INFORMATION FOR THE CLIENTS AND POTENTIAL CLIENTS OF FINAX, O.C.P., A.S.

ABOUT FINANCIAL INSTRUMENTS AND ABOUT RISKS RELATED TO FINANCIAL INSTRUMENTS

1. General information

1.1 Providing investment services, investment activities, and supplementary services by Finax, o.c.p., a.s. (hereinafter only as the „Broker“) to its clients and potential clients (hereinafter only as „Clients“) is related to the duty to provide a general description of the nature and risk of financial instruments. A general description is understood as the provision of information to explain the nature of individual financial instruments and the risks related to them. The general description will make it possible to create a sufficient basis for the Client's investment decision. The target of the information contained in the following text is to provide a basic description of the nature of financial instruments for the Clients of the Broker which are accessible to these Clients by means of employees of the Broker, investment agents, and tied agents of the Broker.

1.2 Detailed description of trading with financial instruments, explanation of related terms, procedures, and rules for trading with individual financial instruments can be found in General Terms and Conditions (further as „GTC“). The GTC create part of contractual documentation which governs the realization of trades with financial instruments between the Client and the Broker. The GTC are publicly accessible to the clients and potential clients on the Broker web page of the Broker www.finax.eu/en.

2. General description of the nature of financial instruments

2.1 The Broker provides the Clients a possibility to realize financial operations with transferable securities, particularly with stocks, bonds, and with mutual funds. Investing into financial instruments is characterized as placing free financial funds of the Client to financial instruments with the purpose of reaching the target set by the Client at the rate of risk set in advance and at the time horizon of the investment.

2.2 When making an investment decision, it is necessary to account for the individual needs of individual Clients and specific features of individual financial instruments.

2.3 Three criteria create the basic investment triangle:

Investment risk - possibility of a decrease in the value of investment of the client,

Investment liquidity - the speed of transfer of investment to cash,

Investment yield – the amount of appreciation of financial funds of the client.
This investment triangle shows that it is not possible to reach all three peaks of this triangle at the same time. In other words, it is not possible to reach high yields at low risk and high investment liquidity. The two investment antipoles are then presented by the investment with high yield at a high rate of risk and low liquidity rate and investment with a low rate of risk,

low yield, and high liquidity. So, when deciding on a concrete investment, one has to search for a compromise between the yields, risk, and liquidity depending on the individual preferences of the certain Client.

2.4 Securities are a listing that is possible to be evaluated based on money in a way and form stipulated by law with which certain rights are connected, particularly the right to require certain proprietary fulfillment or the right to execute certain rights towards persons stipulated by law.

1) **A stock** is a security representing a part of the basic capital of a company that has emitted the particular stock. Every stockholder is a shareholder of this company. A shareholder, as a partner has, in terms of the relevant regulations and terms of the Bylaws of the company, the right to take part in the management of the company, in its profit, and in liquidation balance when liquidating the company. The management of the company is realized by individual shareholders using voting rights at the General Assembly Meeting of the company, share of profit is gained by the shareholders via dividends (payment of dividends is not guaranteed and their amount is approved by the General Assembly of the Company).

   Besides yields in form of dividends, the shareholders can gain yield also from the increasing value of the stock prices. In cases when the company shows long-term positive and increasing economic results, the value of the stocks of such company increases, thus providing a possibility to the investors to gain yields in case of sale of such stocks for a price that is higher than the purchasing price of these stocks. Similarly, in case of negative development of economic results of the company, the value of stocks can decrease.

   The basic motivation for investing in stocks, as said above, is gaining a share on the assets of the company, following participation in its management, and gaining yields from this investment via dividends. The second incentive that can be connected with the previous one, or can be realized separately, is the expectation of positive development of the price of stocks in time. In this case, the investor relies on an increase in the value of stocks on the market, by means of which he should reach a positive balance between sale and purchase price. In the first case, it is a clear long-term investment, in the second case, also short-term market price developments can be used to reach the expected result of the investment.

2) **Bonds** are securities in case of which their owner is the creditor of the one who has issued the bonds (issuer, debtor). The issuer of the bond has the duty to pay the nominal value to the owner on the set maturity date and to pay interest (so-called coupon) according to conditions stipulated in advance and which are provided for in issuing conditions. Yields on investments to bonds are created by coupon yields and possible capital yields. While the coupon is in most cases known in advance, the capital yield can result from the balance between the price of the bond at its purchase and sale, resp. as the difference between its issuing price and its nominal value if paid at maturity. Total

yields of a bond can be thus calculated precisely in advance only on the condition that its owner will keep them till their maturity (so-called yield to maturity).

