SBERBANK

Investment Instrument Description and Risk Warning

Securities trading

Effective as of 3 January 2018

Sberbank CZ, a.s., having its registered office at U Trezorky 921/2, Prague 5 - Jinonice, 158 00, Co. Reg. No.: 25083325, incorporated in the Commercial Register kept by the Municipal Court in Prague, File B 4353 as a securities trader (the "**Bank**") hereby informs its clients about the variety of investment instruments and the related risks.

Introduction

The term "risk" refers to the failure to achieve the expected return on the invested capital and/or the loss of the invested capital up to its full amount, provided that this risk – depending on the structure of the investment instrument – arise from multiple causes related to the investment risk, the markets or the issuers. These risks cannot be always anticipated and the risks described below cannot be considered final.

The risk arising from the creditworthiness of the issuer of the investment instrument depends on the relevant case; therefore the investor should pay extraordinary attention to it.

The description of the investment instruments is based on the characteristics of the investment instrument. The structure of the specific investment instrument is crucial in this. Therefore, this description cannot substitute the investor's own controls of the specific investment instrument.

1. General investment risks

FX risk

If a transaction in a foreign currency is selected, the return on, and the development of the value of, the transaction depends both on the local return on the security on a foreign market and, significantly, on the development of the foreign exchange rate with regard to the investor's underlying currency (e.g. CZK). An exchange rate change can therefore increase or decrease the return on, and the value of, the investment.

Transfer risk

In transactions involving revenues from foreign countries (e.g. a foreign debtor) there is – depending on the relevant country – an additional risk of the investment goal being prevented or hindered by political or currency-related legal measures. Problems can also occur in the transmission of the client order. In case of transactions in a foreign currency, this type of measures can lead to the transactions becoming freely inconvertible.

Country risk

The country risk is the risk of the creditworthiness of a particular country. If a country represents a political or economic risk, it can adversely affect all the partners resident in that country.

Liquidity risk

The ability to purchase, sell or settle an investment for an open market value is called liquidity. A market is liquid if an investor can trade in its securities without an average-sized order (measured by the volume of the normal market turnover) leading to a notable market fluctuation and not allowing execution/allowing execution only in case of a significant change in the rate.

Credit quality risk

The credit quality risk means the danger arising from the insolvency of a partner, i.e. the potential inability to honour its obligations, such as the payments of dividends, interest or instalments, in time or in full. The terms used for the credit quality risk are debtor risk or issuer risk. This type of risk can be scored using a "rating". The rating is a scale used to assess the credit quality of the issuers. The ratings are issued by rating agencies and are based mainly on the credit quality and country risks. The rating ranges from "AAA" (the best credit quality) to "D" (worst credit quality).

Interest rate risk

The interest rate risk arises from the possible future changes in the interest rates on the market. During the maturity period of fixed-interest bonds, an increase in the open market interest rates leads to interest rate losses; conversely, a decrease results in interest rate profits.

Rate risk (volatility)

The rate risk means the potential volatility in the value of each investment or specific cash flow structure. In transactions involving contingent liabilities (e.g. currency term transactions, futures, underwriting of options), the rate risk can lead to the need for increased security (margin) and increase their amount, i.e. tie the liquidity.

Total loss risk

The total loss risk means the risk that the investment can lose all whole value. In particular, total loss can occur if the issuer of the securities is no longer able to meet its payment obligations (becomes insolvent) for economic or legal reasons.

Purchase of securities on credit

The purchase of securities on credit represents an increased risk. The received credit must be repaid regardless of the success of the investment. In addition, the credit costs reduce the return.

Order entry

The order for the Bank to buy or sell (order entry) must include at least the identification of the investment instrument, the volume (quantity/nominal value), minimum/maximum price and the period for which the order is valid.

Marked order

With the "best" (with no price limit) addition to the order, the order will be executed at the best possible price at the given moment. The financial requirements of the purchase/the yield from the sale cannot be determined accurately.

Price limit

You can use the purchase limit to cap the purchasing price in an order for an exchange or another market, thus limiting the financial requirements of the purchase; any purchase over the price limit will not be executed. You can use the sales limit to determine the lowest selling price acceptable for you; no sale below the set price limit will be executed.

Stop loss order

The stop-loss order is activated immediately as soon as the market price reaches the specified stop-limit. The execution price can differ from the stop-limit, in particular, on the less liquid markets.

Time limit

You can set a time limit for the validity of your order. The validity of an order with no time limit follows the rules of the relevant exchange point.

Your advisor will inform you about other potential additions to your order.

Guarantees

The term "guarantees" can have multiple meanings. On the one hand, it refers to a commitment by a third party, who is different from the issuer, to ensure that the issuer's liabilities are met. On the other hand, it can also mean a commitment by the issuer itself to provide a certain consideration independent of the development of certain indicators that would determine the amount of the issuer's obligation. Guarantees can also relate to a variety of different circumstances.

