

EXECUTING THE ORDERS OF CLIENTS UNDER THE BEST CONDITIONS – SUMMARY WITH FOCUS ON TOTAL COSTS

INTRODUCTION

The purpose of this document is to inform non-professional clients, pursuant to legal regulations¹ (i.e. clients classified by Československá obchodní banka, a.s., as² "standard"), about ČSOB's approach to the principles of executing the orders of clients under the best conditions, taking into account the costs associated with executing the orders. The summary of information on executing client orders under the best conditions is based on documents on the ČSOB website, specifically "*Information on the Principles of Executing Client Instructions under the Best Conditions*" (hereinafter the "Principles") in combination with the document Costs and Fees Connected with Investment Services and Investment Tools (section: *Information for Clients Concerning MiFID and PRIIP*).

ČSOB takes all the required steps to ensure that the best possible result is achieved in the execution of client orders. This means compliance with the procedures and rules for client order execution with a view towards ensuring that the best possible result is achieved for client orders. For that purpose, ČSOB has introduced and maintains organisational structures, procedures and rules.

1. ACCESS TO THE BEST EXECUTION

1.1. BEST EXECUTION PRINCIPLES

In order to achieve the best possible result in the execution of instructions, especially for non-professional clients, ČSOB takes into account mainly total costs, which include the price of the product and the costs associated with execution of the order.

In order to determine the relative importance of the individual factors, ČSOB takes into account the following criteria:

- a) the nature of the client, including their classification as a standard or professional client;
- b) the nature of the client order;
- c) the nature and characteristics of the product that is the subject of the order, including cases where the order also concerns securities financing transaction ("SFT");
- d) the nature of the execution venues to which the order in question can be directed.

As regards products traded outside a regulated market, a multilateral trading facility (MTF) or an organised trading facility (OTF) (i.e. typically OTC derivatives and other OTC products), ČSOB seeks to achieve the best possible result for the client by verifying the correctness of the price proposed to the client:

- a) according to the collected market data used for the estimate of the price of the product;
- b) if possible, by means of comparison with similar or comparable products;
- c) consistent and systematic pricing controls designed for the client through a subsequent check of prices and client margin;
- d) tracking, evaluating and documenting the pricing process.

Thus, in the case of OTC derivatives and other OTC products, ČSOB is not obliged to determine prices from other market participants.

¹ Especially Act No. 256/2004 Coll., on doing business on the capital market, as amended.

² Hereinafter "ČSOB".

1.2. EXECUTION VENUE

The execution venue can be a regulated market, a multilateral trading facility, an organised trading facility, a systematic internaliser, a market maker, or another liquidity provider or a foreign execution venue whose business is similar to the business of any of the execution venues specified above.

ČSOB typically executes client orders by dealing on its own account. It means that it executes the client's order by entering into a transaction with the client on own account. In such a case, ČSOB is the execution venue, i.e. the place for executing the order.

In the case of client orders to which the Principles apply, ČSOB does not charge any additional settlement fee (e.g. when selecting the given trading platform).

2. MONITORING AND UPDATING

ČSOB continuously monitors and verifies, at least on an annual basis, the effectiveness of its organisational arrangements, procedures and rules for the best execution of client orders to identify and correct any deficiencies.

A regular annual review also includes reviewing the pricing process and also takes into account data and tools related to the quality of the execution of trades/orders, including data published under Commission Delegated Regulation (EU) 2017/575 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards concerning the data to be published by execution venues on the quality of execution of transactions, RTS 27. In relation to the adoption of Directive (EU) 2021/338 of the European Parliament and of the Council amending Directive 2014/65/EU (so-called MiFID II), the publication of data relating to the quality of execution of transactions will be suspended until at least 23 February 2023.

ČSOB will inform its clients of any material changes in its organisational arrangements, procedures and rules for the best execution of client orders, including any changes in these Principles.

3. BEST EXECUTION ACCORDING TO THE TYPE OF PRODUCT

With regard to the diverse nature of the individual types of products, ČSOB has introduced policies according to which the orders are executed, especially with respect to the overall costs and fees of specific products.

