Products to Hedge Market Risks

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Introduction:

The current financial world is characterised by its unpredictability. The turbulent development of the regulatory environment and the constant changes on the global political and economic scene lead to an uncertainty of the actors entering the financial world. Both small and large entrepreneurs have to face uncertain future and address the risks this uncertainty poses. In particular, companies must secure themselves against the risk associated with fluctuations in world currencies, but they must also be able to effectively manage the risk of interest rate movements (especially growth). Sberbank CZ, a.s. therefore offers a range of products that provide entrepreneurs with solutions to address this risk.

What risks may be associated with the hedging products?

Risk	Description
Financial standing risk	The risk of the counterparty's inability to meet its obligations in particular due to the deteriorated financial situation of that party as a result of bankruptcy, insolvency etc.
Liquidity risk	The risk that the interest in trading the given instrument will diminish in the financial market and the instrument will not be traded or will be traded only under worse conditions and at a disadvantageous price.
Currency risk	The risk of product value change due to exchange rate fluctuations.
Interest rate risk	The risk of product value change due to interest rate movements.
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.
Other risks	The risk that the value of a product is affected by a movement in price level (inflationary risk), the movement of asset prices in the commodity market (commodity risk), external influences (risk associated with external influences) etc.

What do the terms used in this document mean?

OTC	OTC ("over-the-counter") transactions mean transactions in which a financial instrument is traded outside the trading system.
Leverage effect	The leverage effect is the rate at which the price of a financial instrument changes as a result of the movement of the underlying asset value.
Volatility	Fluctuations in the value (of a financial instrument, market, interest rates etc.) over a given period.

Note concerning the tax aspects of the hedging products

Different tax aspects are associated with the hedging products discussed herein. The impact of these products on your specific situation should be assessed by your tax advisor.

INFORMATION:

Investment instruments are subject to market and other changes. Further information on their description and the associated risks will be posted on the Bank's website on a continuous basis. The selection of the execution venues intended for the best execution of the client orders is described in the document entitled Best Client Order Execution Rules. The Bank always offers those investment instruments that fit the target market for retail or business clients, or eligible counterparties.

Currency risk hedging products

FX Spot

Product description

A prompt currency conversion is a commitment to sell or buy funds in one currency for funds in another currency at a prompt (spot) rate valid at the time of closing the transaction with a settlement date within a maximum of 2 business days.

EXAMPLE:

A Czech company, ABC, which is the importer of raw materials, has to pay EUR 100,000 for the agreed raw materials to the supplier and its sales are in CZK. On 1 April 2018, the bank quotes to the client the EUR/CZK exchange rate of 26.100.

On 1 April 2018, the company purchases EUR 100,000 at the exchange rate of 26.100 and, with the settlement date of 1 April 2018, pays CZK 2,610,000 for this transaction.

For whom is the product intended?

The “FX Spot” product is designed for private individuals, private individuals – entrepreneurs, small and medium enterprises and corporations that need to exchange foreign currency funds.

What are the advantages and risks of the “FX Spot” product?

Advantages

- **Monitoring the development of the exchange rate and executing client orders at the required exchange rate level.**
- **May be agreed upon by phone.**

Risks

- **Financial standing risk** – risk of counterparty default due to insolvency, i.e. one party’s possible, temporary or permanent inability to complete the currency transaction and the related more expensive covering transactions in the market.
- **Transfer risk** – the transfer options of some foreign currencies may be restricted, in particular by the country issuing that currency. A proper execution of the currency transaction would be jeopardised.
- **In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client’s position based on a contractual arrangement.**

Overall “FX Spot” risk indicator

1	2	3	4	5	6	**7**

Lower risk
Generally lower revenues

Higher risk
Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the “FX Spot” product?

There are no costs or fees associated with the “FX Spot” product.

FX Forward

Product description

FX forward or forward currency conversion is a commitment to sell or buy funds in one currency for funds in another currency at the forward exchange rate applicable at the time of closing the transaction with the transfer to accounts determined by the client with a settlement deadline longer than 2 business days, with a maturity of up to 2 years as standard. The forward rate is dependent on the current exchange rate and the interest rate difference of the respective currencies. Mathematically, the forward rate can be calculated as follows:

$$\text{FWD exchange rate} = S \cdot \frac{1 + IRr \cdot \left(\frac{D}{360}\right)}{1 + IRz \cdot \left(\frac{D}{360}\right)}$$

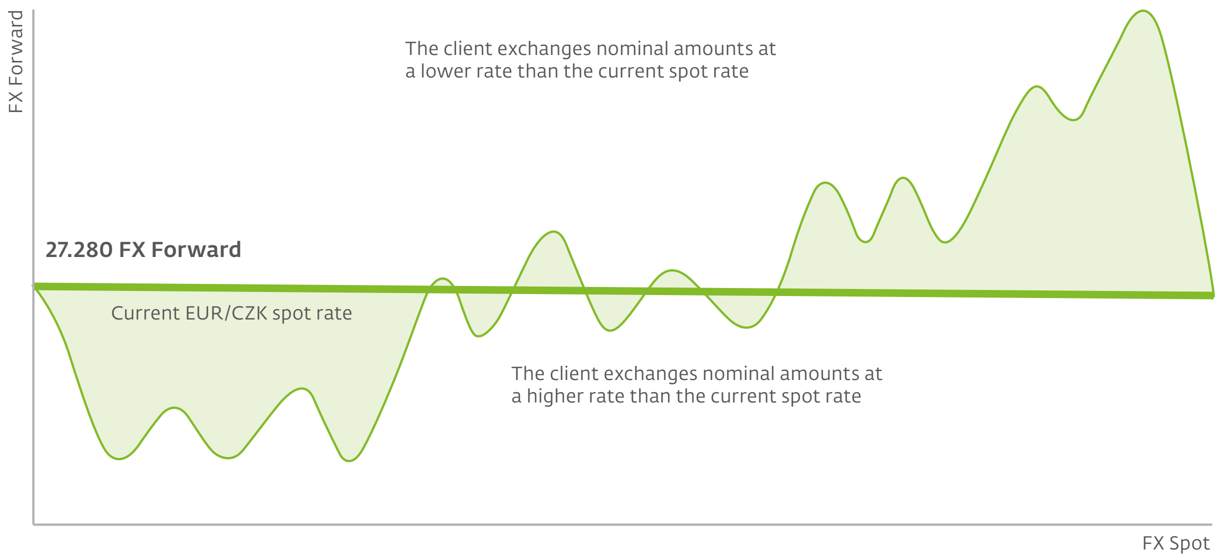
IRr – reference currency interest rate

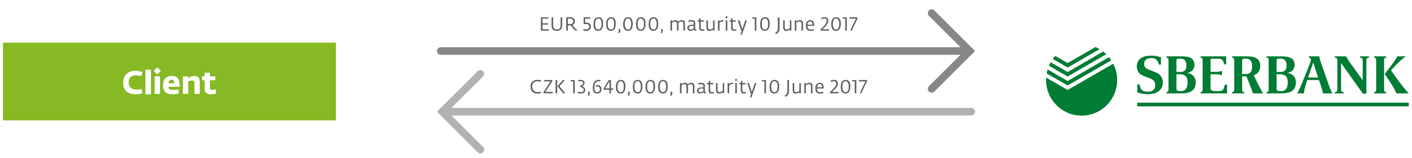
IRz – base currency interest rate

D – actual number of days of the interest period

S – spot rate

The use for hedging purposes means to determine the exchange rate so that both the cost and the yield of the secured trade are neither increased nor reduced as a result of changes in the exchange rate. The FX forward does not allow you to participate in the favourable development of the current exchange rate, but allows you to accurately determine the value of the exchange rate in advance. It is the most commonly used exchange rate risk hedging instrument.





EXAMPLE:

On 10 March 2017, the client agreed with its business partner to sell the client's goods to that business partner. The payment of EUR 500,000 will be realised on 10 June 2017. In order not to enter into a currency risk from the date of agreeing on the transaction until the date of realisation of the payment, and thus prevent the exchange rate loss, the client agrees to sell EUR 500,000 on 10 June 2017.

Market rate	**CZK 27.30/EUR**
Forward points	-0.020
Forward rate	CZK 27.280/EUR
EUR 500,000	CZK 13,640,000

For whom is the product intended?

The “FX Forward” product is intended for private individuals - entrepreneurs, small and medium enterprises and corporations that need to secure their foreign currency cash flow against the movement of the exchange rate. Exporters can accurately determine the price at which their foreign currency collections will be made and importers can accurately fix the costs associated with currency conversion on import.

