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## **FOREIGN EXCHANGE DERIVATIVES RISK DISCLOSURE NOTICE**

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*This Notice is intended solely to inform you about the risks associated with the foreign exchange derivative financial instrument (the “Instrument”) described below, and to ensure that you’re aware of its nature and risks so that you are able to make informed decisions. We do not intend to provide any investment, legal, financial, tax or other advice through this Notice, and you should not rely on this Notice as a recommendation to enter into the transaction with the Instrument. Nothing in this Notice amends or supersedes the express terms of the transaction with the Instrument between you and us or any related governing documentation<sup>1</sup>.*

*We are acting solely as an arm’s length contractual counterparty in connection with the Instrument, and not acting as your advisor, representative and/or fiduciary. Despite any communications between you and us in connection with or with respect to the transaction with the Instrument (before or after its settlement), SBERBANK CIB (UK) LIMITED (“CIB UK”) neither provides any guarantees, representations or warranties, nor accepts any liability whatsoever, for any actual financial results, intentions or expectations you may have in connection with the Instrument or its conformity with any specific goals.*

*Notwithstanding any other provision herein, you may refer to your professional financial, legal and/or tax advisers for a full and comprehensive analysis of economic and legal nature of the Instrument, as well as its tax and/or accounting impact.*

*This Notice contains five sections, and will take you through the nature of foreign exchange derivative products, descriptions of the associated risks and volatility, the impediments to divestment of foreign exchange derivative products, the commitments or obligations of the investor (the “Investor”) arising from a transaction, and any margin requirements, associated with transaction.*

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<sup>1</sup> In this notice,

- “we”, “us” refer to CIB UK
- “you”, “your” refer to each person to whom this Notice is delivered or addressed in connection with entering into, executing or agreeing upon the terms of, transactions with the Instrument and any/or of associated or affiliated companies and their directors, officers, employees and agents.

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# 1. NATURE OF THE PRODUCT

The following section defines what Foreign Exchange derivative is, describes most common types of Foreign Exchange derivatives (namely Foreign Exchange Swaps, Cross-Currency Interest Rate Swaps, Foreign Exchange Forwards, Foreign Exchange Options of various styles and terms, Foreign Exchange Swaptions), outlines their key characteristics and legal nature. Each of the Foreign Exchange derivative types is defined in separate sub-section.

Broadly speaking, a derivative is a financial instrument, which derives its value from the value, price or level of an underlying asset (the “Underlier”), such as but not limited to interest rates, foreign exchange rates and currencies, credit instruments, equities, commodities, and other market and/or economic factors. The Instrument may be used by counterparties to exchange money, assets or some other value as of any future date(s) based on the performance of the Underlier, instead of trading or exchanging the Underlier itself.

Foreign Exchange Derivatives refer to those in which the Underliers are foreign currencies and involve, or at the option of either party may involve, the exchange of one or more currencies against one or more other currencies, or settlement in a single currency based on the rates of exchange between one or more currency pairs as “Foreign Exchange Transactions.”

The terms of a Foreign Exchange Transaction may incorporate standard definitions published by industry bodies, annexes and supplements thereto, master confirmations and other market standard terms, which may in turn be amended or customized pursuant to the terms of the Foreign Exchange Transaction and its governing documentation. Before entering into a Foreign Exchange Transaction, you should obtain and carefully review any such materials incorporated by reference, as their content could materially affect your rights and obligations under the Foreign Exchange Transaction, its value and how appropriate it is to your particular objectives.

You should be aware that CIB UK has no ability to influence externally compiled reference exchange rates.

The following is a discussion of certain material risks, terms and characteristics of some common types of Foreign Exchange Transactions. The categories used below are illustrative only, and are intended to assist you in understanding key features of certain prospective Foreign Exchange Transactions. The discussion should not be viewed as a comprehensive description of any particular Foreign Exchange Transaction. Because nomenclature is neither standardized nor sufficiently descriptive of the Foreign Exchange Transaction to capture all important transaction features and variations, a particular Foreign Exchange Transaction may (despite the same name) have additional or different risks, terms and characteristics than described herein.

You shall not enter into a transaction with the Instrument if its economic and legal essence, documentation, conditions and/or risks remain unclear or do not correspond

to your purposes, intentions and expectations.

## **1.1. Foreign Exchange Swaps (FX Swaps)**

### **1.1.1. Key characteristics**

An FX Swap is an agreement between Investor and CIB UK to exchange currencies on two settlement dates. The currency pair will be the same for both exchanges. However, which currency in that pair is delivered by each of us and the agreed amount of one of the currencies may be different. The exchange rate will be different for each exchange. Each party uses the repayment obligation to its counterparty as collateral and the amount of repayment is fixed at the FX forward rate as of the start of the contract. FX Swaps can therefore be viewed as FX risk-free collateralized borrowing/lending.

### **1.1.2. Legal nature of the instrument**

In legal terms, an FX Swap transaction originates when the Investor enters into a Foreign Exchange Swap with CIB UK, with Currency A and Currency B as Underliers. Investor and CIB UK are legally bound by the terms of transaction from the moment they agree on those terms. Note that FX Swap terms do not imply lending/borrowing of any assets (including the notional amount), and therefore debtor- creditor relations do not arise under FX Swaps.

The following paragraph provides the general notion of the FX Swap mechanism and obligations of the involved parties. We do not intend to provide any legal advice through the following paragraph. You should be aware that particular FX Swaps may have additional or different terms and characteristics than described below; therefore, additional review of the particular transaction and its specifics may be required.

The general mechanism of an FX Swap is as follows:

- I. before entering into an FX Swap contract, Investor and CIB UK will agree the currency pair, the amounts to be exchanged, the relevant exchange rate(s) and the settlement date(s);
- II. there are two legs to an FX Swap - a spot transaction and a forward transaction. Both are executed simultaneously for the same quantity, and therefore offset each other. If, however, the first settlement date is more than two business days after the trade date, the FX Swap will be structured as two Forward Exchange Contracts.
- III. a spot rate is derived from inter-bank market exchange rates;
- IV. CIB UK and investor agree the forward rate on the trade date.
- V. once a foreign exchange transaction settles, the holder is left with a positive (or "long") position in one currency and a negative (or "short") position in another. Thus, the FX

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Swap consists of a spot currency sale-purchase transaction (spot leg) and a forward transaction (forward leg): after settlement of the spot leg, the counterparty risk of the transaction equals that of the forward transaction;

- VI. the net economic result of the FX Swap is determined by the net economic effect from the final notional exchange, driven by underlying currencies exchange rate movement, (specifically the difference between spot rate on settlement and the forward rate), provided there hasn't been any default or early termination of the FX Swap contract.

As a result of underlying currency rate movements, the amount payable by Investor to CIB UK may significantly exceed the above mentioned amount of payments made by CIB UK to Investor. As a result, Investor may incur significant loss. Please, refer to Section 2 DESCRIPTION OF RISKS AND VOLATILITY, notably subsection 2.1.1 Market Risk for further information on potential changes of Underliers.

## **1.2. Cross-Currency Interest Rate Swap (CCS)**

### **1.2.1. Key characteristics**

In a cross-currency interest rate Swap (CCS), payments are exchanged based on the difference between pre-defined reference interest rates (either two floating reference rates, one floating rate and one fixed rate, or two fixed rates – “Rate A” and “Rate B”), each with a corresponding notional amount denominated in a different currency (“Currency A” and “Currency B”). Usually, at least one of these series of cash flows is determined by an uncertain interest rate. Counterparties may exchange cash flows periodically. Notional amounts shall be exchanged on the effective date and the maturity date, although in some transactions notional amounts are not exchanged, creating a coupon-only cross-currency rate Swap.

