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COMMODITY DERIVATIVES RISK DISCLOSURE NOTICE

This Notice is intended solely to inform you about the risks associated with a commodity 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[1].

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 commodity derivative products, descriptions of the associated risks and volatility, the impediments to divestment of commodity derivative products, the commitments or obligations of the investor (the "Investor") arising from a transaction, and any margin requirements, associated with transaction.

[1] 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 a commodity derivative is, describes the most common types of commodity derivatives (namely a Commodity Swap, Commodity Forward, and Commodity Option of various styles and terms), and outlines their key characteristics and legal nature. Each of the commodity derivative types is defined in a separate subsection.

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.

Commodity derivatives refer to those in which the Underliers are physical commodities, 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 a commodity 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 commodity derivative transaction and its governing documentation. Before entering into a commodity 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 price of commodities.

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

1.1.1. Key characteristics

In a fixed-for-floating commodity Swap, one party (the “fixed price payer”) makes periodic payments based on a fixed price for a specified commodity that is agreed upon at the execution of the Swap, while the other party (the “floating price payer”) makes payments based on a floating price for such commodity that is reset periodically. The floating price may be a spot price for the specified commodity, the price for a specified nearest futures contract for such commodity or an average price of such spot prices or futures contracts prices calculated over a period.

From the perspective of the fixed price payer, an increase in the overall price of the underlying commodity in the market will cause the Swap to increase in value. This is because the fixed price payer’s contractually specified fixed price obligations will be lower than the commodity price prevailing in the market. Conversely, if the overall price of the underlying commodity falls, the value of the Swap to the fixed price payer will decline. From the perspective of the floating price payer, the corresponding value changes will be reversed.

1.1.2. Legal nature of the instrument

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

The following paragraph provides the general notion of a commodity 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 commodity Swap 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 commodity Swap, with a physical commodity as the reference obligation is as follows:

I. on the payments dates agreed, party A pays party B an amount of cash calculated based on the certain amount of commodity and fixed price for the unit of such commodity;

II. on the payments dates agreed, party B pays party A an amount of cash calculated based on the certain amount of commodity and floating price for the unit of such commodity;

III. payments are subject to netting with only net amount being payable in a particular quarter (the “net amount”);

IV. where the price of commodity rises above the relevant fixed price in a particular quarter, the fixed price payer receives positive economic effect of the transaction in the relevant period;

V. otherwise, where the price of commodity falls below the relevant fixed price in a particular quarter, the fixed price payer receives negative economic effect of the transaction in the relevant period;

VI. overall economic effect of the transaction is to be determined based on the total amount of payments made by Investor to SIB and total amount of payments received by Investor from SIB during the life of the transaction, provided there is no default or early termination of the transaction.

As a result of changes in price to the underlying commodity, 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 DESCRIPTIONS OF RISKS AND VOLATILITY for further information on potential changes of Underliers.

1.2. Commodity Forward

1.2.1. Key characteristics

A commodity forward is a contract for the purchase of an underlying commodity 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. By using a commodity forward, the risk of an undesired price change can be reduced or avoided. Entering into a commodity forward transaction on an underlying commodity allows an investor to sell the underlying commodity at some future date at a guaranteed price.

- If the market price is below the guaranteed 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 a commodity forward originates when the Investor enters into a commodity forward with SIB with a commodity as the Underlier. Investor and SIB are legally bound by the terms of transaction from the moment they agree on those terms. Note that commodity forward agreement terms do not imply lending/borrowing of any assets, and therefore debtor-creditor relations do not arise under commodity forwards.

The following paragraph provides the general notion of commodity 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 commodity 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 a commodity forward is as follows:

I. the party agreeing to buy the underlying commodity in the future assumes a long position, the party agreeing to sell the underlying commodity in the future assumes a short position;

II. both parties agree the quantity of the underlying commodity, the price (forward price), and delivery date;

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

As a result of underlying commodity 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 DESCRIPTIONS OF RISKS AND VOLATILITY for further information on potential changes of Underliers.

1.3. Commodity Option

1.3.1. Key characteristics

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

Commodity options are divided into two main categories: call options and put options. A call option gives the buyer the right to purchase, and, the put option gives the buyer the right to sell, a certain commodity 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 commodity), the buyer pays the seller an upfront premium.

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

The following are examples of different commodity 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, 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, for example, may be based upon an average underlying price or values as of predetermined dates that occur 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 commodity 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 a commodity option originates when the Investor enters into a commodity option with SIB with a physical commodity as the Underlier. Investor and SIB are legally bound by terms of the transaction from the moment they agree on those terms. Note that commodity option terms do not imply lending/borrowing of any assets, and therefore debtor-creditor relations do not arise under commodity options.