Special conditions for the “FX Forward” product

The “FX Forward” product is not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The nominal amount of the exchange.
- The currency pair.
- The exchange rate
- The maturity date.

The product is normally closed for up to 2 years.

What are the advantages and risks of the “FX Forward” product?

Advantages	Risks
Zero closing costs – there is no need for additional costs to close the FX forward. **Protection against unfavourable exchange rate developments.** **The position can be closed using a counter-transaction at any time before maturity at the current exchange rate.** **May be agreed upon by phone.**	**Currency risk** – the risk that the buyer/seller acquires/sells the foreign currency more advantageously than at the transaction closing during or at the end of the transaction maturity. **Financial standing risk** – risk of counterparty default due to insolvency, i.e. one party’s possible, temporary or permanent inability to complete the currency transaction, making more expensive covering transactions in the market necessary. **Transfer risk** – the transfer options of some foreign currencies may be restricted, in particular by the country issuing that currency. A proper execution of the currency transaction would be jeopardised. **In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client’s position based on a contractual arrangement.**

Overall “FX Forward” risk indicator

1	2	3	4	5	6	**7**

Lower risk — **Higher risk**

Generally lower revenues — Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the “FX Forward” product?

There are no costs or fees associated with the “FX Forward” product.

Currency swap (FX Swap)

Product description

A currency conversion where the client sells funds in one currency for funds in another currency at a prompt rate, and at the same time executes a buyback at the agreed forward exchange rate valid at the time the transaction is closed. FX SWAP is a combination of spot and forward transactions. This type of transaction can also be used as a loan in the case of shortage of cash in one currency and cash surplus in another currency. In such a case, the Bank "lends" the client funds in the currency the client needs and the client "lends" funds to the bank in the currency at the client's disposal. Both transactions are executed at the current exchange rate at the time the transaction is concluded. For re-conversion, the difference in interest rates of loans between the currencies will be calculated in the exchange rate.

EXAMPLE:

The client closed a forward transaction – sells EUR 500,000 at the exchange rate of 25.600 on 25 April. On the value date of the transaction, however, the EUR account is in overdraft. The client does not have sufficient funds to settle the forward transaction. With the client, the Bank will negotiate EUR purchase for the current exchange rate or a change in the settlement date using the FX swap.

DATE	PRODUCT	MOVEMENT
25 April	FX FORWARD	EUR -500,000
		CZK +12,800,000
25 April	FX SWAP – first part	EUR +500,000
	Exchange rate of 25.780	CZK -12,890,000
2 May	FX SWAP – second part	EUR -500,000
	Exchange rate of 25.765	CZK +12,882,500

The swap rates are set on the transaction closing date. **The cost of this swap is CZK 7,500**.

For whom is the product intended?

The "FX Swap" product is intended for private individuals – entrepreneurs, small and medium enterprises and corporations that need to bridge a short-term liquidity shortage in one currency against the provision of a counter-value in another currency.

Special conditions for the "FX Swap" product

The "FX Swap" product is not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The nominal amount of the exchange in the first and second swap parts.
- The currency pair.
- Exchange rates 1 and 2.
- The value date of exchange 1 and 2.

The product is normally closed for up to 2 years.

What are the advantages and risks of the "FX Swap" product?

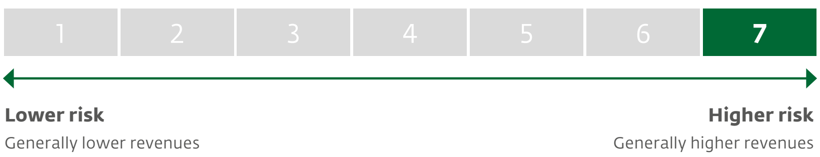
Advantages

- **Zero closing costs** – there is no need for additional costs to close the FX forward.
- **Protection against unfavourable exchange rate developments.**
- **The position can be closed using a counter-transaction at any time before maturity at the current exchange rate.**
- **May be agreed upon by phone.**

Risks

- **Currency risk** – the risk that the buyer/seller could acquire/sell the foreign currency more advantageously than at the transaction closing during or at the end of the transaction maturity.
- **Interest rate risk** – the risk arising from the possibility of future changes in the level of market interest when the client is exposed to interest rate risk in the form of a loss in the case of a rise/fall in the level of market interest over the duration of the transaction.
- **Financial standing risk** – risk of counterparty default due to insolvency, i.e. one party's possible, temporary or permanent inability to complete the currency transaction, making more expensive covering transactions in the market necessary.
- **Transfer risk** – the transfer options of some foreign currencies may be restricted, in particular by the country issuing that currency. A proper execution of the currency transaction would be jeopardised.
- **In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client's position based on a contractual arrangement.**

Overall "FX Swap" risk indicator



This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

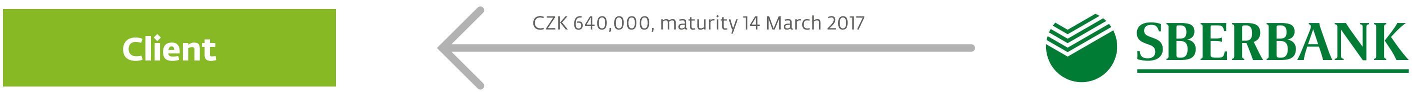
What are the costs of the "FX Swap" product?

There are no costs or fees associated with the "FX Swap" product.

Non-deliverable forward – NDF

Product description

It is a currency forward the settlement of which does not include an exchange of actual nominal values in the currencies purchased and sold. When closing a transaction, the so-called reference currency for settlement is agreed. Depending on the currency pair, 1 or 2 business day(s) prior to settlement, the spot rate is fixed and compared to the previously agreed forward rate, thereby determining the net position of the parties to the transaction. This net position is settled in the reference currency by the party which is in a disadvantageous position.



EXAMPLE:

On 14 March 2017, the client agreed with its business partner to sell the client's goods to that business partner. The payment of EUR 500,000 will be realised on 14 March 2018. In order not to enter into a currency risk from the date of agreeing on the transaction until the date of realisation of the payment, and thus prevent the exchange rate loss, the client agrees to sell EUR 500,000 at the CZK exchange rate of 27.280 with the settlement date of 14 March 2018 using the NDF product and the CNB foreign exchange reference rate as of 12 March 2018.

Agreed forward rate for the sale of EUR 500,000	**CZK 27.280/EUR**
CNB foreign exchange fixing set as of 12 March 2018	CZK 26.000/EUR
Settlement on 14 March 2018 NDF	CZK 640,000.00
CZK (27.280 – 26.000) · 500,000 = 640,000.00	CZK 27.280/EUR
In this case, the client is in an advantageous position and receives the difference between the rates related to the nominal value of the transaction.	

For whom is the product intended?

The "NDF" product is intended for private individuals – entrepreneurs, small and medium enterprises and corporations that need to secure their foreign currency cash flow against the movement of the exchange rate. Exporters can accurately determine the price at which their foreign currency collections will be made and importers can accurately fix the costs associated with currency conversion on import. It is usually used where one currency of a traded currency pair has a limited liquidity and its settlement involves a transfer risk.

Special conditions for the "Non-deliverable forward" product

The "Non-deliverable forward" product is not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The nominal amount of the exchange.
- The currency pair.
- The reference currency.
- The agreed exchange rate.
- The reference exchange rate.
- The due settlement date.
- The moment of determining the reference exchange rate.

The product is normally closed for up to 1 year.

What are the advantages and risks of the “Non-deliverable forward” product?

Advantages

- **Zero closing costs** – there is no need for additional costs to close the FX forward.
- **Protection against unfavourable exchange rate developments.**
- **The position can be closed using a counter-transaction at any time before maturity at the current exchange rate.**
- **May be agreed upon by phone.**

Risks

- **Currency risk** – the risk that the buyer/seller could acquire/sell the foreign currency more advantageously than at the transaction closing during or at the end of the transaction maturity.
- **Financial standing risk** – i.e. the risk of a possible, temporary or permanent, inability to execute a currency transaction and the related possible more expensive additional coverage of the debt in the market, this risk being reduced compared to FX forward only to the difference between the agreed forward rate and the current spot rate without full exchange of nominal values of the transaction.
- **Transfer risk** – compared to the FX forward, the transfer risk is reduced to 1 currency of the traded currency pair.
- **In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client’s position based on a contractual arrangement.**

Overall “Non-deliverable forward” risk indicator

1	2	3	4	5	6	**7**

Lower risk
Generally lower revenues

Higher risk
Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the “Non-deliverable forward” product?

There are no costs or fees associated with the “Non-deliverable forward” product.

