SBERBANK

Description of Investment Instrument and Warnings of Risks

Currency and interest rate derivatives

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

Introduction

Under the "risk" term is meant not reaching the expected return on an invested capital and/or loss of the invested capital up to its total loss, while different causes may be basis of this risk lying in investment instruments, markets or issuers – according to the structure of investment instrument. Since these risks are not always foreseeable, the following description must not be considered as final.

The risk arising from financial standing of the issuer of the investment instrument is dependent on individual case; the investor should therefore pay close attention to it.

Description of investment instruments follows usual features of investment instruments. The decisive factor is the structure of a specific investment instrument. For that reason, the following description is no substitute for a thorough examination of the specific investment instrument by the investor.

1. General investment risks

Currency risk

If a trade in foreign currency is selected, then its yield, resp. value development of this trade, depends not only on the local yield of the security on the foreign market, but also heavily on the exchange rate development of the respective foreign currency in relation to the currency of the investor (e.g. CZK). This means that exchange rate fluctuations may increase or decrease the yield and value of the investment.

Transfer risk

When trading with incomes from abroad (e.g. foreign debtor) there exists – depending on a relevant country – an additional risk lying in prevention or difficulty to realize an investment project by political or currency-legal provisions. In addition, problems may also occur at proceeding an instruction. In case of trades in foreign currency such measures may obstruct the free convertibility of the currency.

Country risk

The country risk is a financial standing risk of a given state. If the relevant state represents political or economic risk, it may have negative influence on all partners with registered office in this state.

Liquidity risk

Liquidity refers to the possibility of buying or selling a security or closing out a position at the current market price at any time. The market in a particular security is said to be liquid if an average sell instruction (measured by the usual trading volume) does not cause perceptible price fluctuations and if the instruction cannot be settled at all or only at a substantially changed rate level.

Financial standing risk

Under the "financial standing risk" term is meant the risk following from insolvency of a partner, i.e. potential inability to meet their obligations such as dividend payments, interest payments, installment payments, etc. on the appointed date or in full extent. The alternative terms for the "financial standing risk" are debtor's risk or issuer's risk. This kind of risk can be graded by means of "rating". Rating is an evaluation scale used for appraisal of financial standing of issuers. Rating is compiled by rating agencies, particularly the financial standing risk and country risk is being estimated. The rating scale ranges from "AAA" evaluation (the best financial standing) to "D" (the worst financial standing).

Interest rate risk

Interest rate risk follows from the possibility of future changes of interest rate levels on the market. Rising level of market interest rates during maturity of fixed interest bonds leads to exchange rate losses, a fall in such interest rates leads to exchange rate gains.

Exchange rate risk (volatility)

Under the "exchange rate risk" term is meant potential variation (volatility) of value of individual investment or specific structure of cash flow. The exchange rate risk at trades with conditional obligations (e.g. currency futures, futures, option subscribing) can lead to necessity of increasing security (Margin), resp. to put up further margin, i.e. tying up liquidity.

Risk of total loss

Under the "risk of total loss" is meant a risk that investment can become completely worthless. Total loss can occur, particularly, when the issuer of the investment instrument is no longer capable of meeting their payment obligations (insolvent), for economic or legal reasons.

Securities purchase on credit

The purchase of securities on credit poses an increased risk. The received credit must be paid independently of the success of the investment. Furthermore, the credit costs reduce the yield.

Placing an order

The instructions for the Bank to purchase or sell (placing an instruction) must minimally contain indication of the investment instrument, the quantity (number of pieces/nominal value), minimal/maximal price and period of time, during which the instruction is valid.

Price limit

With a buy limit, you may limit the purchase price of a stock exchange instruction or of other market and thus limit the amount of the employed capital. No purchases will be made above the price limit. A sale limit stipulates the lowest acceptable selling price; no deals will be carried out below this price limit.

Stop loss order

A stop loss order is meant to ensure that the client buys or sells an investment instrument with a specified maximum amount of acceptable loss. A stop-loss order will not be executed until the price reaches the selected stop-limit. The price actually obtained may therefore differ from the selected stop-limit, especially in the case of a market with lower liquidity.

Take profit order

A take profit order is meant to ensure that the client buys or sells an investment instrument with the required profit. A take profit order will be executed as soon as the price reaches the selected take profit limit.

Your advisor will inform you on further additions of the order.

Guarantees

The term "guarantee" may have several meanings. On the one hand, under this term is meant a commitment of a third person other than the issuer, through whom the third person ensures fulfilment of the issuer's obligation. On the other hand, it can be a commitment of the issuer themselves to perform a certain performance regardless of the trend in certain indicators, that would be decisive for the extent of the issuer's obligation. Guarantees may also be related to various other circumstances.

