

# COVERED WARRANTS

## POWERFUL TRADING TOOLS



THIS COMMUNICATION IS DIRECTED AT SOPHISTICATED RETAIL CLIENTS IN THE UK

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## IMPORTANT INFORMATION

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- Covered Warrants are directed at sophisticated retail clients in the UK, who have a good understanding of the underlying market and characteristics of the products.
- Capital is fully at risk. Covered Warrants are not covered by the provisions of the Financial Services Compensation Scheme ("FSCS"), nor any similar compensation scheme. The information within this brochure does not constitute legal, tax or financial advice. Societe Generale has not given any such advice.
- If your investment in a Covered Warrant results in a loss, any such losses will be amplified in the product. As such, you could lose more than you would have done if you had invested directly in the Underlying Asset.
- Covered Warrants are securities that are listed on the London Stock Exchange (LSE). Warrants issued prior to 31<sup>st</sup> July 2015 are issued by SGA Societe Generale Acceptance via an Issuing Programme which is approved by the UK Listing Authority. SGA Societe Generale Acceptance is a 100% subsidiary of Generale. Warrants issued after 31<sup>st</sup> July 2015 are issued by SG Issuer via an Issuing Programme which is approved by the UK Listing Authority. SG Issuer is a 100% subsidiary of Generale.
- Covered Warrants are issued by either SG Issuer or SGA Societe Generale Acceptance, both members of Societe Generale group of companies. At any point during the life of the investment, any failure of SGA Societe Generale Acceptance or SG Issuer to satisfy its obligations when due may result in the loss of all or part of an investment. See page 14 for more information on Counterparty Risk.
- This is a marketing document designed to convey the key features of the products. Final Terms are published for all Covered Warrants detailing their specific characteristics and their pay-off, and the product features given in the Final Terms are prescribed by the approved Base Prospectus. Both documents can be found at [www.sglistedproducts.co.uk](http://www.sglistedproducts.co.uk) and should be read prior to investment.
- You should read this document carefully so that you understand what you are buying, and then keep it safe for future reference.

# GLOSSARY OF KEY TERMS

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| TERM                           | DESCRIPTION  |
|--------------------------------|--|
| At the Money                   | The Covered Warrant's Strike price is the same as the Underlying Asset price.  |
| Call Warrant                   | A Covered Warrant designed for rising market trends.   |
| Delta                          | The sensitivity of the Covered Warrant price to the Underlying Asset price.  |
| EPIC Code                      | The unique code you need to quote to your broker to buy or sell the product.   |
| Effective Gearing/<br>Leverage | The amount by which a Covered Warrant's price moves in relation to a 1% move in the price of the Underlying Asset. For example, 5 times Effective Gearing means that a 1% move in the Underlying Asset would result in a 5% move in the price of a Covered Warrant.      |
| Expiry                         | The date that a Covered Warrant expires and generates a payment if any is due.   |
| In the Money                   | The current price of the Underlying Asset is above (Call) or below (Put) the Covered Warrant's Strike Price.   |
| Intrinsic Value                | The amount by which the price of an Underlying Asset is above (Call) or below (Put) the Covered Warrant's Strike Price.  |
| Out of the Money               | The current price of the Underlying Asset is below (Call) or above (Put) the Covered Warrant's Strike Price.   |
| Parity                         | A scaling factor used to reduce the cost of investment. A parity of 1,000 for example means that one Covered Warrant is equivalent to 1,000 <sup>th</sup> of the Underlying Asset. As such, any move in the Underlying Asset is divided by 1,000 in the Covered Warrant. |
| Put Warrant                    | A Covered Warrant designed for falling market trends.  |
| Premium                        | Generally considered to be the price you pay for the chance of the product expiring In the Money. You can calculate it by subtracting the Intrinsic Value from the current price of the Covered Warrant.   |
| Strike Price                   | The level that the Underlying Asset's price must be above (Call) or below (Put) in order to create a payout upon Expiry.   |
| Time Value                     | A component of the Premium which is directly related to the amount of time remaining until Expiry.   |
| Time Decay                     | The erosion of Time Value as a Covered Warrant approaches its Expiry date.   |
| Underlying Asset               | The single stock, index, commodity or currency pair that the product is linked to.   |

# COVERED WARRANTS

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Covered Warrants provide a powerful way to amplify your potential returns from a wide range of stocks, indices, commodities and currency pairs.

## What are Covered Warrants?

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Covered Warrants are listed securities which give the holder the right, but not the obligation, to buy or sell an Underlying Asset at a specified price, on or before a predetermined date.

Covered Warrants are issued by financial institutions and are similar to options, albeit they tend to have slightly longer maturities and are generally issued on a wider range of assets.

With Covered Warrants you cannot lose more than your initial investment and there are no margin calls.

## Overview

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Covered Warrants are for investors who are looking to amplify their potential returns from a precise market view. They are available on a wide range of stocks, indices, commodities and currency pairs, and offer leverage of between 5 and 40 times. This means you can trade the markets you want, at a level of risk that suits you.

Covered Warrants offer investors the opportunity to extract greater value from their investments due to this leverage factor. You are able to maintain full exposure to an Underlying Asset but at a reduced cost. In addition, they are useful tools for both speculative investments and hedging purposes. For example, if you hold a particular share and worry that it is going to fall in value, you can buy a Put Warrant to cover the expected fall and hedge your exposure by way of compensation. You could also buy the Put Warrant without holding an exposure on the stock, if you wanted to speculate and profit from it falling in value too.

As Exchange Traded Products, Covered Warrants are supported by live buy and sell prices throughout the trading day (08:05-16:30), giving you the flexibility to trade in or out whenever you want to.

## Buying and Selling

Covered Warrants can be bought and sold via your broker just like a share at any point during market hours, in normal market conditions, with prices listed on the London Stock Exchange (LSE). See page 13 for more information on "How to Trade".

