Appendix 3

PRODUCT RISK CATEGORY INFORMATION

CORESTATE Bank GmbH

Neue Mainzer Straße 66-68

60311 Frankfurt am Main

Germany

Tel.: +49 69 99999 64 0

e-mail: info@corestate-bank.com

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Product Risk Category Information

CORESTATE Bank GmbH (hereinafter referred to as "**CORESTATE Bank** ") has defined internal product risk categories for transactions in financial instruments. These are used as risk indicators for the financial instrument concerned when providing investment advice. The objective of the product risk category system defined by CORESTATE Bank is to render possible a comparison of the risk associated with different financial instruments. The risk category system consists of 7 risk categories. Financial instruments allocated to risk category 1 have the lowest risk in terms of their loss potential, whereas financial instruments allocated to risk category 7 have the highest loss potential.
Financial instruments allocated to risk category 1 are <u>not</u> risk-free investments. For details, please also refer to the information provided in section 4.1 Informational value of the product risk category system.

1. BASIS OF CORESTATE BANK'S PRODUCT RISK CATEGORY SYSTEM

In the interests of ensuring a standardised and practical system, the German Banking Industry Committee (hereinafter referred to as "**GBIC**"), the German Derivatives Association (*Deutsche Derivateverband*, hereinafter referred to as "**DDV**") and the German Investment Funds Association (*Bundesverband Investment und Asset Management e.V.*, hereinafter referred to as "**BVI**") have agreed on a target market concept. This target market concept has also been discussed with the supervisory authorities and meets the regulatory requirements. CORESTATE Bank applies this standard largely unchanged to ensure maximum comparability and transparency in the interests of, and in order to protect, investors and clients alike. The DK, DDV and BVI product risk category system has been supplemented by CORESTATE Bank with regard to certain details in order to take account of the special features of the products developed and distributed by CORESTATE Bank and the needs of both clients and investors.

2. RISK CATEGORY DEFINITION

In line with the concept developed by the DK, DDV and BVI, the product risk categories, which constitute a recommendation for the necessary risk tolerance, are defined based on the value-at-risk.

The value at risk, however, is not very well suited to the financial instruments that are particularly relevant to CORESTATE Bank,[1] namely bearer bonds and promissory note loans with a remaining term to maturity of less than 397 days, open-ended special securities AIFs with fixed investment conditions which primarily invest in the aforementioned instruments, as well as open-ended and closed-ended special AIF real estate pursuant to section 307 (1) and (2) of the KAGB. This is because the value at risk is calculated based on market prices, which are generally not available, for the often illiquid bearer bonds and promissory note loans as well as open-ended and closed-ended special AIFs with fixed investment conditions. This also applies to the calculation of the maximum drawdown that is also used on the market.

Nevertheless, for reasons of comparability and comprehensibility for investors, it makes sense to adopt the existing basic concept of a risk indicator, which is divided into seven levels, and only to differentiate in detail.

The financial instruments that are particularly relevant to CORESTATE Bank are allocated to product risk categories as described in the following sections.

[1] The financial instruments potentially relevant for CORESTATE Bank in the context of investment advice scenarios also include derivatives. Their product risk category is set out in section 2.4.

2.1 BONDS

With regard to bearer bonds as well as bonds (both financial instruments are referred to as **bonds** below), CORESTATE Bank 's risk category system considers the following three criteria, taking the historically observed loss potential into account:

