MiFID II: Information on Financial instruments

A. Introduction

This information is provided to you being categorized as a Professional client to inform you on financial instruments offered by Rabobank and is a supplement to Schedule I of Rabobank's Terms of Business ('MiFID terms') for Professional Clients and Eligible Counterparties.

Non-Professional clients
This information is not suitable for non-Professional clients. For non-Professional clients who envisage entering into OTC derivative contracts with Rabobank are referred to the 'Key Information Documents' as provided via https://www.rabobank.nl/bedrijven/valuta-en-renterisicos/priips/english.

Considerations
Having read the information in this document,

- you are aware that the information is provided to you as a Professional client according to the MiFID Client Categorization requirements;
- you should be able to better understand the nature and risks of the financial instruments we offer, whilst at the same time you should be aware that this information cannot disclose all the risks and other significant aspects of the financial instruments;
- you are responsible for understanding the information on financial instruments prior to do or continue business with us;
- Rabobank refers to generic risks and definitions in our product description, which are further explained in section 'C. Generic Risk descriptions and definitions';
- Rabobank can provide you more detailed information about the risks related to our products or services in case this is required.

B. Information on financial instruments

FX Forwards, FX Swaps and Non-Deliverable Forwards

An FX (FX = Foreign Exchange) swap agreement is a bilateral contract (Over the counter, OTC) between you and Rabobank, in which you as a client simultaneously borrow one currency and lend another currency to Rabobank in order to hedge against unfavorable movements in exchange rates.

An FX Swap is used for liquidity management, i.e. to eliminate a temporary difference in balances of two different currencies. As a result e.g., the foreign currency already bought can be at your account earlier or later and interest expenses can be saved. An FX Swap can also be used for hedging purposes, the exchanged (foreign) currency is no longer on your balance sheet when exchanging currencies, and therefore you are less vulnerable to changes in (foreign) currency value.

When exchanging foreign currencies on a pre-agreed date in the future, an FX forward can be used to hedge the FX risk. An FX Forward agreement is also a bilateral contract between you and the bank, e.g. Rabobank. It allows you to agree a rate now at which you can buy or sell e.g. dollars or euros in the future. Both solutions can be applied when exchanging non-deliverable currencies.

A Non-Deliverable Forward (NDF) is bilateral contract between you and Rabobank to buy or sell a certain amount of a specific asset (e.g. currency, commodities) at a certain rate or price on a future date without exchange of notional (contract is cash settled in non-NDF Currency).

Depending on the market conditions at inception, the bid/offer spread of an FX Forward or FX Swap can vary. When market circumstances are negative the spread will be wider and vice versa when market circumstances are positive. During the lifetime of a product, the market conditions (positive or negative) will be reflected in the Mark to Market (MTM) development.

When the MTM is significantly negative from a client's point of view; there might be some restrictions for the client for entering into new deals depending on the available derivative limits. However, because there are derivative limits used in these bilateral transactions there is (most likely) no Credit Support Annex (CSA) in place and thus there will be no margin requirements. There are no other obligations or commitments involved, one only needs to meet the obligations as a result of the contract as agreed upon e.g. by exchanging currencies.

For these products there is no investment: the initial investment is zero. The negative impact that might result is caused by the agreement to trade in the future at a certain level. During the lifetime of the product, change in value of the product is a direct result of fluctuations in value of the underlying asset(s). The notional of the transaction is considered the investment.

Characteristics:

- By using an FX derivative you protect yourself against unfavorable exchange rate movements.
- The characteristics – duration of differences in balance of different currencies – an exchange in the future – with or without exchange of notional – determines which product suits best.
- Temporarily debit and credit positions can be managed effectively; this can be less expensive than an overdraft in your current account.
- There is no leverage involved in these products if used as hedge.
- There are no impediments or restrictions for disinvestment regarding one of these products.
- To make sure the hedge is effective, the volatility of the financial instrument should be equal to the volatility of the underlying asset.