## Types of Covered Warrants?

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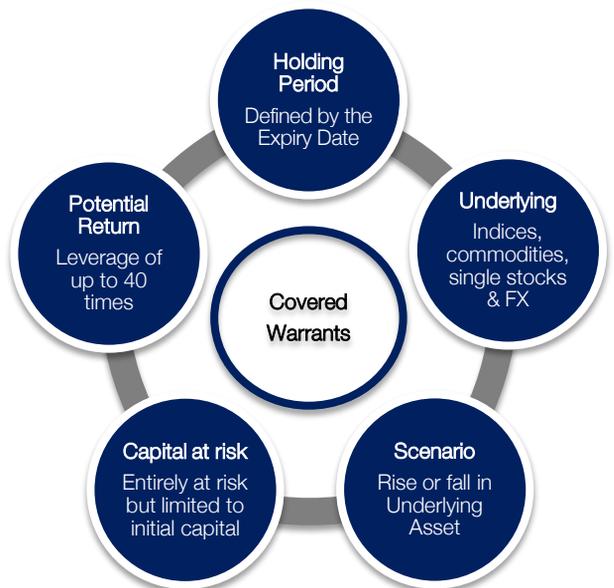
There are two types of Covered Warrants:

- **Call Warrants** are designed for rising markets. They offer the holder of the Covered Warrant the right to buy the Underlying Asset at a specified price, on or before a defined date.
- **Put Warrants** are designed for falling markets. They offer the holder of the Covered Warrant the right to sell the Underlying Asset at a specified price, on or before a defined date.

## Eligibility

Covered Warrants can be purchased in the following types of stock broker accounts:

- A Self Invested Personal Pension Account (SIPP)
- Direct Dealing Account



# HOW COVERED WARRANTS WORK

As we have seen, there are two types of Covered Warrants which allow you to gain access to rising (Call Warrants) or falling (Put Warrants) markets. Regardless of which type of Covered Warrant you choose there are several key elements to understand.

## The Expiry Date

Covered Warrants tend to have a fixed lifespan between 6 and 12 months from the date of launch, but can be longer. You can buy or sell a Covered Warrant at any time during its life, but at the end of its life it will expire and generate a cash payment if any is due. If not it will simply expire worthless.

## Underlying Asset

Covered Warrants can be linked to a stock, commodity, index or currency pair. It is the level of this Underlying Asset that determines whether or not you make a profit when the Covered Warrant expires. It is also one of the key elements that determines what a Covered Warrant is worth during its life time.

## The Strike Price (the target level)

The Strike Price of a Covered Warrant is essentially the price that the Underlying Asset must be above (Call), or below (Put) in order to generate a positive payout at Expiry. If the Underlying Asset is below the Strike (for a Call) or above the Strike (for a Put) your Covered Warrant simply expires worthless.

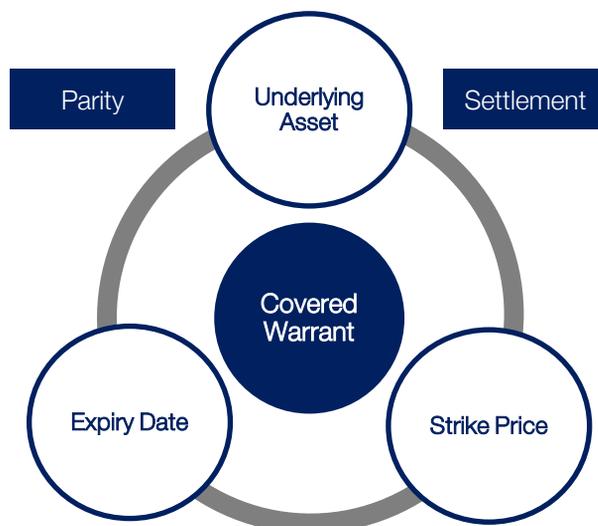
## The Parity scaling factor

The Parity scaling factor, also referred to as conversion ratio, defines the number of Covered Warrants required in order to gain exposure to one unit of the Underlying Asset. A parity of 1,000 for example means that one Covered Warrant is equivalent to 1,000th of the Underlying Asset. As such, any move in the Underlying Asset is divided by 1,000 in the Covered Warrant.

## Settlement Type (American or European)

The type of settlement defines when the Covered Warrant can be exercised (i.e. when do you have the right to buy or sell the Underlying Asset at the pre-determined price).

An European Settlement means that the Covered Warrant can only be exercised at Expiry. Whereas an American Settlement means the Covered Warrant can be exercised any time between the date of issuance and the expiry date. In reality Covered Warrants are rarely held to maturity and are normally sold prior to exercise.



## Covered Warrant Payout at Expiry

The payout of a Covered Warrant if held to maturity will vary slightly depending on the type of Covered Warrant, either a Call Warrant or a Put Warrant. Each will be calculated as a function of the Underlying Asset Price, the Strike Price and the Parity. More precisely, this payout is generally known as the Intrinsic Value of a Covered Warrant, something we will discuss later.

Call Warrant Payout at Expiry

$(\text{Underlying Asset Price} - \text{Strike Price}) / \text{Parity}$

Put Warrant Payout at Expiry

$(\text{Strike Price} - \text{Underlying Asset Price}) / \text{Parity}$

# LEVERAGE AND GEARING

## What about Leverage & Gearing?

One of the key attractions of Covered Warrants is the Leverage and Gearing that investors can use to potential boost their returns, in exchange for added risk. The reason for this is simple: it provides a way to make your money work harder. Instead of buying an Underlying Asset directly, you can use leverage to take an equivalent exposure for less money or buy more exposure for an equivalent cost. Buying the same exposure for less money reduces your capital at risk, buying more exposure for an equivalent cost boosts your potential returns.

### Gearing and Effective Gearing

The concept of Gearing is relatively simple: it is like buying a house with a mortgage. You pay a small deposit of say £30,000, get a mortgage for £270,000 and can buy a house worth £300,000.

