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## **INTEREST RATE DERIVATIVES RISK DISCLOSURE NOTICE**

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*This Notice is intended solely to inform you about the risks associated with the interest rate 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, 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 the 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 interest rate derivative products, descriptions of the associated risks and volatility, the impediments to divestment of interest rate 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 its associated or affiliated companies and their directors, officers, employees and/or agents.

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# 1. NATURE OF THE PRODUCT

The following section defines what Interest Rate derivative is, describes most common types of Interest Rate derivatives (namely Interest Rate Swaps, Cross-Currency Interest Rate Swaps, Forward Rate Agreements, Interest Rate Options of various styles and terms, Interest Rate Swaptions), outlines their key characteristics and legal nature. Each of the Interest Rate derivative types is described in a 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.

Derivatives with Interest Rate(s) as an Underlier are referred to as Interest Rate Derivatives. Interest Rate Derivatives cover a wide range of reference rates. You should understand the methodology, characteristics and limitations of the reference rate selected for each Instrument and consider carefully whether it is appropriate in light of your objectives for entering into the transaction with a particular Instrument.

A reference rate may be compiled by market operator, such as the Intercontinental Exchange in the case of the London Inter-bank Offered Rate (“LIBOR”), a government agency or a central bank, or determined by a calculation agent designated under the Instrument’s terms.

Sometimes, reference rates may be compiled from submissions of borrowing costs by contributing financial institutions. You should be aware that submissions may or may not be based on actual borrowing transactions or executable bids or offers and that the compiling body may not be able to audit submissions for their accuracy or completeness.

In other cases, reference rates may be derived from quoted prices or yields of fixed income securities or interest rate swaps. Such rates may be affected by supply and demand conditions for particular securities, government and private company decisions on the issuance of securities, and the functioning of and degree of participation in auctions and remarketing processes.

You should be aware that CIB UK has no ability to influence externally compiled reference rates, and is acting solely as a distributor of the received information.

The following is a discussion of certain material risks, terms and characteristics of some common types of Interest Rate Derivatives. Categories used below are illustrative only, and are intended to assist you in understanding key features of certain potential Interest Rate Derivatives. The information below should not be viewed as a comprehensive description of any particular Interest Rate Derivative transaction. Due to the nomenclature being neither standardized nor sufficiently descriptive in terms of the

Interest rate Derivatives to capture all important transaction features and variations, a particular instrument may (despite the same name) carry additional or different risks, terms and/or 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. Interest Rate Swap (IRS)**

### **1.1.1. Key characteristics**

An interest rate swap (IRS) is an instrument under which two counterparties agree to exchange future cash flows at a pre-agreed formula, 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”). Counterparties may exchange cash flows periodically and, usually, at least one of these series of cash flows is determined by an uncertain interest rate. Swaps create exposure to an underlying asset that can result in either profit or loss depending on movements in price, value and/or level of the underlying asset.

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

In legal terms, the IRS transaction originates when the Investor enters into an Interest Rate Swap with CIB UK with Rate A and Rate B as Underliers. Investor and CIB UK are legally bound by terms of transaction from the moment they agree on those terms. Note that 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 Interest Rate Swaps.

The following paragraph provides the general notion of the IRS 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 IRS 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 Interest Rate Swap is as follows:

- I. During the life of the IRS, CIB UK shall pay Investor the amount of interest accrued on the Notional Amount during the calculation (interest) period at Rate A (Interest Amount A);
- II. During the life of the IRS, Investor shall pay CIB UK the amount of interest accrued on the Notional Amount during the calculation (interest) period at Rate B (Interest Amount B);

III. Payments may be subject to netting with only the net amount being

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payable in a particular period:

- Where Interest Amount A for a particular calculation (interest) period exceeds Interest Amount B for the same calculation period (when Rate A is higher than Rate B), Investor will get a positive economic effect from the IRS (i.e. receive the positive difference between Interest Amount A and Interest Amount B, paid by CIB UK);
- Otherwise, where Interest Amount A for a particular calculation (interest) period is less than Interest Amount B for the same calculation period (when Rate A is lower than Rate B), Investor will get a negative economic effect from the IRS (i.e. will pay the absolute value of the negative difference between Interest Amount A and Interest Amount B to CIB UK);

IV. The net economic result of the IRS is comprised of the net economic effect from interest exchanges during the life of the IRS, driven by underlying interest rates movements, provided there hasn't been any default or early termination of the IRS contract.

