de volksbank
Financial Markets

Product description (Derivatives) for Professional clients

Prior to providing investment services and/or ancillary services to (potential) clients, de Volksbank N.V. (“**de Volksbank**” or “**de Volksbank Financial Markets**” or **“VFM”**) is, according to Article 24(4) of MIFID II (Directive 2014/65/EU), under an obligation to provide appropriate information in good time to clients or potential clients with regard to de Volksbank, its services, the financial instruments and associated risks.

De Volksbank Financial Markets trades Over-the-Counter (“**OTC**”) derivatives, such as Forwards and Swaps. These are bilateral derivatives contracts executed by the Volksbank further to a specific order (“**Specific Instruction**”) from you or a Request for Quote (“**RFQ**”) by you. To the extent permitted by law, all such transactions are executed outside of a trading venue, where de Volksbank acts as principal.

De Volksbank shares with you this product description, which is a general description of the key characteristics and key risks of the different financial instruments (such as derivatives) and can be executed by de Volksbank on your behalf. This product description is written in order for you to understand the nature and risks of the financial instruments in question and to assess whether you are able to carry these risks, so that you are reasonably able to take investment decisions on an informed basis.

The information included in this product description take into account your categorisation as professional client and associated level of knowledge. The information provided is not intended to disclose all details about the nature and risks of the financial instruments in respect of which de Volksbank Financial Markets may enter into transactions with you.

You should carefully consider the suitability of a transaction prior to entering into an investment in a derivative. De Volksbank will not assess the suitability of any transaction for you. You should not deal in any financial instruments, as summarised below, unless you understand the nature of the financial instrument and the extent of your exposure to the associated risks.

1. Derivatives in general

A Derivative is a financial instrument whereby the value of the derivative depends on the value of one or more
underlying assets. Derivatives can be used for hedging purposes and/or for the purpose of speculation on future performance of the underlying asset. An investor in derivatives assumes a greater deal of risk, compared to a direct investment in the underlying asset, and therefore investments in derivatives must be made with caution.

Derivatives have high connected risks, predominantly as their value is dependent on the future value of underlying assets, while a certain change in value of the underlying asset over a period of time may result in an amplified change in the value of the derivative. The leverage that may be obtained in derivatives trading means that a small movement can lead to a proportionately larger movement in the value of the client’s investment.

Depending on the derivative’s purpose, a hedging derivative typically provides the investor with a protection against a change of value of the underlying asset in one direction, when the investor is protected against a change of value of the underlying asset in the opposite direction, for instance by owning such asset, or otherwise.

There are many types of derivatives, such as Forwards (FX Forwards and Forward Rate Agreements) and Swaps (Interest rate swaps, Cross currency interest rate swaps and FX swaps) which are among the most commonly used types by de Volksbank (hereafter each a “**Derivative**” and/or together referred to as “**Derivatives**”).

2. Types of Derivatives

Forwards

Forwards are transactions in foreign currency (FX Forwards) or in interest rates (Forward Rate Agreements), for which delivery and payment take place on a specified date in the future. They carry a high degree of risk. Forwards may serve as a forward hedge. The specifications of a forward contract are generally standardised and may therefore be traded on a trading venue. Otherwise they may be

individually agreed between buyer and seller and may not be traded on a trading venue (OTC).

Swaps

A swap is a derivative when two counterparties exchange one stream of cash flows against another stream (i.e. an agreement to exchange payment streams). Swaps are mainly used to hedge certain assets against fluctuations due to changes in the interest rate level or currency ratios. They may also be used to optimise earnings. Swaps may either be traded on a trading venue or individually agreed between the buyer and the seller (OTC).

(a) FX swap

A FX swap (currency swap) is the exchange of two currencies over a specified time period. The interest rate differential of the two currencies involved is taken into account by premiums and discounts in the forward exchange rate. Delivery and receipt (settlement) of the two currencies are on the same value date.

(b) Cross currency interest rate swap

A cross currency interest rate swap governs both the exchange of differently defined interests payable and of different currencies on a fixed nominal amount between two contracting parties. An example of a cross currency interest rate swap is the exchange of fixed-interest payments between two different currencies. It is also possible to exchange the variable interest payment between two currencies. The cash flows are related to the nominal amounts, which are fixed on the transaction date at the applicable spot exchange rate.

(c) Interest rate swap

An interest rate swap is a derivative that counters interest rate exposure by having two counterparties enter into an agreement to trade one set of future interest payments for another based on a specified principal. Most often it involves exchanging a fixed interest rate for a floating interest rate, but can involve a floating to fixed swap or a floating to floating swap. The exchange of cash flows on the contractual settlement dates only consists of the netting of the interest payments. The notional principal amount is not exchanged between parties in an interest rate swap agreement.

3. Risk Types

Dealing in financial instruments –such as Derivatives- may carry risks. Risks can occur simultaneously and may have an unpredictable effect on the value of an investment. This paragraph describes the risks (in general) related to the nature of a Derivative, the functioning and performance of a Derivative in different market conditions (both positive and negative) and the risks particular to a Derivative. The risk types set out below could have an impact on each type of investment in a Derivative and may include, but are not limited to, the following risks in alphabetical order:

Counterparty Credit Risk

Credit risk is the risk of default caused by borrowers or counterparties who fail to meet their obligations under a financial instrument, or the risk that the creditworthiness of such parties deteriorates.

There is also a risk to lose your entire investment in case of insolvency of de Volksbank. This may lead to positions being liquidated or closed out without your consent. In such case, your investment may not be returned to you. There is also an insolvency risk in relation to the investment itself, for example of the counterparty to the off-exchange derivatives (when the risks related to the derivative itself and to any collateral or margin held by the counterparty) becomes insolvent of goes bankrupt.