There are several bond types, based on issuer type it can be state, bank, municipal or corporate bonds. Special bond types are mortgage bonds that are covered by real estate (e.g., lien on them).

3) **Money market instruments** are financial instruments with which trading is executed generally on the money market. The maturity of the instruments of the money market is then shorter, generally within one year. Among the instruments of the money market, particularly treasuries and deposit certificates can be listed. The importance level of the majority of the risks is at money market instruments usually lower compared to bonds.
4) **Mutual fund units or securities issued by foreign subjects of collective investing** are financial instruments of collective investing (UCITS). Collective investing is collecting and administrating monetary funds of many individual investors and providing mass investing of these funds to securities and other financial instruments. Yields on investments to funds are volatile and it is not possible to set them in advance. It depends on the yields of individual financial instruments contained in the portfolio of tacertain fund. Based on portfolio structure there are money market funds, fixed income funds, equity funds, mixed funds, funds of funds, real estate funds, etc.

5) **ETFs and exchange-traded products that mimic underlying financial instruments such as securities, indices, commodities, or raw materials.**

ETF

An ETF is an exchange-traded fund. ETFs operate in essentially the same way as other funds, plus the titles issued by these funds are traded on an exchange. In accordance with their legal structure, this type of fund can constitute undertakings for collective investment in transferable securities (UCITS).

The fund issues titles, which are purchased by investors. A participation title denotes a share in the total assets of the fund, i.e., the right to some part of it (i.e. the net asset value per such participation title). The accumulated funds are then invested by the fund. Hence the name of the collective investment sector, of which the fund is an instrument - the fund invests the common (collective) assets of all its investors. The fund's assets include the assets invested by the fund following its investment policy. In order to achieve performance (indices or other specified indicators), ETFs may perform physical replication, where all titles represented in the reference title are included in the fund's portfolio (this may also be partial physical replication, where titles with negligible weight, liquidity or due to the investment strategy setup - e.g. arms industry, etc. are omitted from the portfolio). Another method is synthetic replication, whereby such ETFs are generally swap-based and invest in a substitute basket of securities, whereby the ETF manager agrees with a selected counterparty (e.g. a major bank) to swap the performance of the

substitute basket of securities for the performance of a tracked index or other specified indicator.

Advantages of ETF-type investment funds:

a) passive management - the purpose of many ETFs is to reflect (replicate) the behavior of a given index (e.g., stock, bond or commodity). This is known as passive management in that the manager's job is to replicate the index as accurately as possible and faithfully mimic its changes (by physical and/or synthetic replication), with actively managed ETFs, as opposed to passively managed ETFs, attempting to outperform the market (which may be reflected in the price of the ETF),,
b) low costs associated with the investment - compared to traditional mutual funds, they have lower management costs. This is because ETFs, which are passively managed funds, that do not try to beat the index, but credibly imitate it. Low costs make ETFs suitable for the vast majority of investors - both institutional and individual investors with small amounts of funds. They easily allow access to entire countries, regions, economic sectors, bonds, commodities, and much more,
c) listed on an exchange - ETF titles are listed on an exchange in a continuous trading system and can be traded on the same basis as stocks. For this reason, the purchaser of ETFs incurs costs when buying/selling units,
d) continuous valuation - ETF funds are continuously valued by the market during the trading session hours; hence the investor can keep track of investments and buy and sell them during the session through a brokerage firm,
e) trading liquidity - market makers, commonly known as "liquidity providers," oversee the liquidity of ETFs. They sign a contract with the exchange in question, which establishes, among other things, the rules for making transactions, maximum order values, and the transaction spread, i.e., the difference between the buy and sell value. The other party to the transaction is investors interested in ETFs. Importantly, the price of an ETF is not the market price, resulting from the demand and supply for the instrument, but the amount resulting from the bids of market makers, who base them on the valuation of the underlying instrument, i.e., the index (iNAV - current net asset value per unit),
f) diversification - most ETFs offer a broad distribution of risk, i.e., diversification of the investments made in such a way as to reduce the risk inherent in placing capital in financial market instruments or financial instruments linked to other markets (e.g., commodities). Diversification of the portfolio is possible because by investing funds in ETF-type fund titles, the investor indirectly acquires a portfolio of financial instruments usually consisting of a variety of assets (stocks, bonds, derivatives) with composition and proportion corresponding to the composition and proportion in which these instruments appear in a specific financial market index or sub-index. In this way, an investor, purchasing ETF titles, "buys an index" (usually an index of the stock or bond market), which allows him to disperse the

investment risk to a much greater extent than if he had invested in the financial market on his own with limited financial resources.

g) high degree of security - ETF titles can be described as some of the safest financial instruments. Intended for the general public and sold on exchanges, they are subject to the highest level of scrutiny and strict regulation when subject to the UCITS Directive, which is a pan-European harmonized system for the management and sale of mutual funds. UCITS unifies the regulation of funds across Europe and introduces required fund standards and uniform consumer protection requirements.