As a result of underlying interest rates 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.

Additionally, IRS terms might include term "forward starting swap". This generally refers to an interest rate swap where the terms are negotiated today but the swap does not initiate until some specified date in the future. Upon such date, a forward starting swap will operate as a typical IRS does.

## **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.

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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, 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, 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

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Risk for further information on potential changes of Underliers.

### **1.3. Forward Rate Agreement (FRA)**

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

A Forward Rate Agreement (FRA) is an agreement to exchange payments based on the difference between pre-defined reference interest rates (either two floating reference rates, or one floating rate and one fixed rate, or two fixed rates - Rate A and Rate B). Usually, at least one of these series of cash flows is determined by a random or uncertain interest rate. The exchange is executed once – on maturity date.

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

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

The following paragraph provides the general notion of Forward Rate Agreements 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 FRA 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 Forward Rate Agreement is as follows:

- I. Upon final settlement, the amount of interest accrued on the Notional Amount during the calculation (interest) period at Rate A (“Interest Amount A”) shall be paid by CIB UK to Investor;
- II. Upon final settlement, the amount of interest accrued on the Notional Amount during the calculation (interest) period at Rate B (“Interest Amount B”) shall be paid by Investor to CIB UK;
- III. Payments may be subject to netting with only the net amount being payable upon the final settlement:
  - Where Interest Amount A accrued during the life of FRA exceeds Interest Amount B (when the specified Rate A is higher than Rate B), Investor will receive a positive economic effect from the FRA (i.e. Receive the positive difference between Interest Amount A and Interest Amount B, paid by CIB UK);
  - Otherwise, where Interest Amount A accrued during the life of FRA is less than Interest Amount B (when the specified Rate A is lower than Rate B), Investor will receive a negative economic effect from the FRA (i.e. Will pay the absolute value

of the negative difference between Interest Amount A and Interest Amount B to CIB UK);

- IV. the net economic result of the FRA is comprised of the net economic effect from interest exchanges upon the final settlement, driven by underlying interest rates movement, provided there hasn't been any default or early termination of the FRA contract.

As a result of underlying 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.

## **1.4. Interest Rate Option (IR Option)**

### **1.4.1. Key characteristics**

Under an Interest Rate Option, the parties have exposure to only one direction in the movement of a reference rate or the spread between reference rates. In the case of a Call Option, the option buyer pays a premium and will receive a payment from the option seller upon exercise if the reference rate or spread exceeds a specified strike level ("Strike Level") at the applicable time, and will otherwise not be entitled to any payment whatsoever from the option seller. In the case of a Put Option, the option buyer pays a premium and will receive a payment from the option seller upon exercise if the reference rate or spread is less than a specified Strike Level at the applicable time, and will otherwise not be entitled to any payment whatsoever from the option seller.

An Interest Rates Derivative commonly referred to as a "cap" is a series of Call Options on a specified reference rate, and an Interest Rates Derivative commonly referred to as a "floor" is a series of Put Options on a specified reference rate. A party may enter into a cap or a floor as an individual Interest Rates Derivative, or a cap and/or floor may be embedded in an Interest Rates Derivative with other features.

Interest Rate Options may vary in terms of their styles and manner in which value of the underlying interest rate effect the option's payout.

