INFORMATION ON RISKS

PPF banka a.s.

having its registered office at Praha 6, Evropská 2690/17, 160 62 140 41, registered number: 47116129, incorporated in the Commercial Register kept by the Municipal Court in Prague, Section B, Entry 1834

(hereinafter the "Trader")

1. BASIC INFORMATION ON RISKS

1.1 This information contains a review of risks connected with investments into Investment Instruments and with investment services provided and follow the Business Conditions for Trading with Investment Instruments, as amended, published by the Trader.

1.2 This information cannot be considered as a complete and comprehensive lecture on all aspects connected with risks of investments into Investment Instruments. The Customer shall acquaint himself with risks of the planned investment to a maximum extent. Should he have any doubts or questions, he should acquaint himself with individual risks of investments into Investment Instruments, or require any additional information from the Trader.

1.3 Investments into Investment Instruments are always associated with risks for the Customer that he will fail to achieve an expected yield or will suffer a loss. If the Customer does not fully understand conditions for implementation of trading transactions and extent of potential loss of invested funds or, in some cases, also loss exceeding invested funds, the Customer should not participate in such trading transactions. The Customer should be aware of the fact that for trading in derivatives and instruments using leverage (e.g. futures, options) the risk of loss is not limited by invested funds, but it may exceed this value (i.e. the loss may be higher than volume of invested funds). Regarding the above reasons, investments into derivatives is suitable for Customers with deeper knowledge of capital and financial markets and with relevant experience.

1.4 Each investment into Investment Instruments is associated with some risks. Generally speaking, the higher the expected yield is and/or the longer the term of investment is, the higher the potential risk of loss is. Yields of individual Investment Instruments achieved in the past do not guarantee yields of the same Investment Instrument in the future.

1.5 The extent of te risk determined as a ratio of the potential loss and the nominal value or the actual price of the Investment Instrument differs based on the type of the Investment Instrument. Generally, financial derivatives are the most risky Investment Instruments. Minor change in market conditions, or market price of the underlying instrument respectively, may result in major change of the market value of the derivative. Shares and similar securities and commodity instruments are also associated with high risks. Bonds and similar securities involving right for repayment of outstanding amount of money, mainly state bonds and debt securities issued by central banks, are considered as relatively the least risky Investment Instruments.

1.6 In order to reduce risks to which he is exposed during investments, the Customer is instructed to continuously monitor the data and information published by the Trader or sent to the Customer by the Trader and, if needed, current information or explanations concerning the information published by the Trader or sent to the Customer by the Trader, and to contact the Trader immediately.

2. REVIEW OF RISKS

2.1 Main types of risks associated with investment instruments and investment services at the capital market are credit, market, concentration, liquidity and operational risks. Credit risk includes mainly interest, currency, share and commodity risks, however, market risk also include inflation, correlation and volatility risks. The detail description of individual types of risks, including examples how to reduce them, is given below.

2.2 Besides the above risks that more or less influence all Investment Instruments, there are also specific risks of Investment Instruments related to concrete forms and methods of trading in this Investment Instrument.

3. CREDIT RISK

3.1 The credit risk belongs to basic financial risks. The credit risk lies in the fact that the debtor fails to meet his obligations (fails to pay) because of insolvency or unwillingness. The credit risk may be also caused by mere reduction of the credit quality of the debtor.

3.2 Debtors´ insolvency or unwillingness to pay their obligations may relate to due credits or interests, securities, guarantees granted, foreign-exchange transactions, monetary market transactions or other contractual relations.

3.3 Reasons for the debtor□s insolvency or unwillingness may be either internal (at the debtor□s side or evaluation of the debtor□s quality) or external (because of external reasons, such as crises in economies or industries).

3.4 The credit risk may be reduced by detailed evaluation of the debtor□s quality and his ability to repay his obligations, as well as by limitation of the credit exposure to one debtor.

4. CONCENTRATION RISK

The concentration risks is a risk of loss from high concentration of exposures to counterparties or groups of counterparties whose probability of failure is influenced by the common risk factor, such as counterparties operating in the same industry or geographical area, doing the same business or trading in the same commodity, or from use of techniques for reduction of the credit risk, mainly the risk associated with extensive indirect engagement, such as to the same issuer of a collateral.