FX Option

Product description

The FX option is the right (not the obligation) to convert one currency into another at a known date in the future (expiry), or in an agreed period for the duration of the option, at a predetermined strike price and volume (nominal value).

Option purchase

The option purchase means the purchase (Opening, long position) of call options or put options, which gives the client the right to purchase or sell a certain value. In the case of American-type options, the option may be exercised at any time during the agreed validity period; in the case of European-type options, they can be exercised only on the agreed date and time.

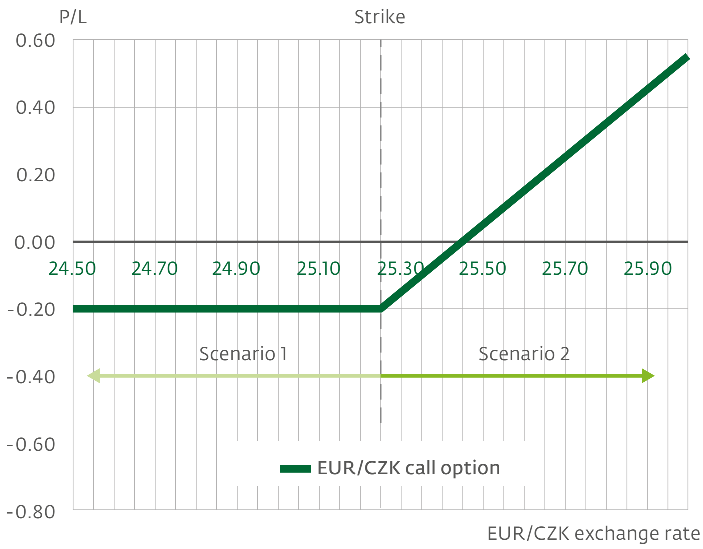
Buying a currency option allows you to participate in a positive exchange rate development and at the same time be fully secured against any negative exchange rate development. However, an option premium has to be paid for the option purchase, which is non-refundable if the option is not used. When purchasing an option, the risk of loss therefore lies in the price paid for the option right.

EXAMPLE:

EUR call / CZK put gives the buyer the right to purchase EUR against CZK under predetermined conditions, e.g. a strike price of 25.25.

Possible scenarios at maturity:

1) If the reference spot rate is above the strike rate on the due date of the option, the buyer will use its right and buy EUR against CZK at the strike rate, i.e. 25.25.
2) If the spot rate is below the strike rate on the due date of the option, the buyer will not use its option right and will buy EUR against CZK at the current market price.
3) If the spot rate is equal to the strike rate on the due date of the option, the buyer does not have to use its option right and will buy EUR against CZK at the current market price. In this case, the actual cost of acquisition will be equal to the sum total of the cost of the option and the amount the client pays for the purchase of the currency.



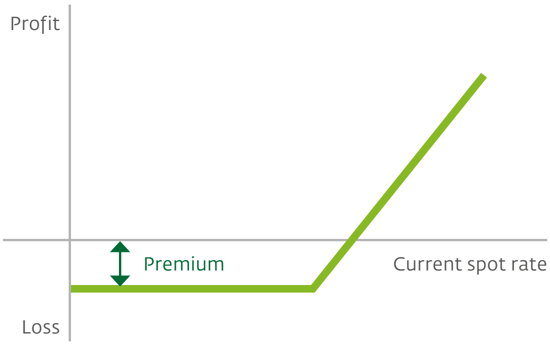
Sale of Calls

This means the sale (Opening = sale when opening, short position) of a Call (option to buy), by which the client assumes the obligation of delivering the underlying asset at a specified price at any time during the agreed period (in the case of American-type call options) or on the expiration date (in the case of European-type call options). In exchange for assuming that obligation, you receive the option premium. If the price of the underlying asset rises, it is necessary to accept the risk of delivering the underlying asset at the agreed price even if the market price is significantly higher than that agreed price.

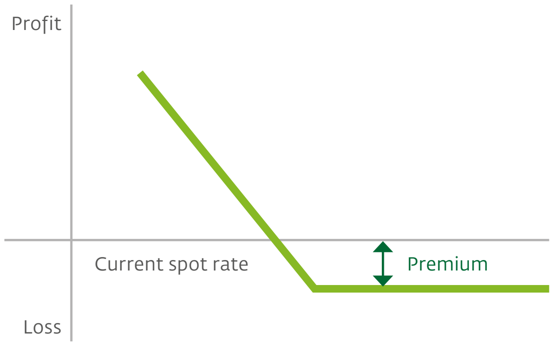
Sale of Puts

This refers to the sale (Opening = sale when opening, short position) of a Put (option to sell), by which the client assumes the obligation of purchasing the underlying asset at a specified price at any time during the agreed period (in the case of American-type put options) or on the expiration date (in the case of European-type put options). For the assumption of this obligation, the client is entitled to the option premium. If the price of the underlying asset falls, it is necessary to accept the risk of buying the underlying asset at the agreed price even if the market price is significantly lower than that agreed price.

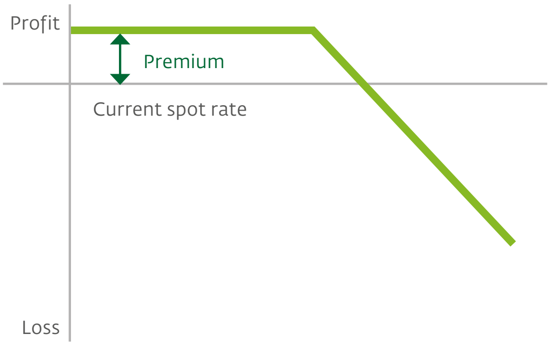
Call Option (Buy) Payoff



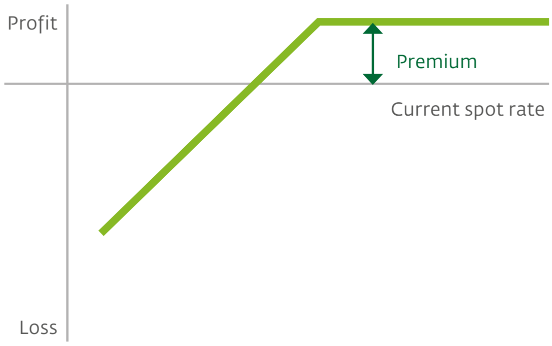
Put Option (Buy) Payoff



Call Option (Sell) Payoff



Put Option (Sell) Payoff



For whom is the product intended?

The “FX option” product is intended for private individuals – entrepreneurs, small and medium enterprises and corporations that need to secure their foreign currency cash flow against the unfavourable movement of the exchange rate. Exporters can determine the least favourable price at which their foreign currency collections will be made and importers can accurately cover the costs associated with currency conversion on import.

Special conditions for the “FX Option” product

The “FX Option” product is usually not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The direction (purchase, sale) of the option right.
- The moment of exercising the option right (European, American options).
- The nominal amount of the exchange.
- The direction of the exchange (call – purchase of the main currency, put – sale of the main currency).
- The currency pair.
- The strike exchange rate.
- The option expiry.
- The agreed premium.

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

The product is normally closed for up to 1 year.

What are the advantages and risks of the “FX Option” product?

Advantages	Risks
• In the case of a favourable price development, the buyer does not have to execute the contract. • 100% protection against unfavourable price development. • The ability to adapt to client needs. • **The position can be closed using a counter-transaction at any time before maturity at the current exchange rate.**	• **Financial standing risk** – risk of counterparty default due to insolvency, i.e. one party’s possible, temporary or permanent inability to complete the currency transaction, making more expensive covering transactions in the market necessary. • **Transfer risk** – the transfer options of some foreign currencies may be restricted, in particular by the country issuing that currency. A proper execution of the currency transaction would be jeopardised. • **The risk of losing** a paid option premium. • When the option is sold, it is possible that the loss exceeds the premium accepted (the seller accepts the obligation to realise the sale/purchase of the underlying asset at the strike rate, which may differ significantly from the current market rate). • **In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client’s position based on a contractual arrangement.**

Overall “FX Option” risk indicator

1	2	3	4	5	6	**7**

Lower risk
Generally lower revenues

Higher risk
Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the “FX Option” product?

