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**EQUITY DERIVATIVES RISK DISCLOSURE NOTICE**

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*This Notice is intended solely to inform you about the risks associated with the equity 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), SIB (CYPRUS) LIMITED (“SIB”) 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 equity derivative products, descriptions of the associated risks and volatility, the impediments to divestment of equity 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 SIB;
- “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 an equity derivative is, describes the most common types of equity derivatives (namely a Total Return Swap (TRS), Equity Forward, and Equity Option of various styles and terms), and outlines their key characteristics and legal nature. Each of the equity 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.

Equity derivatives refer to those in which the Underliers are equity securities and involve, or at the option of either party may involve, the exchange of payments based on the value of the underlying asset referred to as the reference obligation.

The terms of an equity derivative 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 equity derivative transaction and its governing documentation. Before entering into an equity derivative 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 contract, its value and how appropriate it is to your particular objectives.

You should be aware that SIB has no ability to influence the underlying asset.

The following is a discussion of certain material risks, terms and characteristics of some common equity derivative transactions. The categories used below are illustrative only, and are intended to assist you in understanding key features of certain prospective equity derivative transactions. The discussion should not be viewed as a comprehensive description of any particular equity derivative transaction. Because nomenclature is neither standardized nor sufficiently descriptive of the equity derivative transaction to capture all important transaction features and variations, a particular equity derivative 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. Total Return Swap (TRS) on an Equity

#### 1.1.1. Key characteristics

A Total Return Swap (TRS) is a bilateral financial contract in that one counterparty pays out the “total return” of the equity, including its dividends and capital appreciation or depreciation, and in return receives a regular fixed or floating cash flow.

A TRS can be settled at the terminating date only or periodically, e.g., quarterly. The equity used in a TRS contract can be a single publicly traded stock or a private stock, a portfolio of stocks, a stock index, or any market index. The buyer of a TRS can gain the economic exposure to a particular equity or index market without physically owning such assets, while the seller of a TRS can reduce or eliminate the market risk of their stock portfolio without selling the assets and gain stable returns.

### 1.1.2. Legal nature of the instrument

In legal terms, a transaction with a TRS originates when the Investor enters into a Total Return Swap with SIB with fixed or floating rate payments and a reference obligation as Underliers. Investor and SIB are legally bound by the terms of the transaction from the moment they agree on those terms. Note that TRS transaction terms do not imply lending/borrowing of any assets, and therefore debtor-creditor relations do not arise under a TRS.

The following paragraph provides the general notion of a TRS 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 TRS transactions 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 a TRS, with equity as the reference obligation is as follows:

- I. at the inception of the TRS contract, the Investor and SIB shall not exchange notional amounts
- II. during the life of the TRS, SIB as “TR payer” shall pay Investor as “TR receiver” the total return of a specified asset, the reference obligation
  - "total return" comprises the sum of interest, fees, and any change-in-value payments with respect to the reference obligation. The change-in-value payment is equal to any appreciation (positive) or depreciation (negative) in the market value of the reference obligation
- III. net depreciation in value (negative total return) results in a payment to the TR payer;
- IV. change-in-value payments may be made at maturity or on a periodic interim basis;
- V. in return, the TR receiver makes a regular fixed or floating payment (for example LIBOR plus a spread);
- VI. as an alternative to cash settlement of the change-in-value payment, a TRS can allow for physical delivery of the reference obligation at maturity by the TR payer in return for a payment of the reference obligation's initial value by the TR receiver;

As a result of changes in price to the underlying asset and interest rates movements, the amount payable by Investor to SIB may significantly exceed the above mentioned payments made by SIB 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.

## 1.2. Equity Forward

### 1.2.1. Key characteristics

An equity forward is a contract for the purchase of an individual stock, a stock portfolio or a stock index at some future date. One party is obligated to deliver an Underlier, or make a payment of equivalent value on or as of a specified future date. The other party is obligated to pay a price (the “forward price”) that is fixed (or in some cases determined under a formula, the parameters of which are fixed) on the trade date.

Entering into an equity forward transaction on an individual stock allows an investor to sell stock at some future date at a guaranteed price. If that guaranteed price is below the market price, the investor will still receive the guaranteed price. If the market price is above the guaranteed price, the investor will only receive the guaranteed price and not be able to participate in any market increase above that price.

### 1.2.2. Legal nature of the instrument

In legal terms, a transaction with an equity forward originates when the Investor enters into an equity forward with SIB with a reference obligation (stock, portfolio of stocks or an equity index) as the Underlier. Investor and SIB are legally bound by the terms of transaction from the moment they agree on those terms. Note that the equity forward agreement terms do not imply lending/borrowing of any assets, and therefore debtor-creditor relations do not arise under equity forwards.