### **1.2.2. Legal nature of the instrument**

In legal terms, transaction with CCS originates when the Investor enters into a Cross-Currency Swap with CIB UK with Rate A, Rate B and Currency A, Currency B as Underliers. Investor and CIB UK are legally bound by terms of transaction from the moment they agree on those terms. Note that Cross-Currency Interest Rate Swap terms do not imply lending/borrowing of any assets (including the notional amount), and therefore debtor-creditor relations do not arise under Cross-Currency Interest Rate Swaps.

The following paragraph provides the general notion of Cross-Currency Interest Rate Swap and obligations of the involved parties. We do not intend to provide any legal advice through the following paragraph. You should be aware that particular CCS may have additional or different terms and characteristics than described below; therefore, additional review of the particular transaction and its specifics may be required.

The general mechanism of the Cross-Currency Interest Rate Swap is as follows:

- I. at the inception of the CCS contract, the Investor and CIB UK shall exchange notional amounts (Notional A paid by CIB UK in Currency A and Notional B paid by Investor in Currency B) at a spot exchange rate (the “Initial Exchange Rate”);
- II. during the life of the CCS, CIB UK shall pay Investor the amount of interest payment accrued on the Notional B over the calculation (interest) period in Currency B at Rate A;
- III. during the life of the CCS, Investor shall pay CIB UK the amount of interest payment accrued on the Notional A over the calculation (interest) period in Currency A at Rate B;
- IV. every party shall make payments to the other party each calculation period;
- V. upon the final settlement, the Investor and CIB UK shall exchange back notional amounts (Notional A paid by Investor in Currency A and Notional B paid by CIB UK in Currency B) at the Initial Exchange Rate;
- VI. where Currency B has strengthened against Currency A at the time of payment and/or Rate A has remained flat or has risen above Rate B, Investor will receive a positive economic effect from the CCS;
- VII. otherwise, where Currency B has weakened against Currency A at the time of payment and/or the specified Rate A has decreased below Rate B, Investor will receive a negative economic effect from the CCS;
- VIII. the net economic result of CCS is comprised of the net economic effect from the final notional exchange, driven by underlying currencies exchange rate movement, and the net economic effect from interest exchanges during the life of the CCS, driven by underlying interest rates movements, provided there hasn't been any default or early termination of the CCS contract.

As a result of underlying currencies exchange rate and interest rates movements, the amount payable by Investor to CIB UK may significantly exceed the above mentioned payments made by CIB UK to Investor. As a result, Investor may incur significant loss. Please refer to Section 2 DESCRIPTION OF RISKS AND VOLATILITY and notably subsection 2.1.1 Market Risk for further information on potential changes of Underliers.

### **1.3. Foreign Exchange Forward (FX Forward)**

#### **1.3.1. Key characteristics**

A foreign exchange forward contract (“FX Forward”) is an agreement to buy one currency against the delivery of another currency at a rate set on the trade date for settlement on a specified date in the future. If the date of the foreign currency payment and the last trading date of the FX forward contract are matched up, the investor has in effect "locked in" the exchange rate payment amount. This instrument allows an investor to fix exchange rates for a future delivery with no upfront cost.

### 1.3.2. Legal nature of the instrument

In legal terms, a transaction with an FX Forward originates when the Investor enters into a FX Forward with CIB UK with Currency A and Currency B as Underliers. Investor and CIB UK are legally bound by the terms of transaction from the moment they agree on those terms. Note that the FX Forward agreement terms do not imply lending/borrowing of any assets (including the notional amount), and therefore debtor-creditor relations do not arise under FX Forwards.

The following paragraph provides the general notion of FX Forwards and obligations of the involved parties. We do not intend to provide any legal advice through the following paragraph. You should be aware that particular FX Forwards may have additional terms and characteristics other than described below; therefore, additional review of the particular transaction and its specifics may be required.

The general mechanism of the FX Forward is as follows:

- I. there is no upfront payment;
- II. upon final settlement, the Notional Amount of Currency A shall be paid by CIB UK to Investor;
- III. upon final settlement, the Notional Amount of Currency B shall be paid by Investor to CIB UK;
- IV. FX Forward settlements can be deliverable and non-deliverable:
  - under a deliverable FX Forward, the transaction terms provide for an exchange of payments in each of the two currencies on the settlement date;
  - under a non-deliverable FX Forward (“NDF”), the Transaction terms provide for the payment of a net cash settlement amount on the settlement date in lieu of delivery of the notional amounts of the bought currency and the sold currency;
- V. the cash settlement amount is determined by converting the notional amount of one of the currencies (the “reference currency”) into the other currency (the “settlement currency”) at a spot foreign exchange rate that is observed on a pre-agreed pricing source or determined using another pre-agreed method (such source or method, the “settlement rate option”) on a date (“valuation date”) prior to the settlement date, and netting the currency amounts so that a single net payment in the settlement currency is made on the settlement date by the party owing the excess;
- VI. in some NDFs, each of the bought currency and the sold currency is converted into a third currency that serves as the settlement currency;
- VII. the net economic result of the FX Forward is comprised of the net economic effect

from converting the notional amount by the difference between the forward rate (agreed at execution) and the prevailing market 'spot foreign exchange rate' on the fixing date which is two days before the value (delivery) date, provided there hasn't been any default or early termination of the FX Forward contract;

As a result of underlying currency rate movements, the amount payable by Investor to CIB UK may significantly exceed the above mentioned payments made by CIB UK to Investor. As a result, Investor may incur significant loss. Please refer to Section 2 DESCRIPTION OF RISKS AND VOLATILITY and notably subsection 2.1.1 Market Risk for further information on potential changes of Underliers.

## **1.4. Foreign Exchange Option (FX Option)**

### **1.4.1. Key characteristics**

Foreign exchange options (FX options) are Instruments that give the buyer of the option the right, but not the obligation, to make or take delivery of one currency in exchange for taking or making delivery of another currency at a pre-determined exchange rate (deliverable FX option). Under a deliverable FX Option, delivery is made or taken in each of the two currencies on the settlement date. Under a non-deliverable FX Option, payment of a net cash settlement amount is made on the settlement date in lieu of delivery of the notional amounts of the bought currency and the sold currency. The cash settlement amount is determined by converting the notional amount of one of the currencies into the other currency at a spot foreign exchange rate established by a pre-agreed pricing source, or determined using another pre-agreed method on a date prior to the settlement date, and netting the currency amounts so that a single net payment in the settlement currency is made on the settlement date by the party owing the excess.

FX Options are divided into two main categories: call options and put options. The call option gives the buyer the right to purchase, and the put option gives the seller the right to sell a certain underlying foreign currency at a specified strike rate ("Strike Rate") during the specified period or on the specified date. When buying an option (the right to buy or sell the underlying asset), the buyer pays the seller a premium.

FX Options may vary in terms of their styles and manner in which value of the underlying FX rate affects the option's payout.

The following are examples of different FX option styles:

- FX American-style Options may be exercised at any time (i.e. on any business day as defined in the relevant documentation) during the specified exercise period, so prior to its expiration;
- FX European-style Options may be exercised only on the specified exercise date (or expiration date) prior to its expiration;

- FX Bermudan-style Options may be exercised on the specified exercise date (or expiration date) prior to its expiration and on a discrete number of specified prior dates.