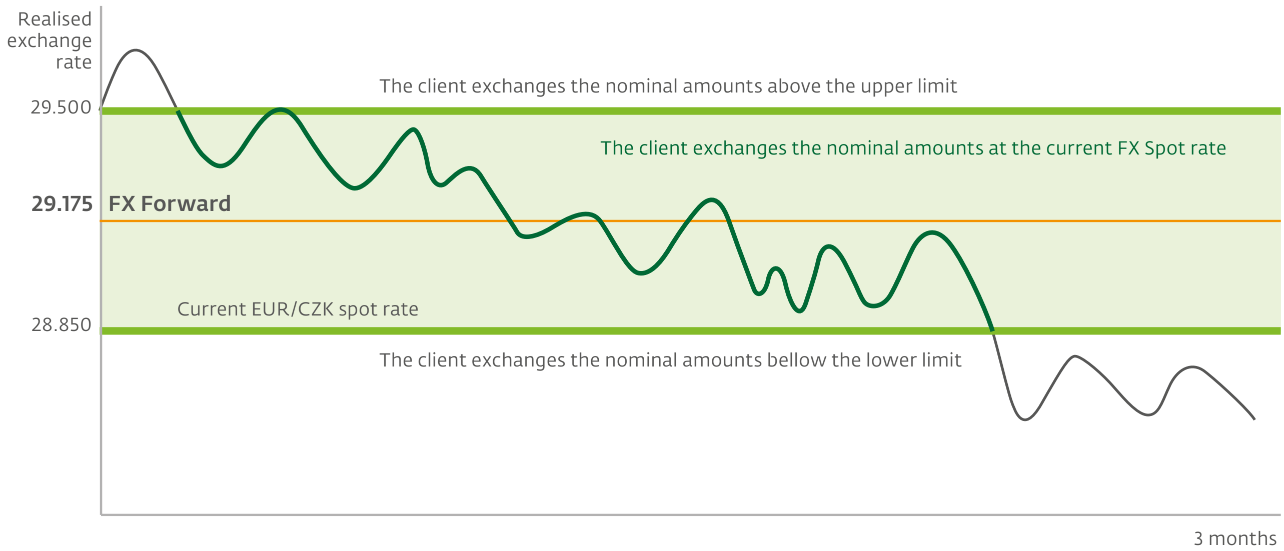
Only the payment of the option premium on purchase is associated with the “FX Option” product.

“FX Collar” option strategy

Product description

The option strategy is a combination of two or more options or a combination of an option and another derivative product. Combining the purchase and sale of an option at the same time eliminates or reduces the cost of payment of the premium in securing exchange rate risks.

The FX Collar option strategy combines two option transactions: buying a plain vanilla call option and selling a plain vanilla put option and vice versa. The nominal volume of options and maturity date are the same. The client sets the strike price for the option it is buying and the bank calculates the strike for the option that the client sells to the bank so that the difference between the paid premiums is equal to zero or the amount of the option premium the client is willing to pay. Upon the maturity of the FX Collar, the client purchases/sells a foreign currency at the strike rates of the individual options. When using this product, the client's loss is limited while reducing the potential profit in the case of a favourable price development for the client.



EXAMPLE:

ABC will collect a EUR payment to convert it into CZK after receiving it, and wants to secure itself against any EUR depreciation against CZK. At the same time, ABC would like to at least partially participate in the potential strengthening of EUR in relation to CZK. In this case, the client can secure itself by closing the following options at the same time:

- Purchasing a EUR put / CZK call option with the maturity of 3 months and strike price of CZK 28.85/EUR
- Selling a EUR call / CZK put option with the maturity of 3 months and strike price of CZK 29.50/EUR

Possible scenarios at maturity:

1. The EUR/CZK prompt rate on maturity will be below 28.85 – ABC will use its option right and sell EUR at a rate of 28.85.
2. The EUR/CZK prompt rate will be in the range of 28.85–29.50 as of the due date, both options will expire unused. ABC will perform conversion at the current market rate.
3. The EUR/CZK prompt rate will be above 29.50 – ABC has to sell EUR for CZK at 29.50.

For whom is the product intended?

The “Collar option strategy” product is intended for small and medium enterprises and corporations (exporters and importers) that need to secure their foreign currency cash flow against the unfavourable movement of the exchange rate.

Special conditions for the "FX Collar" product

The "FX Collar" product is usually not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The direction (purchase, sale) of the option rights.
- The moment of exercising the option right.
- The nominal amount of the exchange.
- The direction of the exchange (call – purchase of the main currency, put – sale of the main currency).
- The currency pair.
- The strike exchange rate.
- The option expiry.
- The amount of the premium (if agreed).

The product is normally closed for up to 1 year.

What are the advantages and risks of the "FX Collar" product?

Advantages	Risks
• **Zero or reduced closing costs** – there are no fees associated with the purchase of the product. • **Hedging the risk of unfavourable exchange rate development.** • **Partial participation in the positive development of the exchange rate.**	• **Financial standing risk** – risk of counterparty default due to insolvency, i.e. one party's possible, temporary or permanent inability to complete the currency transaction, making more expensive covering transactions in the market necessary. • **Transfer risk** – the transfer options of some foreign currencies may be restricted, in particular by the country issuing that currency. A proper execution of the currency transaction would be jeopardised. • **In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client's position based on a contractual arrangement.**

Overall "FX Collar" risk indicator

1	2	3	4	5	6	**7**

Lower risk – Generally lower revenues
Higher risk – Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the "FX Collar" product?

There are no costs or fees associated with the "zero cost option strategy" product. In some cases, the option premium may be agreed.

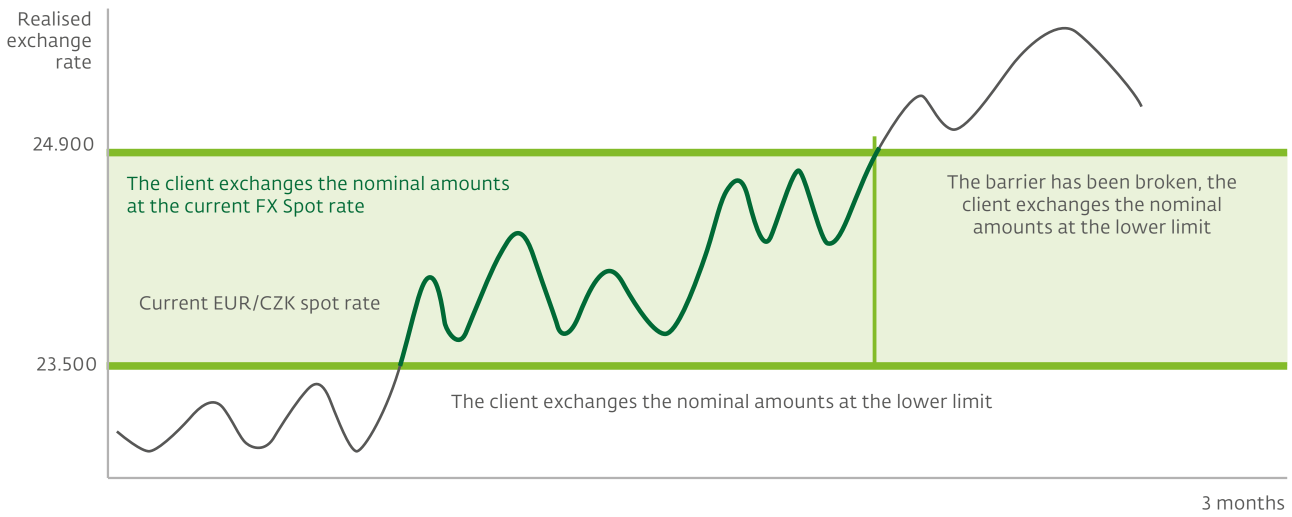
Forward Extra

Product description

Forward Extra is one of the option strategies. The option strategy is a combination of two or more options or a combination of an option and another derivative product. Combining the purchase and sale of an option at the same time eliminates or reduces the cost of payment of the premium in securing exchange rate risks.

With Forward Extra, the client buys a call option from the bank and sells to the bank a barrier put option, or the client purchases a put option from the bank and sells to the bank a barrier call option. The nominal volume, due date and the option strike prices are the same.

A knock-in (trigger) level is set for barrier options. The client sets the strike price for the option it purchases from the bank, and the bank's employee calculates the knock-in level for the option the client sells to the bank so that the mutually paid premiums are equal to zero.



EXAMPLE:

In 3 months, ABC will collect a payment of EUR 200,000 to convert it into CZK after receiving it, and wants to secure itself against any EUR depreciation against CZK. ABC expects a strengthening of CZK and wants to have the opportunity to take advantage of its view of the future development of the exchange rate and, at the same time, it does not want to link any hedging costs with the transaction. Furthermore, the client agrees that if a major weakening of CZK against EUR occurs, the conversion will take place at the strike price of the purchased option.