- Issuer credit rating and solvency:
  The ratings issued by rating agencies (e.g. S&P or Moody's) that are commonly used on the market and describe an issuer's credit rating and solvency are generally not issued for the bonds that are relevant to CORESTATE Bank. As a result, a bond's security is assessed based on its "Pfandbrief" eligibility[2] and collateral.
  - The probability of issuers of bonds that are Pfandbrief-eligible and collateralised being unable to make their coupon payments and repayments in a timely manner and in full is considered to be relatively low. As a result, bonds that are Pfandbrief-eligible and collateralised are to be assigned to products risk category 2 initially, unless a higher product risk category is appropriate due to additional interest rate or currency risks (as described below).
  - The probability of default on coupon payments and repayments for bonds that are not Pfandbrief-eligible (secured and unsecured) is higher in comparison. As a result, bonds that are not Pfandbrief-eligible are initially assigned to product risk category 3. The product risk category can increase further due to additional interest rate or currency risks.
- Interest rate risk:
  Buyers of bonds with a fixed coupon are exposed to the risk of price losses if the market interest rate rises. The interest rate risk increases, for example, if bonds have longer maturities. Bonds with a remaining term of more than 7 years are assigned to a risk category that is one product risk category higher than their initial allocation based on the measure of a bond's security. If the remaining term is more than 15 years, the bonds are assigned to a risk category that is two product risk categories higher.
- Currencies other than EUR (foreign currency/exchange rate risk):
  If the financial instrument is denominated in a currency other than the EUR, a foreign currency risk arises, as the exchange rate between the EUR and the currency in which the financial instrument is denominated can develop to the investor's detriment. As a result, bonds issued in a currency other than the EUR are assigned to a risk category that is one product risk category higher than their initial allocation based on the measure of a bond's security.

The consideration of interest rate and currency risks results in product risk category 5 at the very most for the purposes of allowing for a clear risk accrual on derivative financial instruments.

2.2 PACKAGING STRUCTURES

The bonds or bearer bonds distributed by CORESTATE Bank, by means of which a certain underlying asset is "packaged" in order to make it more easily manageable for certain investor groups, are regularly issued from a Luxembourg securitisation company or a special fund (so-called compartment) set up by such a securitisation company. The bonds regularly securitise the right to payment of a certain interest rate and a certain repayment amount, whereby this payment is only

[2] Pursuant to section 1807 (1) no. 4 of the German Civil Code (*Bürgerliches Gesetzbuch* – BGB), Pfandbriefe (a type of covered bond issued by German banks) are eligible for the investment of money held in trust for award and different investment limits apply, for example, to investment funds, pension funds and life insurance companies than for unsecured bank bonds.

to be made by the issuer if the issuer collects sufficient proceeds from the assets it has acquired to cover its own costs and to make the payments due under the bonds (so-called limited recourse). The price of such Bonds is materially dependent on whether the issuer can be expected to receive sufficient proceeds under the asset acquired by it to meet its obligations under the Bonds and, in addition, to be able to cover its own costs. Assets that may be acquired by the Issuer may be, in particular, open-ended special AIFs with a focus on real estate (for further information see Chapter 2.4 b), special AIFs with a focus on bonds issued by real estate project companies (for further information see Chapter 2.4 a) as well as bonds or loans (for further information regarding bonds see Chapters 2.1 and 2.3).

CORESTATE Bank determines the initial product risk class on the basis of the product risk class of the assets acquired by the issuer. Structuring in the form of an intermediary issuer acquiring the respective asset and issuing the bonds results in an increase of the risk class by 1. Such a packaging structure in the form of a bond, where the issuer acquires a special AIF bond which is denominated in non-Pfandbrief-eligible and unsecured bonds quoted in EUR with a residual maturity of less than 7 years, is consequently assigned to product risk class 4. Such a packaging structure in the form of a bond where the issuer acquires a Pfandbrief-eligible and secured promissory note loan denominated in EUR and with a remaining term of less than 7 years is accordingly assigned to risk class 4.

Analogous to the bonds, packaging structures are classified at most in product risk class 5 in order to ensure a clear risk differentiation from derivative financial instruments.

2.3 REGISTERED BONDS AND PROMISSORY NOTE LOANS

Registered bonds that do not feature a fixed maturity or a fixed positive interest rate, that are redeemed in full at maturity without interest accruing, that are issued by a CRR credit institution[3] and for which the capital invested is not repaid until all non-subordinated creditors have been satisfied in the event that insolvency proceedings are opened relating to the assets of the institution or in the event of the institution's liquidation, constitute financial instruments in accordance with section 2 (4) no. 7 WpHG.