Capital guarantees are usually enforceable only until the end of term (repayment) that is why price fluctuations (price losses) are quite possible during the term. The quality of a capital guarantee depends to a significant extent on the guarantor's financial standing.

Tax aspects

Your advisor will provide you with information on the general tax aspects of the individual types of investment. The impact of an investment on your personal tax situation should be evaluated together with your tax advisor.

CURRENCY RISK HEDGING PRODUCTS

2. FX Forward – Currency future transactions

Definitions

Currency future transaction is the firm undertaking to buy or to sell a certain foreign currency amount at a specified date in the future or over a specified period of time at a price agreed upon conclusion of the contract. Provision or acceptance of foreign currency equivalent is exercised with the same value date.

Special form – Non-deliverable forward

It is a currency forward the settlement of which does not include an exchange of actual nominal values in the currencies purchased and sold. On the day of settlement, only the difference is exchanged between the position with the contractual rate and the position with the current exchange rate.

Yield

The yield (profit/loss) achieved by speculative investors is the difference between the foreign exchange rates during or at the end of maturity of the futures transaction in line with the contract specifications.

The use of currency futures for hedging purposes means locking in an exchange rate so that the costs of the hedged transaction as well as its yield will neither increase nor decrease as a result of any exchange rate fluctuations.

Currency risk

The currency risk inherent in currency futures transactions is, in the case of hedging transactions, the possibility that the buyer/seller could buy/sell the foreign currency at a more favorable price during or at the end of maturity. In the case of uncovered transactions, there is possibility that the buyer/seller must buy/sell the currency at a less favorable price. The potential loss may substantially exceed the original contract value.

Financial standing risk

Financial standing risk in connection with currency futures transactions derives from the possibility of counterparty default due to insolvency, i.e. one party's temporary or permanent inability to complete the currency futures transaction, making more expensive covering transactions in the market necessary.

Transfer risk

The transfer of some foreign currencies may be restricted, in particular by the country issuing that currency. The orderly execution of the currency futures transaction would then be at risk.

3. FX Swap – Currency swaps

Definitions

A transaction in which specified amounts of one currency are exchanged for another currency over a certain period of time. The interest rate differential between the two currencies is reflected in a premium/discount to the re-exchange price. Provision or acceptance of foreign currency equivalent is exercised with the same value date.

Yield

The yield (profit/loss) for anyone trading in currency swaps results from the positive/negative development of the interest rate differential and can be made in the case of a countertrade during the maturity of the currency swap.

Financial standing risk

The financial standing risk in connection with currency swaps derives from the possibility of counterparty default due to insolvency, i.e. one party's temporary or permanent inability to complete the currency swap, making more expensive covering transactions in the market necessary.

Transfer risk

The transfer of some foreign currencies may be restricted, in particular by the country issuing that currency. The orderly execution of the currency futures transaction would then be at risk.

4. FX options – Foreign exchange options

Definition

Standard options – Plain Vanilla Option

The buyer of an option has the right, on or before a specified date, to buy (Call option) or sell (Put option) the underlying asset (securities, currency, etc.) at a fixed (strike) price or to receive a compensation payment resulting from the positive difference between strike price and market value of the instrument at the time of exercising.

Special form – Barrier options

In addition to the strike price, there is a threshold value (barrier). When that barrier is reached, the option is either activated (Knock-In Option) or deactivated (Knock-Out Option).

By opening an option, the option writer (seller) is obliged to grant the option buyer their rights. To purchase the option, the buyer pays option premium.

The option can be exercised depending on the realization conditions:

- American type: the strike price and the market price are compared throughout the agreed maturity of the option.
- European type: the strike price and the market price are only compared at the end of the maturity of the option.

Options not exercised in a timely manner, at the latest on the expiration date, will expire and will therefore be considered worthless. The option right also ceased to exist when a Knock-In Option is not activated, or if the Knock-Out Option is deactivated, and the option becomes worthless.

Please note that you have to place an express order to exercise your option right with the Bank.

Yield

The owner/ the buyer of an option will make a profit if the price of the underlying asset rises above the strike price (in the case of a Call option) or falls below the strike price (in the case of a Put option), and they can exercise or sell the option (Plain Vanilla Option, activated Knock-In Option, not deactivated Knock-Out Option). If the owner fails to exercise the option, the option becomes worthless and the option premium is lost.