Risks:

- Whilst trading FX Swaps or FX Forwards you typically hedge yourself against FX risk, inflation risks and interest rate risk.
- If interest rate developments differ from your expectations, there is a risk that choosing a different strategy would have led to better financial results.
- In the event of (interim) termination, you may be faced with an amount payable to the bank close to/equal to the negative market value of the FX Swap or FX Forward taking into account normal market conditions

Interest rate, inflation and cross currency swaps

Swaps are generally used for hedging purposes, whereas an Interest Rate Swap is used to hedge against (negative) interest rate developments as money and capital market interest rates are subject to fluctuations. With an Interest Rate Swap, one party pays a fixed interest (the fixed leg), while the other party pays a floating interest rate (floating leg). The floating leg is related to a benchmark interest rate (e.g. Euribor or Libor interest rate) and can have different tenors (e.g. 3 or 6 months).

A Cross Currency Swap is a bilateral agreement, where two parties exchange interest payments and principal denominated in two different currencies. Cross Currency Swaps are often used to exploit comparative advantages. Party 1 can lend money in currency x against more favorable conditions than party 2. Visa versa, party 2 can lend money in currency y against more favorable conditions than party 1. With a cross currency swap both parties

lend money at the most favorable conditions.

With an Inflation Swap inflation risk is transferred from one party to another. Party 1 pays a fixed cash flow to party 2, while party 2 pays a floating cash flow which is linked to inflation. The cash flow paid is linked to a notional amount, however the notional is not exchanged.

Depending on the market conditions at inception, the bid/offer spread for the above products will vary, similar as for FX Forwards / Outrights and FX Swaps. Also, when the MTM is significantly negative for you; there might be some restrictions for you for entering into new deals, also depending on the available derivative limits. Because there are derivative limits in place to these bilateral (OTC) transactions with Rabobank, there will be no margin requirements. Also, no other obligations or commitments involved, one only needs to meet the obligations as a result of the contract as agreed upon e.g. by exchanging interest rate payments.

For these products there is no investment because most products are so called 'zero-cost structures'. The negative impact that might result is caused by the agreement to trade in the future at a certain level. During the lifetime of the product, change in value of the product is a direct result of fluctuations in value of the underlying asset(s). The notional of the transaction is the investment.

Characteristics:

- By using an Interest rate derivative you can protect yourself against unfavorable interest rate movements.
- An Interest Rate Swap offers you flexibility as well as insight into the rate structure and market value on the basis of the applicable market interest rate.
- When entering an Inflation swap you pay a fixed rate over a notional amount and you receive a floating rate linked to an inflation index (or vice versa).
- By using a Cross Currency Swap interest payments, the principal is denominated in two different currencies.
- There is no leverage involved in these products, if there is an underlying asset.
- There are no impediments or restrictions for disinvestment regarding one of these products.
- To make sure the hedge is effective, the volatility of the financial instrument should be equal to the volatility of the underlying asset.

Risks:

- By trading interest rate, inflation and cross currency swaps you typically hedge yourself against FX risk, inflation risks and interest rate risk.

- If inflation expectations differ from your expectations, there is a risk that choosing a different strategy would have led to better financial results.

- In the event of (interim) termination of an Interest Rate Swap, you may be faced with an amount payable (an obligation) to the bank close to/equal to the negative market value of the Interest Rate Swap taking into account normal market conditions.

Commodity Swaps

A Commodity Swap agreement is a bilateral contract between you and Rabobank in which both parties agree to exchange a fixed for a floating rate. The most important variables are the type of commodity, size, tenor and price reference to be used. Hedging is the main reason for entering a commodity swap, whereas the Commodity Swap is used to (partially) create future cash flow certainty and protect against unfavorable price movements of the underlying commodity.

The difference between a commodity swap and for example an interest rate swap is that the floating leg of an interest rate swap is based on standard interest rates, whereas the floating leg of a commodity swap is based on the pricing of the underlying commodity.