The following are examples of different Interest Rate Option styles:

- Interest Rate 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;

- Interest Rate European-style Options may be exercised only on the specified exercise date (or expiration date) prior to its expiration;
- Interest Rate 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 interest 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 Interest Rate Asian Options, the reference interest rate is derived from an agreed calculation, that, by way of example, may be based upon an average underlying interest 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 Interest Rate Barrier options, the payoff depends on whether or not the underlying asset has reached or exceeded a predetermined barrier level.

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.

It is important to note that normally the IR option is documented as an interest rate swap with fixed amount payable by a buyer of an option and floating amount payment payable by a seller of an option, with a floating amount being subject to a specified cap or floor rate. IR option may also refer to a swaption. Documentation needs to be examined carefully before dealing in IR options.

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

In legal terms, transaction with IR Option originates when the Investor enters into an Interest Rate Option with CIB UK with reference interest rate or spread between reference interest rates as an Underlier. For the avoidance of doubt, IR Option is documented as an interest rate swap. Investor and CIB UK are legally bound by terms of transaction from the moment they agree on those terms. Note that Interest Rate Option terms do not imply lending/borrowing of any assets (including the notional amount), and therefore debtor-creditor relations do not arise under Interest Rate Options.

The following paragraph provides the general notion of Interest Rate Options 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 Interest Rate Option may have additional or different 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 Interest Rate Option is as follows:

- I. At the inception of the IR Option contract or periodically during the life of the contract, Investor (option buyer) shall pay a premium for risk to CIB UK (option seller) (i.e. Fixed Amount);
- II. During the life of IR Option, the difference between the previously determined Strike Level (i.e. Cap or Floor rate as applicable) and the reference interest rate accrued on the Notional Amount during the calculation (interest) period shall be paid periodically by CIB UK to Investor:
  - In case of a Call Option (“cap”), Investor shall receive a payment from CIB UK at the specified dates if the reference interest rate is above a specified Strike Level (i.e. Cap Rate) at the applicable time, otherwise it shall not be entitled to any payments by CIB UK;
  - In case of a Put Option (“floor”), Investor shall receive a payment from CIB UK at the specified dates if the reference interest rate is below a specified Strike Level (i.e. Floor Rate) at the applicable time, otherwise Investor shall not be entitled to any payments by CIB UK;
- III. the payment dates may vary depending on the economic style of a given option:
  - Under an American-style Option, Investor shall have the right to 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 interest rate;
  - Under a European-style Option, Investor shall have the right to receive payment as mentioned above from CIB UK only on the pre-agreed date prior to the option’s expiry, i.e. Investor shall not be entitled to choose the date with the most favorable reference interest rate;
  - Under a Bermudan-style Option, Investor shall have the right to receive payment as mentioned above from CIB UK on the specified date prior to the option’s expiry and on an any business date from a given number of pre-agreed dates, i.e. Investor shall have limited optionality to choose the date with the most favorable reference interest rate;
- IV. 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 interest rate:

- Under an Asian option, the reference interest rate (which affects payment received by Investor) is not determined as a spot interest rate as of the relevant date, but rather as an average of spot interest rates on predetermined dates occurring during a pre-specified period prior to the payment date. This average can be calculated using different methods: arithmetic, geometric, weighted, partial averaging over a window, etc.
  - A Barrier Option becomes activated (or extinguished) only if the reference interest 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 interest rate reaches the Barrier Rate during the calculation (interest) period;
    - When buying a “Knock-Out” Barrier Option, Investor shall receive payment from CIB UK, as described above, only if the reference interest rate does not reach the Barrier Rate during the calculation (interest) period;
- V. The net economic result of an IR Option is comprised of the net economic effect from payments during the life of the IR Option, driven by underlying interest rates movement, provided there hasn't been any default or early termination of the IR 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. Interest Rate Swaption (IR Swaption)**

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

An Interest Rate Swaption is an option that provides one party with the right, but not the obligation, to enter into an Interest Rate Swap with pre-agreed parameters on the specified future exercise date or dates. As a product with embedded optionality, Interest Rate Swaptions carry the characteristics listed in Section 1.4 above. Exercised Swaptions carry characteristics of an Interest Rate Swap as described in Section 1.1 herein.