The seller of an option receives a premium for selling the option. The value (price) of the option and its premium depends on:

- the strike price,
- the development and volatility of the underlying asset,
- the maturity date,
- the interest rate spread,
- the market situation.

If the price of the underlying asset does not evolve the way the seller expected, the potential loss from the option can be theoretically unlimited.

Risks when purchasing options

Risk of forfeited premium

The buyer of an option incurs the risk of losing the entire amount of the premium, which must be paid irrespective of whether the option is exercised or not.

Financial standing risk

The financial standing risk encountered by the buyer of an over-the-counter option derives from the possibility of losing the premium due to counterparty default, which may lead to expensive hedging transactions.

Risk when selling options

Currency risk

The risk at sale of options results from the possibility of adverse moves in the value of the respective currency during the life of the option. The resulting risk of loss is unlimited for the options being sold.

Other risks associated with buying and selling FX options

Transfer risk

The transfer of certain currencies may be restricted, in particular by the country issuing that currency. The orderly execution of the trade would then be at risk.

Liquidity risk

Being largely customized investment instruments, there are usually no organized secondary markets for currency options. Consequently, it cannot be guaranteed that a currency option can be sold at any time.

Special features of over-the-counter currency options.

Currency options do not have standardized terms. Generally, they are customized instruments. It is thus necessary to get precise information about details, in particular the exercising and settlement (delivery of the underlying asset or cash settlement) and the termination of the option.

Please note that the Bank will not exercise an option right unless specifically instructed to do so.

INTEREST RATE RISK HEDGING PRODUCTS

5. IRS – Interest Rate Swap

Definition

Interest rate swap means the exchange of different interest rate obligations related to a nominal amount agreed between two contractual parties. In particular, this entails the exchange of fixed interest rate payments for variable interest rate payments. Only interest payments are exchanged in pre-agreed moments; no capital/nominal flows occur.

Yield

The person buying the interest rate swap (fixed interest payer) earns a return on rising interest rates in the market. The seller of IRS (receives fixed interest rates) benefits from a fall in interest rates.

The yield on an interest rate swap cannot be determined in advance.

Interest rate risk

The interest rate risk results from the uncertainty over future changes in market interest rates. The buyer/seller of interest rate swap is exposed to loss if market interest rates fall/rise.

Financial standing risk

The financial standing risk associated with IRS is derived from the possibility of counterparty default, causing the loss of positive cash values, which may lead to expensive hedging transactions.

Special terms and conditions of interest rate swaps

IRS do not have standardized terms. The processing details must be contractually agreed upon in advance. They are customised investment instruments. For this reason, investors need to know the terms precisely, in particular the nominal amount, maturity and definition of interest rates.

6. Interest rate options

Definition

Interest rate options are agreements on an upper or lower limit to interest rates or an option for interest rate swaps.

Common special forms include Caps, Floors and others.

Through buying a Cap, the buyer secures an upper interest rate limit (=strike price) for future income. The Cap value increases with increasing interest.

Depending on the selected reference period, the current market interest rate is compared with the secured interest rate strike price. If the market price is higher than the strike price, the holder of the Cap will be compensated for the difference.

Selling a Cap can be used as a speculative instrument. The seller receives the premium and undertakes to compensate the buyer for any difference in interest rates. Furthermore, the sale can be used to reduce the cost of paid option premium when purchasing an option.

By getting a Floor, the buyer secures a certain minimum interest rate on a future investment. The Floor value increases with falling interest rates.

Depending on the selected reference period, the current market interest rate is compared with the secured interest rate strike price. If the market price is lower than the strike price, the holder of the Floor will be compensated for the difference.

Yield

The holder of an interest rate option will realize a yield if on the day of exercising the interest rate in the market is higher than the strike price of the Cap or under the strike price of the Floor.

The option buyer pays option premium to the seller. The option premium received stays with the seller, no matter whether the option is exercised or not. The premium and value of the interest rate option depend on the following factors:

- volatility of interest rates (interest spread),
- the chosen strike price,
- maturity,
- market interest rates,
- current financing costs,
- liquidity.

This means that the price of an option may remain unchanged or decrease even though investor's expectations as to the movement of interest rates have been met.

Interest rate risk

The interest rate risk results from the possibility of future interest rate changes. The buyer/seller of an interest rate option faces interest rate risk due to market losses if interest rates rise/fall. This risk is all the higher, the more pronounced the increase/decrease in interest rates is. This results in an unlimited potential of loss for the seller.

