INFORMATION FOR THE CLIENTS AND FOR POTENTIAL CLIENTS ABOUT FINANCIAL INSTRUMENTS AND ABOUT RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Information for the clients and for potential clients of Finax, o.c.p., a.s. about financial instruments

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 nature of provided financial instruments. Under general description is understood provision of information in order to explain the nature of individual financial instruments and risks related to them. The general description will make it possible to create sufficient basis for investment decision of the client. The target of the information contained in the following text is to provide basic description of nature of financial instruments for the Clients of the Broker which are accessible to these Clients by means of employees of the Account Management Department of the Broker, by means of 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 is subject to provisions of relevant General Business Conditions (further as „GBC“). The GBC create part of contractual documentation which governs the realization of trades with financial instruments between the Client and the Broker. The GBC are publicly accessible to the clients and to potential clients on the web page of the Broker www.finax.eu/en.

1.3 General description of the nature of financial instruments

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 purpose of reaching the target set by the Client at rate of risk set in advance and at time horizon of the investment.

The targets and purposes of individual Clients are specific, the same as every financial instrument. Thus, it is not possible to set in general, which financial instruments are suitable for which Clients. Because of this, when making an investment decision, it is necessary to search for individual needs of individual Clients and for specific features of individual financial instruments.

Three criteria creating the basic investment triangle:

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

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

Investment yield - 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 high rate of risk and low liquidity rate and investment with low rate of risk, low yield and high liquidity. So, when making a decision about a concrete investment, one has to search for compromise between the yields, risk and liquidity depending on individual preferences of the certain Client.

1.4 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 fulfilment or the right to execute certain rights towards persons stipulated by law.

A stock is a security representing a part of 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 in terms of Bylaws of the company, the right to take part in 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 by means of voting rights on the General Assembly Meeting of the company, share on profit is gained by the shareholders by means of dividends (payment of dividends is not guaranteed and their amount is approved by the General Assembly of the Company). Except yields in form of dividends, the shareholders can gain yield also from increasing value of the stocks prices. Generally, 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 was. However, similarly, in case of negative development of economic results of the company, the value of stocks can decrease.

The basic motivation for investing to stocks, as said above, is gaining share on assets of the company, following participation on its management and gaining yields from this investment by means of dividends. The second incentive that can be connected with the previous one, or can be realized separately, is expectation of positive development of price of stocks in time. In this case the investor relies on increase of value of stocks on the market, by means of which he should reach 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 are possible to be used in order to reach the expected result of the investment.

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 of the cases known in advance, the capital yield can result from 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 condition that its owner will keep them till their maturity (so called yield to maturity).
There are a number of 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 estates (e.g. lien on them).

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 majority of the risks is at money market instruments usually lower compared to bonds.

Mutual fund or securities issued by foreign subjects of collective investing are financial instruments of collective investing. Collective investing is collecting and administrating monetary funds of a large number of 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 yields of individual financial instruments contained in the portfolio of the certain fund. Based on portfolio structure there are money market funds, fixed income funds, equity funds, mixed funds, funds of funds, real estate funds, etc.

2. Risks connected with investments to financial instruments

2.1 Investing by means of financial instruments is connected with various risks that can influence the yield on certain investment to larger or smaller extent. Target of this document is to provide a summary information and general warnings about risks connected with financial instruments in a way that the investor gets a general overview of financial instruments, he understands their operation and he recognizes the risks connected with them sufficiently in order to be able to realize his investment decision.

2.2 It is not right when the investor makes his investment decision without being informed about the basis and features of individual financial instruments and without understanding the extent of his exposure to the related risks. Every investment or investment decision of an investor should be based on knowledge and experience of the investor with individual financial instruments, the investment targets and last but not least the financial situation of the given investor.

2.3 The aim of the Broker is to explain to the Client the general risks that exist with the majority of the financial instruments. The risks described in this document can appear parallel at individual financial instruments and they can have an unpredictable influence on the value of the investment. The same time, the investors have to recognize that every financial instrument contains a certain rate of risk, so the investment strategies with low risk profile also contain a certain level of insecurity. Legitimate risks connected with the investment then depend on various factors, including the way of emitting or structuring a certain financial instrument.

2.4 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 any of the Brokers is obliged to provide them with sufficiently in advance, before provision of the service, in a way that they create a sufficient basis for the investor to make his investment decision.

2.5 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 professional knowledge and experience of the certain Client related to trading with financial instruments.

2.6 **Risks of financial markets**

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

Individual risks connected with investing into financial instruments can be risks that can be applied on all types of financial instruments. 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 on any financial instrument.