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

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

The following paragraph provides the general notion of Interest Rate 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 IR 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 Interest Rate Swaption is as follows:

- I. At the inception of the IR Swaption contract, Investor (Swaption buyer) shall pay a premium for risk to CIB UK (Swaption seller);
- II. During the life of the IR Swaption, the amount equal to the payoff of the underlying Interest Rate Swap (as set out in 1.1 above) shall be periodically paid by CIB UK, given that the option is exercised;
- III. Shall the option be not exercised, the Interest Rate Swap shall not become effective and no cash flow exchange shall be carried out;
- IV. Similar to Interest Rate 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);
- V. The net economic result of the IR Swaption is comprised of the net economic effect from interest exchanges during the life of the IR Swaption, driven by underlying interest rates movement, provided that the option was exercised and there hasn't been any default or early termination of IR Swaption contract.

As a result of underlying interest rates 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 Interest Rate 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 Interest Rate Derivatives - namely Interest Rate Swaps and exercised Interest Rate Swaptions, Cross-Currency Interest Rate Swaps, Forward Rate Agreements, Interest Rate Options of different styles and terms), and capital protections or guarantees embedded in Interest Rate 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

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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. Whenever you have doubts about the meaning of any of the disclosures or warnings described below, it is recommended to seek independent legal, financial, and/or 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 risk of each derivative financial instrument depends 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 a derivative instrument.

Main risks linked to Interest Rate Derivatives are described in paragraphs (a) – (e) below. Paragraph (f) captures risks specific for certain type of instruments described in paragraph 1 above.

### **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, 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.

Interest rates can rise as well as fall. Due to varying interest rates, it is not possible to determine definite interest payment amounts of floating rate instruments at the time of their execution. An industry or government body that defines and compiles a reference rate may make methodological or other changes that could change the value of the reference rate, including changes related to the method by which the reference rate is calculated, the criteria for eligibility of securities or borrowers, or the timing for publication of the reference rate. In addition, the compiling body may alter, discontinue or suspend calculation or dissemination of the reference rate (in which case a fallback method of determining the reference rate may apply). Any of the foregoing actions could negatively impact the derivative products. There are additional interest rate related risks in relation to floating rate instruments and fixed rate instruments; interest payments on floating rate instruments cannot be anticipated.

### **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 and/or high risk of the Issuer's obligations to you not being fulfilled.

For example, if you are a borrower under a floating rate loan but aim for a fixed rate loan, and swap floating rate into fixed rate with another party, this will synthetically create a fixed rate loan at a predetermined interest rate. However, if your swap counterparty goes insolvent, you will lose your future cash flows exchanges at a predetermined interest rate and will be paying floating cash flows again. If by that time the floating rate has increased substantially, it is possible that you will struggle to pay.

The counterparty of Investor under the Interest Rate Derivative 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. Basis Risk**

In some cases, you may contemplate entering into the Interest Rate Derivative in order to hedge or mitigate interest rate exposures related to a particular borrowing or debt issuance, an anticipated transaction, or as a part of a general asset and liability management program. This may include, for example, entering into a fixed-for-floating interest rate swap to fix your interest costs in connection with a floating rate loan or other borrowing. The success of such a strategy will depend on the detailed terms of the Interest Rate Derivative and the relevant loan agreement, bond indenture or debt instrument, as well as future conditions that may affect your ability to access markets, conditions affecting your lenders or liquidity providers and future changes in interest rates, exchange rates, yield curves and other market and economic factors.

Mismatches in the timing and amount of payments between an Interest Rate Derivative and a specific loan agreement, bond indenture or other debt instrument may occur due to differences in the definitions of the reference rates governing the Interest Rate Derivative and the debt instrument (including the use of different rate sources or the same rate source with different fallback provisions) or differences in other payment terms and conventions, such as the day count fraction, reset dates, designated maturities and business day conventions for payment dates.