Promissory note loans with a time to maturity of less than 397 days qualify as money market instruments within the meaning of section 2 (2) WpHG and consequently as a financial instrument in accordance with section 2 (4) no. 3 WpHG (hereinafter referred to as "**Promissory Note Loans**").

Registered bonds and Promissory Notes Loans are not securities in the narrower sense and thus cannot be admitted to trading or traded on a regulated market (stock exchanges) within the meaning of the WpHG. Instead, registered bonds and Promissory Note Loans can only be transferred and thus sold by ceding the underlying debt claim. Generally, the consent of the borrower or other third party for such transfer is not necessary in the structure relevant to CORESTATE Bank. Given the above, the transferability of registered bonds and Promissory Note Loans is more restricted than that of bonds, irrespective of their admission to trading or liquidity.

Due to the above-mentioned restrictions on transferability, CORESTATE Bank assigns registered bonds and Promissory Note Loans to a higher product risk category than it would a comparable bond. In line with the methodology for bonds, an initial check is carried out to determine the extent to which they are Pfandbrief-eligible and collateralised, and any potential interest rate and/or currency risk is taken into consideration, which additionally increases the product risk category. A Pfandbrief-eligible and promissory note loans in EUR with a remaining term to maturity of under 7 years will thus initially be assigned to product risk category 3.

[3] Pursuant to Article 1 paragraph 3d sentence 1 German Banking Act.

As in the case of bonds, the maximum product risk category to which registered bonds and Promissory Note Loans will be assigned is category 5 in order to ensure a clear risk accrual for derivative financial instruments.

2.4 FONDS

The financial instruments distributed by CORESTATE Bank are so-called alternative investment funds (hereinafter AIF), each of which is managed by capital management companies (hereinafter KVG).

a. Special AIF with a focus on bonds issued by real estate project companies

CORESTATE Bank offers its customers the acquisition of open-ended domestic special AIFs with fixed investment conditions in the form of a special fund (hereinafter referred to as **special AIF bonds**), the special fund of which is invested in particular in bonds issued by real estate project companies.

If the funds of the special AIF bonds are invested by the AIF capital management company in accordance with Section 282 of the German Investment Code (KAGB) in accordance with the principle of risk diversification for collective capital investment, without any additional requirements for diversification and equity instruments for the associated reduction of risks being defined in the investment strategies and investment objectives, CORESTATE Bank determines the initial product risk class on the basis of the underlying financial instruments, based on their Pfandbrief eligibility and the collateralisation of the bonds. Depending on a longer remaining term and a currency other than EUR in which the bonds of the investment fund are quoted, the product risk class increases.

If the special AIF invests in Pfandbrief-eligible and collateralised bonds that are quoted in EUR and have a residual term of less than 7 years, this is initially allocated to product risk class 2. Special AIF bonds that invest in non-Pandbrief-eligible and unsecured bonds that are quoted in EUR and have a residual term of less than 7 years are initially assigned to product risk class 3.

If the special AIF invests in bonds with a residual term of more than 7 years, the product risk class increases by one product risk class based on the initial allocation. If the residual maturity of the bonds in the special AIF Bonds is higher than 15 years, the special AIF Bonds will be classified two product risk classes higher.

If the bonds in which the special AIF Bonds invest are denominated in a currency other than EUR, a foreign currency risk arises, which is why the special AIF Bonds is classified one product risk class higher than the initial allocation. If derivatives are used to hedge risks, these generally do not increase the product risk class. However, if the derivatives fully hedge the interest rate risk of a longer remaining term or the foreign currency/exchange rate risk, the special AIF bonds are classified based on the initial product risk class.

Additions of up to 5% of the assets of the Special AIF bonds to bonds with longer maturities or bonds denominated in currencies other than EUR shall not result in an increase of the product risk class.

Special AIF bonds whose special assets invest in particular in bonds issued by real estate project companies are classified at most in product risk class 5 in order to ensure a clear risk differentiation from derivative financial instruments.