Depending on the manner in which value of the underlying FX rate affects the option payout, options may become exotic. Exotic options may involve multiple and varying conditions and triggering events that may be interdependent and/or dependent on price trajectories or other factors, occurrence or non-occurrence of which may have multiple and varying consequences. Some examples of exotic options are as follows:

- For FX Asian Options, the reference FX rate is derived from an agreed calculation, that, by way of example, may be based upon an average underlying FX rate or values as of predetermined dates occurring during a specified “averaging period”, with the exercise date occurring at the end of this averaging period;
- For FX Barrier options, the payoff depends on whether or not the underlying asset has reached or exceeded a predetermined barrier price.

Other complex or exotic options may exist, that may involve multiple and varying conditions and triggering events that may be interdependent and/or dependent on price trajectories or other factors, occurrence or non-occurrence of which may have multiple and varying consequences. These events or conditions and/or consequences may combine to produce widely divergent outcomes. Complex or exotic options require thorough review to ensure complete understanding of all potential ramifications, including any effects of leverage, path dependence, volatility, and correlations.

## **1.4.2. Legal nature of the instrument**

In legal terms, transaction with FX Option originates when the Investor enters into a Foreign Exchange Option with CIB UK with Foreign Exchange Rate as an Underlier. Investor and CIB UK are legally bound by terms of transaction from the moment they agree on those terms. Note that Foreign Exchange Option terms do not imply lending/borrowing of any assets (including the notional amount), and therefore debtor-creditor relations do not arise under Foreign Exchange Options.

The following paragraph provides the general notion of FX Option and obligations of the involved parties. We do not intend to provide any legal advice through the following paragraph. You should be aware that particular FX Option may have additional terms and characteristics other than described below; therefore, additional review of the particular transaction and its specifics may be required.

The general mechanism of the Foreign Exchange Option is as follows:

- I. at the inception of the FX Option contract, Investor (option buyer) shall pay a premium for risk to CIB UK (option seller);
- II. during the life of FX Option:

- on the exercise date, CIB UK pays the Investor the difference between the previously determined Strike Rate and the reference FX Rate in pre-determined currency (non-deliverable option);

OR

- on the exercise date, CIB UK delivers to the Investor one currency in exchange for another currency from Investor, at the previously determined Strike Rate (deliverable option);
- III. in case of a call option, Investor receives a payment/exchange currencies from/with CIB UK upon exercise if the reference FX Rate exceeds a specified Strike Rate at the applicable time, and will otherwise not be entitled to any payment/currency exchange from/with CIB UK;
- IV. in case of a put option, Investor receives a payment/exchange currencies from/with CIB UK upon exercise if the reference FX Rate is less than a specified Strike Rate at the applicable time and will otherwise not be entitled to any payment/currency exchange from/with CIB UK;
- V. the Exercise Date (and therefore payment date) may vary depending on the style of a given option:
- under an American-style option, Investor shall have the right to exercise the option and receive payment as mentioned above from CIB UK on any business day prior to the option's expiry, during the specified exercise period, i.e. Investor shall be entitled to choose an Exercise Date with the most favorable reference FX rate;
  - under a European-style option, Investor shall have the right to exercise the option and receive payment as mentioned above from CIB UK only on the pre-agreed Exercise Date (or expiration date) prior to the option's expiry, i.e. Investor shall not be entitled to choose an Exercise Date with the most favorable reference FX rate;
  - under a Bermudan-style option, Investor shall have the right to exercise the option and receive payment as mentioned above from CIB UK on the specified exercise date (or expiration date) prior to the option's expiry and on any business date from a given number of pre-agreed dates, i.e. Investor shall have limited optionality to choose an Exercise Date with the most favorable reference FX rate;
- VI. the amount of payment made by CIB UK to Investor may vary depending on the manner in which the option payout is affected by price or value of the underlying FX rate:
- under an Asian option, the reference FX Rate, which affects Investor's payoff, is not determined as a spot FX rate at the Exercise Date, but rather as an average of spot FX rates on predetermined dates occurring during a pre-specified period prior to the Exercise Date. This average can be calculated using different methods: arithmetic, geometric, weighted, partial averaging over a window, etc.

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- a Barrier option becomes activated (or extinguished) only if the reference FX Rate reaches a predetermined level (the Barrier Rate).
  - when buying a “Knock-In” barrier option, Investor shall receive payment from CIB UK, as described above, only if the reference FX rate reaches the Barrier FX Rate during the calculation period;
  - when buying a “Knock-Out” barrier option, Investor shall receive payment from CIB UK, as described above, only if the reference FX rate does not reach the Barrier FX Rate during the calculation period;

VII. the net economic result of an FX Option consists of the net economic effect from payments during the life of the FX Option, driven by underlying currencies exchange rate movement, provided there is no default or early termination of the FX Option contract. Please refer to Section 2 DESCRIPTION OF RISKS AND VOLATILITY and notably subsection 2.1.1 Market Risk for further information on potential changes of Underliers.

## **1.5. Foreign Exchange Swaption**

### **1.5.1. Key characteristics of the instrument**

A Foreign Exchange Swaption is a cross-currency derivative which constitutes an option giving the holder the right, but not the obligation, to enter into a cross-currency Swap, whether as a fixed rate receiver or a fixed rate payer. The option's expiration date precedes the first reset date of the underlying Swap agreement.

In payer Swaption, the purchaser has the right, but not the obligation, to enter into a Swap contract where they become the fixed-rate payer and the floating-rate receiver. A receiver Swaption is the opposite; the purchaser has the option to enter into a Swap contract where they will receive the fixed rate and pay the floating rate.

### **1.5.2. Legal nature of the instrument**

In legal terms, the transaction for a Foreign Exchange Swaption originates when the Investor enters into an Foreign Exchange Swaption with CIB UK with Rate A in a given currency and Rate B in another currency as Underliers. Investor and CIB UK are legally bound by the terms of the transaction from the moment they agree on those terms. Note that Foreign Exchange Swaption terms do not imply lending/borrowing of any assets (including the notional amount), and therefore debtor-creditor relations do not arise under Foreign Exchange Swaptions.

The following paragraph provides the general notion of Foreign Exchange Swaptions and obligations of the involved parties. We do not intend to provide any legal advice through the following paragraph. You should be aware that particular Foreign Exchange Swaptions may have additional terms and characteristics other than described below; therefore, additional review of the particular transaction may be required.

The general mechanism of the Foreign Exchange Swaption is as follows:

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- I. investor sells or buys the right to enter into a currency Swap with CIB UK on a specified date;
- II. at the inception of the FX Swaption contract, Swaption buyer shall pay a premium for risk to the Swaption seller;
- III. during the life of the Foreign Exchange Swaption, the amount equal to the payoff of the underlying foreign exchange Rate Swap shall be periodically paid by seller, given that the option is exercised;
- IV. investor pays a stated fixed/floating rate in Currency A and receives a stated fixed/floating rate in Currency B;
- V. investor and CIB UK have to specify the amounts of the two currencies for the final exchange of principals;
- VI. should the option be not exercised, the Foreign Exchange Swap shall not become effective and no cash flows will be exchanged;
- VII. similar to FX Options, according to option styles, Exercise Date (and thus payment date) may vary depending on the style of a given option (as set out in 1.4 above);
- VIII. the net economic result of a Foreign Exchange Swaption is comprised of the net economic effect from the final notional exchange, driven by underlying currencies exchange rate movement, and the net economic effect from interest exchanges during the life of the option if exercised, provided there hasn't been any default or early termination of the contract.

As a result of underlying currency rate movements, the amount payable by Investor to CIB UK may significantly exceed the above mentioned amount of payments made by CIB UK to Investor. As a result, Investor may incur significant loss. Please refer to Section 2 DESCRIPTION OF RISKS AND VOLATILITY and notably subsection 2.1.1 Market Risk for further information on potential changes of Underliers.