This chapter outlines such policies.

An important parameter for determining how ČSOB sets the price for clients is the classification of the product as liquid or illiquid. For establishing the liquidity of the rule according to COMMISSION DELEGATED REGULATION (EC) No 2017/583 on markets in financial instruments as regards regulatory technical standards concerning transparency requirements for trading systems and investment firms in relation to bonds, structured financial products, emission allowances and derivatives RTS 2. The rules precisely define the liquidity of individual investment instruments, including, for example, a securities trader carrying out systematic internalisation.

For illiquid products, ČSOB uses internal valuation models in the respective application. In order to determine the client's price for liquid products, the bank uses the current market price using the Bloomberg or Reuters electronic platform or other electronic platforms.

3.1. BONDS, STRUCTURED SECURITIES AND MONEY-MARKET INSTRUMENTS

Typically, these are bonds, structured securities and money-market instruments issued by ČSOB, i.e. ČSOB is the issuer of these products (typically investment certificates). In this case, ČSOB itself is the execution venue because the product issued by ČSOB is not available at other venues (it is an illiquid product). The client order is thus executed by ČSOB by entering into a transaction on its own account. In order to execute the client's order under the best conditions, ČSOB has set up internal models for establishing a competitive and fair price based on the input parameters required by the client and the current market price using data from electronic platforms. The setting of a competitive and fair price, as well as the client's price itself, is subject to internal verification.

As regards orders concerning bonds, structured securities and money-market instruments that have not been issued by ČSOB (concerns liquid products), ČSOB generally executes such orders at a venue that provides sufficient liquidity for the relevant Product. In order to execute the client's orders under the best conditions, ČSOB has established internal rules for setting a fair and competitive client price based on the current market price using the Bloomberg or Reuters electronic platform or other electronic platforms.

Fees and a so-called client margin³ related to the execution of an order on the secondary market are set out in the product sheets of each product⁴, in Key Information documents and, for selected products, also the Parameters of Securities and Investment Instrument Markets. Specifically, these are fees for executing a buy or sell order and the client margin. In addition, bond issuers outside the ČSOB group (state, corporate bonds) have a fee for the administration and safekeeping of securities.

The same types of fees and costs apply even when executing OTC orders.

3.2. COLLECTIVE INVESTMENT SECURITIES

In general, the securities of collective investment undertakings are bought for an amount that equals their current value announced on the determining date specified in the statute/prospectus of the fund; this amount may be increased by a mark-up, the amount of which is specified in the fund's statute / prospectus. The securities of collective investment undertakings are redeemed for an amount equalling its current value applicable on the date on which ČSOB has received the application from the holder to sell the given security; this amount may be reduced by a mark-down specified in the fund's statute / prospectus (in behalf of the fund to cover the costs). The value of a security of a collective investment undertaking is known only after the final prices of assets held in the portfolio of the relevant fund have been received and calculated. In general, this method of measuring the price of collective investment securities ensures compliance with the requirement for executing orders on terms most favourable to the client.

³This represents the difference between the position price for the customer (actual) and its position price for the bank (actual or theoretical, determined by direct observation of market data or by a suitable methodology for determining the position value).

⁴This is essentially marketing material that ČSOB creates and gives to its clients for each product.

Fees for executing the orders are set out in the product sheets of individual products and the Parameters of Securities and Investment Instrument Markets. Specifically, these are entry fees, exit fees, the transfer of persons between funds (i.e. purchase and sale) and transfers between persons. The above fees are ČSOB's income. The Parameters of Securities and Investment Instrument Markets are available at any ČSOB branch or at www.csob.cz.

3.3. PURCHASING DERIVATIVES

This primarily concerns derivative transactions entered into on the OTC market, including various options, forwards, swaps and their combinations.

ČSOB has procedures to ensure that the price of these products is created competitively and fairly using up-to-date market data from electronic platforms. In the creation of client prices, ČSOB relies on internal models subject to internal verification requirements using market data.

Only the client margin that is included in the trading parameters is connected with the investment instruments listed in this category and no additional fee or cost is charged for making the trade.