The following paragraph provides the general notion of a commodity option and the obligations of the parties involved. We do not intend to provide any legal advice through the following paragraph. You should be aware that particular commodity 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 a commodity option is as follows:

I. at the inception of the commodity option contract, Investor (option buyer) shall pay a premium for risk to SIB (option seller);

II. During the life of a commodity option:

   – on the exercise date, SIB pays the Investor the difference between the previously determined strike price and the commodity price (non-deliverable option);

   OR

   – on the exercise date, SIB delivers to the Investor the agreed quantity of the commodity (deliverable option);

III. in case of a call option, Investor receives a payment/physical delivery from SIB upon exercise if the commodity 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 commodity 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 commodity 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 commodity 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 an 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 commodity 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 the price or value of the commodity:

   – under an Asian option, the reference commodity 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 commodity 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 commodity price does not reach the barrier price during the calculation period;

IX. the net economic result of a commodity option consists of the net economic effect from payments during the life of the contract, driven by commodity price movements, provided there is no default or early termination of the commodity option contract. Please refer to Section 2 DESCRIPTION OF RISKS AND VOLATILITY and notably subsection 2.1 Types of risks included for further information on potential changes of Underliers.

2. DESCRIPTION OF RISKS AND VOLATILITY

This section describes the risks and volatility characterizing commodity 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 (scenario analysis is presented separately for the most common commodity derivatives – namely Commodity Swaps, Commodity Forwards, and Commodity Options of various styles and terms), and capital protections or guarantees embedded in commodity 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, and 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 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 polices the state of the market and industries, as well as the external environment.

In respect of any commodity derivative transactions a movement in the underlying commodity price may have a favorable or unfavorable effect on the gain or loss achieved on such transactions. Commodity valuations are linked to a host of environmental, economic, social and political factors and can fluctuate greatly, even during intra-day trading.

Commodity prices are inherently volatile as further outlined in subsection 2.3. The market value of a commodity transaction may be influenced by many unpredictable factors, such as:

- prevailing spot prices for the Underlier;
- supply and demand for the Underlier;
- market activity;
- liquidity;
- economic, financial, political, regulatory, geographical, biological, or judicial events; and
- the general interest rate environment.

These factors interrelate in complex ways, and the effect of one factor on the market value of the commodity transaction may offset or enhance the effect of another factor.

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 to Investor under a commodity 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 a commodity 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 in derivative financial instruments may be absent or subject to inconsistent or arbitrary interpretation. Accordingly, it is possible that the legal and tax implications may differ significantly from the original assumptions of the Investor, so the tax and legal consequences of the transaction will be different to those that the Investor has assumed.

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

You also may be exposed to risk as a result of differences in legal documentation between a transaction and the particular exposure you wish to hedge, including differences in how the underlying reference asset is defined under the hedged item and the definition applicable to the transaction, or as a result of differences in the dates or times as of which prices, values or levels are to be determined for the hedged item versus the transaction. You are therefore advised to ask about the terms and conditions of the specific derivatives and associated obligations.

2.1.5. Settlement Risk

If you enter into a physically settled commodity transaction, you (either directly or through a third party acting on your behalf) must have the operational capabilities to make or take delivery of the Underlier in accordance with the terms of the commodity transaction and you should be thoroughly familiar with delivery practices, procedures, customs and usages of the physical market and the governing contractual provisions, laws and regulations. Issues with which you should be familiar include, as applicable:

- delivery instruments (e.g., warehouse receipts, bills of lading, warehouse releases, consignment agreements or other instruments);
- the time and location at which title to the Underlier and/or risk of loss passes to the recipient;
- the conditions, if any, under which delivery may be excused, delayed or prevented;
- quality or quantity discrepancies with respect to a delivered commodity;
- the possibility that congestion in the deliverable supply of a commodity could prevent you from acquiring the commodity to meet your delivery obligations or make it significantly more costly for you to do so;
- the consequences of failing to make or take delivery in accordance with the terms of a commodity transaction, including the applicable measure of damages and additional liabilities such as borrowing costs, imbalance charges, storage, transportation costs such as demurrage, regulatory penalties, and other costs, damages or expenses recoverable in a particular commodity transaction;
- various modes of delivering or transporting the commodity subject to a commodity transaction and related legal instruments (e.g., rail/trucking and other freight and handling agreements) as well as any regulatory, health and safety, compliance and other related procedures, rules, tariffs and regulations incident thereto;
- indemnification obligations of the parties, including with respect to title defects and liabilities to third parties;
- limitations on liability or exclusions thereto, if any;
- features of transmission, transportation or electronic tracking systems generally, including, in particular, those that may result in mis-delivery or under-delivery and the process for reconciling outstanding balances among users of the system and between us under a commodity transaction;
- availability of insurance and scope of applicable policy coverage;
- settlement risk when payment dates occur after delivery dates;
- in the case of physically settled commodity transactions subject to the rules of an exchange or clearinghouse, the rules and procedures governing delivery, including notice requirements and the procedures for matching long and short positions for delivery.