## **2. DESCRIPTION OF RISKS AND VOLATILITY**

This section describes the risks and volatility characterizing Foreign Exchange Derivatives, and will take you through the different types of risk involved, impact of leverage usage, price volatility and its causes, feasible scenarios and their impact (please, note that scenario analysis is presented separately for different most common Foreign Exchange Derivative – namely Foreign Exchange Swaps, Cross-Currency Interest Rate Swaps, Foreign Exchange Forwards, Foreign Exchange Options of various styles and terms, Foreign Exchange Swaptions), and capital protections or guarantees embedded in Foreign Exchange Derivatives.

### **2.1. Types of risks included**

Not all derivative instruments are suitable or appropriate for all investors. Bearing in mind your circumstances, objectives and expectations, financial position and level of expertise, you should also be comfortable that your chosen derivative instrument is appropriate and suitable for you and, where necessary, you should seek appropriate independent advice in advance of any decisions.

Derivative instruments involve a high degree of risk and are intended primarily for knowledgeable and sophisticated parties that are willing to accept such risks and are able to absorb losses that may occur. The loss in derivative instruments can potentially be unlimited, and is not proportional to the initial amount invested or exchanged (paid or received). You should not deal in derivative instruments unless you understand the nature of the transaction you are entering into and the extent of your exposure to risk. Where you are unclear as to the meaning of any of the disclosures or warnings described below, we would strongly recommend that you seek independent legal, financial, tax advice.

Derivative instruments involve a combination of significant risks. The price, value or level of the underlying asset depends on a variety of factors including prices of equities, debts and commodities, interest rates, currency exchange rates, etc. These factors are influenced by, among other things: political instability, government trade or action, fiscal and monetary programs, exchange rate and interest rate policies, state of the market and industries, as well as the external environment. No assurance can be given that you will not incur substantial losses in transaction with derivative instruments because of such factors or otherwise. If the market moves against your position and you fail to perform your obligations within the time and amount prescribed, the transaction may be terminated at a loss and you will be liable for any resulting loss or damage. Specific risks of each derivative financial instrument depend largely on its terms as well as on the financial position of its counterparties.

Risk factors may occur simultaneously and/or may compound each other resulting in an unpredictable effect on the value of any derivative instrument.

### **2.1.1. Market Risk**

The value of an Instrument or amount of payments/deliveries depends on many factors, including price, value or level of an underlying reference asset, currency exchange and interest rates or indices, as well as their volatilities, liquidity and correlations. These factors are influenced by, among other things, the terms of a particular transaction, collateral or other credit support arrangements, creditworthiness of parties involved, political instability, government trade, fiscal and monetary programs, exchange rate policies the state of the market and industries, as well as the external environment.

In respect of any foreign exchange transactions and transactions in derivatives that are denominated in a currency other than that in which you usually operate, a movement in exchange rates may have a favorable or unfavorable effect on the gain or loss achieved on such transactions. Currency valuations are linked to a host of economic, social and political factors and can fluctuate greatly, even during intra-day trading. Some countries have foreign exchange controls which may include the suspension of the ability to exchange or transfer currency, or the devaluation of the currency. Currency risks are particularly significant if cash flows under a derivative product are denominated in or dependent on the currency of an emerging country.

The interbank market in foreign currencies is a global, twenty-four hour market. Therefore, your and our hours of operation, during which you and we may transact in and value Foreign Exchange Transactions, calculate margin and settlement amounts, issue margin calls and settle collateral delivery or return amounts, may not conform to the hours during which the underlying currencies are most traded. To the extent this occurs, significant changes in foreign exchange rates as well as market, economic and political conditions, and thus the value of Foreign Exchange Transactions and the amount of credit exposure they create between us, may take place during times when it may be difficult for you to monitor or react to them.

### **2.1.2. Insolvency and Credit Risk**

A major risk of off-exchange derivatives is known as counterparty credit risk, whereby a party is exposed to the inability of its counterparty to perform its obligations under the relevant transaction. The insolvency or default of the counterparty with whom you are dealing may lead to positions being liquidated or closed out without your consent or, indeed, counterparty's obligations to you not being fulfilled.

The counterparty of Investor under Foreign Exchange Transaction is CIB UK, being part of Sberbank Group (the "Group"). Investor should constantly monitor the creditworthiness/solvency of CIB UK and the Group. Financial indicators of CIB UK and the Group are published on its official Internet website.

Investor shall also note that there are different methodologies that could be used to assess creditworthiness/solvency of CIB UK and the Group. It is up to Investor to choose a specific methodology, however we strongly encourage Investor to use professional financial advisors to assess the creditworthiness/solvency of CIB UK and the Group prior to the transaction. Investor shall not rely exclusively on the opinion of rating agencies or other institutions (including analytical units or representatives within) periodically publishing their assessment of creditworthiness/solvency of CIB UK and the Group.

### **2.1.3. Operational Risk**

Operational risk is the risk of loss to the Investor, arising from inadequacies in, or failures of, processes, procedures, systems and/or controls for conducting transactions, including (i) recording, monitoring and quantifying the risks and contractual obligations

associated with transactions, (ii) recording and valuing transactions, (iii) making payments or deliveries, (iv) exercising rights before they expire, including option exercise rights, in a manner that complies with the terms of the relevant transactions, (v) meeting regulatory filing, reporting and other requirements, or (vi) detecting human error or systems failures, including disaster recovery procedures. Losses from operational risks can be substantial, including the loss of the entire value of a derivative transaction.

#### **2.1.4. Regulatory/Legal/Tax Risk**

All derivative products could be exposed to regulatory, legal or tax risks.

At inception of Foreign Exchange Transaction, Investor should consider the regulatory, legal, tax and accounting consequences of the transaction. The Investor is required to obtain qualified advice from legal, tax and other professionals that may be needed to understand and assess regulatory, legal and tax risks inherent in such transactions, as well as the treatment of the transaction in accounting and reporting. Such consultations should be conducted before the transaction inception.

Markets are subject to ongoing and substantial regulatory changes. Regulatory or legal actions and changes can, amongst other issues, alter the economic effect of any transaction. Legal changes could even have the effect of making a previously acceptable derivative instrument illegal or not legally enforceable.

Due to the complexity of tax laws and different considerations applicable to each market participant, you should also consider your tax consequences of a derivative instrument. It is possible that the current interpretation of tax laws or understanding of practice may change, or even that the law in some countries may be changed with retrospective effect.

In some areas, legislation and regulations governing transactions derivative financial instruments may be absent or subject to inconsistent or arbitrary interpretation. Accordingly, it is possible that the legal and tax implications may differ significantly from the original assumptions of the Investor, so the tax and legal consequences of the transaction will be different to those that the Investor has assumed.

Such risks are unpredictable and can depend on numerous political, economic and other factors. Legal documentation governing derivative instruments is rather complex and not easy to understand. Note that legal terms and conditions of a transaction may contain provisions which could operate against your interests. For example, they may permit early redemption or termination at a time which is unfavorable to you. Where you are unclear as to the technicality of legal documentation or any expressions which are used to reflect terminology used in the derivatives market, we would strongly recommend that you seek independent legal advice.

You also may be exposed to risk as a result of differences in legal documentation between a transaction and the particular exposure you wish to hedge, including differences in how the underlying reference asset is defined under the hedged item and the definition applicable to the transaction, or as a result of differences in the dates

or times as of which prices, values or levels are to be determined for the hedged item versus the transaction. You are therefore advised to ask about the terms and conditions of the specific derivatives and associated obligations.