The following paragraph provides the general notion of equity 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 equity 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 an equity forward is as follows:

- I. the party agreeing to buy the underlying asset in the future assumes a long position, the party agreeing to sell the asset in the future assumes a short position;
- II. the quantity of the Underlier (stock, stock portfolio, or stock index) the price (forward price), and delivery date is agreed upon;
  - Price is equal to the forward price at the time the contract is entered into;
- III. no payments are exchanged until maturity of the contract;
- IV. settlement can be cash or physical;
- V. at maturity, the two counterparties exchange a cash flow equivalent to the difference between the Underlier market price and the forward price;
- VI. if physical delivery of an Underlier is specified in the contract, investor should understand any applicable restrictions on their ability to make or take physical delivery;

VII. the majority of forwards do not pay dividends except for forwards that are "total return" forwards. Total return forwards take into consideration the payments and reinvestment of dividends within the index in addition to the return on the index and the payoff of any forward contract based on it;

VIII. the net economic result of the equity forward is comprised of the net economic effect from the difference in market price at maturity and the pre-determined forward price, multiplied by the quantity of the reference obligation, provided there hasn't been any default or early termination of the equity forward contract. If the price of the reference obligation has increased above the forward price on delivery date the buyer gains the difference between the forward price and market price on delivery date. Conversely, if the price of the reference obligation has decreased, the buyer loses since they have to pay the difference between the forward price and market price on delivery date;

As a result of underlying asset price movements, the amount payable by Investor to SIB may significantly exceed the above mentioned payments made by SIB 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. Equity Option**

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

Equity options are instruments that give the buyer (the holder of the option) the right, but not the obligation, to buy or sell the underlying asset or instrument at a specific strike price on a specific date, depending on the form of the option.

Equity 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 buyer the right to sell, a certain underlying at a specified price ("strike price") 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 an upfront premium.

Equity options may vary in terms of their styles and manner in which value of the underlying affects the option's payout.

The following are examples of different equity option styles:

- 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;
- European-style options may be exercised only on the specified exercise date (or expiration date) prior to its expiration;
- 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 the value of the underlying 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 events which may have multiple and varying consequences. Some examples of exotic options are as follows:

- Asian options, the reference obligation price is derived from an agreed calculation, that, by way of example, may be based upon an average underlying price or values as of predetermined dates occurring during a specified “averaging period”, with the exercise date occurring at the end of this averaging period;
- 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 events 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.

### 1.3.2. Legal nature of the instrument

In legal terms, transaction with an equity option originates when the Investor enters into an equity option with SIB with an equity reference obligation as an Underlier. Investor and SIB are legally bound by terms of transaction from the moment they agree on those terms. Note that equity option terms do not imply lending/borrowing of any assets, and therefore debtor-creditor relations do not arise under Foreign Exchange Options.

The following paragraph provides the general notion of an equity 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 equity options 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 an equity option is as follows:

- I. at the inception of the equity option contract, Investor (option buyer) shall pay a premium for risk to SIB (option seller);
- II. During the life of equity option:
  - on the exercise date, SIB pays the Investor the difference between the previously determined strike price and the reference obligation price (non-deliverable option);OR
  - on the exercise date, SIB delivers to the Investor the agreed quantity of the reference obligation (deliverable option);

- III. in case of a call option, Investor receives a payment/physical delivery from SIB upon exercise if the reference obligation price exceeds a specified strike price at the applicable time, and will otherwise not be entitled to any payment/physical delivery from SIB;
- IV. in case of a put option, Investor receives a payment/physical delivery from SIB upon exercise if the reference obligation price is less than a specified strike price at the applicable time and will otherwise not be entitled to any payment/physical delivery from SIB;
- 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 SIB 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 obligation price;
  - under a European-style option, Investor shall have the right to exercise the option and receive payment as mentioned above from SIB 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 obligation price;
  - under a Bermudan-style option, Investor shall have the right to exercise the option and receive payment as mentioned above from SIB 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 obligation price;
- VI. the amount of payment made by SIB to Investor may vary depending on the manner in which the option payout is affected by price or value of the underlying reference obligation:
  - under an Asian option, the reference obligation price, which affects Investor's payoff, is not determined as a price at the exercise date, but rather as an average of prices 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.
  - a barrier option becomes activated (or extinguished) only if the underlying asset price reaches a predetermined barrier price.
- VII. when buying a "Knock-In" barrier option, Investor shall have the right to exercise an option from SIB as described above, only if the reference obligation price reaches the barrier price during the calculation period;
- VIII. when buying a "Knock-Out" barrier option, Investor shall have the right to exercise an option from SIB as described above, only if the reference obligation price does not reach the barrier price during the calculation period;
- IX. the net economic result of an equity option consists of the net economic effect from payments during the life of the equity Option, driven by underlying asset price movement, provided there is no default or early termination of the equity 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.