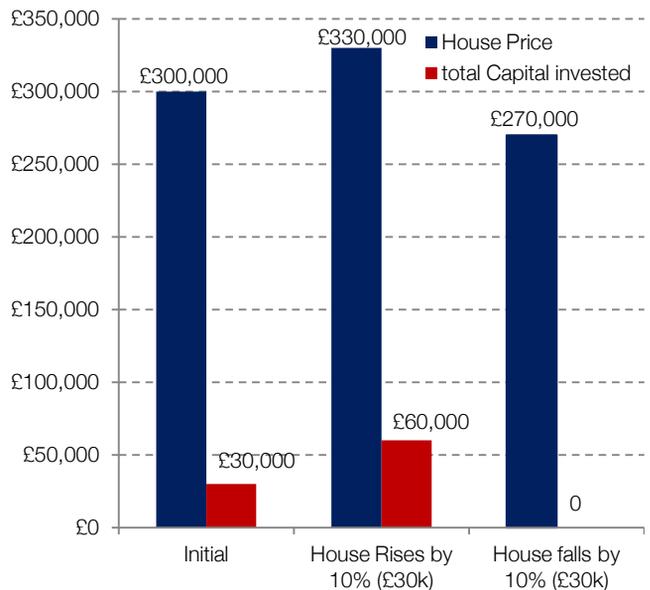
If the house increases or decreases by 10%, so by £30,000, you are exposed to this full house price movement. A rise of 10% would mean your total capital invested would increase to £60,000, and a decrease of 10% would mean it falls to zero. Both scenarios result in a gain or loss of 100% on the initial deposit.

What we see here is that you have invested £30,000 and generated the same exposure as an investment of £300,000. You therefore have gearing of 10 times.

In reality, the price of a Covered Warrant will not move directly proportional to the price of the Underlying Asset (i.e. it will be less sensitive). As such, this simple Gearing value may state a potential exposure higher than in reality.

In order to calculate the actual exposure that a Covered Warrant can provide an investor, we need to consider this sensitivity (also known as Delta) too. This adjusted measure is known as Effective Gearing.

Example of Leverage: Buying a house



For illustrative purposes only

### Limited Risk

It is important to understand that with Covered Warrants, even though your returns and losses are leveraged, you can never lose more than you invest. Unlike similar leveraged products, such as Contracts For Difference (CFDs) and Spread Bets, you can never be subject to margin call and as such your risk is limited.



# GENERATING A PAYOFF

## A CALL COVERED WARRANT

### Payoff of a Call Warrant (at expiry)

If we take the example (right). Let's assume you believe the FTSE 100 Index will rise and wish to buy Call Warrants. The 6m Call Warrant on FTSE is currently trading at £0.5885 per unit and you decide to buy 2,000 at a total cost of £1,177.

The Call Warrant has an Effective Gearing of 8.05, which means that through the Call Warrant you have generated that same exposure as investing £9,474.85 directly in the FTSE 100 (i.e.  $8.05 \times £1,177$ ), for the price of just £1,177.

Let's take a look at a few scenarios to see how changes in the price of the FTSE 100 will impact the potential payoff of your Covered Warrants.

#### EXAMPLE PRODUCT: 6M CALL WARRANT ON FTSE 100

|                        |          |
|------------------------|----------|
| WARRANT ASK PRICE      | £0.5885  |
| STRIKE PRICE           | 6,500.00 |
| PARITY                 | 1,000    |
| EFFECTIVE GEARING      | 8.05     |
| UNDERLYING ASSET PRICE | 6,950.00 |

$$\text{Payoff} = (\text{Underlying Asset Price} - \text{Strike Price}) / \text{Parity}$$

#### Scenario 1: FTSE 100 rises by 5% and closes at a level of 7,297

If, at expiry, the FTSE 100 was to rise by 5% to 7,297, the payoff of the Call Warrant would be calculated based on how much this level of the FTSE 100 was above the Strike Price.

As a result, the Call Covered Warrant would generate a payoff of £0.7975 per unit (i.e.  $[7,297 - 6,500] / 1,000$ ).

Therefore, by investing £1,177 into the 2,000 Covered Warrants you would receive a total payoff of £1,595 (i.e.  $£0.7975 \times 2,000$ ).

This equates to a total profit at expiry of £418 and a return on your investment of 35.5%.

A direct investment in the FTSE 100 of £9,474.85 would generate a total payoff of £9,948.60 and a total profit of £473.74. However, with a direct investment your total capital at risk would have been £9,474.85, whereas with the Covered Warrant it was just £1,177.

#### Scenario 2: FTSE 100 falls by 5% and closes at a level of 6,602.50

If, at expiry, the FTSE 100 was to fall by 5% to 6,602.50, the payoff of the Call Warrant would again be calculated based on how much this level of the FTSE 100 was above the Strike Price.

As a result, the Call Covered Warrant would generate a payoff of £0.1025 per unit (i.e.  $[6,602.50 - 6,500] / 1000$ ).

Therefore, by investing £1,177 into the 2,000 Covered Warrants

you would receive a total payoff of £205 (i.e.  $£0.1025 \times 2000$ ).

This equates to an overall loss at expiry of £972 and a negative return on your investment of 82.58%.

A direct investment in the FTSE 100 of £9,474.85 would generate a total payoff of £9,001.11 and a total loss of £473.74.

#### Scenario 3: FTSE 100 falls by 10% and closes at a level of 6,255

If, at expiry, the FTSE 100 was to fall by 10% to 6,255, the payoff of the Call Warrant would again be calculated based on how much this level of the FTSE 100 was above the Strike Price.

In this instance, however, the Call Covered Warrant would not generate any payoff as the Underlying price is in fact below the

Strike Price.

A total loss on the investment of £1,177 would be made.

A direct investment in the FTSE 100 of £9,474.85 would generate a total payoff of £8,527.37 and a total loss of £947.49.

# GENERATING A PAYOFF

## A PUT COVERED WARRANT

### Payoff of a Put Warrant (at expiry)

If we take the example (right). Let's assume you believe the FTSE 100 Index will fall and wish to buy Put Warrants. The 6m Put Warrant on FTSE is currently trading at £0.5885 per unit and you decide to buy 2,000 at a total cost of £1,177.

The Put Warrant has an Effective Gearing of 8.05, which means that through the Put Warrant you have generated that same exposure as investing £9,474.85 directly in the negative or inverse performance of the FTSE 100 (i.e.  $8.05 \times £1,177$ ), for the price of just £1,177.

Let's take a look at a few scenarios to see how changes in the price of the FTSE 100 will impact the potential payoff of your Covered Warrants.