2.7 **Types of risks**

Market risk

The market risk exposes the investor to the risk from market development point of view in form of change of exchange rates, interest rates, prices of stocks, credit interval, value of indexes or from market volatility point of view.

Interest risk

Risk of loss due changing of prices of instruments sensitive on change of interest rates is the interest rate risk. It is particularly the risk of change of interest rates, change of shape of 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 asset is sensitive to change of interest rate and the investor decides to sell this instrument before the maturity date.

The most frequent appearance of the risk of interest rate is in relation to debit investment instruments. At proprietary investment instruments as stocks, the risk related to interest rate is substantially lower, as it influences the development of stock prices from 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 be devaluated in course of the investment period compared to the domestic currency and due to this the yield of investment expressed in domestic currency will decrease. Appearance of risk of exchange rate is then only in cases when there is a risk of loss resulting from changes of prices of instruments which are sensitive to change of 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 financial instrument is in foreign currency, while the foreign currency funds have been purchased for his own domestic or other foreign currency and after finishing the investment the investor plans to transfer the funds back to domestic, resp. other foreign currency.

(b) the investment is realized by means of 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 other currency like the original currency of the investment was.

Liquidity risk

The risk when purchase or sale of financial instrument can be realized as quick or in such a time-frame as is required by the investor, is called liquidity risk. 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 in larger 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 his 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 liquidity of the given financial instrument and about possibility to re sale such stocks particularly in case when he requires realization of the transaction with stocks out of main indexes of individual stock exchanges. The information about liquidity he should require also at ordinary traded stocks in case he does not have any experience with investing into such a stock or a longer period of time lapsed since the execution of the last transaction.

Place of execution risk

Place of execution risk is connected with 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 on foreign market or which contains foreign element can be connected with risks of the relevant foreign market that can differ from domestic market risks. Specific case are the emerging markets that often contain risks which do not appear on developed markets. Investments on these markets have often speculative features and they should be considered extremely carefully while considering all possible risks connected with these markets. These risks are described in more details in point 2.8. of this document.

Inflation risk

Inflation (devaluation of the value of the money) decreases the yield of investment in fact. In order to be able to calculate the real profit of 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 other financial instrument considered to be 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 direction of the relevant country that is accompanied by change of tax, legal, fiscal or other system influencing the benefits from investments related to the given country. Existence of political risk brings along nervousness of 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 resulted by change of attitude of investors to the risk.

Volatility risk

Volatility measures variability (unsteadiness) of 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 case of some instruments it is on daily basis, in case of other ones the period is longer). The volatility risk is connected with movements of prices of individual financial instruments. It is set based on comparison of 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 variability of the price 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 before the investment about actual or historical volatility of the given financial instrument and its impact on profitability of the considered investment decision.

Settlement risk

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

Trading with securities have various procedures for settlement and their delivery while some of the procedures of settlement can be influenced from 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.

2.8 Risks when investing in emerging countries

At present, investors more and more focus on investments into financial instruments traded on emerging markets that make it possible to the investors to gain alternative investments with higher yields compared to traditional markets. However, higher yield is connected with higher rate of risk that is often quite specific for the given market and for 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) certain level of political instability,
(c) unpredictable financial markets and parameters of economic development,
(d) financial markets that are still in 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 that he invests into financial instruments on 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 into such instruments, get information about all risks connected with investing on such markets. Investing into financial instruments accessible on emerging markets is often of speculative character.

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

Economic risk

Market turbulences and price fluctuations are more probable and of larger extent in economies of emerging countries because they are more sensitive to changes of exchange rates and inflation. Furthermore, 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 economy and markets as it is in case of developed economies and markets. The adequate regulation and monitoring from the side of national regulators is a huge shortness on emerging markets.

Currency risk

The exchange rates of emerging economies are subject to large and unpredictable changes of their value. Further, it is necessary to say that some countries limit or in other way 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 unpredictability of behavior of local markets.

Market risk

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

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 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.

Legal risk

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

Political risk

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

Liquidity risk

Also liquidity of individual markets depends on demand and offer. Due to impact of natural disasters or due to impact of social, economic and political changes on demand and offer of emerging economies, these facts can have a far quicker and longer lasting effect as it would be in case of developed markets, while, in extreme cases, they can lead to total absence of liquidity on the given market. This fact can cause that the investor will not be able to sell his assets in case that he wants to finish or reduce his investments in emerging economies.

3. Closing provisions

3.1 This document was approved by the Board of Directors of the Broker on the 11th June 2020 with validity as of the 1st July 2020.

3.2 This document was published on the 16th June 2020.