## 2. DESCRIPTION OF RISKS AND VOLATILITY

This section describes the risks and volatility characterizing equity 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 equity derivatives – namely Total Return Swaps, Equity Forwards, and Equity Options of various styles and terms), and capital protections or guarantees embedded in equity 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.

### 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 an equity derivative transaction is SIB, being part of Sberbank Group (the "Group"). Investor should constantly monitor the creditworthiness/solvency of SIB and the Group. Financial indicators of SIB 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 SIB 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 SIB 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 SIB 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 an equity derivative 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.

## **2.2. Leverage**

Although no leverage<sup>2</sup> is embedded in equity 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.

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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.

Currency exchange rates may also be volatile and subject to intermittent market disruptions 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 or Company 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 SIB nor Investor 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 equity derivative transactions are related to changes in the underlying asset that is based on equity securities. Below are some scenarios for underlying asset changes and their impact on the financial risks for Investor under equity derivative transactions.

The list of scenarios below is not exhaustive and aims to demonstrate the economic effect of equity derivative transactions in relation to movements of underlying reference asset prices. It is important for Investor to acknowledge that there is no limit to the possible scenario variations of equity derivative transactions. 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. Total Return Swap (TRS) on an Equity

The following paragraph provides the general notion of a Total Return Swap (TRS). You should be aware that particular TRS transactions may have additional terms and characteristics other than described below; therefore possible scenarios and outcomes could differ from the ones listed below.

If for example, Investor is willing to assume the risk of stock XYZ, both SIB and Investor could then enter into a TRS transaction. The Investor in this case, would be the buyer of the TRS, and can gain the economic exposure to stock XYZ without physically owning such assets. SIB as seller of the TRS can reduce or eliminate the market risk of owning stock XYZ without selling the assets, and gain stable returns.

Assume the Swap has an initial notional of EUR 1,000,000 and the initial price of XYZ stock is EUR 20. The stock does not pay dividends. On any reset date the Investor will receive from SIB any price appreciation of the stock of 50,000 (=EUR 1,000,000/EUR 20) shares, and pay any depreciation and a coupon of 4% per annum on the current notional semi-annually. The TRS in this example resets semi-annually.

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

A favorable scenario is associated with the following dynamics of the market parameters during the life of the TRS:

- Stock price increases

By way of example, at the end of the first half year the stock price goes up to EUR 22. Then at the first cash flow date the investor will receive EUR 100,000  $(=(\text{EUR } 22 - \text{EUR } 20) * 50,000)$  from SIB and pay EUR 20,000  $(=0.04 * \text{EUR } 1,000,000 / 2)$ .

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

An unfavorable scenario is associated with the following dynamics of the market parameters during the life of the TRS:

- Stock price decreases

By way of example, suppose at the end of one year, i.e., the second cash flow date, the stock price depreciates to EUR 16. Then the investor will pay SIB EUR 250,000 ( $= (EUR\ 22 - EUR\ 16) * 50,000$ ) for the stock price depreciation and EUR 22,000 ( $= 0.04 * 22 * 50,000 / 2$ ) for the interest payment.

## 2.4.2. Equity Forward

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

Assume that Investor owns XYZ at EUR 100 and wishes to sell XYZ stock in six months. Investor enters into an equity forward transaction in which Investor will receive a price of EUR 125 per share from SIB in six months;

***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 equity forward:

- Stock price of XYZ is at or below EUR 125 in six months;
- By way of example, consider a case where XYZ is trading at EUR 120 in six months. Investor will still receive EUR 125 per share from SIB, and avoid the possible loss of EUR 5 per share.

***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 equity forward:

- Stock price of XYZ is above EUR 125 in six months;
- By way of example, consider a case where XYZ is trading at EUR 130 in six months. Investor will still have to deliver the shares to SIB, and will only receive EUR 125 per share instead of the market rate of EUR 130, losing EUR 5 per share on the transaction.

## 2.4.3. Equity Option

The following paragraph provides the general notion of the most common types of equity options. You should be aware that particular equity 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 obligation price (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 obligation price (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 the equity option contract for any reason, favorable scenarios for Investor:

- in the case of call options, are generally associated with appreciation of the reference obligation price above the strike price, while unfavorable ones are associated with reference obligation price depreciation;
- in the case of put options, are generally associated with depreciation of the reference obligation price below the strike price, while unfavorable ones are associated with reference obligation price appreciation.

#### ***Scenario 1: Appreciation of reference obligation price***

By way of example, consider a case where the stock of XYZ Company is trading at EUR 40. A call option contract with a strike price of EUR 40 expiring in a month's time is being priced at EUR 2. Investor believes that XYZ stock will rise in the coming weeks. Investor pays SIB EUR 200 to purchase a single EUR 40 XYZ call option covering 100 shares.