#### EXAMPLE PRODUCT: 6M PUT WARRANT ON FTSE 100

|                        |          |
|------------------------|----------|
| WARRANT ASK PRICE      | £0.5885  |
| STRIKE PRICE           | 7,400.00 |
| PARITY                 | 1,000    |
| EFFECTIVE GEARING      | 8.05     |
| UNDERLYING ASSET PRICE | 6,950.00 |

$$\text{Payout} = (\text{Strike Price} - \text{Underlying Asset Price}) / \text{Parity}$$

#### Scenario 1: FTSE 100 falls by 5% and closes at a level of 6,602.50

If, at expiry, the FTSE 100 was to fall by 5% to 6,602.50, the payoff of the Put Warrant would be calculated based on how much this level of the FTSE 100 was below the Strike Price.

As a result, the Put Covered Warrant would generate a payoff at expiry of £0.7975 per unit (i.e.  $[7,400 - 6,602.50] / 1,000$ ).

Therefore, by investing £1,177 into the 2,000 Covered Warrants you would receive a total payoff of £1,595 (i.e.  $£0.7975 \times 2,000$ ).

This equates to a total profit at expiry of £418 and a return on your investment of 35.5%.

A direct investment in the short (inverse) performance of the FTSE 100 for £9,474.85 would generate a total payoff at expiry of £9,948.60 and a total profit of £473.74. However, with a direct investment your total capital at risk would have been £9,474.85, whereas with the Covered Warrant it was £1,177.

#### Scenario 2: FTSE 100 rises by 5% and closes at a level of 7,297.50

If, at expiry, the FTSE 100 was to rise by 5% to 7,297.50, the payoff of the Put Warrant would again be calculated based on how much this level of the FTSE 100 was below the Strike Price.

As a result, the Put Covered Warrant would generate a payoff of £0.1025 per unit (i.e.  $[7,400 - 7,297.50] / 1,000$ ).

Therefore, by investing £1,177 into the 2,000 Covered Warrants

you would receive a total payoff of £205 (i.e.  $£0.1025 \times 2,000$ ).

This equates to an overall loss at expiry of £972 and a negative return on your investment of 82.58%.

A direct investment in the short (inverse) performance FTSE 100 of £9,474.85 would generate a total payoff of £9,001.11 and a total loss of £473.74.

#### Scenario 3: FTSE 100 rises by 10% and closes at a level of 7,645

If, at expiry, the FTSE 100 was to rise by 10% to 7,645, the payoff of the Put Warrant would again be calculated based on how much this level of the FTSE 100 was below the Strike Price.

In this instance, however, the Put Covered Warrant would not generate any payoff as the Underlying price is in fact above the

Strike Price.

A total loss on the investment of £1,177 would be made.

A direct investment in the short (inverse) performance FTSE 100 of £9,474.85 would generate a total payoff of £8,527.37 and a total loss of £947.49.

# GENERATING A PAYOFF: BREAK EVEN

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## The Break Even Point

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As we have already seen, a Covered Warrant will generate a payout at Expiry if the Underlying Asset is above (Call) or below (Put) the predefined Strike Price. However, this does not mean that you will necessarily be in profit. The breakeven price for a Covered Warrant is the price that the Underlying Asset must reach at Expiry in order for the Covered Warrant to pay back at least the amount that you invested.

### Calculating the breakeven

The way that we calculate the Breakeven price is different for Call Warrants and Put Warrants:

#### Call Warrant:

Strike Price + (Covered Warrant purchase price x Parity)

#### Put Warrant:

Strike Price - (Covered Warrant purchase price x Parity)

By calculating the Breakeven price you know how far the Underlying Asset price has got to rise (Call) or fall (Put) in order for the Covered Warrant to generate a profit.

### Illustrative example

As an example, if an XYZ Ltd Call Warrant with a Strike Price of 600p, and a Parity of 1 can be bought for 15p, then the Breakeven price is  $600p + 15p = 615p$ . Therefore as long as XYZ Ltd is above 615p at Expiry, the payout for the Covered Warrant will be the same or higher than you paid to buy it. Alternatively, if you buy an ABC Index Put Warrant with a Strike Price of 6,000 and a Parity of 1,000 for a price of 20p, the breakeven level for the ABC Index will be  $6,000 - (0.20 \times 1,000) = 5,800$ . This means that the Index would have to drop to 5,800 by Expiry in order for you to receive back your 20p investment.



# TRADING BEFORE EXPIRY

So far we have focused primarily on how a Covered Warrant works if you were to hold it until Expiry, however this is not necessary. Many investors will buy and sell Covered Warrants long before they expire. The objective here is to profit from a potential change in price of the Covered Warrant.

This potential change in price could happen over a day, a week or several months. The key to success with trading before Expiry is to fully understand how a Covered Warrant's price will move, as it is not purely driven by the Underlying Asset.

The first thing for Covered Warrant traders to understand is that the price is not a function of supply and demand. Like options,

Covered Warrant prices are driven several factors which are analysed and computed by algorithms and pricing models. They are then provided to the market by the market-maker, which in our case is Societe Generale (or any affiliate thereof).

These pricing systems and algorithms tend to be more efficient and thus restrict investors looking simply for price anomalies.

## Intrinsic Value and Premium

When considering the price of a Covered Warrant, it is important to remember it is composed of two parts; the Intrinsic Value and the Premium. It is these two individual elements that need to be considered if you wish to sell your Covered Warrant before Expiry.



### Intrinsic Value

The 'Intrinsic Value' is the amount by which the Underlying Asset's price is above (Call) or below (Put) the product's Strike Price.

For example, if a Call Warrant has a Strike Price of £1.00 and the Underlying Asset is trading at £1.50, the Call Warrant has an Intrinsic Value of £0.50 (£1.50 - £1.00 = £0.50).

Covered Warrants which have a positive Intrinsic Value are said to be 'In the Money' because if the Covered Warrant were to expire at that time, it would result in a positive cash payout.

By the same reasoning, Covered Warrants with no positive Intrinsic Value are called 'Out of the Money' because if they were to expire at that time there would be no cash payout.