### **2.1.5. Settlement risk**

Settlement risk in Foreign Exchange Transactions is the risk of loss when one of the parties delivers the currency it sold but does not receive the corresponding amount of the currency it bought.

Settlement risk arises in deliverable Foreign Exchange Transactions where the parties have not arranged to use a mechanism for payment-versus-payment (“PVP”) settlement, such as an escrow arrangement or PVP settlement through a member of CLS Bank International (which operates a multi-currency cash settlement system used by many participants in the foreign exchange market) or on the books of a bank at which both parties maintain settlement accounts in the relevant currencies. Because a party’s payment obligations under a deliverable Foreign Exchange Transaction are denominated in a different currency than those of its counterparty, the payments cannot be netted against one another. Although payment netting across multiple Foreign Exchange Transactions with coinciding settlement dates and currencies is possible in principle, and may be provided for under a master agreement governing the Foreign Exchange Transactions, such multi-transaction payment netting can be effective only to the extent that the same party has offsetting obligations in the same currency on the same date.

A contributing factor to settlement risk in Foreign Exchange Transactions is the time zone difference between the principal financial centers of each currency, particularly when the hours of operation of the payment systems in each country do not overlap or overlap only briefly. Unless PVP settlement is implemented effectively, the settlement exposure under a Foreign Exchange Transaction is the gross amount of a party’s payment obligation, which may be far in excess of the market value of the Foreign Exchange Transaction.

## **2.2. Leverage**

Although no leverage<sup>2</sup> is embedded in the Foreign Exchange Derivatives, you should remember that the use of leverage (which has the effect of magnifying potential positive or negative outcomes) may significantly increase the impact on you of any of the risks described.

## **2.3. Price volatility**

The underlying asset price may not be related to the valuation of the amount of liabilities under a financial derivative. Absence of such correlation in prices can be caused, for example, by suspension of trading as a result of a drastic change in prices of a basic asset and/or for any other reason. Absence of the current price of the underlying asset makes it difficult to assess liabilities under a financial derivative.

Currency exchange rates may be volatile and subject to intermittent market disruptions

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or distortions due to numerous factors specific to each foreign country, including, among others, government regulation and intervention, lack of liquidity and the types of entities participating in the market. Foreign currency exchange rates can be fixed by the sovereign government, allowed to float within a range of exchange rates set by the government, or left to float freely. Governments (including those of developed economies) may intervene in the currency markets through their central banks. Governments also may impose regulatory controls or taxes on foreign currency transactions, issue a new currency to replace an existing currency, or fix or alter the exchange rate or relative exchange rate characteristics by devaluation or revaluation of a currency. In addition, governments may designate banking holidays, restrict or suspend convertibility or transferability of a currency, or restrict participation in foreign exchange markets and funding markets, either in general or based on the nature of specific participants or transactions. The currencies of emerging economies may be subject to more frequent and larger central bank interventions than the currencies of developed economies and are also more likely to be affected by sudden changes in monetary or exchange rate policies, or by the actions of significant market participants.

Disruptions may also occur as a result of non-governmental events, such as actions taken by, or force majeure events affecting, foreign exchange dealers, relevant exchanges or price sources.

Price volatility – especially in emerging markets – can be extreme. Price discrepancies, low trading volumes and wide pricing spreads are widespread, and unpredictable price movements are not uncommon on the market. Additionally, as news about a country becomes available, the financial markets may react with dramatic price increase and/or decrease within a very short period of time.

Emerging markets generally lack the level of transparency, liquidity, efficiency, market infrastructure, legal certainty, and regulation found in more developed markets. For example, these markets might not have regulations governing the market, and/or price manipulation, and/or insider trading, and/or other provisions with respect to the availability of information and the use or misuse thereof in such markets. The risks associated with nationalization or expropriation of assets, the imposition of confiscatory or punitive taxation, restrictions on investments by foreigners in an emerging market, sanctions, war and revolution shall also be considered.

As terms of transactions are not standardized and no centralized pricing source exists (as exists for exchange traded instruments), transactions may be difficult to value. Different pricing formulas and financial assumptions may yield different values, and different financial institutions may quote different prices for the same derivative transaction. In addition, the value of an off-exchange derivative will vary over time and is affected by many factors, including the remaining time until maturity, market price, price volatility, and prevailing interest rates.

<sup>2</sup> Leverage is any technique involving the use of borrowed funds in the purchase of an asset, with the expectation that the after tax income from the asset and asset price appreciation will exceed the borrowing cost.

Please, note that neither we nor you can predict the future performance of an underlying reference asset based on historical performance. The price, value, or level of the underlying asset over the term of a transaction may bear little or no relation to the historical price, value, or level of the underlying asset. Changes in prices, values, or levels of an underlying asset may not result in a comparable payment or delivery under, or change in the value of, the transaction.

Potential outcomes of risk events and price volatility are illustrated below.

## **2.4. Scenario Analysis**

Financial risks of Investor under Foreign Exchange Transaction are related to changes in the Foreign Exchange Rate. Below are some scenarios for the FX Rate changes and their impact on the financial risks for Investor under Foreign Exchange Transactions.

The list of scenarios below is not exhaustive and aims to demonstrate the economic effect of Foreign Exchange Transactions in relation to movements of reference FX rates. It is important for Investor to acknowledge that there is no limit to the possible scenario variations of Foreign Exchange Transaction. The list of scenarios below is provided for illustrative purposes only. Past performance is no guarantee of future performance and the highlighted scenarios may or may not occur. Note that the actual values will differ depending on specifics of the contract, and this analysis should not be considered an indicator of future performance.

Probability of each scenario could differ and depends on political situation, government trade, fiscal and monetary programs, exchange rate policies, state of the market and industries, as well as the external environment, etc.

### **2.4.1. Foreign Exchange Swap (FX Swap) and exercised Foreign Exchange Swaption**

The following paragraph provides the general notion of FX Swaps and exercised Foreign Exchange Swaptions. You should be aware that particular FX Swaps/Foreign Exchange Swaptions may have additional or different terms and characteristics than described below; therefore possible scenarios and outcomes could differ from the ones listed below.

By way of example, two business days after the trade date, Investor pays CIB UK Currency A [100,000] and CIB UK pays Investor an amount of Currency B calculated by applying the spot rate to the Currency A amount  $\text{Currency A [100,000]} \div [0.6595] = \text{Currency B [151,630.02]}$ . In 6 months' time, Investor

pays CIB UK an amount of Currency B calculated by applying the 6 month forward rate to the Currency A amount Currency A [100,000] ÷ [0.6495] = Currency B [153,964.59], and CIB UK pays Investor Currency A 100,000.

Scenario 1: Favorable scenario for Investor in the case of no early termination

The spot rate was 0.6400 (that is, less favorable to investor than the forward rate), investor would have needed more Currency B in order to purchase the Currency A [100,000] if investor had exchanged Currency B for Currency A at the spot rate on the second settlement date: Currency A [100,000] ÷ [0.6400] = Currency B [156,250.00]. Investor is therefore better off for having entered into the FXSwap.

Scenario 2: Unfavorable scenario for Investor in the case of no early termination

The spot rate was 0.6595 (that is, more favorable to investor than the forward rate), investor would have needed less Currency B in order to purchase the Currency A [100,000] if investor had exchanged Currency B for Currency A at the spot rate on the second settlement date: Currency A [100,000] ÷ [0.6595] = Currency B [151,630.02]. Investor is therefore worse off for having entered into the FXSwap.