Basis risk is the risk that the rate or yield of the asset or liability that you wish to hedge does not correlate perfectly with the reference rate selected under an Interest Rate Derivative. Basis risk will generally be present unless the same reference rate is an explicit contractual term of both the Interest Rate Derivative and the hedged asset or liability. Even then, other terms in the related debt instrument may cause actual borrowing costs to diverge from the reference rate. For example, loan agreements typically contain yield protection and/or increased costs provisions to compensate lenders for increased costs or reduced revenue associated with carrying the loan, including as a result of changes in taxes, withholding, reserves, assessments, and capital requirements.

### **2.1.5. Regulatory/Legal/Tax Risks**

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

At the inception of the Interest Rate Derivative, Investor should consider the regulatory, legal, tax and/or accounting consequences of the transaction. The Investor is required to obtain qualified advice from legal, tax and/or other professionals that may be needed to understand and assess regulatory, legal and/or tax risks inherent in such transactions, as well as treatment of the transaction in accounting and reporting. Such consultations should be conducted before the transaction's 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 with derivatives 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.

### **2.1.6. Settlement risk – relevant for Cross Currency Swaps (CCS)**

Settlement risk of a Cross Currency Swap is the risk of loss when one of the parties delivers the currency it sold but does not receive the corresponding amount in the currency it bought.

Settlement risk arises in deliverable Cross Currency Swaps 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 Cross Currency Swap are denominated in a different currency than those of its counterparty, the payments cannot be netted against one another. Although payment netting across multiple Cross Currency Swaps with coinciding settlement dates and currencies is possible in principle, and may be provided for under a master agreement governing the Cross Currency Swap, 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 Cross Currency Swap 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 Cross Currency Swap is the gross amount of a party’s payment obligation, which may be far in excess of the market value of the Cross Currency Swap.

## **2.2. Leverage**

Although no leverage<sup>2</sup> is embedded in the Interest Rate 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 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.

Overall price volatility of interest rate derivatives – 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.

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 the Interest Rate Derivative are related to changes in the reference interest rate. Below are some scenarios for interest rate changes and their impact on the financial risks of Investor under Interest Rate Derivative.

The list of scenarios below is not exhaustive and aims to demonstrate the economic effect of Interest Rate Derivatives in relation to movements of reference interest rates. It is important for Investor to acknowledge that there is no limit to the possible scenario variations of Interest Rate Derivative. 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 as 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.

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<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.

## 2.4.1. Interest Rate Swap (IRS) and exercised Interest Rate Swaption

The following paragraph provides the general notion of Interest Rate Swaps and exercised Interest Rate Swaptions. You should be aware that particular Interest Rate Swaps/Interest Rate Swaptions may have additional or different terms and characteristics 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, any increase in Rate A on a certain Reset Date leads to:

- A higher net amount payable by CIB UK to Investor for the respective calculation (interest) period (in the case where Rate A exceeds Rate B), or
- A lower net amount payable by Investor to CIB UK for the respective calculation (interest) period (in the case where Rate B exceeds Rate A).

That means that, provided there is no early termination for any reason, favorable scenarios for Investor are generally associated with appreciation of Rate B, while unfavorable ones are associated with depreciation of Rate B.

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

By way of example, where the Notional Amount for a particular calculation (interest) period is [100,000,000.00], Rate B is [1.80% per annum] and Rate A is fixed for a particular calculation (interest) period at [3.00% per annum] (i.e. Rate A has exceeded Rate B), the net amount payable by CIB UK in favor of Investor may be calculated as the difference between [3.00%] and [1.80%], scaled by the day count fraction  $[91/360^3]$  and multiplied by [100,000,000.00]. This net amount represents Investor's gain of [303,333.333].