The forward rate with a maturity of 3 months is 24.10 and the client does not want to realise the future conversion at a worse exchange rate than CZK 23.50/EUR.

For hedging, the company uses the Forward Extra strategy:

1. Purchase of the EUR put / CZK call option with a maturity of 3 months and a strike price of EUR/CZK 23.50
2. Sale of the barrier (knock-in) EUR call / CZK put option with a maturity of 3 months and a strike price of EUR/CZK 23.50 and a knock-in barrier of EUR/CZK 24.90

Possible scenarios at maturity:

1. The EUR/CZK spot rate on maturity will be below 23.50 – ABC will use its right to sell EUR at a rate of CZK 23.50/EUR.
2. The EUR/CZK spot rate on maturity will be in the range of 23.50 to 24.90 – both options expire out-of-the-money and are therefore worthless. In this case, ABC will convert EUR into CZK at the current spot rate, which will be in the range of 23.50–24.90.
3. The EUR/CZK spot rate on maturity will be at or above 24.90 – ABC has to sell EUR at a rate of CZK 23.50/EUR.

For whom is the product intended?

The "Forward Extra option strategy" product is intended for small and medium enterprises and corporations – exporters and importers that need to secure their foreign currency cash flow against the unfavourable movement of the exchange rate.

Special conditions for the "Forward Extra" product

The "Forward Extra" product is usually not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The direction (purchase, sale) of the option rights.
- The moment of exercising the option right.
- The nominal amount of the exchange.
- The direction of the exchange (call – purchase of the main currency, put – sale of the main currency).
- The currency pair.
- The strike exchange rates.
- The value of the knock-in barrier.
- The option expiry.
- The amount of the premium (if agreed).

The product is normally closed for up to 1 year.

What are the advantages and risks of the "Forward Extra" product?

Advantages	Risks
• **Hedging the risk** of unwanted exchange rate development. • **Predefined range** in which the conversion will take place as of the future date. • **There are no fees associated with the purchase of the product (unless otherwise agreed).**	• **Financial standing risk** – risk of counterparty default due to insolvency, i.e. one party's possible, temporary or permanent inability to complete the currency transaction, making more expensive covering transactions in the market necessary. • **Transfer risk** – the transfer options of some foreign currencies may be restricted, in particular by the country issuing that currency. A proper execution of the currency transaction would be jeopardised. • In the case of an exchange rate development favourable for the client, the client's profit is limited. • **In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client's position based on a contractual arrangement.**

Overall "Forward Extra" risk indicator

1	2	3	4	5	6	**7**

Lower risk
Generally lower revenues

Higher risk
Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

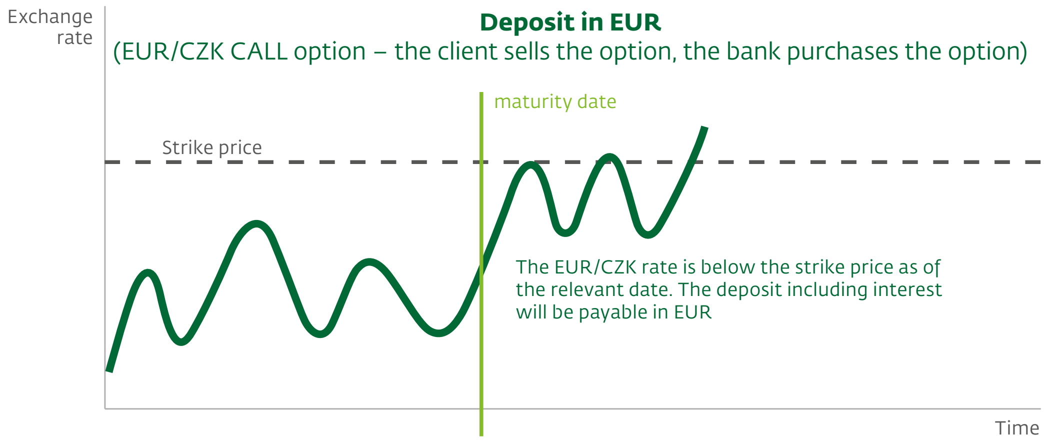
What are the costs of the "Forward Extra" product?

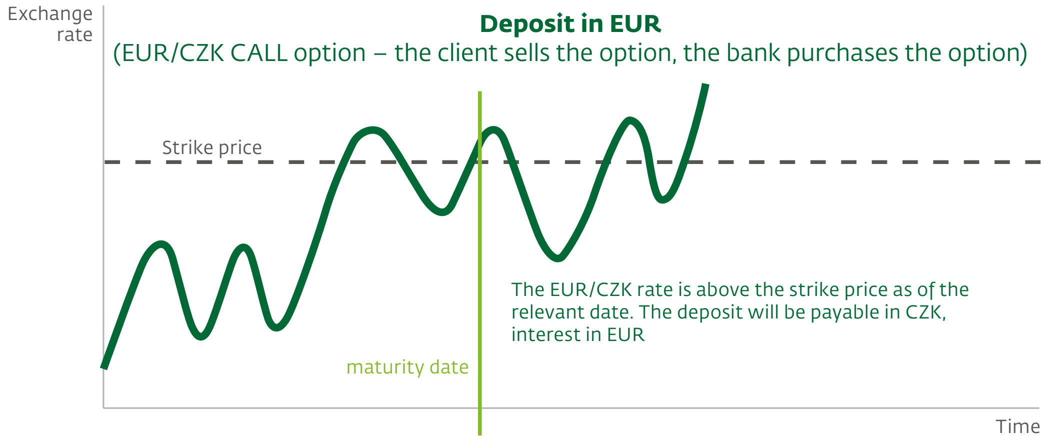
There are no costs or fees associated with the "Forward Extra" product. In some cases, the option premium may be agreed.

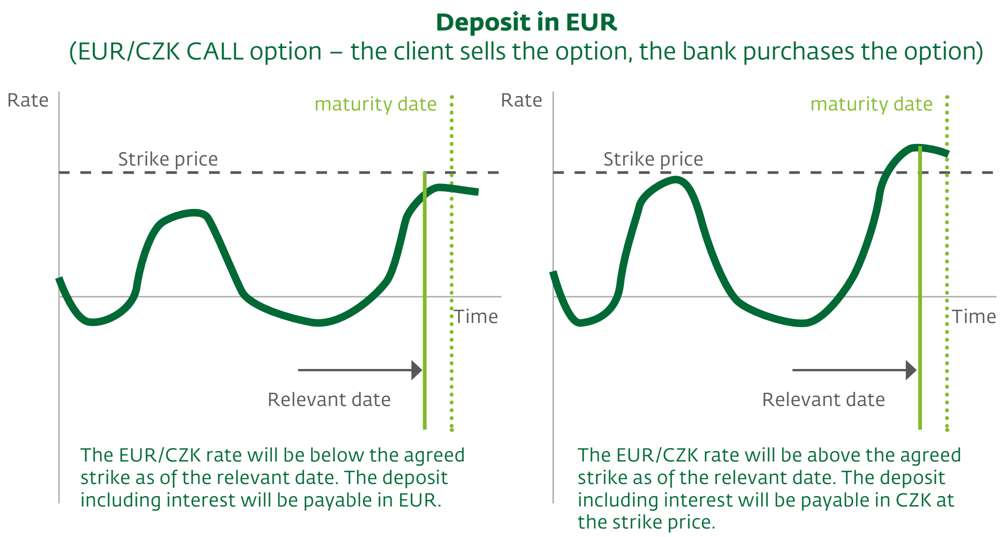
Dual Currency Deposit – DCD

Product description

The Dual Currency Deposit is a term deposit with an increased interest income and eventual conversion into another currency when the principal is paid out. It is a term deposit with a embedded currency option. Conversion takes place on the basis of a comparison of the market rate at a pre-specified moment with the strike price agreed between the Bank and the client at the time the transaction is concluded. The volume and currency of the deposit, the currency pair, strike price, maturity and interest income are negotiated individually at product closure. On the maturity date, the principal is paid out to the client in the original or alternative pre-selected currency converted at the strike price. The interest income is always paid to the client in the currency of the deposit.







EXAMPLE:

ABC wants to deposit EUR 500,000 for a shorter maturity (1 month) but wants to get a better interest rate than for term deposits. The client has no preference as to the payout currency. The client thus closes the Dual Currency Deposit product, ensuring a higher interest.

*The relevant date for determining the payout currency is usually 2 business days before the product matures.

For whom is the product intended?

The target client of the Dual Currency Deposit is typically a large company, corporation or institution with a turnover of more than CZK 25 million (or equivalent in a foreign currency) with payment transactions in both currencies of the Dual Currency Deposit product, which needs to temporarily deposit free funds and which is planning a conversion into another currency in the future.

