1.1.4 Third party risk: certain investments may need third parties to act in relation to investments traded or held by you (e.g., loan originators and servicers, administrators, custodians, settlement agents, exchanges). Your investments may be at risk in the event of failure and/or fraud in respect of one of these third parties.
- 1.1.5 Fraud risk: if there is a fraud in relation to investments which you hold, you may be at risk of losing your investment.
- 1.1.6 Legal risk in other jurisdictions: some markets investments or the holding of each may be subject to different or diminished investor protection and the protections accorded money or other property you deposit in respect of transactions, which may put your assets at additional risk.
- 1.1.7 Counterparty risk: the insolvency of any institution, including CreditSCRIPT, acting as party to a contract in a financial product (or otherwise providing a service) may expose

the investor to financial loss.

- 1.1.8 **Technology and Cyber security risk:** several counterparties with which we trade use new technology, including CreditSCRIPT itself. Any failure in their proprietary systems could have a materially adverse effect on the value, access, or management of any investment. Online and tech focused platforms may also be susceptible to the risk of cyber- security breaches which could temporarily interrupt their trading systems causing the investment to lose value.

2. Product risk disclosures

Different products involve different levels of exposure to risk and, in deciding whether to trade in such products, you should be aware of the following points.

2.1 Debt Instruments

All debt instruments are potentially exposed to the major risk types outlined in paragraph 1 of this document.

- 2.1.1 **New Issuances:** investors should be aware that they may not receive the full allocation they apply for especially in live auctions, and that any debt instruments they do receive may decline in value from the par value of issuance.

Bonds

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

Investments in bonds may involve risks including, but not limited to, the following:

- 2.1.2 **Insolvency risk:** the issuer may become temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the bond. The solvency of an issuer may change due to one or more of a range of factors including the issuing entity, the issuer's economic sector and/or the political and economic status of the countries concerned. The deterioration of the issuer's solvency will influence the price of the securities that it issues.

- 2.1.3 **Interest rate risk:** uncertainty concerning interest rate movements means that purchasers of fixed-rate securities carry the risk of a fall in the prices of the securities

if interest rates rise. The longer the duration of the loan and the lower the interest rate, the higher a bond's sensitivity to a rise in the market rates.

- 2.1.4 **Credit risk:** the value of a bond will fall in the event of a default or reduced credit rating of the issuer. Generally, the higher the relative rate of interest (that is, relative to the interest rate on a risk-free security of similar maturity and interest rate structure –usually a government bond or certificate of deposit, generally considered to be free from risk of monetary loss), the higher the perceived credit risk of the issuer.
- 2.1.5 **Early redemption risk:** the issuer of a bond may include a provision allowing early redemption of the bond if market interest rates fall. Such early redemption may result in a change to the expected yield.
- 2.1.6 **Risks specific to bonds redeemable by prepayment speed:** bonds redeemable by prepayment speed have a maturity that is difficult to determine, so unexpected changes in the yield on these bonds may occur because of the prepayment speed.
- 2.1.7 **Risks specific to certain types of bond:** additional risks may be associated with certain types of bond, for example floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, asset backed bonds, and subordinated bonds. For such bonds, you are advised to make inquiries about the risks referred to in the issuance prospectus and or supplemental terms, and not to purchase such securities before being certain that all risks are fully understood. In the case of subordinated bonds, you are advised to enquire about the ranking of the debenture compared to the issuer's other debentures. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after repayment of all higher ranked creditors and, as such, there is a risk that you will not be reimbursed. In the case of reverse convertible notes, there is a risk that you will not be entirely reimbursed but will receive only an amount equivalent to the underlying securities at maturity.
- 2.1.8 **Risk relating to market conditions:** the price of a bond and its disinvestment risk may each be affected by factors relating to wider market conditions, both positive and negative, and such market conditions will affect each issuer differently depending on the nature and size of the issuer, amongst other factors; a bond cannot therefore be assessed as an investment in isolation.
- 2.1.9 **Disinvestment risk:** bonds may be affected by impediments to disinvestment (e.g., the liquidity of a bond (based on factors 2.2.3 to 2.2.9 above may affect the market value of a bond despite its projected yield based on its coupon and expected maturity). In respect of non-listed bonds (i.e. bond issued by CreditSCRIPT Luxembourg), these are generally speaking less liquid than listed bonds. There may be no market for such bonds, meaning that the bond holder is unable to exit this investment before the maturity date. This exposes the bond holder to inflation and/or interest rate risk, as the return on the bond may become lower than the rate of inflation or interest rates available elsewhere.
- 2.1.10 **Tax call risk:** the issuer of the bond may have the right to call the bond should there be an adverse change to the tax laws that affect it. This may mean that the yield on the bond is lower than anticipated.