The nominal value guarantees are usually valid only until the end of maturity (repayment) and exchange volatility (exchange losses) may therefore occur during their maturity period. The quality of the nominal value guarantee significantly depends on the credit quality of the guarantee provider.

Tax considerations

Your advisor will inform you about the general tax considerations of the different types of investments. You should consult your tax advisor to assess the influence of investments on your personal tax circumstances.

Stock exchange risks, in particular on foreign stock exchanges

There is no direct connection with most foreign stock exchanges, which means that all the orders must be transmitted via telephone. This may cause errors or delays.

Limited buy or sell orders are in fact almost impossible on certain foreign stock exchanges. The limited orders can thus be set within the granted period following the relevant query to the local broker, which may result in delays. It is also possible that these limits will not be executed at all.

It is complicated to obtain continuously updated rates, which makes the evaluation of the client's current positions more difficult.

If the registration of transactions on a stock exchange is suspended, the sale of the securities through the relevant buying exchange may not be possible. A transfer to another stock exchange can also cause problems.

In case of certain foreign stock exchanges, the business hours are far from the European standards. The short business time of three or four hours per day may lead to time pressure and a failure to consider orders regarding investment instruments.

2. Bonds

Definitions

Bonds are securities through which their issuer (= debtor) makes a commitment to the holder (= creditor, buyer) to provide interest on the borrowed capital and repay it as per the terms and conditions of the bonds. In addition to these bonds, there are other bonds that are significantly different from the features described above and from the description provided below. We mainly refer to the bonds described in the paragraph "structured investment instruments". In is in particular in this area that the specific structure of the investment instrument rather than the designation of an instrument as a "bond" is crucial for the risks specific to the investment instrument.

Yield

The bond yield consists of the interest on the capital and from any difference between the purchase price and the price achieved in the sale/redemption.

The yield can therefore be determined exactly only if the bond is held to maturity. The yield cannot be specified in advance for floating rate bonds. The comparative/measurement value used for the yield is the yield to maturity (final maturity), calculated according to the internationally accepted criteria. If the bond offers a yield that significantly exceeds that on bonds of comparable maturity, there must be particular reasons, such as an increased credit quality risk.

When sold before redemption, the achievable selling price is not certain and the yield can therefore be higher or lower than the yield originally calculated. Fees must also be considered in the calculation of the yield.

Credit quality risk

There is a risk that the debtor may not be able to meet its obligations in full or in part, e.g. in case of insolvency. The debtor's credit quality must therefore be taken into consideration in your investment decision-making.

The so-called rating (the evaluation of the debtor's creditworthiness by an independent rating agency) may be a way of assessing the debtor's creditworthiness. "AAA" or "Aaa" rating means the best creditworthiness; the worse the rating (e.g. B– or C) the higher the credit quality risk – the higher the risk that the interest (risk premium) of the security is at the cost of default by the debtor (credit quality risk). Investments with a comparable BBB or better rating are designated as "Investment grade".

Rate risk

If the bond is held to maturity, you will receive the amount you were promised in the bond terms and conditions upon the redemption. In this context, keep in mind – if so specified in the issue terms and conditions – the risk of repudiation by the issuer.

In sales before maturity, you will receive the market price. This is governed by demand and supply, which, among others, also depend on the current interest rates. For example, the price of fixed rate bonds will decrease if the interest rates of comparable maturity grow; on the contrary, the value of the bonds will be higher if the interest rates of comparable maturity decrease.

A change in the debtor's creditworthiness may also affect the price of the bond.

In case of floating rate bonds, where the interest rate is tied to the capital market rates, the interest rate is comparably higher than that arising from bonds the interest rates on which depend on the money market.

The extent of the change in the bond price of in response to interest change rates is described by the "duration" indicator. The duration depends on the remaining maturity of the bond. The longer the duration, the stronger effect the changes in the general interest rates have on the price, both positively and negatively.

Liquidity risk

Bond marketability may depend on a variety of factors, e.g. the volume of the issue, the remaining maturity, the exchange practices, the market situation etc. At the same time, a bond can be difficult or impossible to sell and would have to be held to maturity in this case.

Bond trading

Bonds can be exchange-traded or off-board traded. Upon your request, your Bank can inform you about the price of the sale and purchase of certain bonds. However, there is no entitlement to marketability.

In case of bonds that are also exchange-traded, the prices created by the exchange can significantly differ from the off-board ones. The risk of a worse price on the exchange can be mitigated by setting a limit in the order.

3. Mutual funds

I. Domestic mutual funds:

General

Certificates issued by domestic investment funds are securities certifying a share in the mutual fund. Mutual funds invest the share holders' money according to the spread-risk principle. The three main types include bond funds, stock funds, and hybrid funds, which invest in both bonds and stocks. Funds can also invest in domestic and/or foreign assets.

In addition to securities, the investment spectrum of domestic mutual funds includes money market instruments, liquid financial investments, derivative investment instruments, and shares in mutual funds. Mutual funds can invest in domestic and foreign assets.