Special conditions for the “Dual Currency Deposit” product

The “Dual Currency Deposit” product is not standardised. It is a tailor-made investment instrument, and it is therefore particularly important to be informed about the exact conditions, in particular:

- The volume and currency of the deposit.
- The currency pair.
- The exchange rate of the given currency pair (strike).
- The maturity date.
- The interest rate and the resulting interest income.

The product is normally closed for up to 1 year.

What are the advantages and risks of the “Dual Currency Deposit” product?

Advantages	Risks
- Interest rate appreciation higher than the current interest rate appreciation in the financial market. - Guarantee of interest rate appreciation for the duration of the deposit. - The deposit insurance as part of the deposit claim insurance scheme in accordance with Act No. 21/1992 Coll.	- **Financial standing risk** – risk of counterparty default due to insolvency, i.e. one party’s possible, temporary or permanent inability to complete the currency transaction, making more expensive covering transactions in the market necessary. - **Transfer risk** – the transfer options of some foreign currencies may be restricted, in particular by the country issuing that currency. A proper execution of the currency transaction would be jeopardised. - The deposit may be paid out in a second pre-arranged currency. - The exchange rate may be different from the current exchange rate when there is a conversion upon the principal payout. - The deposit cannot be terminated prematurely for the duration of the deposit.

Overall "Dual Currency Deposit" risk indicator

1	2	3	4	5	6	**7**

Lower risk
Generally lower revenues

Higher risk
Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the "Dual Currency Deposit" product?

There are no costs or fees associated with the "Dual Currency Deposit" product.

Interest rate risk hedging products

Interest Rate Swap – IRS

Product description

The Interest Rate Swap is one of the typical swap transactions. It is a transaction that is traded outside of trading systems (OTC) – it is easily adjustable to the level of the individual trading parties and exists in a number of variants in the financial market. The Interest Rate Swap works based on a simple principle. Two parties to a contract exchange interest payments under pre-arranged terms. The standard swap represents the exchange of fixed interest rates for floating ("fixed against floating"), but variable rates ("floating against floating") may also be exchanged.

Product variants:

Amortizing – the value of the principal decreases in a pre-arranged manner for each interest period.

Step up – the fixed interest rate changes in a pre-arranged way. At the start of the IRS, the interest rate is lower and gradually increases.

Under a standard swap, one party pays an amount that is usually derived from the fixed interest rate and remains unchanged for the duration of the agreement. The other party pays interest which is determined on the basis of the floating interest rate, the amount of which is not known in advance. The reference rate is determined for the purpose of setting the floating interest rate, and the interest rate for the period is then derived from the reference rate. Examples include 3M PRIBOR, 6M PRIBOR, 3M LIBOR etc. Interest rate payments are made in the same currency. There is no exchange of principal in interest rate swaps; both parties are only contracted to make mutual interest rate payments. The swap price therefore comprises the fixed interest rate.

EXAMPLE:

ABC has a concluded loan of CZK 1,000,000 for 5 years with quarterly payments based on the three-month PRIBOR interest rate. ABC wants to secure itself against a rise in the PRIBOR interest rate in the future, which would have a negative impact on its profitability. Therefore, ABC enters with the Bank into an interest rate swap with a principal of CZK 1,000,000 and a term of 5 years. Both parties agree that the payments of Enterprise A will be derived from a fixed interest rate of 1.2% p.a. and 3M PRIBOR will be used as the reference rate. The resulting interest rate swap price for ABC in this case will be a fixed interest rate increased by a credit margin.
Therefore, in the case of the credit margin of 1%, the resulting price of the swap will be 2.2% (since 1.2% + 1% = 2.2%) and, for this price, ABC will receive collateral against interest rate growth over the duration of the loan.

For whom is the product intended?

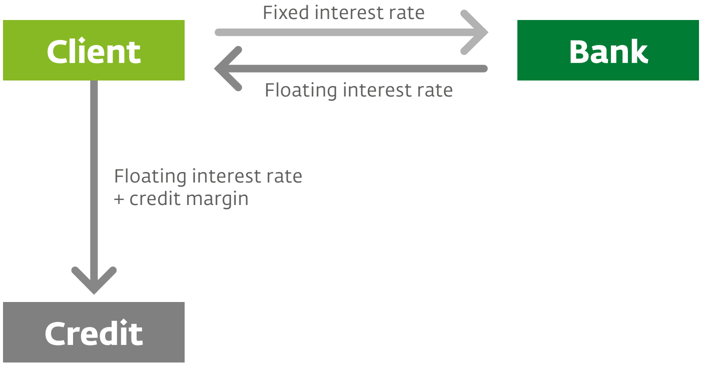
The "Interest Rate Swap" product is intended for small and medium enterprises and corporations that need to secure their obligations against interest rate movements. The swap principal amount and other parameters are negotiated individually based on the specific needs of the client.

Special conditions for the "Interest Rate Swap" product

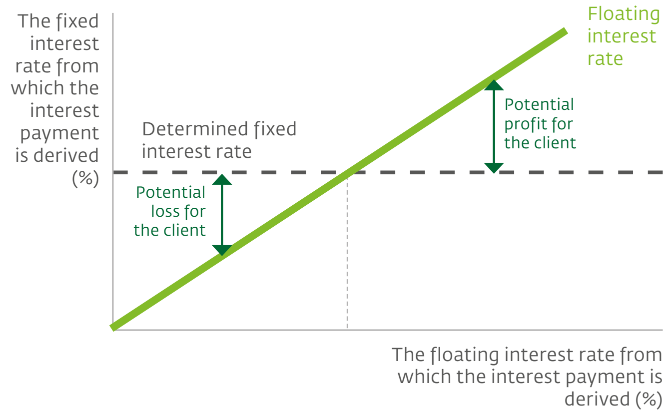
The "Interest Rate Swap" product is not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The nominal amount.
- The start of the transaction.
- The end of the transaction.
- The maturity or payment schedule of each sub-period.
- The definition of interest rates (fixed and floating).

IRS interest payment plan



Graphic representation of revenues / losses from the IRS closing



What are the advantages and risks of the “Interest Rate Swap” product?

Advantages	Risks
Elimination of interest rate risk – the Interest Rate Swap is used to reduce the interest rate risk. Eliminates the risk resulting from uncertainty about interest rate movements, thus also eliminating the interest rate risk of the loan.	**Fixed interest rate** – the fixed interest rate for the calculation of interest payments may be higher and therefore less favourable than the floating interest rate at that moment.
Fixed interest expense – pre-determined fixed interest expense (without taking into account the credit margin).	**Financial standing risk** – is derived from the possibility of counterparty default, causing the loss of positive values or making more expensive covering transactions in the market necessary.
Zero closing costs – no extra costs.	**Volatility** – price fluctuations of financial instruments in markets related to market risk.
No additional costs – no extra charges and costs.	**In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client’s position based on a contractual arrangement.**

Overall “Interest Rate Swap” risk indicator

1	2	3	4	5	6	**7**

Lower risk
Generally lower revenues

Higher risk
Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the “Interest Rate Swap” product?