2.1.11 Termination of listing: where the bonds are listed or admitted to trading, the relevant issuer will not be obliged to maintain the listing or trading. Bonds may be suspended from trading and/or de-listed at any time in accordance with applicable rules and regulations of the relevant stock exchange(s). This may result in reduced liquidity or a reduction in the value of the bonds.

Asset-backed Securities (including Non-Marketable Pooled Investments)

An asset-backed security (“ABS”) is a debt security in respect of which the income payments, and therefore value, are derived from and collateralised (or “backed” by a specific underlying asset (e.g., a loan) or a pool of underlying assets. The asset can be but not limited to an unsecured consumer loan, secured first or second charge real estate mortgage loans, commercial real estate loans, student loans, receivables, small business loans, trade debts or other debt claims. In addition to the risks outlined in “Bonds” above, the holder of an ABS is exposed to certain risks, including, but not limited to

2.1.12 Credit risk: the holder of an ABS is exposed to the credit risk of the issuer of the ABS (typically a special purpose vehicle e.g., CreditSCRIPT Luxembourg) and the borrower against the underlying asset (for example, the consumer borrower that has taken out a consumer loan). These two risks may be related. Wide-spread default by underlying obligors may lead to the insolvency of the issuer of the ABS.

2.1.13 Operational risk: often, an ABS is issued by a special purpose vehicle (“SPV”) e.g. (CreditSCRIPT Luxembourg) which is specifically formed for the purpose of issuing the ABS and purchasing the relevant asset or assets. An SPV is highly dependent on third parties such as corporate service providers, servicers/asset managers, paying agents, trustees and other service providers to meet its own obligations. It is therefore exposed to the operational and credit risk of those third parties.

2.1.14 Shortfall: the right of a holder of an ABS to participate in the assets of the issuer will be limited to the net proceeds of the assets secured for such holder’s benefit (in the case of CreditSCRIPT Luxembourg this is restricted to the series of notes that correspond to a specific loan only). Such proceeds may be insufficient to meet all (or, depending on the transaction or circumstances, any) payments due under such ABS. Notwithstanding the mitigants in place to achieve segregation of assets, issuers of ABS are often multi-issuance SPVs, and there is a risk that assets of the SPV ring-fenced to meet a holder’s claims may be available to other creditors of the SPV.

2.1.15 Market risk: a holder of an ABS is exposed to market risk in respect of the underlying asset. If the market value of the collateral against which the loan has been made falls or liquidity is reduced, the issuer of the ABS may be unable to recover the full amount of the loan it has made to a defaulting borrower. This means CreditSCRIPT Luxembourg is an issuer of payment dependent notes that are contingent on the economic performance of the underlying borrower.

2.1.16 Ownership: the holder of the relevant ABS does not have any ownership rights over the underlying assets and will therefore have no claim over the underlying obligor(s) in the

event of its or their insolvency. Only CreditSCRIPT Luxembourg has contractual rights to enforce or collect bad debts or make decisions on the underlying loan and it will generally outsource this activity to third party loan servicers.

2.1.17 **Performance of Loan Originator:** the performance of the loan originator may also affect the value of the ABS. If the Loan Originator has incorrectly assessed the risk profile of the securitised loan assets, the rate of default may exceed expectations and increase the risk of losses.

2.1.18 **Early termination:** ABS transactions may be terminated prior to their maturity date (due to high rates of prepayment, regulatory, tax change or other events of default). Early termination may mean an investor's expected return is not provided and/or not all the investment is returned. The holder of the relevant ABS may not be able to reinvest the proceeds in a product with comparable returns.

2.2 Repackaged Securities

Certain structured notes may be arranged by CreditSCRIPT and issued by an affiliated SPV ("Repackaged Securities"). Repackaged Securities do not normally embed a derivative and are issued by a SPV. Such Repackaged Securities may be comprised of an underlying financial product, such as one or more bonds, notes, loans, or other instrument, and an OTC derivative used to transform the return on such underlying instruments into the specific cashflows of the Repackaged Securities.