## 2.4.2. Cross-Currency Interest Rate Swap (CCS)

The following paragraph provides the general notion of Cross-Currency Interest Rate Swaps. You should be aware that particular Cross-Currency Interest Rate Swaps may have additional terms and characteristics other than described below; therefore possible scenarios and outcomes could differ from the ones listed below.

From the perspective of Investor receiving Rate A/paying Rate B and exchanging Currency B for Currency A:

- Where Currency B has strengthened against Currency A upon the final settlement and Rate A has remained flat or increased during the life of CCS, Investor receives positive economic effect from CCS;
- Otherwise, where Currency B has weakened against Currency A upon the final settlement and Rate B has decreased during the life of CCS, Investor receives negative economic effect from CCS.

That means, provided there is no early termination of the CCS contract for any reason, favorable scenarios for Investor are generally associated with appreciation of Rate A against Rate B and strengthening of Currency B against Currency A, while unfavorable ones are associated with depreciation of those.

Scenario 1: Favorable scenario for Investor in the case of no early termination

Favorable scenario is associated with the following dynamics of the market parameters

during the life of CCS:

- Currency B strengthens against Currency A;
- Rate A increases above Rate B.

By way of example, consider a case where on the Final Exchange Date spot Currency B/Currency A (the Spot Rate) equals to [40 units]<sup>3</sup> (while the Initial Rate is fixed at [50 units]); the net economic result for Investor from the Final Exchange may be calculated as Currency A equivalent calculated at the Spot Rate of CIB UK Final Exchange Amount (Currency B [25 000 000 000] divided by [40 units]) minus Investor Final Exchange Amount (Currency A [500 000 000]). This net amount represents economic gain for Investor and equals to Currency A [125 000 000].

In addition to the net economic result from the Final Exchange, Investor will receive Rate A and pay Rate B accrued on the related Notional Amount. By way of example, where Rate A for the last interest period is fixed at [3.00% per annum] and Rate B is [1.80% per annum] (i.e. Rate A has exceeded Rate B), the net economic result for Investor from the interest exchange may be calculated as Currency A equivalent calculated at the Spot Rate of amount payable by CIB UK (the product of Currency B [25 000 000 000] and Rate A [3.00% per annum], divided by [40 units] and scaled by the day count fraction [91/365]), minus the amount payable by Investor (the product of Currency A [500 000 000] and Rate B [1.80% per annum], scaled by the day count fraction [91/360]). This net amount represents economic gain for Investor and equals to Currency A [2 464 583.33] for a given calculation (interest) period.

Scenario 2: Unfavorable scenario for Investor in the case of no early termination

Unfavorable scenario is associated with the following dynamics of the market parameters during the life of CCS:

- Currency B weakens against Currency A;
- Rate A decrease below Rate B.

By way of example, consider a case where on the Final Exchange Date spot Currency B/Currency A (Spot Rate) equals to [60 units]<sup>4</sup> (while the Initial Rate is fixed at [50 units]); the net economic result for Investor from the Final Exchange may be calculated as Currency A equivalent calculated at the Spot Rate of CIB UK Final Exchange Amount (Currency B [25 000 000 000] divided by [60 units]) minus Investor Final Exchange Amount (Currency A [500 000 000]). This net amount represents economic loss for Investor and equals to Currency A [83 333 333.33].

In addition to the net economic result from the Final Exchange, Investor will receive Rate A and pay Rate B accrued on the related Notional Amount. By way of example, where Rate

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A for the last interest period is fixed at [0.50% per annum] and Rate B is [1.80% per annum] (i.e. the Rate B has exceeded Rate A), the net economic result for Investor from the interest exchange may be calculated as Currency A equivalent calculated at the Spot Rate of the amount payable by CIB UK (the product of Currency B [25 000 000 000] and Rate A [0.50% per annum] divided by [40 units] and scaled by the day count fraction [91/365]) minus the amount payable by Investor (the product of Currency A [500 000 000] and Rate B [1.80% per annum] scaled by the day count fraction [91/360]). This net amount represents economic loss for Investor and equals to Currency A [1 485 069.44] for a given calculation (interest) period.

The unfavorable scenario illustrated above is not the worst-case scenario for Investor. The worst- case scenario (representing loss for Investor) is associated with unlimited weakening of Currency B against Currency A and Rate A depreciation below Rate B, where Rate A tends to negative infinity. Under this scenario the loss of Investor tends to infinity as:

- With unlimited depreciation of Currency B against Currency A, the Final Exchange amount of Investor may massively exceed the Final Exchange amount of CIB UK in terms of Currency A;
- In the case of negative Rate A, Investor will be obliged to pay the absolute value of negative Interest Amount accrued at Rate A, while CIB UK will not be obligated to make any payments.

### **2.4.3. Foreign Exchange Forward (FX Forward)**

The following paragraph provides the general notion of an FX Forward. You should be aware that particular FX Forwards may have additional terms and characteristics other than described below; therefore possible scenarios and outcomes could differ from the ones listed below.

If the prevailing spot rate (on value date two days before maturity) is worse than the forward rate agreed at execution, the Non-Deliverable Forward ('NDF') is an asset and the investor as holder of the NDF will be receiving funds from CIB UK as settlement. The opposite holds true if the NDF contract is a liability because prevailing spot rates are better than the original forward rate agreed at inception.

Scenario 1: Favorable scenario for Investor in the case of no early termination

Favorable scenario is associated with the following dynamics of the market parameters during the life of FX Forward:

- Currency A appreciates against Currency B.

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<sup>3</sup> Meaning 40 units of Currency B for 1 unit of Currency A. <sup>4</sup>

Meaning 60 units of Currency B for 1 unit of Currency A.

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- By way of example, consider a case where currency A appreciates against Currency B. The forward rate agreed on trade date is 10.172. Principal is 1,000,000. Two days before maturity date the spot rate is 9.916. Net settlement received by investor is the difference in rates multiplied by principle [256,000].

Scenario 2: Unfavorable scenario for Investor in the case of no early termination

Unfavorable scenario is associated with the following dynamics of the market parameters during the life of the FX Forward:

- Currency A depreciates against Currency B.
- By way of example, consider a case where currency A depreciates against Currency B. The forward rate agreed on trade date is 10.172. Principal is 1,000,000. Two days before maturity date the spot rate is 10.434. Net settlement paid by investor to CIB UK is the difference in rates multiplied by principle [262,000].

#### **2.4.4. Foreign Exchange Option (FX Option)**

The following paragraph provides the general notion of the most common types of Foreign Exchange Options. You should be aware that particular FX Options may have additional terms and characteristics other than described below; therefore possible scenarios and outcomes could differ from the ones listed below.

The following scenario analysis is relevant for European-style, American-style and Bermudan-style options (Barrier Options are considered further as the text goes).

Depending on the nature of the option (Put vs. Call), favorable and unfavorable market conditions differ, and are opposite to each other.

- From the perspective of a Call Option buyer, an increase in the reference FX rate (so that it exceeds the pre-determined Strike Price) as of a certain Exercise Date leads to a greater amount received from its counterparty, while from the perspective of a Put Option buyer such increase leads to not exercising the option and results in losses equal to the Premium amount only;
- From the perspective of a Put Option buyer, a decrease in the reference FX rate (so that it decreases below the pre-determined Strike Price) as of a certain Exercise Date leads to a greater amount received from its counterparty, while from the perspective of a Call Option buyer such decrease leads to not exercising the option and results in losses equal to the Premium amount only.