You should be aware however, that not all contracts or transactions with such physical delivery features are commodity transactions or transactions and that various differences in the applicable regulatory regimes and other circumstances may follow from this distinction.

2.2. Leverage

Although no leverage[2] is embedded in commodity 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 commodity 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 commodity prices or for any other reason. Absence of the current price of the underlying commodity makes it difficult to assess liabilities under a financial derivative.

Commodity prices may change unpredictably, affecting the value of commodities or commodity indexes in unforeseeable ways. Market prices may fluctuate rapidly based on numerous factors, including:

- changes in supply and demand relationships (whether actual, perceived, anticipated, unanticipated or unrealized);
- weather;
- agriculture;
- trade;
- fiscal, monetary and exchange control programs;
- domestic and foreign political and economic events and policies;
- disease;
- pestilence;
- technological developments;
- changes in interest rates, whether through governmental action or market movements;
- monetary and other governmental policies, action and inaction.

These factors may affect the value of the commodity or a commodity index, and therefore the value of the commodity transaction, and may cause such values to move in a sudden and unexpected manner. Disruptions may also occur as a result of non-governmental events, such as actions taken by, or force majeure events affecting relevant exchanges or price sources.

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

[2] 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.

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 commodities based on historical performance. The price, value, or level of the underlying commodity over the term of a transaction may bear little or no relation to the historical price, value, or level of the underlying commodity. Changes in prices, values, or levels of an underlying commodity 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 taken by Investor under commodity derivative transactions are related to changes in the underlying commodity price. Below are some scenarios for underlying commodity changes and their impact on the financial risks for Investor under commodity derivative transactions.

The list of scenarios below is not exhaustive and aims to demonstrate the economic effect of commodity derivative transactions in relation to movements of underlying commodity prices. It is important for Investor to acknowledge that there is no limit to the possible scenario variations of commodity 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 polices, state of the market and industries, as well as the external environment, etc.

2.4.1. Commodity Swap

The following paragraph provides the general notion of a commodity Swap. You should be aware that particular commodity Swap transactions may have additional terms and characteristics other than described below; therefore possible scenarios and outcomes could differ from the ones listed below. Note that in the following scenarios the Investor is the floating price payer.

Scenario 1: Favorable scenario for Investor under the Transaction

A favorable scenario (where Investor receives net amount from SIB) is associated with the following dynamics of the market parameters during the life of the commodity Swap:

- Commodity price falling below the relevant fixed price in the relevant period of time

By way of example, where the floating price equals EUR 60 per barrel of crude oil for a particular quarter of the transaction, net amount for this quarter will be determined as the difference between the relevant fixed price EUR 65 per barrel and the floating price EUR 60 per barrel multiplied by the notional quantity per calculation period ([EUR 5]*[1,000]). This net amount is payable by SIB in favor of Investor and equals EUR 5,000.

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 commodity Swap:

- If the commodity reference price rises above the relevant fixed price in the relevant period of time, Investor will be required to pay net amount to SIB.

By way of example, where the floating price equals EUR 72 per barrel of crude oil for a particular quarter of the transaction, the net amount for this quarter will be determined as the difference between the floating price EUR 72 per barrel and the relevant fixed price EUR 65 per barrel and multiplied by the notional quantity per calculation period ([EUR 7]*[1,000]). This net amount is payable by Investor in favor of SIB and equals EUR 7,000.

The unfavorable scenario illustrated above is not the worst-case scenario for Investor.

Scenario 3: Worst case scenario for Investor under the Transaction

The worst-case scenario (where Investor pays unlimited net amount in favor of SIB) is associated with unlimited commodity price appreciation in a given quarter. Under a theoretical scenario where the floating price tends to infinity for a particular quarter of the transaction, the net amount for this quarter will tend to infinity.

2.4.2. Commodity Forward

The following paragraph provides the general notion of a commodity forward transaction. You should be aware that particular commodity 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 ten ounces of gold at EUR 1,000 an ounce, and wishes to sell these 10 ounces of gold in six months. Investor enters into a commodity forward transaction in which Investor will receive a price of EUR 1,250 per ounce of gold 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 commodity forward:

- An ounce of gold is at or below EUR 1,250 in six months;

By way of example, consider a case where an ounce of gold is trading at EUR 1,200 in six months. Investor will still receive EUR 1,250 per ounce of gold from SIB, and avoid the possible loss of EUR 50 per ounce of gold.