ETC (exchange-traded commodities)

An ETC is a financial product that tries to mimic the price of a commodity (such as gold) or a commodity index. ETC products are traded on exchanges, and their quotes change as the price of the underlying commodity changes. They are structured as debt securities with the commodity as collateral.

ETNs (exchange-traded notes)

ETNs are financial products that mimic a corresponding index or group of assets. They represent the issuer's commitment to pay the investor a rate of return equivalent to that of the index/asset group. ETNs are structured as debt securities and are similar to unsecured bonds listed on an exchange, but do not pay interest.

3. General description of the risks connected with investments in financial instruments

3.1 Investing in financial instruments is connected with various risks that can influence the yield on certain investments to a larger or smaller extent. The goal of this document is to provide a summary of information and general warnings about risks connected with financial instruments in a way that the investor gets a general summary of financial instruments, understands their operation and, consequently, recognizes the risks connected with them sufficiently to be able to realize a particular investment decision.

3.2 It would be undesirable for an investor to make an investment decision without being informed about the characteristics of individual financial instruments and without awareness of the investor's exposure to the associated risks of each of them. Every investment decision should be based on the knowledge and experience of the investor with individual financial instruments, his targets, and finally his financial situation.

3.3 The Broker aims to explain the general risks connected with most financial instruments to the Client. The risks described in this document can appear simultaneously for individual financial instruments and they can have an unpredictable influence on the value of the investment. At the same time, the investors have to recognize that every financial instrument contains a certain rate of risk, so investment strategies with a low-risk profile also contain a certain level of uncertainty. Legitimate risks connected with the investment then depend on various factors, including the way of emitting or structuring a certain financial instrument.

3.4 All Clients or potential Clients have the right to be informed about general features of financial instruments and about risks related to financial instruments which each of the Brokers is obliged to provide them with sufficiently in advance, before the provision of the service, in a way that they create a sufficient basis for the investor to make an informed and proper investment decision.

3.5 The obligation of the Broker to inform the Clients about individual risks connected with financial instruments depends on the category of the Client and considers the professional knowledge and experience of the certain Client related to trading with financial instruments.

3.6 **Risks of financial markets**

The risk indicates the probability of the appearance of damage or loss. Financial risk is in general defined as the potential financial loss of the subject and it occurs in financial markets. The potential loss does not mean the already existing, realized or not realized financial loss, but the future loss resulting from investing in the given financial instrument. These are risks that can be presumed and their impacts on the total evaluation of the investment can be decreased. The risk of the financial market can be used also for reaching higher yields on investments.

Individual risks connected with investing in financial instruments can be risks that can be applied to all types of financial instruments. The target of this part of the document is, for this reason, to summarize the description of basic risks connected with financial instruments which are generally possible to be applied to any financial instrument.

3.7 **Types of risks**

Market risk or the risk of an adverse change in the price of the underlying instrument
The market risk is the risk from the market development point of view in the form e.g., of a change of exchange rates, interest rates, prices of stocks, credit interval, or the value of indexes. It means that fluctuations in the price of a financial instrument due to changes in market factors, such as interest rates, foreign exchange rates, and indices, will negatively affect financial performance. It can also make it difficult for an investor to exit an investment.

Interest rate risk
Interest rate risk is the risk of loss due to changes in prices of financial instruments sensitive to changes in interest rates. It is particularly the risk of change of interest rates, change of shape of the yield curve, change of interest rates volatility, and change of relationship or interval of interest indexes. Change of interest rates can expose the holder of the financial instrument to the risk of loss in case the given financial instrument is sensitive to a change of interest rate and the investor decides to sell this instrument before the maturity date.

Most frequently, the risk of interest rate occurs in relation to debt investment instruments. In the case of instruments such as stocks, the risk related to the interest rate is substantially lower, as it influences the development of stock prices from a long-term macroeconomic point of view.