For Commodity Swaps similar market conditions at inception and during the lifetime are applicable as for the other swaps, where as the market conditions (positive or negative) will also be reflected in the MTM development. Commodity swaps are also OTC derivative transactions with Rabobank where there might be some restrictions for you for entering into new deals depending on the available limits when the MTM is negative. No margin requirements apply in case there is no CSA in place. Commodity swaps are also considered ‘zero-cost structures’, hence no initial investment is needed as the notional of the transaction is considered to be the investment. The possible negative impact that might result is caused by the agreement to trade in the future at a certain level.

Characteristics:

- By using a Commodity Swap you fix future cash flows and protect yourself against price movements, but also give up upside potential.

- There will be no cash impact when entering the transaction and during its tenor, but only on the settlement date.

- There is no leverage involved in these products.

- There are no impediments or restrictions for disinvestment regarding one of these products.

- To make sure the hedge is effective, the volatility of the financial instrument should be equal to the volatility of the underlying asset.

Risks:

- By trading commodity swaps typically hedge yourself against commodity risk and volatility risk.

- If the underlying commodity price develops differently from your expectations, there is a risk that choosing a different strategy would have led to better financial results.

- In the event of (interim) termination of a Commodity Swap you may be faced with an amount payable to the bank close to/equal to the market value of the Swap taking into account normal market conditions.

FX, interest rate, inflation and commodity options

When you enter into a financial instrument with an embedded option you enter a bilateral (OTC) contract with Rabobank, the purpose of entering into an option is to hedge against a, for you, unfavorable movement either in, currencies, interest rates, commodity prices or inflation indices and rates movements. You can buy or sell an option, dependent on the chosen hedge strategy. A bought option gives you the right to buy/sell at a certain price, whereas a sold option obliges you to buy/sell at a certain price.

For these options, the bid/offer spread will vary depending on the market conditions at inception. When market circumstances are negative the spread will be wider and vice versa when market circumstances are good. During the lifetime of a product, the market conditions (positive or negative) will be reflected in the MTM development.

A CSA can reduce your credit risk.

For these products there is an investment involved for you as a buyer of options. In that case a premium needs to be paid. Depending on the market conditions at the expiry date it is possible that the option is worthless and thus the premium paid can be seen as an investment that is lost. However, when both buying and selling an option an option structure can be zero cost.

Characteristics:

- An option always has a certain value that needs to be paid (when bought) or is received (when sold) at initiation.
- This value depends on, amongst others, the tenor, the strike, the notional and the volatility of the underlying.
- The MTM of a bought option will have a range of positive to a minimum of zero market value, whereas a sold option will always have a range of a negative to a maximum of zero market value.
- A combination of options can be used to construct the desired hedge.
- There is no leverage involved in these products, if there is an underlying (dis)investment.
- There are no impediments or restrictions for disinvestment regarding one of these products.
- To make sure the hedge is effective, the volatility of the financial instrument should be equal to the volatility of the underlying asset.

Risks:

- By trading FX, interest rate, inflation and commodity options you typically hedge yourself against FX risk, interest rate risk, inflation risks or commodity risk.
- If the price developments differ from your expectations, there is a risk that choosing a different strategy would have led to better financial results.
- There is a risk of losing the premium paid at the expiry date of the option in case the option is worthless.

Bonds (notes)

A bond or note is a debt security issued by a government, supranational, financial institution or corporation, in which the issuer is obliged – dependent on the terms of the bond – to pay interest (the coupon) and principal to the holders of the bond up to its maturity date. Being an issuer of a bond the instrument is typically used to obtain funding where as being an investor in a bond return on your investment will be the driver for investing.

There are several variants of bonds, which can be issued by different entities for you to invest upon. These bonds can differ in coupon (fixed vs floating), amortization (bullet vs amortizing), currency and underlying assets. In addition, bonds can include different characteristics as being green (due to underlying 'green' assets) or risk weighting (RWA).