Holders of Repackaged Securities are exposed to the risks associated with both the underlying financial product and the OTC derivative, as well as specific risks arising in respect of the issuer and structure of the Repackaged Securities. In addition, investments in Repackaged Securities may involve risks including, but not limited to, the following:

2.2.1 **Issuer risk:** holders of Repackaged Securities will be exposed to risks relating to the stability and financial health of the issuer of the Repackaged Security, which is typically an SPV. While such SPVs are intended to be bankruptcy remote, they are not bankruptcy proof and there is a risk that the insolvency proceedings are brought successfully against the vehicle, resulting in early termination/loss to clients holding the SPV's securities. Issuers of Repackaged Securities are often multi-issuance SPVs, and there is a risk that assets of the SPV ring-fenced to meet a holder's claims may be available to other creditors of the SPV (notwithstanding the mitigants in place to achieve segregation of assets).

2.2.2 **Limited recourse:** the right of a holder of Repackaged Securities to participate in the assets of the SPV will be limited to the net proceeds of the assets secured for such holder's benefit. Such proceeds may be insufficient to meet all (or, depending on the transaction or circumstances, any) payments due under such Repackaged Securities.

2.2.3 **Market risk:** the market value of Repackaged Securities will be affected by the value

and volatility of any index, securities, commodities, or other obligations to which payments on the Repackaged Securities may be linked, directly or indirectly, the value and volatility of the underlying financial products and the creditworthiness of the issuer of the Repackaged Securities and obligors of the underlying financial products.

- 2.2.4 **Early termination:** Repackaged Securities may be terminated prior to their scheduled maturity due to certain events of default, tax events or changes in law or regulation affecting the issuer, the swap counterparty, the underlying financial product, or the OTC derivative. Early termination may mean that an investor does not receive the expected return and/or not all the investor's original investment is repaid. Following early redemption of Repackaged Securities, investors may not be able to reinvest the redemption proceeds at a comparable return and/or at an effective interest rate as high as the interest rate or yield on the Repackaged Securities being redeemed and may only be able to do so at a significantly lower rate.
- 2.2.5 **Operational risk:** the ability of the issuer to meet its obligations under the Repackaged Securities depends on the performance by other parties, including third parties (such as service providers, custodians, trustees and paying agents, amongst others) of their respective obligations in respect of such Repackaged Securities. As a result, holders of Repackaged Securities are exposed to the operational and, in certain circumstances, credit risk of such third parties.
- 2.2.6 **Investment Products** may reference estimated returns which use 'big data' analytical techniques or inputs which are based on 'big data' analytical techniques (collectively "Big Data Analysis"). Depending on the loan originator, the Big Data Analysis may be performed by CreditSCRIPT or a separate organisation (the "Analysis Provider"). Big Data Analysis typically have objectives which may be considered to benefit from the use of a large number of inputs and advanced analytical techniques potentially including a form of artificial intelligence. Examples of use cases include objectives related to the determination of probability of default of a loan. Investors should be aware that the methodology for determining the Big Data Analysis may not be transparent and may not be fully disclosed. The lack of full transparency may be due to a variety of reasons including, without limitation: challenges in describing a complex methodology in natural language; the use of a very large number of underlying data inputs from a wide range of sources (such that it is not practical to list the individual inputs or to do so without raising intellectual property and/or privacy issues); the Big Data Analysis could involve the exercise of discretion or judgement; and/or some or all of the methodology may be considered to be confidential or commercially sensitive. Investors should appreciate that the performance of such an index/or allocation will be dependent on the Big Data Analysis, the underlying inputs, any changes over time in the determination methodology and/or underlying inputs, and any ongoing judgement or discretion exercised by the Analysis Provider. The use of Big Data Analysis may cause the index to perform in a manner that has not been anticipated in the design of the index and, accordingly, may have an adverse impact on the value of index- linked products. Prior to investing in a product linked to such any index or algorithmic allocation, investors should carry out their own due diligence (without relying on CreditSCRIPT) on the relevant index/market and the associated Big Data Analysis and Analysis Provider.