The final state is 'At the Money' whereby the price of the Underlying Asset is equal to the Strike Price. At the Money Covered Warrants would generate no cash payout if they were to expire immediately. A Covered Warrant can move freely in or out the money as the Underlying Asset price changes.

| Description      | Call Warrant  | Put Warrant   | Intrinsic Value | Payout at Expiry | Effective Gearing |
|------------------|---------------|---------------|-----------------|------------------|-------------------|
| In the Money     | Spot > Strike | Spot < Strike | Yes             | Yes              | Low               |
| At the Money     | Spot = Strike | Spot = Strike | No              | No               | Medium            |
| Out of the Money | Spot < Strike | Spot > Strike | No              | No               | High              |

### Premium

The second component of a Covered Warrant's price before Expiry is its Premium, which is generally considered to be the price you pay for the chance of the product expiring In the Money.

You can calculate it by subtracting the Intrinsic Value from the current price of the Covered Warrant. For example, a Covered Warrant trading at £0.25 with an Intrinsic Value of £0.20, would

have a premium of £0.05.

There are a few things that will affect the Premium of the Covered Warrant: the time left until Expiry, the level of the Underlying Asset versus the Strike Price, the volatility of the Underlying Asset and to an extent dividends of the Underlying Asset and interest rates.

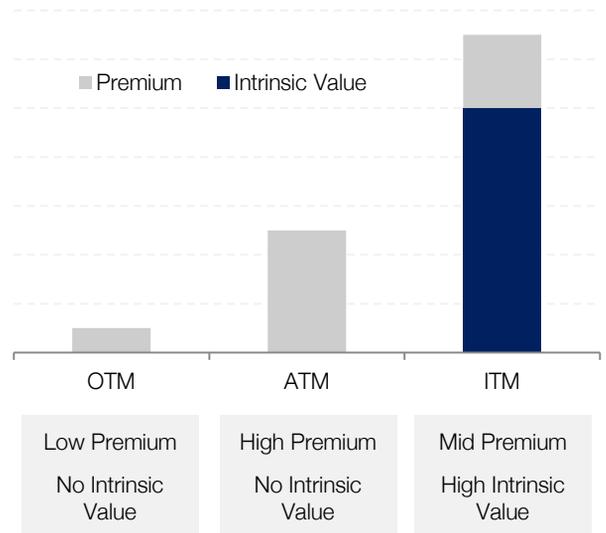
# TRADING BEFORE EXPIRY

## Impact of the Strike Price on the Covered Warrant

The Strike Price is a key contributor to the value of a Covered Warrant. For Call Warrants, the lower the Strike Price with respect to the Underlying Asset the more expensive the Covered Warrant is likely to be. This is because there is a greater chance of the Covered Warrant being In the Money. For Put Warrants, the higher the Strike Price compared to the Underlying Asset the more expensive the Covered Warrant is likely to be. Again, this is because there is a greater chance of the Underlying Asset price being below the Strike Price.

The behaviour of a Covered Warrants price will change depending on whether it is In, At or Out of the Money. The more In the Money (ITM) a Covered Warrant is, the more its price is driven by its Intrinsic Value.

For Covered Warrants that are At the Money, the Premium will be the main drive of the overall price. The Covered Warrant will have no Intrinsic Value, however will have a 50/50 chance of finishing In the Money, so the premium equates to the price you pay for this chance of finishing In the Money.



## Focus on what affects the level of the Premium?

As we have seen, a Covered Warrant's Intrinsic Value is derived from the Underlying Asset Price and Strike Price. The Premium is also impacted by these factors as well as parameters such as the remaining time to expiry, the Volatility of the Underlying Asset and to a lesser extent dividends and interest rates.

It is important to understand how these other factors impact the price and premium of a Covered Warrant, particularly if you are looking to trade before Expiry, as they can increase or decrease the Covered Warrant's price to a large extent.



# TRADING BEFORE EXPIRY

## Underlying Asset Price

As the price of the Underlying Asset rises or falls, it will cause the price of a Covered Warrant to increase and decrease as there will be a higher or lower chance of it finishing In the Money. The table (right) highlights the impact of a such a rise or fall on the price of a Call Warrant and a Put Warrant.

It is also important for investors to know how much the Covered Warrant price may change as the price of the Underlying Asset changes (i.e. its sensitivity), which is commonly known as Delta. This is because it may not move in a direct 1 to 1 fashion. A Delta of less than 1, for example, will mean that the Covered Warrant price does not move by as much as the Underlying Asset price (i.e. a 1% move in the Underlying Asset will correspond to a less than 1% move in the Covered Warrant).

| UNDERLYING | CALL      | PUT       |
|------------|-----------|-----------|
| Increases  | Increases | Decreases |
| Decreases  | Decreases | Increases |

**Delta:** the sensitivity of a Covered Warrant's price to a change in the Underlying Asset price

## Volatility of the Underlying Asset

Volatility is a measure of how erratic an Underlying Asset's price movements are likely to be. Implied Volatility is used to measure how volatile an Underlying Asset price is likely to be in the future. As the Implied Volatility of the Underlying Asset rises or falls, it will increase and decrease the price of a Covered Warrant as again it will increase or decrease the chance of it finishing in the money. The table (right) again analyses this impact.

It is also important to assess how sensitive a Covered Warrant's price is to changes in the Implied Volatility of the Underlying Asset. This sensitivity is known as Vega. A higher Vega means that a small change in the Underlying Asset's volatility may have a larger impact on a Covered Warrant's price, than compared to a Covered Warrant with a smaller Vega.

| IMPLIED VOLATILITY | CALL      | PUT       |
|--------------------|-----------|-----------|
| Increases          | Increases | Increases |
| Decreases          | Decreases | Decreases |

**Vega:** the sensitivity of a Covered Warrant's price to a change in the Implied Volatility of the Underlying Asset

## Time to Expiry

As we have already seen, the time to Expiry of a Covered Warrant is also a key element in determining its price. The longer a Covered Warrant has to Expiry the higher the price. Again, this is due to the higher chance of the Covered Warrant finishing in the money, given the longer time for it to do so.