Currency risk

This risk is taken when investing in foreign currency. This is a threat that the foreign currency in which the asset is denominated, shall depreciate in course of the investment period compared to the domestic currency and due to this, the yield of the investment expressed in domestic currency will decrease. The appearance of the exchange rate risk is then only in cases when there is a risk of loss resulting from changes in the prices of instruments that are sensitive to changes in the value of exchange rates. This is particularly the risk of change of spot exchange rate and risk of change of exchange rate volatility. The investor can be exposed to exchange rate risk in the following cases:

(a) realization of purchase of the financial instrument is in foreign currency, while the foreign currency funds have been purchased for own domestic or other foreign currency and after finishing the investment the investor plans to exchange the funds back to domestic, resp. other foreign currency.

(b) the investment is realized by means of a financial instrument that makes it possible to pay the yield of investment or also the originally invested amount during or at maturity of the product in another currency than the original currency of the investment.

When transactions are settled in foreign currencies, the Client also bears the risk arising from the exchange of the foreign currency amount obtained from the transaction's settlement into the base currency of the held cash account (e.g., PLN). For example, for EUR/USD transactions where settlement is carried out in USD and the Client's local currency is PLN, USD/PLN risk also arises. This risk arises from changes in the exchange rate of the settlement currency (USD in our example) to the base currency of the held cash account (PLN in the example).

Liquidity risk

Liquidity risk is the risk of being unable or restricted from trading a financial instrument that cannot be bought or sold at any time, or the price at which the transaction will be executed deviates materially from the price that could be obtained in a fully liquid market. Increased liquidity risk may particularly occur in a market downturn. Instruments with standard volumes, characterized by high market turnover (e.g., EUR/USD) are less exposed to liquidity risk than instruments with atypical (generally too small) volumes and unique (exotic) characteristics (such as certain groups of currencies considered exotic in the market).

The liquidity of the market of the relevant financial instrument depends on the fact how the market is organized (regulated market or OTC market), on the number of market participants, but to the largest extent on the features of the financial instrument itself. In general, it is valid that the shorter the certain financial instrument is established on the market, the smaller its liquidity is. The liquidity of individual financial instruments is not a constant and it can change in time, as well as, e.g. due to shifts of time zones, when the global liquidity on the markets is shifted together with time.

The investor should get information about the liquidity of the given financial instrument and about the possibility of re-selling such stocks particularly in the case when he requires the

realization of the transaction with stocks out of the main indexes of individual stock exchanges. He should require information about liquidity also for ordinary traded stocks in case he does not have any experience with investing in such stock or a longer period of time elapsed since the execution of the last transaction.

Place of execution risk

Place of execution risk is connected with the market or place on which the transactions with the relevant financial instrument are realized, in case the place of transaction is not the same as the “domestic” place of transaction of the investor. At the same time, the investor is exposed to currency risk.

Every investment at a foreign market or which contains foreign elements can be connected with risks of the relevant foreign market that can differ from domestic market risks. Specific cases are emerging markets that often contain risks that do not appear in developed markets. Investments in these markets often have speculative features and they should be considered extremely carefully while considering all possible risks connected with these markets. These risks are described in more detail in point 3.8. of this document.

Inflation risk

Inflation (devaluation of the value of the money) decreases the real investment return. In order to be able to calculate the real return of an investment, we have to deduct the rate of inflation. It has also to be considered that at higher inflation the purchasing power of the investment decreases.

Relative performance risk

The Relative performance risk is a risk that the performance of the financial instrument will not meet the performance of the benchmark (market standard). It occurs if the investor buys a financial instrument based on comparing its performance with another financial instrument considered to be a benchmark.

Country risk

New taxes, new regulatory rules, new legal regulations, or limitations of benefits that the investor has acquired in time of investment into the relevant financial instrument providing such benefits, represent the risk of the country. This can be influenced only by the government or any other relevant state authority. Political risk is closely connected with country risk and that is connected particularly with the possible change of political powers or political direction of the relevant country that is accompanied by a change of tax, legal, fiscal, or other system influencing the benefits from investments related to the given country. The existence of political risk brings along uncertainty for individual market players. This can be manifested in form of higher volatility of financial instruments´ prices that can result in sell-outs on given markets resulting in a change of attitude of investors to the risk.

Volatility risk

Volatility measures variability (unsteadiness) of the price of the financial instrument and it is high if the price of the financial instrument changes significantly during a certain period of time (in the case of some instruments it is on daily basis, in case of other ones the period is

longer). The volatility risk is connected with the movements of prices of individual financial instruments. It is set based on a comparison of the average difference between and highest and the lowest price of the financial instrument during the set period of time and it represents the risk of potential loss caused by the rate of the price variability of the given financial instrument.