That means provided there is no early termination of FX Option contract for any reason, favorable scenarios for Investor:

- In the case of Call Options are generally associated with appreciation of the reference FX rate strictly above the Strike Price, while unfavorable ones are associated with FX

rate's depreciation;

- In the case of Put Options are generally associated with depreciation of the reference FX rate strictly below the Strike Price, while unfavorable ones are associated with FX rate's appreciation.

#### Scenario 1: Appreciation of received currency/Depreciation of delivered currency

By way of example, consider a case where the Notional Amounts are Currency A [1,000,000] and Currency B [2,000,000] – meaning that the Strike Price is [2.00 units] of Currency B per [1.00 unit] of Currency A (Currency A/Currency B [2.00]). The reference Foreign Exchange Rate<sup>5</sup> at Exercise Date<sup>6</sup> fixes at [1.90] (i.e. Currency B appreciated against Currency A and the reference Foreign Exchange Rate exceeded Strike Price):

- This scenario is favorable for a buyer of a Call option on Currency B in the case of no early termination, allowing Investor (Call option buyer) to buy Currency B in exchange for selling Currency A at reference FX Rate [2.00] ([2.00 units] of Currency B for [1.00 unit] of Currency A) to CIB UK (Call option seller) and immediately buy back Currency A in exchange for selling Currency B in the spot market at FX Rate [1.90]. Net economic gain for Investor can be calculated as the difference between [2.00] and [1.90], multiplied by Currency A [1,000,000]. This net amount represents Investor's gain of Currency A [100,000];
- This scenario is unfavorable for a buyer of a Put option on Currency B in the case of no early termination, as under the described conditions Investor (Put option buyer) does not exercise the option, and is not entitled to any payments from CIB UK (Put option seller). Therefore Investor bears losses amounting to the premium paid to CIB UK.

#### Scenario 2: Appreciation of delivered currency/Depreciation of received currency

By way of example, consider a case where the Notional Amounts are Currency A [1,000,000] and Currency B [2,000,000] – meaning that the Strike Price is [2.00 units] of Currency B per [1.00 unit] of Currency A (Currency A/Currency B [2.00]). The reference Foreign Exchange Rate at Exercise Date fixes at [2.10] (i.e. Currency B depreciated against Currency A and the reference Foreign Exchange Rate exceeded Strike Price):

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<sup>5</sup> Defined according to option mechanism, e.g. for Asian option the reference FX rate is derived from an agreed upon calculation, which, by way of example, may be based upon an average underlying FX rate or values

<sup>6</sup> Defined according to option style, e.g.: American option can be exercised on any business day prior to its expiration; European option – only on the specified exercise date (or expiration date) prior to its expiration; Bermudan option - on the specified exercise date (or expiration date) prior to its expiration and on a discrete number of dates.

- This scenario is favorable for a buyer of a Put option on Currency B in the case of no early termination, allowing Investor (Put option buyer) to sell Currency B in exchange for buying Currency A at reference FX Rate [2.00] ([2.00 units] of Currency B for [1.00 unit] of Currency A) to CIB UK (Put option seller) and immediately buy back Currency B in exchange for selling Currency A in the spot market at FX Rate [2.10]. Net economic gain for Investor can be calculated as the difference between [2.10] and [2.00] multiplied by Currency A [1,000,000]. This net amount represents Investor's gain of Currency A [100,000];
- This scenario is unfavorable for a buyer of a Call option on Currency B in the case of no early termination, as under the described conditions Investor (Call option buyer) does not exercise the option, and is not entitled to any payments from CIB UK (Call option seller). Therefore Investor bears losses amounting to the premium paid to CIB UK.

The following scenario analysis is relevant to FX Barrier options.

Depending on the nature of the option (Put vs. Call) and type of the Barrier (Knock-In vs. Knock-Out), favorable and unfavorable market conditions differ, and are opposite to each other.

From the perspective of a Knock-In Call Option buyer, an increase in the reference FX rate (so that it exceeds the pre-determined Strike Level as of a certain Reset Date), and given that the reference FX rate has reached the Barrier Level at any point in time during the option's life, leads to a greater amount to be received from its counterparty, while from the perspective of a Knock-In Put option buyer such increase leads to not exercising the option and results in losses equal to the Premium amount;

From the perspective of Knock-Out Call Option buyer, an increase in the reference FX rate (so that it exceeds the pre-determined Strike Level) as of a certain Reset Date, and given that the reference interest rate has reached the Barrier Level at any point in time during the option's life, leads to cancellation of the option and results in losses equal to the Premium amount, while from the perspective of a Knock-In Put option buyer such increase leads to not exercising the option and results in losses equal to the Premium amount;

From the perspective of Knock-In Put Option buyer, a decrease in the reference FX rate (so that it decreases below the pre-determined Strike Level) as of a certain Reset Date, and given that the reference FX rate has reached the Barrier Level at any point in time during the option's life, leads to a greater amount to be received from its counterparty, while from the perspective of a Knock-In Call option buyer such decrease leads to not exercising the option and results in losses equal to the Premium amount;

From the perspective of Knock-Out Put Option buyer, a decrease in the reference FX rate (so that it decreases below the pre-determined Strike Level) as of a certain Reset Date, and given that the reference FX Rate has reached the Barrier Level at any point in time during the option's life, leads to cancellation of the option and results in losses equal to

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the Premium amount, while from the perspective of a Call option buyer such decrease leads to not exercising the option and results in losses equal to the Premium amount.

#### Scenario 1: Appreciation of received currency/Depreciation of delivered currency

By way of example, consider a case where the Notional Amounts are Currency A [1,000,000] and Currency B [2,000,000] – meaning that the Strike Price is [2.00 units] of Currency B per [1.00 unit] of Currency A (Currency A/Currency B [2.00]). Barrier level is 1.95. The reference Foreign Exchange Rate at Exercise Date fixes at [1.90] (i.e. Currency B appreciated against Currency A and the reference Foreign Exchange Rate exceeded Strike Price):

- This scenario is favorable for a buyer of a knock-in Call option on Currency B in the case of no early termination, allowing Investor (Call option buyer) to buy Currency B in exchange for selling Currency A at reference FX Rate [2.00] ([2.00 units] of Currency B for [1.00 unit] of Currency A) to CIB UK (Call option seller) and immediately buy back Currency A in exchange for selling Currency B in the spot market at FX Rate [1.90]. Net economic gain for Investor can be calculated as the difference between [2.00] and [1.90], multiplied by Currency A [1,000,000]. This net amount represents Investor's gain of Currency A [100,000]
- This scenario is unfavorable for a buyer of a Knock-in and Knock-out Put option on Currency B in the case of no early termination, as under the described conditions Investor (Put option buyer) does not exercise the option, and is not entitled to any payments from CIB UK (Put option seller). Therefore Investor bears losses amounting to the premium paid to CIB UK.

#### Scenario 2: Appreciation of delivered currency/Depreciation of received currency

By way of example, consider a case where the Notional Amounts are Currency A [1,000,000] and Currency B [2,000,000] – meaning that the Strike Price is [2.00 units] of Currency B per [1.00 unit] of Currency A (Currency A/Currency B [2.00]). Barrier level is 2.05. The reference Foreign Exchange Rate at Exercise Date fixes at [2.10] (i.e. Currency B depreciated against Currency A and the reference Foreign Exchange Rate exceeded Strike Price):

- This scenario is favorable for a buyer of a Knock-in Put option on Currency B in the case of no early termination, allowing Investor (Put option buyer) to sell Currency B in exchange for buying Currency A at reference FX Rate [2.00] ([2.00 units] of Currency B for [1.00 unit] of Currency A) to CIB UK (Put option seller) and immediately buy back Currency B in exchange for selling Currency A in the spot market at FX Rate [2.10]. Net economic gain for Investor can be calculated as the difference between [2.10] and [2.00] multiplied by Currency A [1,000,000]. This net amount represents Investor's gain of Currency A [100,000]
- This scenario is unfavorable for a buyer of a Knock-in and Knock-out Call option on Currency B in the case of no early termination, as under the described conditions Investor (Call option buyer) does not exercise the option, and is not entitled to any payments from CIB UK (Call option seller). Therefore Investor bears losses amounting to

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the premium paid to CIB UK.

