INFORMATION ON RISKS

PPF banka a.s.

having its registered office at Prague, 6, Evropská 2690/17, Post Code: 160 41, Company identification No.: 47116129, registered in the Commercial Register kept by the Municipal court in Prague, Section B, Insert 1834

(hereinafter referred to as the “Dealer”)

1. BASIC INFORMATION ON RISKS

1.1 The Information contains the summary of risks connected with investing in the Investment Instruments and with providing investment services and it follows the Business Terms and Conditions for Trading in Investment Instruments, as amended by the Dealer.

1.2 The Information cannot be regarded as a complete and exhaustive instruction on all aspects related to the risks of investing in the Investment Instruments. The Client is obliged to the largest possible extent familiarize himself with the risks of the intended investment transaction, or other transaction, and in case of any unclear issues or questions, he is obliged to familiarize himself in details with each risk related to investing in the Investment Instruments, or, where appropriate, ask the Dealer for further necessary information.

1.3 The Client’s risk of investing in the Investment Instruments is that he will not achieve expected revenues, or that he will incur a loss. If the Client does not understand fully the conditions of performing transactions and the extent of the potential loss of invested funds or, in certain cases, the loss in excess of the invested funds, he should not participate in such transactions. The Client should be aware that when trading in derivates and instruments which employ leverage (such as futures contracts, options) the risk of loss is not limited by the value of the invested funds but it may even exceed this value (i.e. the loss may be even higher than the amount of the invested funds). Therefore, investments in derivates are a suitable form of investing only for the Clients having better knowledge of capital and financial markets and necessary experience.

1.4 Each investment in the Investment Instruments is bound with risk. It is a general rule that the higher expected revenues and/or longer investment horizon, the higher potential risk of loss. The revenues achieved by an Investment Instrument in the previous period cannot guarantee the revenues achieved by the same Investment Instrument in the future.

1.5 The level of risk expressed as a ratio of the potential loss to the nominal value or actual cost of the Investment Instrument also depends on the type of the Investment Instrument. Financial derivates with respect to which only a slight change of market conditions, or, market price of an underlying instrument may induce a significant change of a market price of the derivate belong generally among the Investment Instruments with the highest risk. Shares and similar securities and commodity instruments are also considered to be the instruments with high risk rate. Bonds and similar securities representing a right to repayment of debt, and particularly government bonds and debentures issued by central banks belong among the Investment Instruments with relatively the least risk.

1.6 In order to limit the risk exposure during investing, the Client is obliged to continuously monitor data and information published or communicated to the Client by the Dealer and if he needs updated information or explanations to the information published or communicated by the Dealer, he is obliged to promptly contact the Dealer.

2. SUMMARY OF RISKS

2.1 The major types of risks related to the Investment Instruments and Investment Services in the capital market are credit, market, concentration, liquidity and operation risk. Market risk mainly includes interest risk, exchange rate risk, risk on shares and commodity risk; nevertheless inflation risk, correlation risk and volatility risk may be identified as a market risk as well. Detailed specification of each type of risks, including the examples how to reduce them, is described in the following text.

2.2 Apart from the above mentioned risks which more or less influence all Investment Instruments, we may also indentify specific risks for each Investment Instrument arising from particular form and method of trading in the respective Investment Instrument.

3. CREDIT RISK

3.1 A credit risk belongs among the basic financial risks. A credit risk is when a debtor fails to fulfill his obligations (fails to repay his due debts), whether on account of his insolvency or reluctance to pay. The source of a credit risk may also consist in a mere reduction in debtor’s credibility.

3.2 Insolvency or reluctance of debtors to repay their debts may be arise from mature loans or interest, securities, provided guarantees, foreign exchange transactions, transactions in financial market or under other contractual relationships.

3.3 The cause of insolvency or reluctance of a debtor to pay may be both internal – on the debtor’s part, or assessment of the debtor’s credibility, and external – i.e. arisen from external causes, such as the economic crisis or crisis in the debtor’s industry.

3.4 A credit risk may be reduced mainly by a detailed assessment of debtor's credibility and capacity to repay his financial obligations, as well as by reducing a credit exposure vis-à-vis one debtor.

4. CONCENTRATION RISK

4.1 A concentration risk is a risk of loss arising from significant concentration of exposures to counterparties or groups of counterparties where probability of their failure is influenced by a common risk factor, e.g. to counterparties undertaking business activities in the same industry or within the same territory, performing the same activities or trading in the same commodity, or from applying the techniques of reducing credit risk, mainly the risk related to high indirect engagement, e.g. to the same collateral issuer.