For every financial instrument, for every market, and for every monitored period of time, the volatility is individual. Volatility is a highly unstable parameter from its value point of view in time. Even volatility itself has its own volatility. For this reason, the client should get information about the actual or historical volatility of the given financial instrument and its impact on the profitability of the considered investment decision before the investment.

Settlement risk

The risk that the transaction with a financial instrument is not settled or the financial instrument is not delivered on the agreed day, is the settlement risk. The risk is in this case equal to the difference between the agreed-upon price of the financial instrument and the real price on the market on the settlement day. This difference can mean a loss in case the transaction would not be settled and the given trade with a financial instrument would have to be realized for the actual market price.

Trading with securities has various procedures for settlement and their delivery while some of the procedures of settlement can be influenced from a volume point of view that sets the way and process of their settlement. The inability to settle a transaction due to such procedural limitations can mean for the investor a limitation or loss of the chance to invest in other alternative investment opportunities.

Counterparty risk/credit risk/

The risk of default in securities, where the borrower or counterparty may default on its obligations as agreed in the terms of a particular trade.

3.8 Risks when investing in emerging countries

At present, investors more and more focus on investments in financial instruments traded in emerging markets that make it possible for investors to gain alternative investments with higher yields compared to traditional markets. However, a higher yield is connected with a higher rate of risk that is often quite specific for the given market and the given financial instrument.

Emerging markets represent markets for trading with financial instruments which are featured particularly by:

(a) variable performance of the economy,
(b) a certain level of political instability,
(c) unpredictable financial markets and parameters of economic development,
(d) financial markets that are still in the developing stage.

Emerging markets are markets where one or more of the above-mentioned features are true.

The investor is exposed to risks in case he invests in financial instruments in a developed market and the issuer of these instruments has a seat on the territory of emerging markets or his activities are focused particularly on the territory of these markets.

The investor should, before investing in such instruments, get information about all risks connected with investing in such markets. Investing in financial instruments accessible in emerging markets is often speculative.

The following list of risks provides basic information about risks that should be considered when investing in emerging countries.

a) Economic risk

Market turbulences and price fluctuations are more probable and larger in magnitude in economies of emerging countries because they are more sensitive to changes in exchange rates and inflation. Furthermore, the focus of activities and production in such economies is often rather narrow and for this reason, individual events can have a many times larger impact on the economy and markets in emerging countries than it is in the case of developed economies and markets. The lack of adequate regulation and monitoring from the side of national regulators represents a huge shortcoming in emerging markets.

b) Currency risk

The exchange rates of emerging economies are subject to large and unpredictable changes in their value. Further, it is necessary to say that some countries limit or in other ways restrict trading with local currencies. Hedging and securing operations can limit potential losses and risks resulting from operations with local currencies, on the other side, however, these risks cannot be fully eliminated due to the unpredictability of the behavior of local markets.

c) Market risk

A smaller number of sophisticated methods of monitoring of financial markets can lead to a low level of transparency, effectiveness, liquidity, and regulation of individual markets. These markets are, furthermore, characterized by high volatility, large movements of prices, and the possibility of unauthorized influencing of market prices and abusing information.

d) Settlement risk

Some of the emerging economies use clearing systems and systems for settlement of financial operations that can significantly differ from the systems used in developed economies. In some cases, there is a complete absence of such systems or the existing systems are unreliable with a lot of mistakes when processing transactions or cause significant delays at settlement and delivery of financial instruments.

e) Legal risk

In these markets, there can be legal uncertainty due to national jurisdiction being not experienced with the functioning of financial markets. Furthermore, the absence or lack of systems for monitoring financial markets can lead to problems and troubles when setting up the investor´s claims resulting from holding financial instruments.

f) Political risk

The risk of principle changes in the national economy and the political system on the short-term horizon is increased by the instability of the political system and inexperienced political bodies of the country or the government. The impacts on the investors can be a distraint of assets of the investor without compensation, limitation of rights of the investor concerning ownership of the assets, or dramatic change of the value of assets of the investor caused by state interventions or by the implementation of state control mechanisms.

g) Liquidity risk

The liquidity of individual markets also depends on demand and supply. Due to the impact of natural disasters or due to impact of social, economic, and political changes on demand and supply in emerging economies, these facts can have a far quicker and longer-lasting effect as it would be in the case of developed markets, while, in extreme cases, they can lead to a total absence of liquidity on the given market. This fact can result in the investor’s inability to sell his assets in the case that he wants to finish or reduce his investments in emerging economies.