5. MARKET RISK

5.1 The market risk is a risk of loss from changes in market conditions (mainly market prices, interest rates, foreign-exchange rates or commodities prices) resulting in change in value of the financial instrument or in disbalance of certain feature between the financial instrument and its financing source. The market risk involves all Investment Instruments. The market risk is associated with many factors, such as economic development of the society (issuer of the security), but also anticipation of recession, structural changes in economy, political shocks and consumer preferences.

5.2 According to the market factor that may cause change in value of the Investment Instrument, we classify the market risk as interest, currency, share and commodity risks. Other market risks may be identified based on the current market situation and method of trading on the market.

<u>5.3 Interest risk</u> influences fluctuation of the interest rate of Investment Instruments through changing value of interest rates. These changes influence debt Investment Instruments inversely, i.e. the increase in interest rates results in the decrease in market prices and vice versa. The extent of this risk depends on individual Investment Instruments, on their sensitivity to interest rates and other factors.

<u>5.4 Currency risk:</u> When investing into Investment Instruments denominated in foreign currencies, the risk and possible profit/loss depend not only on global development of the market price of this Investment Instrument, but also on development of the foreign-exchange rate. Negative trend in foreign-exchange rate may have a negative impact on global development of the investment, although the trend of the Investment Instrument is positive. The currency risk may be reduced by

methods limiting possible deviations in value of the Investment Instrument from its planned or anticipated value in relation to changes in the foreign-exchange rate. This objective may be achieved, for example, through hedging transactions using financial derivatives.

5.5 Share risk is a risk of negative change in market price of share Investment Instruments or financial derivatives derived from these instruments. This risk is associated with trading in share instruments.

5.6 Commodity risk represents change in price or yield of the Investment Instrument and change in price of the commodity (e.g. raw materials, precious metals or energy). This commodity risk is typical for Investment Instruments that are based on the commodity, but to a certain degree this commodity risk influences all Investment Instruments according to sensitivity of the economy or the issuer of the Investment Instrument to the trend in price of the commodity.

5.7 Inflation risk influences real interest rate of Investment Instruments. Inflation (reduction of buying power of money) reduces real yield of the investment. High inflation may result to the fact that the Customer will achieve negative real yield rate.

6. LIQUIDITY RISK

6.1 The market liquidity risk is a risk of loss from low liquidity of the Investment Instruments market, i.e. reduced availability of financial means. Liquidity is an ability of an entity to cover with financial means its obligations in necessary amount and in required time, or an ability of an entity to meet its obligations under any circumstances respectively. Lack of liquidity reduces this ability.

6.2 When investing into Investment Instruments that are not traded on regulated markets (or within multi-participant trading system), the Customer has to assume a risk that the rate of the Investment Instrument may be negatively influenced by low liquidity or that the Customer will be unable to sell or buy the Investment Instrument at the chosen moment.

7. OPERATIONAL RISK

7.1 The operational risk lies in possible loss from insufficiency or failure of internal processes, human factor and systems belonging to the issuer of the Investment Instrument, the Trader or third parties, or from external events, including risk of information technologies and legal risks. In order to demonstrate the operational risk, the loss may be caused, for example, by sending money to incorrect account, loss of business contract, bad calculation of interest, destruction of electronic data with regard to low electric voltage or fire and so on.

8. RISKS SPECIFIC FOR DERIVATIVE INVESTMENT INSTRUMENTS

8.2 Leverage. The investment into financial derivates is associated with high exposure to derivative leverage. Although the starting investment into the financial derivative may be low, even small change in market conditions may result in high decrease or increase of market value of the financial derivative. Based on the market position and trend, the leverage may act in a positive or negative way for the Customer.

8.3 Trading in options. The investments into option transactions is usually very risky. The Customer should acquaint with the type of option transaction into which he is to invest and with concrete risks connected with such type of the transaction. The Customer should be aware of possible loss and additional costs connected with exercise or non-exercise of the option.

8.4 Non-standardized markets. Some transactions, markets or Investment Instruments do not have standardized conditions and rules. This applies to, for example, conditions for derivative transactions concluded outside regulated markets. The Customer should acquaint himself in detail with conditions of each non-standardized transaction or market, possibly with help of his financial, tax or legal advisors.

8.5 Closing positions. The Customer has to be aware of the fact that the Trader may be entitled to sell or buy certain financial instrument on account of the Customer if its price will reach or break certain level. This procedure should reduce the loss if the price of the instrument develops negatively for the Customer□s position. This closing positions risk is usually higher on market with high volatility.