Naturally over time, as the Covered Warrant nears Expiry, the time to Expiry will decrease. This will inherently have the effect of reducing the price of a Covered Warrant. This natural reduction is known as Time Decay. Again, the impact of time on a Covered Warrants price can be indicated by its sensitivity and this is known as Theta. For example, a Covered Warrant with a Theta value of £-0.002, will fall in value by £-0.002 each day.

| TIME TO EXPIRY | CALL         | PUT          |
|----------------|--------------|--------------|
| Longer         | Higher Price | Higher Price |
| Shorter        | Lower Price  | Lower Price  |

**Theta:** the sensitivity of a Covered Warrant's price to a change in the time to Expiry

# 5 STEPS TO COVERED WARRANT TRADING

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Societe Generale cannot offer you any advice on which Covered Warrant is right for you. However, the following framework is designed to help you make your own decision.

## Assess the risks

Prior to any investment in Covered Warrants, you should make your own appraisal of the risks from a financial, legal and tax perspective.

In particular, you must remember that your entire invested capital is at risk. As a consequence, you should not deal in Covered Warrants unless you understand their nature and the Extent of its exposure to risks.

## Define a scenario with a specific timeframe

Once the risks are assessed, you will have to select an Underlying Asset, decide whether it will rise or fall, and define The time period that you expect this movement to occur over.

For instance, you may anticipate a 150 point rise in the FTSE 100 over the next 6 months.

From this market view you can look to the range of FTSE Call Warrants with an Expiry Date in 6 months or more.

## Select your Covered Warrants at to [www.sglistedproducts.co.uk](http://www.sglistedproducts.co.uk)

Here are some ground rules to keep in mind at this stage:

- If you have a bullish market view, i.e. You anticipate a rise in the Underlying Asset, select a Call Warrant. If it is a bearish View, i.e. You anticipate a fall, select a Put Warrant;
- Multiply the timeframe in which you believe your view will be realised by at least 3 or 4 times to select the Expiry Date of your product, this will help reduce the effect of time decay;
- Select a realistic Strike Price. There is no point in choosing A

Covered Warrant with a Strike Price that you know the market will never be likely to reach;

- Check the sensitivity of the Underlying Asset price (i.e. the Delta). Remember, the lower the delta, the riskier and the cheaper the product. Ideally it should be between 30% to 60% for calls and between -30% to -60% for puts;
- Some might also be interested in considering the Effective Gearing. Be careful not to choose a Covered Warrant too highly geared, as gearing works both ways and should be seen more as a risk indicator than as a decision making criteria.
- You can select an appropriate covered warrant from the list of underlyings available on [www.sglistedproducts.co.uk](http://www.sglistedproducts.co.uk), depending on your view and risk profile.

## Simulate the outcome

By using the Covered Warrant simulator available on [www.sglistedproducts.co.uk](http://www.sglistedproducts.co.uk), you can simulate what might happen to the price of the Covered Warrant as the Underlying Asset price, volatility or time changes.

The outcomes of the simulator are for information purposes only and not an indicator or a guarantee of future performance. Under no circumstance should it, in whole or in part, be considered as an offer to enter into a transaction.

## Trade and monitor your position

Make the trade with your usual UK stockbroker. Covered Warrants can be held in your standard trading account. Societe Generale has no facility to trade directly with private investors. Due to the effect of leverage the price of a Covered Warrant can move quickly. It is important that you monitor your trading position regularly.

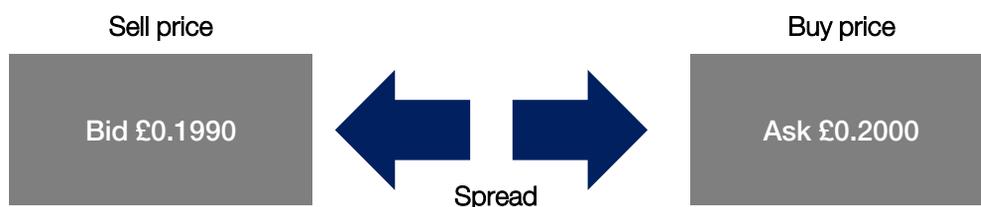


# HOW TO TRADE

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Covered Warrants trade on exchange in a similar way to shares. Each product has an EPIC code which is used to identify the product with your stockbroker. You can buy or sell a Covered Warrant at any time between 08:05 and 16:30 in a regular

dealing account or a SIPP. Like a share, you buy at the 'Ask Price', and sell at the 'Bid Price'. There will be a small difference between the two prices.



Prior to trading a Covered Warrant your stockbroker will require you to complete a Complex Instruments Appropriateness Assessment, in the same way that you would with any leveraged product.

## HIGHLY REGULATED TRADING

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Covered Warrants are regulated by the Financial Conduct Authority (FCA). They are also governed by the rules of the LSE, which include:

- Minimum tradable volumes to ensure liquidity
- Max Bid/ Ask spread of 2 pence or 1% of the Ask price
- Live prices must be provided throughout the trading day unless abnormal market conditions occur (see below section on "Secondary Market" for further information)

## SECONDARY MARKET

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SG Option Europe, Societe Generale or any affiliate thereof is the only market-maker, and therefore the only liquidity provider for the Covered Warrants.

This means we are governed by LSE rules to buy back and sell our products at the prevailing market price between (8:05 to 16:30).

By investing in a Covered Warrant you can be assured that Societe Generale will buy back your product at any time during market hours in normal market conditions. However, during abnormal market conditions, there is no guarantee that liquidity

or live prices will be available on the secondary market.

Abnormal market conditions include (but are not limited to):

- The Underlying is suspended or not tradable
- There is a period of extreme volatility in the Underlying Asset
- There is a failure in the LSE system

This means that you may find it difficult or impossible in certain circumstances to sell the Covered Warrants or may be offered a price less than you paid for it.

## EXERCISING COVERED WARRANTS

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All UK Covered Warrants are cash settled. This means that upon Expiry or exercise, investors will receive a cash amount for the Intrinsic Value of the Covered Warrants. So although they are referred to as giving an investors the 'right to buy' or the 'right to sell', it is more accurate to say they are the right to receive a

cash amount if there is a positive Intrinsic Value.

At Expiry, as per a regulatory requirement, there will be an automatic exercise of the Covered Warrants to ensure a cash value is paid to investors where applicable.