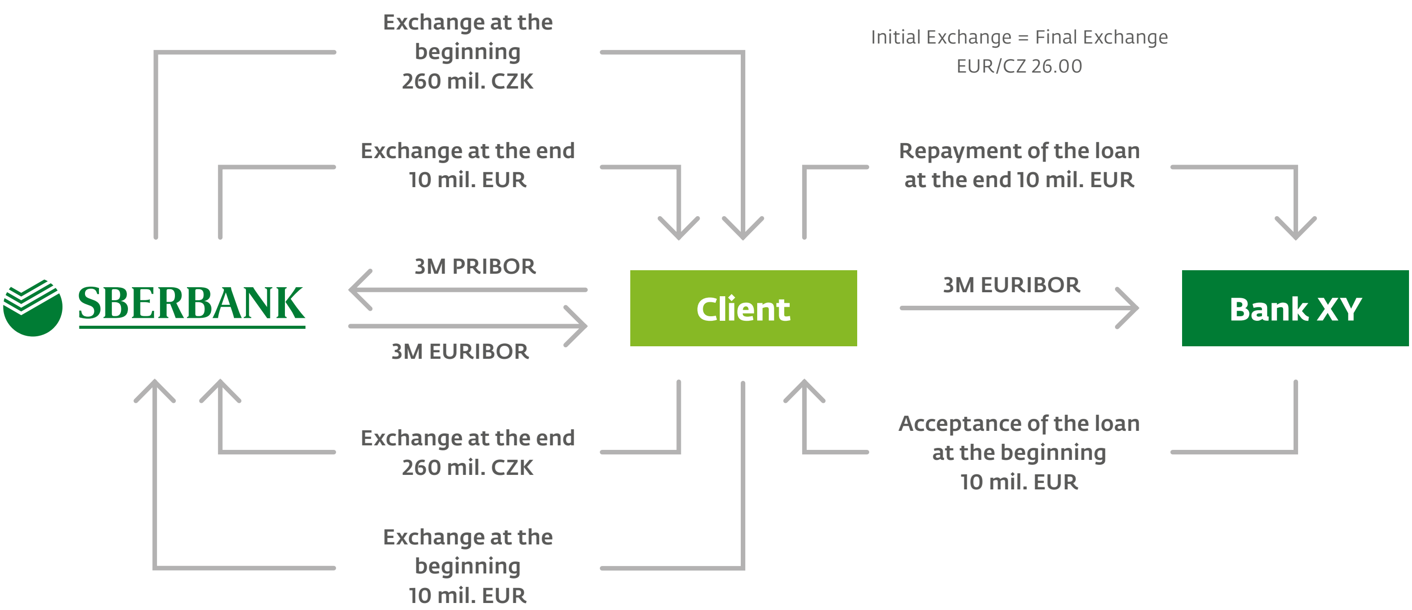
There are no costs or fees associated with the “Interest Rate Swap” product.

Cross Currency Swap – CCS

Product description

A Cross Currency Swap is an exchange of differently defined interest rate payables and different currencies on a fixed nominal value between two contractual partners. It is generally an exchange of fixed interest payments in two different currencies. Both interest payments can, of course, also be realised in the form of variable interest payables or in the form of swap of 1 variable and 1 fixed rate. The flow of 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 rate payables (interest rate receivables), there may be an exchange of capital both at the beginning (Initial Exchange) and at the end of maturity (Final Exchange).

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



EXAMPLE:

ABC receives a loan of EUR 10,000,000 at the EURIBOR + 0.5% rate, but its other business income is realised in CZK. Therefore, the client will close the Cross Currency Swap and exchange EUR 10,000,000 at the CZK 26.000 rate for CZK 260,000,000 based on an agreement to exchange the amount back on the maturity of the loan from CZK to EUR at the same rate. At the same time, the parties to the Cross Currency Swap agree to swap the EURIBOR interest rate for EUR and PRIBOR for CZK. The party which receives EUR pays the EURIBOR rate and the party which receives CZK pays the PRIBOR rate. Flows from the relevant interest rates are paid at the end of the individual interest periods. With the Cross Currency Swap, the client secures not only against the FX risk, but also against the interest rate risk that arises from the difference in the interest rate on the liabilities and income.

For whom is the product intended?

The “Cross currency swap” product is intended for small and medium enterprises and corporations that need to secure their obligations against interest rate movements. The nominal amount and other parameters are negotiated individually based on the specific needs of the client.

Special conditions for the "Cross Currency Swap" product

CCS are not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The nominal amount.
- The validity.
- The definition of interest.
- The definition of the currency.
- The definition of the exchange rate.
- Initial Exchange (yes/no) depending on whether or not it is agreed.

What are the advantages and risks of the "Cross Currency Swap" product?

Advantages

- **Elimination of interest rate risk** – the Cross Currency Swap is used to reduce the interest rate risk. Eliminates the risk resulting from uncertainty about interest rate movements, thus also eliminating the interest rate risk of the loan.
- **Fixed interest expense** – Effective interest expense is fixed in advance (no credit margin is taken into account).
- **Zero closing costs** – there is no need for additional costs to close the swap contract.

Risks

- **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** – 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** – is derived from the possibility of counterparty default, causing the loss of positive cash values or making more expensive covering transactions in the market necessary.
- **In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client's position based on a contractual arrangement.**

Overall "Cross Currency Swap" risk indicator

1	2	3	4	5	6	**7**

Lower risk
Generally lower revenues

Higher risk
Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the "Cross Currency Swap" product?

There are no costs or fees associated with the "Cross Currency Swap" product.

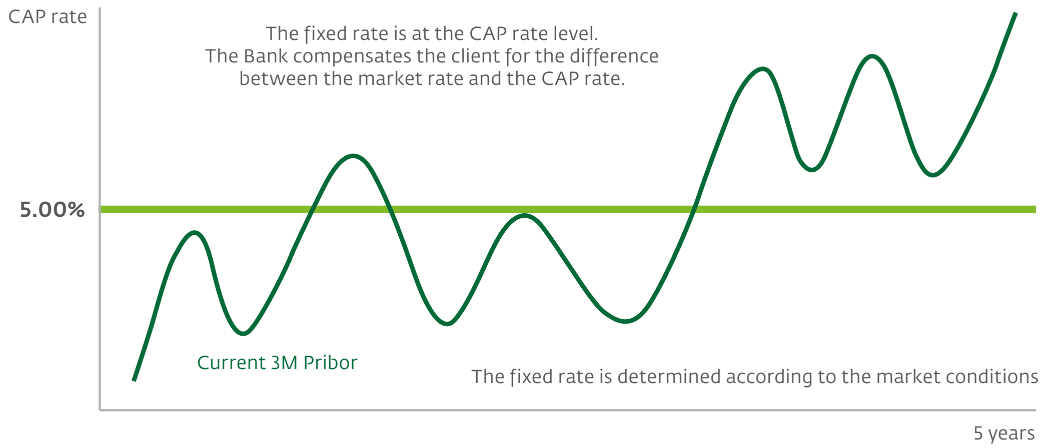
Interest Rate Option – CAP

Product description

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

Interest Rate Option – CAP is a tool to hedge the client's position against interest rate growth. It is used to hedge loans with variable interest rates against interest rate increases. It is an agreement between the CAP buyer and the CAP seller that if the agreed reference market interest rate exceeds the fixed maximum CAP interest rate on the relevant days, the seller will pay the buyer the interest rate difference resulting from these two rates; the agreement relates to the agreed underlying nominal CAP value and the interest period.

The CAP buyer hedge a maximum interest rate on its interest obligations. Selling a CAP can be used as a speculative instrument only. The seller receives the premium and undertakes to compensate the buyer for any difference in interest rates.



EXAMPLE:

In the past, ABC drew a loan with quarterly payments, where it still has to pay CZK 120,933,847.10.

The credit is linked to the 3M PRIBOR reference rate. The company wants to keep the opportunity to participate in a possible decline, but at the same time wants to be sure that the maximum rate will not exceed 5%. It therefore purchases CAP at a rate of 5% for 5 years, for which it will pay the option premium of 0.3% of the nominal value of the contract.

Scenarios:

1. If the reference rate is lower than or equal to the CAP on the relevant day, there is no compensation between the client and the bank.
2. If the reference rate is higher than the CAP on the relevant day, the bank will pay the client the difference between the reference rate and the CAP rate.

The relevant day for setting the reference rate – 2 business days before the start of the relevant period.

For whom is the product intended?

The "Interest Rate Option – CAP" product is intended for small and medium enterprises and corporations that need to secure their obligations against interest rate growth. The method and other parameters are negotiated individually based on the specific needs of the client.

Special conditions for the “Interest Rate Option – CAP” product

Interest rate options are not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The direction (purchase, sale) of the option.
- The nominal amount.
- The interest rate limit.
- The start and end of interest periods.
- The amount of the premium (if agreed).

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

What are the advantages and risks of the “Interest Rate Option – CAP” product?

Advantages	Risks
- **Elimination of interest rate risk** – the Interest Rate Option – CAP is used to reduce the interest rate risk. Eliminates the risk resulting from uncertainty about interest rate movements, thus also eliminating the interest rate risk of the loan. - **Fixed interest expense** – Effective interest expense is fixed in advance (no credit margin is taken into account). - **It allows you to fully profit upon a growth in interest rates without any disadvantage upon a decline in interest rates.**	- **Interest rate risk** – results from the possibility of future interest rate changes. The buyer of an interest-rate option may incur a price loss if interest rates rise/fall. - **Financial standing risk** – encountered by the buyer of an interest-rate option, derived from the possibility of counterparty default, causing the loss of positive cash values or making more expensive covering transactions in the market necessary. - **Risk of total loss on purchase** – the risk of total loss of the premium that must be paid regardless of whether or not the option will be used in the future. On the other hand, the risk of loss from the underlying value of the investment is totally excluded for options. - **In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client’s position based on a contractual arrangement.**

Overall “Interest Rate Option – CAP” risk indicator

1	2	3	4	5	6	**7**

Lower risk
Generally lower revenues

Higher risk
Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the “Interest Rate Option – CAP” product?