Bonds are both OTC and publicly traded.

When market interest rates increase, which are negative market conditions for you as a buyer, the value of issued bonds decrease. When market interest rates decrease, which are positive market conditions for you as a buyer, the value of issued bonds increase.

Bond markets are subject to sudden market fluctuations and can be seen as volatile markets. The liquidity of the bond depends on terms of the bond, more complex terms and conditions reduces liquidity. Bonds that are publicly traded have higher liquidity compared to OTC bonds. When buying a bond you as a buyer are obligated to pay the price of the bond, which is a direct cost. No additional margin is required.

Characteristics:

- On the one hand, the issue of a bond provides you as a borrower with external funds to finance investments and / or, current expenditures.

- On the other hand, for you as an investor a bond is an instrument to receive interest and principal by an issuer.

Risks:

- If the price developments differ from your expectations, there is a risk that choosing a different strategy would have led to better financial results.

- Bond markets are subject to sudden market fluctuations and can be seen as volatile markets. Hence products are subject to various risks, but herewith mainly to volatility risk.

Repurchase agreements (Repos)

A repurchase agreement (repo) is an agreement between two parties whereby one party (the seller) sells the other party (the buyer) a bond at a specified price (the purchase price), with a commitment of the buyer to sell the bond back to the seller at a specified date for a price (the repurchase price), which is equal to the purchase price plus interest (price differential or repo trade). Reverse repo is a term used to describe the opposite side of a repo transaction. The Seller (the party who sells and later repurchases the bond is said to enter into a repo. The other party who purchases and later resells the bond is said to enter into a reverse repo.

While a repo is legally the sale and subsequent repurchase of a bond, its economic effect is that of a secured loan. Economically, the buyer makes cash available to the Seller and holds the bonds as collateral. Rabobank clears the bond repo via LCH, the London Clearing House or can directly enter into a bilateral (OTC) repo with the client.

If the bond which is the subject of the repo pays a coupon or partial redemptions during the repo, this is returned to the original owner. The difference between the sale and repurchase

prices paid for the bonds represents interest on the loan. Herewith repos are quoted as interest rates. The cash and the bond do not necessarily have to be expressed in the same currency but could also be cross-currency.

One of the main purposes of a repurchase agreement is for the seller of the bonds to raise funds and finance securities positions for a fixed period. For the buyer of bonds it is a way to invest short-term funds.

Characteristics:

- Short term instrument.

- A haircut can be added to a repo transaction depending on the bond quality and the client rating. If the haircut is 10% in favor of the buyer on 100 market value, the buyer receives 100 in bonds and the seller receives 90 in cash. At the end of the repo term, the seller pays 90 cash back plus interest and receives the 100 bonds (ignoring any change in market value).

Risks:

- Credit risk, depending on the counterparty and the underlying paper/security. However, a significant part of the credit risk is mitigated due to the exchange of collateral and daily margining.

- The economic value of the repo depends on interest rates, which could be volatile due to changing market circumstances.

Certificates of Deposit, Commercial Paper and Asset Backed Commercial Paper

Commercial paper (CP, ABCP = Asset Backed Commercial Paper or CD, Certificates of Deposit) is a short-term money-market security issued by large banks, corporations or public institutions for periods ranging from one week to one year in the UK; in the US the maturity is of 1 to 270 days. CP is not backed by collateral, which is why only firms with excellent credit ratings (from a recognized agency) will be able to sell their CP at a reasonable price. The longer the maturity, the higher the interest rate the issuing institution pays. These interest rates fluctuate with market conditions. The rates are normally lower than banks' rates but higher than bond rates. CP's are usually sold at a discount from face value.

Rabobank acts as an intermediary and on a 'best effort basis' without giving guarantees that the total of the issue will be sold to investors. To provide a certain degree of liquidity, banks organize a secondary market for the CP.