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 commodity forward:

- An ounce of gold is above EUR 1,250 in six months;

By way of example, consider a case where an ounce of gold is trading at EUR 1,300 in six months. Investor will still have to deliver ten ounces of gold to SIB, and will only receive EUR 1,250 per ounce of gold instead of the market rate of EUR 1,300, losing EUR 50 per ounce of gold on the transaction.

Note the above examples illustrate a scenario where Investor owns the physical commodity. An Investor does not need to hold the commodity for a derivative transaction, and can elect cash settlement instead of physical settlement when agreeing trade details.

2.4.3. Commodity Option

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

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

Scenario 1: Appreciation of commodity price

By way of example, consider a case where crude oil is trading at EUR 40 a barrel. A call option contract with a strike price of EUR 40 expiring in a month's time is being priced at EUR 2.

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

- this scenario is favorable for a buyer of a call option. Suppose, Investor bought call option covering 100 barrels of crude oil paying EUR 200 to SIB. Investor can invoke their right to buy 100 barrels of crude oil at EUR 40 each and can sell them immediately in the open market for EUR 50 a barrel. This gives investor a profit of EUR 8 per barrel (taking into account EUR 2 to buy each call option). As each call option contract covers 100 barrels, the total amount SIB will pay investor from the exercise is EUR 1000;

- this scenario is unfavorable for a seller of a call option. In this case, Investor is obliged to sell to SIB (the call buyer) at EUR 40, when the market price is EUR 50. Taking the premium received of EUR 2 into consideration, the net loss to the Investor is EUR 8 per barrel, or a total loss of EUR 800 on this contract.

Scenario 2: Depreciation of commodity price

By way of example, consider a case where crude oil 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.

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

- This scenario is **favorable** for a buyer of a put option. Suppose, Investor bought a put option covering 100 barrels of crude oil paying EUR 200 to SIB. Investor can invoke their right to sell 100 barrels of crude oil at EUR 40 each and can buy them immediately in the open market for EUR 30 a barrel. This gives investor a profit of EUR 8 per barrel (taking into account EUR 2 to buy each put option). As each call option contract covers 100 barrels, 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 **commodity 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 commodity price (so that it exceeds the pre-determined strike price as of a certain exercise date), and given that the commodity 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 commodity was trading at EUR 55. The option would not come into effect, and therefore not become exercisable, until the underlying commodity price reaches EUR 65. In this example, the Investor has the right to buy the commodity at the strike price of EUR 60 and sell at the higher market price;
  - Conversely, an Investor **sells a knock-in call option** with a strike price of EUR 60 and a barrier price of EUR 65, when the underlying commodity was trading at EUR 55. The option would not come into effect, and therefore not become exercisable, until the underlying commodity price reaches EUR 65. In this example, the Investor incurs a loss as they are obliged to sell the commodity at the strike price of EUR 60, and must purchase at the higher market price.
- From the perspective of **Knock-Out Call Option buyer**, an increase in the commodity price (so that it exceeds the pre-determined strike price) as of a certain exercise date, and given that the commodity 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-out call option** with a barrier price of EUR 25 and a strike price of EUR 20, when the underlying commodity was trading at EUR 18. If the underlying commodity reaches EUR 25 during the life of the option, the option ceases to exist, and the Investor loses premium paid;
 – Conversely, an Investor **sells a knock-out call option**, with a barrier price of EUR 25 and a strike price of EUR 20, when the underlying commodity was trading at EUR 18. If the underlying commodity reaches EUR 25 during the life of the option, the option ceases to exist, and the Investor makes a profit equal to the premium received.

- From the perspective of **Knock-In Put Option buyer**, a decrease in the commodity price (so that it decreases below the pre-determined strike price) as of a certain exercise date, and given that the commodity 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 commodity price (so that it decreases below the pre-determined strike price) as of a certain exercise date, and given that the commodity 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 commodity 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 commodity 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.

A commodity 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 underlying commodity, 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 for underlying commodity, 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 commodity derivative transaction and governing documentation gives SIB the right to terminate early the commodity 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 commodity 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 commodity is in favor of SIB at the time of early termination of the commodity 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 a commodity 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 a commodity 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. availability of the underlying commodity if required for settlement) and the alternatives applicable in such cases to the commodity 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 a commodity 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 commodity 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 commodity 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 commodity price. Accordingly, even a minor change in the underlying commodity 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 commodity 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 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 commodities 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 commodities falls below the maintenance margin requirement, a margin call occurs.

If Investor is subject to margin requirements, SIB will require Investor to provide assets as margin that are related to them, in order to ensure that SIB has 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 Investor is not subject to margin requirements, no margin requirements or similar obligations are applicable.