Financial standing risk

The financial standing risk encountered by the buyer of an interest rate option derives from the possibility of counterparty default, causing the loss of positive cash values, which may lead to expensive hedging transactions.

Risk of total loss at purchase

The risk in the case of buying an interest-rate option lies in the possibility of the total loss of premium amount, which must be paid irrespective of whether the option is exercised or not.

Special features of over-the-counter interest rate options

Interest rate options are not standardized. They are customized investment instruments. It is thus very important to obtain detailed information, in particular about the interest periods, reference rate and the option period.

Please note that the Bank will not exercise an option right unless specifically instructed to do so.

7. CCS – Cross Currency Swap

Definition

A Cross Currency Swap is an exchange of differently defined interest rate payables and different currencies nominal values agreed between two contractual partners. In particular, this entails the exchange of fixed interest rate payments for variable interest rate payments in two different currencies. The flow of interest payments occurs in different currencies based on the same amount of capital, which is fixed on the basis of the current exchange rate valid on the trade date.

Besides the exchange of interest rates payables or interest rates receivables, there is an exchange of capital both at the beginning (Initial Exchange) and at the end of maturity (Final Exchange). Depending on the needs of the individual trading partners, the Initial Exchange may be omitted.

Yield

The yield from a CCS cannot be determined in advance.

In the case of a positive trend in the exchange rate and interest rate differential, a yield may be realized from early liquidation of the CCSs. If a CCS was undertaken in order to improve the interest rate differential, a yield can be realized as a result of a lower interest rate of the secondary currency. That yield may be neutralized by exchange losses, however. If the currency ratio develops in a positive manner, the yield may further increase.

Interest rate risk

The interest rate risk results from uncertainty concerning the future change in the market interest rate level. The buyer/seller of a CCS is exposed to a risk of loss if the market interest level falls/rises.

Currency risk

The currency risk results from uncertainty concerning the future change in the relevant exchange relationship of the currencies involved. In the case of a CCS with Final Exchange, it is especially important to note that currency risk exists not only in the case of the default of a contracting partner but also during the whole period of maturity.

Financial standing risk

The financial standing risk in the case of buying/selling a CCS is the danger that the default of the transaction partner may lead to expensive hedging transactions.

Special terms and conditions for CCSs

CCSs are not standardized. They are customized investment instruments. It is therefore very important to get accurate information about them, especially with respect to the following:

- nominal amount,
- validity,
- definition of interest,
- definition of the currency,
- definition of the exchange rate,
- Initial Exchange (yes or no?).

8. Other information

Security (margin)

The Client must have provided security for selected types of investment instruments (mentioned in chapters 2, 3, 4, 5, 6, 7) equal to a certain percentage of the volume of the relevant transaction, which will be determined by the Bank before the business is agreed, according to the total volume of business in CZK in dependence on the maturity and rate of movement of the investment instrument price in CZK or another currency, which will be determined by the Bank, in one of the following forms or their combinations.

Deposit of collateral tied on an account in favor of the Bank, or a limit, which the Bank shall impose on the client, or other values accepted by the Bank (e.g. blocking of finances on a current account for purposes of foreign payments, etc.).

Other financial liabilities

When trading with the investment instruments, the client may also take over, in addition to the costs for such investment instruments, further financial and other liabilities including potential conditional obligations.

Leverage

In the case of futures transactions, the leverage may also be used. When the client deposits collateral or a limit is imposed upon them, they can trade with several times the respective amount. In the same way as the client may multiply their profit through leverage, there is a risk that leverage multiplies losses if the trade does not develop in the favor of the client. In case of fluctuations by a higher percentage than the collateral or limit, the client may lose the whole investment.

Risk interaction

Investment instruments can also be created by combining other investment instruments, which may magnify the risks. If the risks connected with an investment instrument consisting of two or several investment instruments or services could be higher than the risks connected only with one of these investment instruments or services, the client shall be informed accordingly.

Public offer on an investment instrument

If the investment instrument is a subject of a public offer and a prospectus is issued in compliance with law, the bank is deemed to have fulfilled its information duty by stating where the prospectus is publicly available.

Third-party guarantee or obligation

If the Bank offers an investment instrument which includes a third-party guarantee or another third-party obligation to satisfy creditor's claims 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

Since investment instruments are subject to market and other changes, further descriptions of the investment instruments and risks connected with them shall be continuously published on the Bank's internet page.

The selection of the execution venues designated for the execution of the Client's orders under fulfilling the best conditions is described in the Rules for Executing Clients Orders under the Best Conditions.

The Bank always offers investment instruments that fit the target market for retail or professional clients, or eligible counterparties.