## **2.5. Explanation of capital protection or guarantees**

No capital protection or guarantees are embedded into Foreign Exchange Derivative Transactions, so the Investor has no guarantee of getting back any part of the amount invested.

## **3. IMPEDIMENTS FOR DIVESTMENT**

This section deals with divestment of Foreign Exchange Derivatives, describing the potential barriers and illustrating the possible exit methods.

### **3.1. Barrier to divestment**

Derivatives markets can be illiquid. Over-the-counter derivative financial instruments do not circulate on stock exchanges or within bidding process organizers; they allow for a variety of customization options aimed at achieving specific financial or managerial objectives and risk mitigation, which, however, may or may not be achieved.

Customization of derivative financial instruments entails a serious risk of loss/lack of liquidity of such derivative financial instruments as well as other complex risks. If the market is not sufficiently liquid, you may be unable to liquidate or even partially close out your derivative position at the desired time.

This means that after transaction settlement with an over-the-counter derivative financial instrument, Investor may not subsequently be able to make a similar new transaction, terminate the previously completed transaction at an acceptable price or perform an offset (replacement, counter) transaction, in each case for the purpose of terminating the obligations under a transaction that is an over-the-counter derivative financial instrument or fixing their maximum value.

In addition, the difference between the bid price and the offer price of a given derivative contract may be significant, especially if the derivative contract involves highly customized features and other market sensitive terms. Prices on derivatives markets can fluctuate considerably, depending on a number of factors that are difficult to forecast. Price and liquidity of any derivative instrument depends upon availability and value of the underlying asset, which can be affected by a number of extrinsic factors including, but not limited to, political, environmental and technical ones. Such factors can also affect the ability to settle or perform on time or at all. In addition, unless provided for by the transaction terms, the counterparty to a derivative contract may not have to accept early termination of the contract and there may therefore be zero liquidity in the product. In other cases, early termination, realization or redemption may result in you receiving substantially less than you paid for the product or, in some cases, nothing at all. Market liquidity may also be adversely affected by the development of updated or new industry standard terms, their adoption by market participants and the migration of trading interest to such new or updated standard terms.

Trading in a currency may be substantially less liquid on days when banks in the principal financial center of the currency are not open for business. Diminished liquidity may affect bid-offer spreads and/or the level of exchange rates, which may adversely affect economics of a Foreign Exchange Transaction for which the trade date, a valuation date, exercise date or other economically relevant date occurs on a day when such banks are not open for business, including as the result of banking holidays designated after the Foreign Exchange Transaction has been entered into.

### **3.2. Illustration of possible exit methods and consequences**

Instrument risks may be managed or exited by means of:

- Entering into the opposite side of a new derivative contract with CIB UK or any other provider, which may require the Client to pay fees to be determined by the provider;
- Any break or termination clauses in the contract.

A Foreign Exchange Transaction may be subject to early termination in the case of default or termination events in relation to you, us, and/or any third party specified, as well as in the case of extraordinary events which are relevant to a Foreign Exchange Transaction or a particular underlying asset, or may provide an optional early termination right for one or both of the Parties (as such terms are defined in the ISDA Master Agreement).

Any such termination may lead to payment of an early termination amount which largely depends on the market conditions at that time, as well various other factors (volatility, interest rates, currency rates, etc.). Terminology and costs calculation approach are defined in the ISDA Master Agreement. You may be obliged to pay an early termination amount even if you are not a defaulting or affected party. Termination and the corresponding determination of an early termination amount could occur at a time when the relevant markets are volatile, illiquid or not functioning in accordance with normal market conditions and the value of the transaction is such that you would owe a substantial termination payment.

In addition to standard Events of Default and Termination Events, the terms of the Foreign Exchange Transaction and governing documentation gives CIB UK the right to terminate early the Foreign Exchange Transaction upon occurrence of a specific Additional Termination Event, as well as the right for the Parties to require reduction in the Notional Amount (as such terms defined in the ISDA Master Agreement).

As derivative financial instruments are revalued on a continuous basis (mark-to-market changes when underlying market parameters change), the economic effect of future early termination cannot be precisely calculated at transaction inception and depends on future dynamics of certain market parameters, such as (but not limited to) the reference FX Rate. In the case of early termination of Foreign Exchange Transaction for any reason (including,

but not limited to, voluntary early termination agreed by the Parties, occurrence of a Termination Event, Additional Termination Event, or an Event of Default with respect to either Party or otherwise as provided in the governing documentation), Investor may be required to pay an Early Termination Amount. The more mark-to-market value of the Instrument is in favor of CIB UK at the time of early termination of the Foreign Exchange Transaction, the higher is the Early Termination Amount payable by Investor as a result of such early termination.

Investor should take into account that voluntary early termination of a Foreign Exchange Transaction is possible only by mutual written consent of the Parties. However, consent of the other Party remains entirely at its discretion, the other Party is not obliged to give its consent and such voluntary early termination may be refused.

Investor should take into account that early termination of a Foreign Exchange Transaction initiated by Investor may be difficult, depends on specific market conditions at the time of proposed termination, and is not guaranteed by CIB UK.

Among other things, Investor should pay attention to the conditions of Events that impede implementation (e.g. absence of a public source to determine reference FX Rate) and their alternatives applicable in such cases to the Foreign Exchange Transaction, and under these conditions the Event preventing the execution is defined by CIB UK as a settlement agent.

#### **4. INVESTOR COMMITMENTS OR OBLIGATIONS**

When entering into a Foreign Exchange Transaction with CIB UK, Investor bears in full all relevant obligations and commitments according to the nature of the instrument described in paragraph 1. Investor should be aware that, depending on terms of Foreign Exchange Transaction and market conditions described in paragraph 2.4, it might be obliged to make periodic or non-recurrent payments in favor of CIB UK.

The change in the FX Rate directly and considerably affects the amount of payment obligations of Investor. The change in payment obligations is not always directly proportional to the change in the FX Rate. Accordingly, even a minor change in the FX Rate can cause a disproportionately larger (significant) impact on the amount of payment obligations of Investor. Such an effect may be either in favor or against Investor depending on the transaction modalities and the direction of the FX Rate change.

Payment obligations, as well as expenses (losses) on a derivative financial instrument can massively exceed the cost of its settlement or any benefit or saving due to the conclusion of a derivative financial instrument.

## **5. MARGIN REQUIREMENTS**

Margin requirement refers to the percentage of cash that the Investor must pay for with their own money. It can be further broken down into initial margin requirement and maintenance margin requirement.

An initial margin requirement generally refers to the percentage of cash required to be provided when the Investor opens a position. When the Investor holds securities bought on margin, in order to allow some fluctuation in price, there are certain minimum margin requirements. This is generally called the maintenance margin requirement. If the value of securities falls below the maintenance margin requirement, a margin call occurs.

If the Investor is subject to margin requirements, we will require you to provide assets as margin that are related to you, and to ensure that we have sufficient margin as required at any time.

The arrangements relating to how the margin calls will be funded will be set out in our client clearing agreement.

If the Investor is not subject to margin requirements, no margin requirements or similar obligations are applicable.