3. Other risks associated with transactions in our financial products

3.1 ABS backed by Marketplace Lending

Marketplace lending (or peer to peer lending markets as they are known by in the United Kingdom, together “Loan Platforms”) are new and innovative markets that may present a number of risk factors. Clients should satisfy themselves they have understood the risks involved in asset-backed-securities (ABS) whose collateral are loans originated in marketplace lending. The following are some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

3.1.1 Performance risk: the performance of the loans, which, in addition to being speculative investments, are special, limited obligations that may not be guaranteed or insured and can be affected by borrower delinquencies, defaults and prepayments on the returns on the Notes;

3.1.2 Payment dependent risk: the ability of Loan Platforms to make payments on the Notes, including in the event that borrowers fail to make payments on the corresponding Borrower Loans;

3.1.3 Franchise risk: the ability to attract potential borrowers to our marketplace; Loan Platforms rely on a balance of investor demand to buy loans and loan origination capability. Any disruption to this equilibrium can affect the viability of the marketplace;

3.1.4 Borrower Fraud risk: the reliability of the information about borrowers that is supplied by borrowers including actions by some borrowers to defraud investors;

3.1.5 Servicer risk: the ability to service the borrower loans, and the ability or the ability of a third party debt collector to pursue collection against any borrower, including in the event of fraud or identity theft; and in the event of Servicer bankruptcy and /or administration, sufficient contingency plans are in place for transfer to a back-up servicer (if any);

3.1.6 Credit Scoring risk: credit risks posed by the creditworthiness of borrowers and the effectiveness of the credit rating systems, including third party rating agencies;

3.1.7 Regulatory risk: compliance with applicable regulations and adverse regulatory developments or court decisions affecting the Loan Originator, business model or sector;

3.1.8 Lending rate risk: potential efforts by regulators or litigants to impose liability that could affect a Loan Originator’s (or any subsequent investors) ability to continue to charge to borrowers the interest rates that they agreed to pay at origination of their loans;

3.1.9 Economic cycle risk: the impact of current economic conditions on the performance of the Notes and loss rates of the Notes;

3.1.10 Liquidity Risk: the lack of a public trading market for the loans and the potential inability to resell the loans at all;

3.1.11 Tax Risk: the withholding, income tax treatment of a loan investment may detrimentally change;

3.1.12 Technology and Cyber Security Risk: the ability to prevent security breaches, disruptions in service, and comparable events, including in connection with the use of mobile applications, that could compromise the personal and confidential information held on our data

systems, reduce the attractiveness of the marketplace or adversely impact the ability to service borrower loans.

There may be other factors that may cause actual results to differ materially from the expected returns.

3.1.13 Debt Collection Risk: where a loan falls into delinquency or default, the loan servicer or in certain circumstances, the Issuer may appoint a debt collection agent. The agent must be remunerated on a case-by-case basis and make take a significant proportion of any successful loan recovery in debt collection fees, which in turn will adversely impact the economic performance of any corresponding dependent notes.

3.1.14 Fractional Risk: certain marketplaces limit the participation of loan purchasers (i.e., CreditSCRIPT Luxembourg) to a maximum percentage of each loan listed to ensure equitable treatment and broader diversification (e.g., a maximum of 20% can be purchase in the first 48 hours). This may limit the number of notes available to CreditSCRIPT investors.

3.1.15 Whole Loan Risk: certain marketplaces limit the participation of loan purchasers (i.e., CreditSCRIPT Luxembourg) to the purchase of whole loans only. Typically, only larger investors participate in whole loans as it is more difficult to achieve portfolio diversification without the necessary capital commitment.

3.2 Guaranteed Products (or Capital Protection)

Certain products will come packaged with a guarantee (“**Guaranteed Products**”). The purpose of these guarantees is to ensure a minimum return on the Guaranteed Product. Often, the return of the principal amount of the investment will be guaranteed by a third party. Guaranteed Products are themselves exposed to certain risks.

3.2.1 Credit risk: investors are exposed to the credit risk of the guarantor.

3.2.2 Loss of investment: guarantees can offer different levels of capital protection, so not all your money may be returned if the capital protection is not 100%.

3.3 Insolvency

In the event of our insolvency or default, or that of any other brokers/loan origination platforms involved with your transaction, it 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. On request, we will provide an explanation of whether, and the extent to which, we will accept liability for any insolvency of, or default by, other firms involved with your transactions.

3.4 Tax risk

The level and basis of taxation on a particular product and on the investor and any reliefs from such taxation depend on the investor’s individual circumstances and could change at any time. The tax and regulatory characterisation of the product may change over the life of the product. This could have adverse consequences for the investor.

4. Suspensions of trading

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