4. The main risks associated with individual financial instruments, in addition to those mentioned above

1) Stocks

A characteristic feature of investments in stocks is that they are characterized by relatively high price volatility (compared to bond price volatility), especially in the short term, verified by the capital market. Among the risk factors affecting the valuation of a company's shares are:

- macroeconomic risk - related to the sensitivity of the capital market to domestic and global macroeconomic factors,
- industry risk - related to increased competition, a decline in demand for products sold by industry players, as well as technological changes,
- company-specific risks - related, for example, to the quality of management, changes in the company's strategy or business model, changes in the quality of corporate governance, and dividend policy.

Other potential risks are:

- **non-allocation of subscribed shares or failure of the issue to materialize** - if an investor places an order and receives fewer shares or the issue fails to materialize, then he suffers a loss due to the freezing of funds, usually in a non-interest-bearing account, as well as the failure to take advantage of other investment opportunities.
- **stock supply at the IPO** - if there are many sell orders at the first listing, the stock price may be lower than expected or the purchase price of the shares on the primary market. Such an event has an adverse effect on subsequent listings, as investors become discouraged from buying shares in a particular company. This may be the result of a deterioration in the company's economic situation or the overall stock market.
- **volatility of quotes** - the quote of a company's shares is influenced by the overall stock market situation. It also depends on the situation in the world's leading stock

exchanges. Investors then lose sentiment towards stock market investments; risk appetite and stock prices fall. As a result, during a drop, the prices of most stocks fall, including those of financially sound companies It often takes quite a long time for the trend to reverse.

- **the liquidity of the securities market** - low turnover in the securities market results in difficulties in selling shares held at the expected price,
- **suspension or de-listing** - if an issuer violates the rules of the stock market or the interests and safety of trading participants require it, its securities may be suspended or de-listed. Investors will be left in such a situation without the opportunity to sell their securities,
- **compulsory buyout** - if a shareholder reaches a qualified majority (90-95% for countries belonging to the European Union) of the total number of votes at a general meeting, he has the right to demand that the remaining shareholders resell to him all the shares they hold. This means the exclusion of minority shareholders.

The main determinant of the risk of investing in shares is the financial condition of the issuing company, reflecting the company's specific risk. In a situation where the company is doing well, then as the value of the company increases, the price of its shares may rise, or a share in the company's profit, i.e. dividends, can be expected. However, considering the principles of the free market economy, when investing in security such as a share, one should also take into account difficulties in selling the company's products, lack of profits, and, consequently, a decline in the market value of the company, or even its bankruptcy, which will ultimately reduce the value of the company's shares.
An investor should be aware that the stock market is highly dependent on the domestic and global macroeconomic situation. This includes the rate of economic growth, the level of interest rates, and the rate of inflation. Regarding shares of specific companies, the investment risk is related to the economic and financial situation of the company. Changes in the company's management or supervisory bodies, affecting decisions at both the strategic and operational levels of the company, can also be a threat to investments in shares.

2) Bonds

Bond prices are more stable than prices of, for example, stocks, but they show considerable sensitivity to changes in market interest rates and the rating of their issuer.
The main risk factor for investing in bonds is credit risk, i.e., the risk that the bond issuer will not fulfill its obligations as specified in the prospectus. There is a risk that the issuer, as a debtor to the bondholders, may fail to return the face value of the bonds with interest due or other benefits, if any, or fail to do so within the timeframes specified in the prospectus.

The degree of risk depends on the credibility of the issuer, i.e., the rating given to it by rating agencies. Highly rated include Treasury debt securities (bills, bonds), while the lowest rated include corporate debt securities with a high degree of financial risk.

An important risk factor for debt instruments is the change in market interest rates directly affecting the valuation and profitability of bonds. An investor deciding to buy coupon bonds should pay attention to reinvestment risk.
The primary measure of the yield of bonds purchased is their yield to maturity. When a bond is purchased, its yield to maturity is calculated on the assumption that the coupons received from holding the bond will be invested at the interest rate on the date the bond was purchased, i.e., on the assumption that interest rates will remain unchanged throughout the holding period.