5. MARKET RISK

5.1 A market risk is a risk of loss which arises from a change in market conditions (especially market prices, interest rates, exchange rates or commodity prices) and leads to a change in the value of a financial instrument or imbalance of particular characteristic between the financial instrument and the source of its financing. All Investment Instruments are exposed to a market risk. A market risk includes many factors and not only economic development of the respective corporation (security issuer), but also recession expectations, system changes in economy, political shocks and consumer preferences.

5.2 Depending on the specification of a market factor which may induce a change in the respective Investment Instrument, a market risk means mainly an interest risk, exchange rate risk, risk on shares and commodity risk. From the point of view of the current market situation and trading methods in the respective market, it is possible to identify also other market risks.

5.3 An interest risk influences the fluctuation of the rate of return of the Investment Instruments by changing the level of interest rates. These changes influence debt Investment Instruments inversely, i.e. to the growth in interest rates they respond by drop in market prices and vice versa. The risk rate depends on particular Investment Instrument, its sensitivity on interest rate and also on other factors.

5.4 Exchange rate risk: In investments in the Investment Instruments denominated in foreign currencies the risk and prospective profit or loss does not depend only on overall development of market price of the respective Investment Instrument but also on development in exchange rate. Adverse exchange rate development can have a negative impact on the overall development of the investment, even in case of a positive development of the respective Investment Instrument. An exchange rate risk can be reduced by managing it in the way which limits possible deviations in the value of the Investment Instrument from its planned or expected level according to a change in the exchange rate. This can be, for example, achieved by hedging transactions using financial derivates.

5.5 A risk on shares is a risk of an adverse change in market price of equity Investment Instruments, of, where appropriate, financial derivates derived from such instruments. The main source of the risk is trading in equity instruments.

5.6 A commodity risk expresses a transformation in cost or revenues of the Investment Instruments to a change in the cost of commodity (e.g. raw materials, precious metals or energies). A commodity risk is inherent to the Investment Instruments whose underlying asset is commodity; nevertheless, to a certain degree the commodity risk influences all Investment Instruments according to the sensitivity of economy or the investment instrument issuer on development of prices of the respective commodity.

5.7 Inflation risk influences a real rate of return of the Investment Instruments. The inflation (reduction in the buying power of money) reduces the real investment revenue. High inflation may cause the Client to achieve a negative rate of return.

6. LIQUIDITY RISK

6.1 A market liquidity risk is a risk of loss when a liquidity of an investment instrument market is low, thus limiting an access to funds. Liquidity is an ability of an entity to properly and on time cover its obligations by funds, or, in other words, an ability of an entity to anytime fulfill its mature obligations; lack of liquidity disrupts this ability.

6.2 For the investments in the Investment Instruments which are not traded in the regulated markets (or within a multilateral trading facility), the Client must consider a risk that the exchange rate of the respective Investment Instrument could be negatively influenced by low liquidity or that he will not be able to sell or buy the respective Investment Instrument at the selected moment.

7. OPERATION RISK

7.1 An operation risk means a possibility of occurrence of loss due to insufficiency or failure of internal processes, human factor and systems of an investment instrument issuer, the Dealer or third person or external circumstances, including the risk of information technologies or legal risk. The typical examples of the operation risk as a cause of loss are sending money to a wrong bank account, loss of a business contract, erroneous calculation of the amount of interest, destruction of electronic data due to a voltage drop in the grid or to fire etc.

8. SPECIFIC RISKS OF DERIVATE INVESTMENT INSTRUMENTS

8.1 Leverage effect. Investing in financial derivates is connected with a high risk rate arising from a leverage effect of derivates. Although an initial investment in the financial derivate may be low, even a slight change in the market conditions may significantly decrease or increase the market price of the financial derivate. Depending on the market position and market trends the leverage effect may have both positive and negative impacts for the Client.

8.2 Trading in options. Investing in options is usually related with a high risk rate. The Client should acquaint himself with the type of an option transaction which he intends to employ in investing and with specific risks related to such type of transaction. The Client should be aware of a possible occurrence of loss and extra costs in relation to the execution or non-execution of the option.

8.3 Non-standardized markets. Certain transactions, markets or Investment Instruments are not subject to standard conditions and rules. The conditions of derivate transactions concluded outside the regulated markets may serve as an example. The Client should familiarize himself thoroughly with the conditions of every non-standardized transaction or market, even with the assistance of his financial tax or legal advisors.

8.4 Position closing. The Client must be aware of the fact the Dealer may have a right to sell or buy particular financial instrument on the Client’s account, when its price reaches or breaks certain threshold. The goal of the above mentioned procedure is to minimize a loss in cases when the price of the instrument fluctuates to the detriment of the Client’s position. The risk of position closing is usually higher in the markets with higher volatility.