In addition, a distinction is made between distribution funds (those paying dividends), growth funds (those not paying dividends), and umbrella funds. Unlike the funds that do pay dividends, growth funds do not distribute the yields, which are instead reinvested in the fund. Umbrella funds invest in other domestic and/or international funds. Guarantee funds are associated with the binding commitment made by the guarantee provider, who is specified by the fund, in connection with the payment of dividends during a certain period, the repayment of the capital, or the development of the values.

Yield

The yield on an investment fund consists of the annual payout (in case of distribution funds, not growth funds) and the development in the value of the fund's assets. The yield cannot be determined beforehand. The development in the fund's assets depends on the investment policy set out in the rules of the fund as well as on the developments on the market in the individual asset components of the fund. Depending on the structure of the funds, it is therefore necessary to consider the risk warnings regarding bonds, stocks as well as options.

Rate risk / valuation risk

Under normal circumstances, shares in funds can be returned at the buyback price. Under extraordinary circumstances, the buyback may be subject to preliminary suspension until the sale of the fund's asset values and the receipt the proceeds of the sale. Your advisor will inform you about any costs and the date of the execution of your order to buy or sell. The duration of the fund depends on the fund's rules and is not usually fixed. Please note that, unlike in bonds, no redemption usually applies to shares in mutual funds and there is therefore no fixed redemption rate. As stated above in the paragraph on yield, the risk involved in investments in funds depends on the investment policy and market development. Losses cannot be ruled out. Despite the fact that the shares can be returned at any time under normal circumstances, mutual funds are investment instruments which make economic sense only in case of long-term investments.

Funds – much like stocks – can be exchange-traded. The funds created on the relevant exchanges may differ from the buyback price. In this context, please not the stock-related risks.

Tax effects

The tax treatment of the yield depends on the type of fund.

II. Foreign investment funds

Foreign investment funds are subject to foreign laws and regulations, which may significantly differ from those applicable in the Czech Republic. In particular, the powers of the supervisory authority may be less stringent than those applicable domestically.

On the investment fund market, there are also closed-end funds, i.e. those created under the stock legislation, whose value follows the demand and supply rather than the intrinsic value of the fund, much like the creation of share quotations.

Keep in mind that the payments of dividends and the yields on foreign capital investment funds equivalent to dividend payments (e.g. on a growth fund) – regardless of their legal form – are subject to different tax regulation.

4. Money market instruments

Definitions

Money market instruments include short-term investments on the financial market such as certificates of deposit (CD), treasury bills and all short-term bonds with the maturity of about under five years and interest fixture of about under one year.

Yield and risk components

The yield and risk components of the money market instruments usually correspond with the yield and risk components of bonds. The specifics mainly concern the liquidity risk.

Liquidity risk

There is no managed secondary market in the financial market instruments. It is therefore impossible to ensure the possibility of sale at any given moment.

The liquidity risk subsides once the issuer guarantees the repayment of the invested capital at any moment and its own credit quality required for this purpose.

Financial market instruments – a simple explanation

Certificates of deposit – financial market securities with a maturity of 30 to 360 days, issued by banks.

Treasury bills – financial market securities with a maturity of under 1 year.

Commercial Papers – financial market instruments, short-term bonds with a maturity of 5 to 270 days, issued by large companies.

Short-term bonds – short-term capital market securities with a usual maturity of 1 to 5 years.

5. Additional information

Other financial liabilities

In case of transactions in investment instruments, the client may also assume additional liabilities including contingent liabilities in addition to the cost of the acquisition of such investment instruments as a result of the transactions.

Interaction of risks

Investment instruments can also be created by combining various investment instruments, which results in increased risk. If an offer is made of investment instruments where the risks associated with an investment instrument that consists of two or more investment instruments or services could be higher than the risks associated with any of these investment instruments or services individually, the client will be informed.

Public offering of an investment instrument

If an investment instrument is subject to a public offering at the when the information is provided by the Bank and if a prospectus has been released in connection with the offering in accordance with the Act, the Bank will meet its obligation to provide information by referring the client to where the prospectus is available to the public.

Third-party guarantee or obligation

In case the Bank offers an investment instrument which includes a third-party guarantee or another third-party obligation to satisfy the creditor's claim if the debtor fails to satisfy it itself or if another predetermined condition is met, the client will receive such information about this third-party guarantee or obligation and such details of the guarantor and the guarantee or of the obliging third party and the third-party obligation as are necessary for a retail client or a prospective retail client to adequately evaluate this third-party guarantee or obligation.

Information

As the investment instruments are subject to market and other changes, additional information about the description of the investment instruments and the associated risks will continue to be published on the Bank's website.

The selection of the execution venues intended for the best execution of the client orders is described in the Best Client Order Execution Rules.

The Bank always offers those investment instruments out of the investment instrument range that are in accordance with the target market of a retail client, professional client or eligible counterparty.