In connection with an investment in bonds, the following risks are distinguished:
- **default risk/counterparty risk/, i.e.** the failure of the issuer to meet its obligation to redeem the bonds or pay interest,
- **reinvestment risk** - the risk that the investor will not be able to reinvest the coupons received while holding the bond at the interest rate originally assumed (when calculating the yield to maturity),
- **interest rate risk** - resulting from the fact that when market interest rates rise, the price of bonds falls,
- **credit risk** - the risk of insolvency of the issuer, the guarantor of a security or money market instrument is the possibility that the debtor may fail to meet its obligations;
- **liquidity risk.**

3. Money market instruments
Investments in money market instruments involve risks characteristic of bonds, with less exposure to interest rate risk.

For money market instruments, the main risks are counterparty risk and interest rate risk.

A Government Treasury bill is considered a low-risk instrument due to lower levels of the following risks:
- **default risk/counterparty risk/** - since the issuer is the government, this risk is essentially nonexistent;
- **price risk** - this risk does not exist if the Treasury bill is held until maturity (the holder receives a known nominal value); this risk arises if the investor intends to sell the bill before maturity (the holder receives a value equal to the previously unknown selling price).

4. Units or securities issued by foreign collective investment undertakings (UCITS).
The following risks are associated with investments in units or securities issued by foreign collective investment enterprises (UCITS):
- market risk - since foreign collective investment undertakings (UCITS) invest investor funds following their investment policy in relevant asset classes, the value of these asset classes is affected by many factors, including macroeconomic, sectoral, political, or specific to each asset class. Due to the impact of these factors on the values of the

various assets in which UCITS invest, units or securities will fluctuate. The change in the value of the assets in which UCITS has invested will be reflected in the value of the unit or security purchased by the client in the UCITS. Market risk may result in the Client's failure to achieve the intended rate of return on the investment or deferring it.

- liquidity risk - liquidity risk for UCITS is limited by regulations, which stipulate that UCITS invest in liquid assets. If the assets in which a UCITS has invested cannot be sold quickly at a satisfactory price to repurchase or redeem units or securities from customers, there may be a problem with the repayment of obligations to customers. This problem may be exacerbated during periods of stress when investors may make withdrawals en masse.
- currency risk - currency risk occurs due to the fact that UCITS units or securities may be listed and issued in foreign currencies. If the foreign currency in which the UCITS units or securities are denominated loses value against the local currency during the investment period, the return on investment expressed in the local currency will decrease.
- credit risk - is the risk of insolvency of the UCITS, and thus the inability of the issuer of units or securities to meet, in whole or in part, its obligations. This risk can materialize when the UCITS is unable to sell assets within a reasonable time to satisfy customer claims, through repurchase or redemption of units or securities. Credit risk is greater when UCITS rely on external financing to satisfy ongoing operations.

5. ETF funds

The most significant risks associated with investing in ETF investment fund titles include:
1) **the risk of failure to achieve the rate of return** on the titles expected by the fund participant, resulting from the inability to predict future changes in the value of the individual components of the fund's investment portfolio, and thus determine the future value of the title and, consequently, the expected rate of return. The fund's performance is affected not only by a huge number of economic variables but also by several factors of a political, legal, psychological, operational nature. The most important factors that affect the magnitude of this risk are: the assumed investment horizon, the choice of an ETF fund that corresponds to the investor's preferences (primarily risk attitude), the timing of the start of the investment, the cost of participation in the ETF fund;
2) **the risk of special circumstances**, the occurrence of which is beyond the participant’s control (or it can be influenced only to a limited extent), in particular:
(a) **liquidation risk** - under the applicable law, the ETF fund may be liquidated - this may be the result of circumstances enshrined in the law or may be the result of the issuer's decision;
(b) **risk of changing the investment policy** - an ETF fund may, in the course of its operations, change the investment policy pursued;
3) **inflation risk** - understood as the risk of an increase in the general level of prices in the economy, which consequently leads to a decrease in the purchasing power of the money entrusted to the ETF fund. When calculating the rate of return on investment, it is,

therefore, necessary to take into account, in addition to the basic types of costs associated with investing in ETFs, the rate of inflation;

4) **regulatory risk** - when investing in ETF titles, one should take into account the possibility of changes in the legal regulations governing the rules of the financial market, especially this market of mutual institutions - both on a national (e.g. laws, regulations) and regional (e.g. EU directives) scale. These changes may adversely affect the activities of ETFs (e.g., limiting the financial instruments available to them or reducing investment limits), and as a result may limit the potential benefits for fund participants. Of particular importance for participants in ETFs may be changes in the tax law regarding the placement of funds in ETF titles;

5) **risk related to the lack of influence over the fund's management** - an investor who entrusts savings to an ETF fund must accept the fact that he or she will have no direct influence on how the fund will implement the investment policy declared in the prospectus (this remains solely at the discretion of the fund's managers).