If the special AIF bond fund is invested in a broadly diversified manner in accordance with its investment strategy and investment objectives, the product risk class may be reduced by one product risk class from the initial allocation in accordance with Article 52 of the Directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS[4]).

b. Open-ended special AIFs with a focus on real estate

In addition, CORESTATE Bank offers its customers the acquisition of open-ended domestic special AIFs with fixed investment conditions in the form of a special fund with an investment focus on real estate (hereinafter referred to as **open-ended special AIF real estate**). The investment objective of special AIF real estate is to generate sustainable income for the investor through inflowing rental income as well as through increases in the value of a real estate portfolio that is diversified regionally, by type of use and by size class, depending on the investment strategy of the fund. However, based on the historically observable loss potential of real estate within the eurozone, taking into account the special legal provisions applicable to the redemption of units in the special AIF properties, an initial allocation is made to product risk class 3.

In the case of an investment in open-ended special AIF real estate, the influence of a foreign currency - due to the fact that the fund units are denominated in a currency other than EUR or the investment fund invests in real estate outside the Eurozone - can be a risk-increasing influencing factor. The exchange rate of this foreign currency to the EUR can develop adversely for the investor and thus lead to losses in the unit value or to lower distributions. In order to map these risks and their effects on the historically observable loss potentials, special AIF properties that are quoted in a currency other than EUR or essentially invest outside the eurozone without the foreign currency influence being reduced (e.g. through the use of derivatives) are classified in product risk class 4 and thus one product risk class higher.

Additions of up to 5% of the special AIF bond fund's assets in real estate outside the eurozone do not lead to an increase in the risk class.

c. Closed-ended special AIFs with a focus on real estate

CORESTATE Bank also offers its customers closed-ended domestic special AIFs pursuant to § 139 and § 285 (1) and (2) KAGB (hereinafter referred to as **closed-ended special AIF real estate**). The basic idea of the closed-ended special AIF real estate is to offer an entrepreneurial participation in a specific real estate or real estate project, which is usually implemented via a declaration of accession by the investor. The investment objective of closed-ended special AIF real estate is to generate income for the investor during the term by participating in the financing of the acquisition or construction of a property or to allow the investor to participate in the income.

Based on the historically observable loss potential of real estate within the Eurozone and taking into account the following specific risks compared to Open-ended Special AIF Real Estate and their potential impact, closed-ended Special AIF Real Estate is assigned to risk class 4.

- Closed-ended special AIF real estate generally does not pursue a broad risk spread / diversification, as it generally offers an investment in a specific real estate or real estate project. The restrictions on potential investment objects from §§ 230 ff KAGB that apply to open-ended real estate funds do not apply to closed-ended special AIF real estate, so that investments can also be made in real estate projects that are generally not investable for open-ended real estate funds.
- Closed-ended special AIF real estate can be set up not only as a special fund (§§ 139 sentence 2, 285 KAGB), but also with its own legal personality (e.g. limited partnership). An investment in a closed-ended special AIF real estate is therefore in the latter case an entrepreneurial participation in the real estate company (legal

[4] Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009.

personality). Investors are partners as (e.g. limited) partners and are liable in the event of insolvency with their registered liability contribution just like a "normal" limited partner.

- Ordinary termination of the entrepreneurial participation during the term of the fund is excluded. A regulated market for entrepreneurial investments does not exist, so that a sale of the investment may be difficult or impossible.
- Additional risks may arise from the fund's own legal personality as a result of changes in tax and company law conditions.

In the case of an investment in closed-ended special AIF properties, the influence of a foreign currency - due to the fact that the fund units are quoted in a currency other than EUR or the closed-ended special AIF property invests in properties outside the eurozone - can be a risk-increasing factor. The exchange rate of this foreign currency to the EUR may develop adversely for the investor and thus lead to losses of the investment or to lower distributions. In order to reflect these risks and their effects on the historically observable loss potentials, closed-end special AIF properties that are quoted in a currency other than EUR or essentially invest outside the eurozone without the foreign currency influence being reduced are classified in risk class 5 and thus one risk class higher.