# MANAGING COUNTERPARTY RISK

## How stable is Societe Generale

Credit ratings can provide a way for you to assess the risk of a particular product Issuer or Guarantor, such as Societe Generale, becoming insolvent. Credit ratings are assigned by independent ratings agencies such as Standard & Poor's and Moody's. Standard & Poor's rate companies from AAA (Most Secure/ Best) to D (Most Risky/Worst) and Moody's rate companies from Aaa (Most Secure/Best) to C (Most

Risky/Worst). These credit ratings are reviewed on a regular basis and are subject to change by these agencies. The credit rating is not a recommendation to purchase, sell, or hold a financial obligation, as it does not comment on market price or suitability for a particular investor. It also does not provide assurance that the institution cannot fail.

| Bank                    | Moody's Credit Rating | Standard & Poor's Credit Rating |
|-------------------------|-----------------------|---------------------------------|
| HSBC Holding Plc        | A1                    | A                               |
| BNP Paribas             | A1                    | A                               |
| Credit Agricole S.A.    | A1                    | A                               |
| <b>Societe Generale</b> | <b>A2</b>             | <b>A</b>                        |
| Deutsche Bank AG        | A3                    | A-                              |
| JPM Chase & Co.         | A3                    | A-                              |
| GS Group Inc.           | A3                    | BBB+                            |
| Morgan Stanley          | A3                    | BBB+                            |
| Citigroup Inc.          | Baa1                  | BBB+                            |
| BoA Corp                | Baa1                  | BBB+                            |
| Barclays Bank Plc       | Baa2                  | BBB                             |
| Credit Suisse AG        | Baa2                  | BBB+                            |
| UBS AG                  | Ba1                   | A-                              |
| RBS Group Plc           | Ba1                   | BBB-                            |

These ratings are ordered according to their Moody's Credit Rating. These ratings are collected from Bloomberg and are correct as of May 9<sup>th</sup>, 2017, however, they are subject to change at any time.

## A Global Banking Group

With a history spanning more than 150 years, Societe Generale is one of Europe's largest financial services groups. Based on a diversified universal banking model, Societe Generale offers advice and services to individual, corporate and institutional customers in three core businesses; French retail banking, international retail banking and global banking and investment

banking. More than 154,000 Societe Generale employees serve over 32 million customers in 76 countries each day\*. Team spirit, innovation and professionalism are the core values shared by all employees of the Group. These values are central to our vision of a responsible bank committed to serving its customers.

\*Source: Societe Generale, May 2017

# ADVANTAGES AND RISKS

| Advantages   | Risks   |
|--|---|
| Leverage. Provides the potential to amplify any possible returns by between 5 and 40 times.  | Capital risk. Capital is fully at risk and is not covered by the provisions of the Financial Services Compensation Scheme ("FSCS"), or any similar scheme.  |
| Directional. Call or Put Warrants available for directional investment or hedging.   | Leverage risk. If the investment results in a loss, any such losses will be amplified in the product. As such, you could lose more than you would if you invested directly in the Underlying Asset.   |
| Access. Available on a wide range of equity indices, single stocks, currency pairs and commodities.  | Underlying risk. The Underlying Asset can be volatile, which lead to large movements in price; either for you, or against you.  |
| No Knock Out. Lack of Knock Out feature means that a Covered Warrant can recover from a move against you.  | Price Sensitivity. It is important to note that while change in the Underlying Asset's price are generally the most important factor for Covered Warrants, other variables such as market volatility, interest rates, exchange rates and dividends may lead to a change in the price of a Covered Warrant even if the Underlying Asset itself is unchanged.                                     |
| Intended eligibility. Can be traded individually, just like a share in a SIPP or regular dealing account.  | Time Decay. Covered Warrants have a limited life, as denoted by the Strike Date of each issue. After this date, Covered Warrants can no longer be traded or exercised. Investors should note that Covered Warrants experience Time Decay (erosion of their Time Value) throughout their life. The rate of this decay accelerates as Covered Warrants near Expiry and they may expire worthless. |
| Liquidity. Intraday liquidity in normal market conditions with prices available on the London Stock Exchange between 8:05 and 16:30  | Counterparty / Issuer risk. If Societe Generale were to default or become insolvent, the product will terminate. In such a case Societe Generale may be unable to satisfy its obligations when due and may result in the loss of all or part of an investment.  |
| Tax situation*.<br>For products with a remaining time to maturity of more than 1 year, trading outside of a SIPP may be subject to capital gains tax but not stamp duty.*<br>For products with a remaining time to Expiry of less than 1 year, trading outside of a SIPP may be subject to income tax but not stamp duty.* | Liquidity risk. Societe Generale is the only party providing prices for these products. Prices will only be available in normal market conditions. See page 13.<br><br>Currency Risk. If the Underlying Asset is quoted in a currency other than GBP, exchange rate fluctuations will impact the price of the product.  |

\*Any statement in relation to tax, where made, is generic and non-exhaustive and is based on our understanding of the laws and practice in force as of the date of this document and is subject to any changes in law and practice and the interpretation and application thereof, which changes could be made with retroactive effect. Any such statement must not be construed as tax advice and must not be relied upon. The tax treatment of investments will, amongst other things, depend on an individual's circumstances. Investors must consult with an appropriate professional tax adviser to ascertain for themselves the taxation consequences of acquiring, holding and/or disposing of any investments mentioned in this brochure.

# ARE THEY RIGHT FOR YOU?

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## These products may be right for you if:

You would like the opportunity to amplify your potential returns.

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You understand that any potential losses are amplified in the same way as gains.

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You appreciate that your capital is entirely at risk but you will never lose more than you invested.

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You understand that before Expiry a Covered Warrant price will move according to not just the Underlying Asset price, but also Time, Volatility and other factors.

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You are a frequent investor and will be able to monitor your positions regularly.

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You have, or you are prepared to complete a Complex Instruments Appropriateness Assessment.

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## These products may not be right for you if:

You are looking to hold the investment long term.

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You do not want to take the risk that your losses would be amplified as well as your gains.

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You do not want to risk any of your capital.

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You do not understand how a Covered Warrant's price moves.

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You are not comfortable with the risk that Societe Generale could default or become insolvent, and if it did, some or all of your capital would be lost.

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You do not invest regularly and will not be able to monitor your positions regularly.

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You have not, or you are not prepared to complete a Complex Instruments Appropriateness Assessment.