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

By way of example, where the Notional Amount for a particular calculation (interest) period is [100,000,000.00], Rate B is [1.80% per annum] and Rate A is fixed for a particular calculation (interest) period at [0.50% per annum] (i.e. Rate B has exceeded Rate A), the net amount payable by Investor in favor of CIB UK may be calculated as the difference between [1.80%] and [0.50%], scaled by the day count fraction  $[91/360]$  and multiplied by [100,000,000.00]. This net amount represents Investor's loss of [328,611.111].

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<sup>3</sup> By way of example, we use Act/360 Day Count Fraction for both Rate A and Rate B and assume the actual number of days in the respective interest period as equal to 91.

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 Rate A depreciation below Rate B, where Rate A tends to negative infinity. Under this scenario, the loss of Investor tends to infinity, as 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.

## **2.4.2. 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 increase 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>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 [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

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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>5</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 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.

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

<sup>5</sup> Meaning 60 units of Currency B for 1 unit of Currency A.

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 obliged to make any payments.

### **2.4.3. Interest Rate Option**

The following paragraph provides the general notion of the most common types of Interest Rate Options. You should be aware that particular Interest Rate 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 interest rate (so that it exceeds the pre-determined Strike Level) 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;
- From the perspective of a Put Option buyer, a decrease in the reference interest rate (so that it decreases below the pre-determined Strike Level) 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.

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

- in the case of Call Options are generally associated with appreciation of the reference interest rate strictly above the Strike Level, while unfavorable ones are associated with the rate's depreciation;
- in the case of Put Options are generally associated with depreciation of the reference interest rate strictly below the Strike Level, while unfavorable ones are associated with the rate's appreciation.

### Scenario 1: Increase in reference interest rate

By way of example, consider a case where the Notional Amount for a given calculation (interest) period is [100,000,000.00], the Strike Level is [1.80% per annum] and the reference interest rate<sup>6</sup> as of the Exercise Date<sup>7</sup> is fixed at [3.00% per annum] (i.e. the reference interest rate has exceeded the Strike Level):

- This scenario is favorable for a Call Option buyer in the case of no early termination as the net amount payable by CIB UK (Call Option seller) in favor of Investor (Call Option buyer) may be calculated as the difference between [3.00%] and [1.80%], scaled by the day count fraction [91/360] and multiplied by 100,000,000.00. This net amount represents Investor's gain of [303,333.333];
- This scenario is unfavorable for a Put Option buyer 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: Decrease in reference interest rate

By way of example, consider a case where the Notional Amount for a given calculation (interest) period is [100,000,000.00], the Strike Level is [1.80% per annum] and the reference interest rate as of the Exercise Date is fixed at [0.50% per annum] (i.e. the reference interest rate is below the Strike Level)

- This scenario is favorable for a Put Option buyer in the case of no early termination, as the net amount payable by CIB UK (Put Option seller) in favor of Investor (Put Option buyer) may be calculated as the difference between [1.80%] and [0.50%] scaled by the day count fraction [91/360] multiplied by 100,000,000.00. This net amount represents Investor's gain of [328,611.111];
- This scenario is unfavorable for a Call Option buyer 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 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.

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<sup>6</sup> Defined according to option mechanism, e.g. for Asian option the reference interest rate is derived from an agreed upon calculation, which, by way of example, may be based upon an average underlying interest rate or values.

<sup>7</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.

- From the perspective of a Knock-In Call Option buyer, an increase in the reference interest 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 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 interest 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 interest rate (so that it decreases below 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 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 interest rate (so that it decreases below 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 Call option buyer such decrease leads to not exercising the option and results in losses equal to the Premium amount.