Characteristics:

- Short term investment which is more liquid than a standard deposit.
- Fixed or floating rate.
- Issued under a program.
- Size/currency/rate differ based on investor demand and issuer preference.
- There is no leverage involved in these products.
- No margin requirements and other additional obligations are needed, it is just an investment.

Risks:

- When investing in CP you are subject to interest rate risk, FX risk, Liquidity risk. When interest rates are changing also the rate on the CP will change, when investing in foreign currency CP you can be subject to FX risk as well.
- Also, you can be subject to credit risk, depending on the issuer and program characteristics (CP/CD/ABCP). In this regards, the investor has a counterparty risk on the issuer.
- If the price developments differ from your expectations, there is a risk that choosing a different strategy would have led to better financial results.
- Prices of the securities could be volatile when market circumstances are changing, including prices on secondary market.

C. Generic Risk descriptions and definitions

Herewith you find generic descriptions of the risk categories and generic definitions which Rabobank has mentioned in the aforementioned product information.

Credit Risk
Is the risk that your counterparty cannot fulfil its contractual credit related obligation in a transaction.

CSA
Is the Credit Support Annex which provides credit protection and herewith reduces Credit Risk by means of the collateral obligation.

FX Risk or currency risk
Is the risk associated with currency movements that can influence the yield of a product

denominated in a particular currency. Hence, any movement in currency exchange rates may have positive or negative impact of the profit or loss of such transactions.

Haircut
Is the difference between prices at which securities can be bought or sold. The haircut is expressed a percentage and intends to reduce credit risk.

Inflation risk
Is the risk that the return on the principal amount of your financial instrument is worth less due to inflation than the initial investment.

Interest rate risk
Is the risk that value of your financial instrument will change due to a change in interest rates.

Liquidity Risk
Is the risk that a financial instrument cannot be bought or sold quickly in order to prevent or minimize a loss and as a result of the supply or demand for that instrument at a specific time.

Market Risk
Is the risk that market variables (e.g. interest rates, FX rates, commodity prices) change that the value of your investment can decrease whereby you experience losses. Market risk is one of the main risk categories of investment risk.

Mark to Market (MTM)
Is the process of daily revaluation of the value of a financial instrument to reflect its current market value instead of its acquisition price or book value.

Over the counter (OTC)
OTC trades are traded bilateral as opposed to on a centralized exchange. For OTC traded instruments the limitation on the market is that the contract is bilateral with Rabobank. To close out the contract there needs to be bilateral conformity on the conditions. However, by doing an opposite trade, one can also use another party which has effectively the same effect.

Settlement Risk
Is the risk that arises when payments fail to deliver on the terms of the contract at the time of settlement.

Sustainability risk
Is the risk that an environmental, social or governance ("ESG") event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. Sustainability risks are for example:

1. physical sustainability risks like investments in assets that have been destroyed by a hurricane or flooding;
2. transitional sustainability risks, e.g. investments in coal mines which in the process to carbon emission reductions according to the Paris climate treaty of May 2015 have lost value because the coal mines had to be closed;
3. reputational sustainability risks like negative media exposure or legal claims because of an ESG event or condition.

Volatility Risk

Volatility refers to the amount of uncertainty or risk related to the size or changes in a security and underlying value. Commonly, the higher the volatility, the riskier the security. As such, volatility risk is the risk of a (significant) change of price of that security or underlying value. As a result the value of the security can rapidly increase or decrease.

D. Sustainability Risk Addendum

Sustainability risks are related to possible negative impact of the ESG event on return on investment. Sustainability risks cannot be fully avoided and has to be taken into account while taking the investment decisions.

The ESG events related to sustainability risks can occur both separately and cumulatively in any combination. Thereof, the ESG events can affect prices of individual instruments or they can impact the whole sectors, industries or geographical regions. The ESG events characteristics might differ.

Sustainability risk might affect the other traditional risk, among others:

- Credit risk
- FX risk
- Interest rate risk
- Liquidity risk

Sustainability risks are not in scope of risks that Rabobank offers to hedge.