Mixing of up to 5% of the volume of the closed-ended special AIF real estate in real estate outside the eurozone does not lead to an increase in the risk class.

d. All funds

Analogous to the other instruments, funds are classified in product risk class 5 at the most in order to ensure a clear risk differentiation from derivative financial instruments.

2.5 Derivatives

Derivatives are usually financial instruments derived from other financial products (underlyings) and used for hedging or also for speculation purposes. These include the following types of product in particular; options, futures, forward exchange transactions, swaps, forward rate agreements and structured credit-based investment instruments. The one feature they have in common is that they are not securitised. This means that they constitute contractual agreements and cannot be held in custody in a securities deposit account. The underlyings can include bonds, equities, currencies, commodities, indices or loans, for example. The underlying can also be a derivative instrument, e.g. an option or a future. Due to how they work, and validated by historical experience and the general understanding of the markets and regulators, derivatives are considered to be particularly high-risk financial instruments. As a result, derivatives are assigned to product risk categories 6 or 7. Derivatives with a limited risk for the capital employed (e.g. bought options) are assigned to product risk category 6 (very high historical risk of a total loss of the capital employed). Derivatives associated with the risk of incurring losses extending beyond the capital employed (e.g. sold options), are assigned to product risk category 7 (in addition to the very high risk of a total loss, there are risks of loss extending beyond the capital employed).

3. Product risk category matrix

CORESTATE Bank product risk class matrix on page 10 shows the product risk class matrix as the result of assigning the financial instruments relevant to CORESTATE Bank to product risk classes.. It is based on the historically calculated loss potential and the inherent risks associated with the individual instruments. The product risk category also serves as an indicator for investors' risk tolerance.

As the matrix is restricted to the financial instruments that are relevant to CORESTATE Bank as the manufacturer or distribution company, the row showing "Examples of financial instruments" is merely an excerpt of the various financial instruments, extended to include a number of financial instruments designed to make the classification system easier to understand.

CORESTATE Bank product risk category							
Historical loss potential (purely indicative![5])	extremely low historical loss potential	very low historical loss potential	low historical loss potential	moderate historical loss potential	high historical risk of a total loss of the capital employed	very high historical risk of a total loss of the capital employed	very high historical risk of a total loss and the risk of loss extending beyond the capital employed
Examples of financial instruments	• Money market funds in EUR[6]	• Pfandbrief-eligible and collateralised bonds in EUR with a remaining term of less than 7 years • Special AIF investing in EUR-denominated bonds eligible for Pfandbriefe and secured bonds with a residual maturity of less than 7 years. • EUR bonds with a rating of between AAA and BBB–[7] and a remaining term of less than 7 years	• Pfandbrief-eligible and collateralised bonds in EUR with a remaining term of more than 7 years • Pfandbrief-eligible and collateralised bonds in CHF with a remaining term of less than 7 years • Bonds in EUR that are not Pfandbrief-eligible with a remaining term of less than 7 years • Pfandbrief-eligible and collateralised registered bonds in EUR with a remaining term of less than 7 years • Special AIF investing in EUR-denominated bonds not eligible for Pfandbriefe and secured bonds with a residual maturity of less than 7 years. • Open-ended special AIF real estate investing in EUR & the Eurozone • EUR bonds with a rating of between AAA and BBB–[10)] and a remaining term of more than 7 but less than 15 years	• Pfandbrief-eligible and collateralised bonds in EUR with a remaining term of more than 15 years • Pfandbrief-eligible and collateralised bonds in CHF with a remaining term of more than 7 years • Bonds in EUR that are not Pfandbrief-eligible with a remaining term of more than 7 but less than 15 years • Open-ended special AIF properties investing in foreign currency & outside the Eurozone • Closed-ended special AIF real estate investing in EUR & the Eurozone • Packaging structure where the issuer acquires a Pfandbrief-eligible and secured promissory note loan in EUR and a residual term of less than 7 years • Equity funds/ETFs in broadly diversified global or European equities/equity indices	• Pfandbrief-eligible and collateralised bonds in CHF with a remaining term of more than 15 years • Bonds in CHF that are not Pfandbrief-eligible with a remaining term of more than 7 but less than 15 years • Bonds in EUR/CHF[8] that are not Pfandbrief-eligible with a remaining term of more than 15 years • Special AIF investing in Pfandbrief-eligible and collateralised bonds denominated in CHF with a residual maturity of more than 15 years • Closed-end special AIF real estate investing in foreign currency & outside the Eurozone • Highly speculative bonds with ratings of less than BBB-[9] • Individual equities • Subscription rights to equities Equity funds/ETFs in developing countries	Derivatives with a risk of loss up to the amount of the capital employed	• Derivatives with a risk of loss exceeding the amount of capital employed
Product risk category as a risk indicator and indicator of investor risk tolerance	**1**	**2**	**3**	**4**	**5**	**6**	**7**