Currency Risk

In respect of any foreign currency transactions and transactions in derivatives which are denominated in a currency other than the currency in which your account is denominated, any movement in currency exchange rates may have a favorable or an unfavorable impact on the profit or loss of such transactions. The weakening of a country's currency relative to a benchmark currency or the currency of your account, will negatively affect the value of your investments that are denominated in that currency. Currency values may be impacted by economic, social and political factors and can fluctuate greatly on a daily basis.

Interest Rate Risk

Interest rate risk is the probability of a decline in the value of an asset resulting from unexpected fluctuations in interest rates. Interest rate risk is mostly associated with fixed-income assets (e.g., bonds). However, there is also a risk that the value of a Derivative will change due to a change in interest rates. By means of (Interest Rate) Derivatives, you are able to protect yourself against rising or falling interest rates, for example against a rise in the interest rate on your loan with us. However, in a market of decreasing interest rates it is also possible

that a Derivative develops a negative value or vice versa.

Liquidity Risk
The liquidity of an instrument is directly affected by the level of supply and demand for that instrument at a specific time. The liquidity risk is the risk that under certain market conditions, it may be difficult or impossible to sell, liquidate or hedge a position instantly in order to prevent or minimize a loss. This may result in a limitation on the available market for such Derivatives. OTC Derivatives are often bespoke and/or illiquid, even in the absence of distressed market conditions.

Risk related to changes in market value
The market value of Derivatives is volatile and can change over time and may go up or down. The current value of a Derivative is also referred to as the market value. In the event of premature termination or adjustment of the derivative, this is the value that must be paid. In the case of a positive market value, de Volksbank will make a payment to the client whereas in the case of a negative market value, a negative value will be charged to the client.

Risk related to financial commitments and other additional obligations
As a result of a Derivative transaction an investor (client) or counterparty might assume financial commitments and other additional obligations, including contingent liabilities (in addition to the costs of acquiring the Derivative). You should be aware of the implications of such contingent liability, for example Derivatives transactions may contain conditions under which our obligations to you are contingent on the occurrence of one or more events, as described in your client agreement and/or the General Terms and Conditions of de Volksbank on Derivatives or in any other separate written agreements (including among others, master netting agreements or credit facilities agreements). Another example is that you may - under certain circumstances - be required to provide margin (such as initial and/or variable margin).

Risk related to an overhedge
An overhedge is not in the client's best interest, as the client is effectively speculating on the floating interest rate and is no longer using the Derivative to hedge the risk. Overhedging means intentionally hedging an amount greater than the total related risk exposure. For this reason, it is important to avoid overhedging. This risk of overhedging can arise if the client decides to pay off more or earlier than the agreed periodic repayments which may trigger the obligation to alter the Derivative. This is why the client must always consult his own advisors before deciding to repay more or quicker on the loan than was agreed at the time the client entered into the derivative transaction.

Risk related to an underhedge
If for example you have a loan in combination with an Interest Rate Derivative, underhedging may apply when the notional amount or the remaining term of an Interest Rate Derivative is smaller than the notional amount or the remaining term of your loan. You can of course purposefully choose to underhedge. In such cases, however, you must realise that you will retain an interest rate risk over the part of your loan that is not hedged.

Settlement Risk
The risk that a transaction fails to settle on the contracted value date. If settlement (exchange) of cash flows does fail, a claim of interest compensation will follow. The same applies to delivery against payment clearing of securities transactions. If a client fails to deliver securities it is common policy of de Volksbank to claim interest compensation at a default rate of interest. After a specified period of time, which is set by the local market practice of the relevant security, de Volksbank may be forced to sell-out or buy-in equivalent securities and claim for any losses due to market price movements in the underlying security as well as making an interest compensation claim.

4. Collateral

A key risk attached to financial instruments transactions – such as trading in derivatives - is the counterparty credit risk. This involves the risk that one party to a contract defaults and cannot meet its obligations under the contract. To mitigate this risk Initial Margin and Variation Margin could be required.

Both centrally cleared financial instruments and bilateral financial instruments involve margin requirements. The European Market Infrastructure Regulation ("**EMIR**") requires market parties in the European Union to clear certain Derivatives, such as interest rate swaps, through Central Clearing Parties (CCP). If possible, de Volksbank will do so and clear its transactions through a Central Clearing Party (CCP).

5. Warning

(Potential) clients must be able to determine the suitability of a financial instrument, on the basis of their own independent assessment and with the assistance of appropriate advisers (that the client considers necessary useful under the circumstances), prior to taking a decision to place an order or to deal or not to deal in financial instrument, such as a Derivative - that the Derivative transaction (i) corresponds to its needs and its financial objectives, (ii) complies with any relevant applicable regulation or restriction on investment and (iii) and is appropriate, whatever the risks in connection with the acquisition and the holding of financial instruments.

We have taken the utmost care in describing the nature and associated risks of the Derivatives as traded by de Volksbank. However, it goes beyond the scope of this product description to describe all characteristics of all derivatives and their associated risks.

The distribution or disclosure of this product description and the offer or the sale of financial instruments can be subject to legal restrictions in certain countries.

De Volksbank will not assume any liability for damage or loss arising from investments made (in whole or in part) on the basis of the characteristics of the Derivatives as described herein nor for any damage or loss arising from persons intending to distribute or disclose this product description to third parties.

The product description does not constitute an invitation or an offer made by de Volksbank to sell or to acquire financial instruments.