There are no costs or fees associated with the “Interest Rate Option – CAP” product.

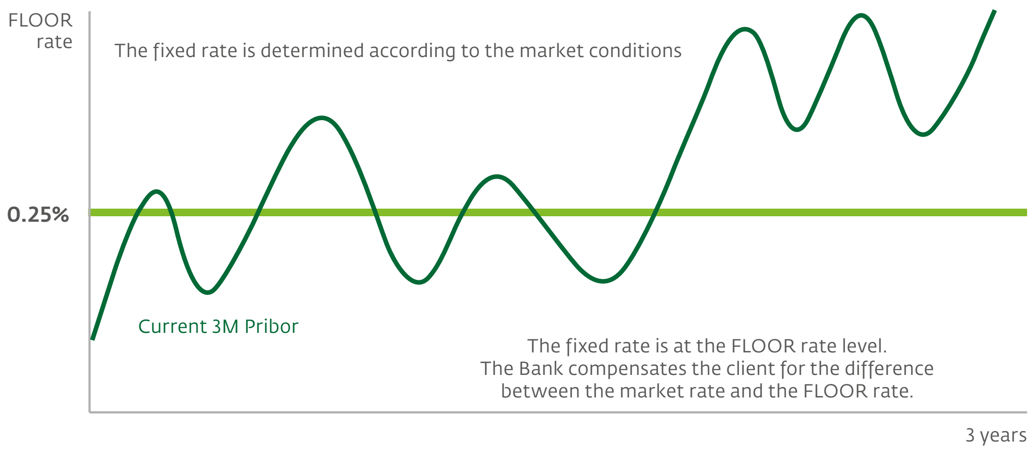
Interest Rate Option – FLOOR

Product description

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

Interest Rate Option – FLOOR is a tool to hedge the client's position against interest rate decline. If the market reference rate is lower than the Floor rate, the option buyer will receive their difference from the seller. If the market reference rate is higher than the Floor rate, the seller does not pay anything. The purchase of Floors is used by investors, for example, if they have a floating-rate deposit or bond and want to hedge against the decline in returns on this investment.

The buyer of the Interest Rate Option – FLOOR fixes the lower interest rate threshold and the seller receives the option premium and undertakes to make compensatory payments.



EXAMPLE:

ABC has deposited a 3-year deposit with interest of 3M PRIBOR + 0.5% in the amount of CZK 20,000,000. ABC wants to keep the opportunity to participate in a possible rate growth, but at the same time wants to be sure that the maximum rate will not drop below 0.25%. It therefore purchases FLOOR at a rate of 0.25% for 3 years, for which it will pay the option premium of 0.1% of the nominal value of the contract. Any performance is determined on the relevant day when the market interest rate and Floor rate are compared.

Scenarios:

1. If the reference rate is higher than or equal to the FLOOR on the relevant day, there is no compensation between the client and the bank.
2. If the reference rate is lower than the FLOOR on the relevant day, the bank will pay the client the difference between the reference rate and the FLOOR rate.

The relevant day for setting the reference rate – 2 business days before the start of the relevant period.

For whom is the product intended?

The "Interest Rate Option – FLOOR" product is intended for small and medium enterprises and corporations that need to secure their obligations against interest rate decline. The method of execution and other parameters are negotiated individually based on the specific needs of the client.

Special conditions for the "Interest Rate Option – FLOOR" product

Interest rate options are not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The direction (purchase, sale) of the option.
- The nominal amount.
- The interest rate limit.
- The start and end of interest periods.
- The amount of the premium (if agreed).

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

What are the advantages and risks of the "Interest Rate Option – FLOOR" product?

Advantages	Risks
Elimination of interest rate risk – the Interest Rate Option - FLOOR is used to reduce the interest rate risk. It eliminates the risk of uncertainty concerning interest rate decline.	**Interest rate risk** – results from the possibility of future interest rate changes. The buyer/seller of an interest-rate option may incur a price loss if interest rates rise/fall.
Fixed interest income – Effective interest income is fixed in advance.	**Financial standing risk** – encountered by the buyer of an interest-rate option, derived from the possibility of counterparty default, causing the loss of positive cash values or making more expensive covering transactions in the market necessary.
It allows you to fully profit upon a decline in interest rates without any disadvantage upon a growth in interest rates.	**Risk of total loss on purchase** – the risk of total loss of the premium that must be paid regardless of whether or not the option will be used in the future.
	In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client's position based on a contractual arrangement.

Overall "Interest Rate Option – FLOOR" risk indicator

1	2	3	4	5	6	**7**

Lower risk
Generally lower revenues

Higher risk
Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the "Interest Rate Option – FLOOR" product?

There are no costs or fees associated with the "Interest Rate Option – FLOOR" product.

Interest Rate Option – COLLAR

Product description

Interest Rate Option – COLLAR is a tool to protect against unexpected rises in the variable interest rate and at the same time reduces the advantage upon a decline of the interest rate. It combines the purchase of interest CAP and the sale of interest FLOOR (the same reference rate, interest periods and principal). The COLLAR buyer will receive the performance if the reference interest rate on the relevant day exceeds the CAP rate and, vice versa, the COLLAR buyer will provide the performance if the reference interest rate on the relevant day falls below the FLOOR rate. The Collar purchase premium is the difference between the premium paid for the purchase of the Cap and the premium collected for the sale of the Floor.

EXAMPLE:

ABC has drawn an investment loan of CZK 50 million with quarterly interest payments based on 3M PRIBOR. The credit margin is not taken into account. The company anticipates a fall in the rates, but wants to secure against their possible growth, and therefore closes the three-year costless COLLAR – buys the CAP with a rate of 2.00% and at the same time sells FLOOR at a rate of 1.00%. Both interest rate options have the same nominal and option premiums.

Scenarios:

1. The reference rate will be below 1% at the date of update, the client will pay the floating rate according to the agreed credit terms, and at the same time will pay to the bank the difference between the current reference rate and the lower rate (Floor rate).
2. The reference rate will be between 1% and 2% on the date of the update, the client will pay the floating rate according to the agreed credit terms, no compensation is made between the bank and the client.
3. The reference rate will be above 2% at the date of update, the client will pay the floating rate according to the agreed credit terms, and at the same time the bank will pay the client the difference between the reference rate and the upper rate (Cap rate).

For whom is the product intended?

The "Interest Rate Option – COLLAR" product is intended for small and medium enterprises and corporations that need to hedge their obligations against interest rate growth. The method of execution and other parameters are negotiated individually based on the specific needs of the client.

Special conditions for the "Interest Rate Option – COLLAR" product

Interest rate options are not standardised. It is a tailor-made investment instrument, and therefore the details of the transaction must be contracted in advance. It is also extremely important for the client to be informed about the exact transaction conditions, in particular:

- The nominal amount.
- The interest rate limit.
- The start and end of interest periods.
- The amount of the premium (if agreed).

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

What are the advantages and risks of the "Interest Rate Option – COLLAR" product?

Advantages	Risks
Elimination of interest rate risk – the Interest Rate Option – COLLAR is used to reduce the interest rate risk. Eliminates the risk resulting from uncertainty about interest rate movements, thus also eliminating the interest rate risk of the loan.	**Interest rate risk** – results from the possibility of future interest rate changes. The buyer/seller of an interest-rate option may incur a price loss if interest rates rise/fall. **Financial standing risk** – encountered by the buyer of an interest-rate option, derived from the possibility of counterparty default, causing the loss of positive cash values or making more expensive covering transactions in the market necessary. **Risk of total loss on purchase** – the risk of total loss of the premium that must be paid regardless of whether or not the option will be used in the future. **In the case of an unfavourable development of the product price, the bank may require the client to provide additional collateral, or close the client's position based on a contractual arrangement.**

Overall "Interest Rate Option – COLLAR" risk indicator

1	2	3	4	5	6	**7**

Lower risk
Generally lower revenues

Higher risk
Generally higher revenues

This risk indicator makes it easier to understand the risks that are relevant to the product compared to other products. It takes into account the probability of possible losses and includes factors that determine the final yield of the product.

This product belongs in a group of derivatives, and it is therefore generally evaluated as a high risk with an overall risk indicator at the level of 7. If the Bank fails to meet its obligations, there is a risk of losing the entire investment.

What are the costs of the "Interest Rate Option – COLLAR" product?

There are no costs or fees associated with the "Interest Rate Option – COLLAR" product.