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# FREQUENTLY ASKED QUESTIONS

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## Who are Covered Warrants suited to?

Covered Warrants are designed for the sophisticated investor who is looking for the potential to make enhanced returns from the movement of an Underlying Asset, such as an index, single stock, currency pair or commodity. Covered Warrants carry a high degree of risk and it is important to fully understand your exposure to risk before investing. See page 15 for more information. Prior to trading you will need to complete a Complex Instruments Appropriateness Assessment.

## What can I trade in?

Covered Warrants are available on a wide range of financial indices, single stocks, currency pairs and commodities.

## How can I trade Covered Warrants?

The Covered Warrants range, like all our listed products, is listed on the LSE and can be traded like a share through a stockbroker in a regular dealing account or SIPP. Societe Generale Option Europe, Societe Generale or any affiliate thereof are acting as market maker and provide investors with a price for each Covered Warrant (a bid/offer spread) during LSE market hours, between (08:05 to 16:30).

## Where can I access product prices?

You can access live prices from your UK stockbroker, the LSE, or the Societe Generale website [www.sglistedproducts.co.uk](http://www.sglistedproducts.co.uk). Societe Generale, in conjunction with the LSE, displays prices in Pounds and not in Pence.

## Is my invested capital at risk?

Your invested capital is fully at risk. Before trading you should ensure that you understand the nature of Covered Warrants and the extent of your exposure to risk.

## What is the tax treatment?

Investments with a remaining time to maturity of greater than 1 year and made outside of a tax efficient wrapper may be subject to Capital Gains Tax\*. Investments with a remaining time to maturity of less than 1 year and made outside of a tax efficient

wrapper may be subject to Income Tax\*. Unlike a UK share purchase, you will not be charged the 0.5% Stamp Duty usually incurred\*.

## What happens at Expiry?

Covered Warrants have a limited life, and will expire at Maturity. At Maturity the final redemption value of the Covered Warrant is calculated and automatically paid to investors.

## Do I face Counterparty Risk?

Yes, these products are Guaranteed by Societe Generale. Any failure of Societe Generale to perform obligations when due could result in the loss of part of an investment. See page 14 for more information.

## How do I seek investment advice?

For advice, we recommend that you consult an appropriately qualified financial adviser. Societe Generale does not offer investment advice with respect to these products. Please be aware that nothing in this document constitutes advice on the merits of buying or selling a particular investment or exercising any right conferred by the warrants described.

## What are the trading costs?

A brokerage fee will normally be charged at the same rate as standard equity trading through your stockbrokers. However, you will not be charged the 0.5% Stamp Duty usually incurred on UK share purchases\*.

## Where can I learn more about Covered Warrants?

You can ask your stockbroker, seek independent advice or why not attend our complimentary workshops, held on a regular basis at the Societe Generale offices in central London? Go to [www.sglistedproducts.co.uk](http://www.sglistedproducts.co.uk) for more information or to book your place. Representatives from Societe Generale will answer all your factual questions, and study materials will be provided. No investment advice will be given.

\*Any statement in relation to tax, where made, is generic and non-exhaustive and is based on our understanding of the laws and practice in force as of the date of this document and is subject to any changes in law and practice and the interpretation and application thereof, which changes could be made with retroactive effect. Any such statement must not be construed as tax advice and must not be relied upon. The tax treatment of investments will, amongst other things, depend on an individual's circumstances. Investors must consult with an appropriate professional tax adviser to ascertain for themselves the taxation consequences of acquiring, holding and/or disposing of any investments mentioned in this brochure.

## THIS COMMUNICATION IS DIRECTED AT SOPHISTICATED RETAIL CLIENTS IN THE UK

Societe Generale is a French credit institution (bank) that is authorised and supervised by the European Central Bank (ECB) and the Autorité de Contrôle Prudentiel et de Résolution (ACPR) (the French Prudential Control and Resolution Authority) and regulated by the Autorité des marchés financiers (the French financial markets regulator) (AMF). Societe Generale London Branch is authorised by the ECB, the ACPR and the Prudential Regulation Authority (PRA) and subject to limited regulation by the Financial Conduct Authority (FCA) and the PRA. Details about the extent of our authorisation, supervision and regulation by the above mentioned authorities are available from us on request.

Although information contained herein is from sources believed to be reliable, Societe Generale makes no representation or warranty regarding the accuracy of any information. Any reproduction, disclosure or dissemination of these materials is prohibited.

The products described within this document are not suitable for everyone. Investors' capital is at risk. Investors should not deal in this product unless they understand its nature and the extent of their exposure to risk. The value of the product can go down as well as up and can be subject to volatility due to factors such as price changes in the underlying instrument.

Prior to any investment in this product, investors should make their own appraisal of the risks from a financial, legal and tax perspective, without relying exclusively on the information provided by us, both in this document and the Final Terms of the product available on the website [www.sglistedproducts.co.uk](http://www.sglistedproducts.co.uk). We recommend that you consult your own independent professional advisers.

Investors should note that holdings in this product will not be covered by the provisions of the Financial Services Compensation Scheme, nor by any similar scheme in the country where the Issuer is domiciled.

The securities can be neither offered in nor transferred to the United States.

\*Any statement in relation to tax, where made, is generic and non-exhaustive and is based on our understanding of the laws and practice in force as of the date of this document and is subject to any changes in law and practice and the interpretation and application thereof, which changes could be made with retroactive effect. Any such statement must not be construed as tax advice and must not be relied upon. The tax treatment of investments will, amongst other things, depend on an individual's circumstances. Investors must consult with an appropriate professional tax adviser to ascertain for themselves the taxation consequences of acquiring, holding and/or disposing of any investments mentioned in this brochure.

For more information: see the Terms and Conditions available on our website [www.sglistedproducts.co.uk](http://www.sglistedproducts.co.uk)

## CONTACT

For further information on the range of SG Listed Products, go to [www.sglistedproducts.co.uk](http://www.sglistedproducts.co.uk)

Alternatively, call the Free phone line 0800 328 1199 or email [listedproducts@sgcib.com](mailto:listedproducts@sgcib.com)

Telephone calls may be recorded and/or monitored for training and quality purposes.