#### Scenario 1: Increase in reference interest rate

By way of example, consider a case where the Notional Amount for a given calculation (interest) period is [100,000,000.00], the Strike Level is [1.80% per annum], the Barrier Level is [2.00% per annum] and the reference interest rate as of the Exercise Date is fixed at [3.00% per annum] (i.e. the reference interest rate has exceeded the Strike Level as of the Exercise Date and has reached the Barrier Level during the Option's life):

- This scenario is favorable for a Knock-In Call Option buyer in the case of no early termination, as the net amount payable by CIB UK (Call Option seller) in favor of Investor (Call Option buyer) may be calculated as the difference between [3.00%] and [1.80%], scaled by the day count fraction [91/360] and multiplied by [100,000,000.00]. This net amount represents Investor's gain of [303,333.333]. Note that the option is not cancelled if the reference interest rate falls below [2% per annum] again. Once the option is activated, it remains valid until its expiration;

- This scenario is unfavorable for a Knock-Out Call Option buyer in the case of no early termination, as under the described conditions the option “knocks out” and the contract is null and void. Note that the option is not reactivated if the reference interest rate falls below [2% per annum] again. Once the option is deactivated, it remains void until its expiration. Therefore Investor bears losses amounting to the Premium paid to CIB UK;
- This scenario is unfavorable for Knock-In and Knock-Out Put Option buyers 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: Decrease in reference interest rate

By way of example, consider a case where the Notional Amount for a given calculation (interest) period is [100,000,000.00], the Strike Level is [1.80% per annum], the Barrier Level is [1.00% per annum] and the reference interest rate as of the Exercise Date is fixed at [0.50% per annum] (i.e. the reference interest rate is below the Strike Level as of the Exercise Date and has reached the Barrier Level during the Option’s life):

- This scenario is favorable for a Knock-In Put Option buyer in the case of no early termination, as the net amount payable by CIB UK (Put Option seller) in favor of Investor (Put Option buyer) may be calculated as the difference between [1.80%] and [0.50%], scaled by the day count fraction [91/360] and multiplied by [100,000,000.00]. This net amount represents Investor’s gain of [328,611.111]. Note that the option is not cancelled if the reference interest rate rises above [1% per annum] again. Once the option is activated, it remains valid until its expiration;
- This scenario is unfavorable for a Knock-Out Put Option buyer in the case of no early termination, as under the described conditions the option “knocks out” and the contract is null and void. Note that the option is not reactivated if the reference interest rate rises above [1% per annum] again. Once the option is deactivated, it remains void until its expiration. Therefore Investor bears losses amounting to the Premium paid to CIB UK;
- This scenario is unfavorable for Knock-In and Knock-Out Call Option buyers 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.

## 2.5. Capital protection or guarantees

No capital protection or guarantees are embedded into Interest Rate Derivatives, 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 Interest Rate Derivatives, describing the potential barriers and illustrating the possible exit methods.

#### **3.1. Barriersto 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 inception with an over-the-counter derivative financial instrument, the 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.

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

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.

An Interest Rate Derivative 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 the Interest Rate Derivative 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 Interest Rate Derivative and governing documentation gives CIB UK the right to terminate early the Interest Rate derivative contract 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 Interest Rate. In the case of early termination of the Interest Rate Derivative 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 Interest Rate Derivative transaction, the higher is the Early Termination Amount payable by Investor as a result of such early termination.

Party B should take into account that voluntary early termination of Interest Rate Derivatives are 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 the Interest Rate Derivative initiated by Investor may be difficult, depends on specific market conditions at the time of proposed termination and is not guaranteed by CIB UK.

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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 Interest Rate) and their alternatives applicable in such cases to Interest Rate Derivatives, 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 an Interest Rate Derivative 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 the Interest Rate Derivative and market conditions described in paragraph 2.4, it might be obliged to make periodic or non-recurrent payments in favour of CIB UK.

The change in the Interest 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 Interest Rate. Accordingly, even a minor change in the Interest 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 Interest 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 marginable securities that the Investor must pay for with his/her 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 securities 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. When the Investor is unable to maintain assets above 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 as much margin as required at any time.

The arrangements between you and us 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.