6) **the risk of profit dilution**, i.e., a reduction in its potential value. Investing in ETF fund titles, especially those that replicate broad market indices (covering a very large number of diverse instruments), so to speak, "condemns" the participant to the average value of the investment. As a rule, this deprives him of the possibility of achieving above-average profits, but on the other hand, limits the investment risk. The limitation of potential profits is also influenced by the investment limits that apply to ETF funds.

7) **currency risk** - currency risk occurs because ETF investment fund titles are usually listed and issued in foreign currencies. If the foreign currency in which the ETF investment fund titles are denominated loses value against the local currency during the investment period, the return on investment expressed in the local currency will decrease.

8) **Counterparty risk (credit risk)** - synthetic ETFs use swap transactions with counterparties (e.g., banks) to achieve a specified performance and invest in a proxy basket of securities that they hold as collateral.

9) **Interest rate risk** - for ETFs whose performance is based on interest rates.

6. ETCs (exchange-traded commodities).

- market risk - because ETCs invest investor funds in entitlements to relevant asset classes, primarily precious metals or commodities. The value of these asset classes is affected by many factors, including macroeconomic, sectoral, political, or specific to each asset class. Because of the impact of these factors on the values of the various asset classes in which ETCs invest their rights, ETC titles will fluctuate. The change in the value of the assets to which the ETC is linked will be reflected in the value of the title purchased by the client in the ETC. Market risk may result in the Client's failure to achieve the intended rate of return on investment or in achieving it later.
- liquidity risk - ETCs are financial instruments traded on a trading system that ensures that they can be sold during trading sessions. The price of ETCs may fluctuate, and during periods of stress, when investors may make withdrawals, the ability to sell ETCs at a satisfactory price may be limited.

- currency risk - currency risk exists because ETC titles are usually listed and issued in foreign currencies. If the foreign currency in which the ETC titles are denominated loses value against the domestic currency during the investment period, the return on investment expressed in domestic currency will decrease.
- interest rate risk - the price of the metal to which the ETC is linked is correlated with interest rates, among other things. An increase in interest rates can affect the price of the metal (e.g., gold) to which the ETC is linked.
- credit risk - is the risk of insolvency of the ETC, and thus the inability of the issuer of ETC titles to meet its obligations, in whole or in part. Credit risk is greater when ETCs rely on external financing to satisfy their day-to-day operations. As a rule, ETCs do not own the precious metals or commodities in which they invest and base their activities on the acquisition of rights to precious metals or commodities offered by authorized entities. ETCs are unsecured debt instruments.

7. ETNs (exchange-traded notes)

- market risk - ETNs are debt financial instruments that mimic index or asset class prices. The value of indices or the value of these asset classes is affected by many factors, including macroeconomic, sectoral, political, or specific to each asset class or index. Because of the impact of these factors on the values of indices or asset classes, the prices of ETNs will fluctuate. The price of ETNs also depends on the creditworthiness of the issuer. A decline in the issuer's creditworthiness will usually result in a decline in the price of the ETN.
- liquidity risk - ETNs are financial instruments traded on a trading system that ensures that they can be sold during trading sessions. The price of ETNs can fluctuate, depending on the number of ETNs traded on the exchange. The price of ETNs can fall if the ETN issuer decides to issue additional ETNs to balance the demand with the supply of ETNs already in circulation.
- currency risk - currency risk occurs if ETN titles are listed and issued in currencies other than the investor's domestic currency. If the foreign currency in which the ETN titles are denominated loses value against the domestic currency during the investment period, the return on investment expressed in the domestic currency will decrease.
- interest rate risk - since an ETN is a debt instrument, the interest on it, and consequently its price, may be affected by the level of interest rates. In addition, interest rates can also affect the price of ETNs, as ETNs mimic indexes or asset classes that are affected by, among other things, interest rates.
- credit risk - is the risk of insolvency of ETNs, and thus the inability of the issuer of ETN titles to meet, in whole or in part, its obligations, i.e., to pay out the value of ETNs at maturity plus a specified rate of return on an index or group of assets. ETNs do not own the assets that are components of the indices that the ETNs mimic. ETNs are unsecured debt instruments.

5. Closing provisions

5.1 This document was approved by the Board of Directors of Finax, o.c.p., a.s. on 07.06.2023.

5.2 This document was published on 22.06.2023 with effect from 22.06.2023.