Table 1 CORESTATE Bank product risk class matrix

[5] The allocation of a financial instrument to a risk category based on the historical loss potential is based on a standardised assessment and cannot provide any indication as to the loss potential that a financial instrument will actually have in the future. This includes the possibility that losses incurred in connection with a financial instrument may also exceed the historical average loss potential indicated considerably at certain points during the investment term. This can also result in the total loss of the capital employed, even if the financial instrument was allocated to the lowest risk category.
[6] Financial instruments shown in grey are not relevant to CB and are for illustration and context purposes only.
[7] Investment grade bonds with ratings assigned by rating agencies of between AAA and BBB– (or Aaa and Baa3 at Moody's).
[8] The consideration of interest rate and currency risks results in product risk category 5 at the very most.
[9] Non-investment grade bonds with ratings assigned by rating agencies of between BB+ and D (or Ba1 and "not rated" at Moody's).

CORESTATE Bank

4. IMPORTANT INFORMATION

4.1 INFORMATIONAL VALUE OF THE PRODUCT RISK CATEGORY SYSTEM

The allocation of a financial instrument to a product risk category based primarily on the value at risk, i.e. ultimately on historical data, means that the actual loss potential that a financial instrument has in the future cannot be derived from it. It is possible that the losses incurred in connection with a financial instrument in the future will considerably exceed the historical losses. This can result, in particular, in the total loss of the capital employed, even if the financial instrument was allocated to the lowest product risk category.

The credit financing of investments in financial instruments is not taken into account when allocating a financial instrument to a product risk category.

Fees, transaction costs, commissions and taxes incurred when financial instruments are purchased and sold that have a negative impact on the net performance of the financial instrument in question are also not taken into account.

The concept described in section 2.1 Bonds regarding the consideration of currency risks in the product risk category system is based on the perspective of an investor whose home country currency is the EUR. Different client situations and currencies in individual cases are not taken into account in an investment advice scenario.

4.2 RELATIONSHIP WITH OTHER RISK RATIOS

Synthetic Risk and Reward Indicator (hereinafter referred to as **SRRI**) for investment funds

The SRII is calculated and published as a risk ratio for investment funds. As this ratio is used exclusively for funds, it is not included in CORESTATE Bank's concept.

Summary Risk Indicator (**SRI**) for structured financial instruments

The SRI is calculated and published as a risk ratio for structured financial instruments, in particular for certificates but also for structured bonds and certain derivatives. This is also generally reflected in CORESTATE Bank risk category system.

4.3 MORE DETAILED INFORMATION

This information is not designed as a source of knowledge on how financial instruments work or on the risks associated with them.

Detailed descriptions on how the listed financial instruments work and on all of the relevant risks associated with them can be found in the "Basic information on securities and other investments", as well as in the "Basic information on forward transactions" and "Basic information on financial derivatives". If you do not have their brochures, please get in touch with your contact at CORESTATE Bank.

4.4 FURTHER QUESTIONS

Your contact at CORESTATE Bankill be happy to answer any further questions you may have on the CORESTATE Bank product risk category system.