If the price of XYZ hits EUR 50 on an exercisable day (given the option style):

- This scenario is **favorable** for a buyer of a Call option. Investor can invoke their right to buy 100 shares of XYZ stock at EUR 40 each and can sell them immediately in the open market for EUR 50 a share. This gives investor a profit of EUR 8 (10-2) per share. As each call option contract covers 100 shares, the total amount SIB will pay investor from the exercise is EUR 1000;
- This scenario is **unfavorable** for a buyer of a Put option. 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 SIB (Put option seller). Therefore Investor bears losses amounting to the premium paid to SIB.

#### ***Scenario 2: Depreciation of reference obligation price***

By way of example, consider a case where the stock of XYZ Company is trading at EUR 40. A put option contract with a strike price of EUR 40 expiring in a month's time is being priced at EUR 2. Investor believes that XYZ stock will drop in the coming weeks. Investor pays SIB EUR 200 to purchase a single EUR 40 XYZ put option covering 100 shares.



If the price of XYZ hits EUR 30 on an exercisable day (given the option style):

- This scenario is **favorable** for a buyer of a Put option. Investor can invoke their right to sell 100 shares of XYZ stock at EUR 40 each and can buy them immediately in the open market for EUR 30 a share. This gives investor a profit of EUR 8 (10-2) per share. As each call option contract covers 100 shares, the total amount SIB will pay investor from the exercise is EUR 1000;
- This scenario is **unfavorable** for a seller of a Put option. In the case of no early termination, as under the described conditions Investor (Put option seller) does not exercise the option, and is not entitled to any payments from SIB (Put option buyer). Therefore Investor bears losses amounting to the premium paid to SIB.

The following scenario analysis is relevant to **equity barrier options**.

Depending on the nature of the option (Put vs. Call) and type of the barrier event (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 obligation price (so that it exceeds the pre-determined strike price as of a certain exercise date), and given that the reference obligation price has reached the barrier price 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;
- By way of an example, an investor purchases a knock-in call option with a strike price of EUR 60 and a barrier price of EUR 65, when the underlying stock was trading at EUR 55. The option would not come into effect, and therefore not become exercisable, until the underlying stock price moved above EUR 65.
- From the perspective of **Knock-Out Call Option buyer**, an increase in the reference obligation price (so that it exceeds the pre-determined strike price) as of a certain exercise date, and given that the reference obligation price has reached the barrier price 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;
- By way of example, an investor purchases a knock-in put option with a barrier price of EUR 25 and a strike price of EUR 20, when the underlying security was trading at EUR 18. The underlying security rises above EUR 25 during the life of the option, and therefore, the option ceases to exist.
- From the perspective of **Knock-In Put Option buyer**, a decrease in the reference obligation price (so that it decreases below the pre-determined strike price) as of a certain exercise date, and given that the reference obligation price has reached the barrier price 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 obligation price (so that it decreases below the pre-determined strike price) as of a certain exercise date, and given that the reference obligation price has reached the barrier price 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.

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

No capital protection or guarantees are embedded into equity 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 equity derivatives, describing the potential barriers and illustrating the possible exit methods.

#### 3.1. Barriers to divestment

Derivative 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 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 Investor receiving substantially less than initially paid for the product or, in some cases, receiving 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 and consequences

Instrument risks may be managed or exited by means of:

- Entering into the opposite side of a new derivative contract with SIB 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 equity 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. Early termination may also occur in the case of extraordinary events which are relevant to the referenced underlying

asset(s), or there may be an optional early termination right for one or both of the parties (as 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 (market 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 equity derivative transaction and governing documentation gives SIB the right to terminate early the equity derivative 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 underlying asset. In the case of early termination of equity derivative transactions 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 SIB at the time of early termination of the equity derivative 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 an equity derivative 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 an equity derivative transaction initiated by Investor may be difficult, will depend on specific market conditions at the time of proposed termination, and is not guaranteed by SIB.

Among other things, Investor should pay attention to the conditions of events that impede implementation (e.g. illiquid shares as underlying reference asset) and their alternatives applicable in such cases to the equity derivative transaction, and under these conditions the event preventing the execution is defined by SIB as a settlement agent.

#### 4. INVESTOR COMMITMENTS OR OBLIGATIONS

When entering into an equity derivative transaction with SIB, 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 equity derivative transaction and market conditions described in paragraph 2.4, it might be obliged to make periodic or non-recurrent payments in favor of SIB.

The change in the underlying reference asset price 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 underlying reference asset price. Accordingly, even a minor change in the underlying reference asset price 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 underlying reference price 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, SIB will require Investor to provide assets as margin that are related to you, in order 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.