

Information about the principles of execution of client's instructions under the best conditions ("Information")

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INTRODUCTION

This document contains information about the principles and policies ("principles") about executing client's instructions during the provision of investment services and associated services under the best conditions. It is destined for clients of ČSOB and serves to inform clients about the execution of instructions under the best conditions.

ČSOB has taken the necessary steps to document these principles in detailed procedures and to ensure their observance.

1. INFORMATION ON THE PRINCIPLES OF EXECUTION OF CLIENTS' INSTRUCTIONS UNDER THE BEST CONDITIONS

In accordance with the Act on Business Activities on the Capital Market, the Československá obchodní banka, a. s. (hereinafter referred to as ČSOB) is as an investment firm obliged to take all the necessary steps to ensure the best possible results when executing instructions on behalf of its clients. These steps are contained in this "Information about the principles of execution of clients' instructions under the best conditions."

Principles of the best executions of instructions apply to clients, who are according to the Act on Business Activities on the Capital Market classified as standard customers (nonprofessional clients) or as professional clients. The principles further apply to the financial instruments that the given act deals with.

In the case when ČSOB will not have an explicit instruction from the client, it will try to execute the order according to the principles listed in this Information about the execution of clients' instructions under the best conditions.

2. APPROACH TO THE BEST EXECUTION

2.1. PRINCIPLES OF THE BEST EXECUTION

The execution of an order may be affected by various factors (such as the price, costs, speed, the probability of execution and settlement, volume, nature or any other aspect relevant to the execution of the instruction.)

To assess the relative importance of individual factors, the ČSOB takes into account these criteria:

- a) the characteristics of the client based on the client's nature, including his classification as nonprofessional or professional client,
- b) the nature of the client's instruction,
- c) the nature and characteristics of investment (financial) instruments,
- d) the characteristics of the execution venues to which that order can be directed;

For nonprofessional clients the best result will be determined by a complete assessment, taking into account the price of the investment (financial) instrument ("instrument") and all costs connected to the execution of the instruction, including the final volume of fees the client is charged. Regarding professional clients, the price and costs factors for the client will also have a large relative importance for reaching the best possible result of instructions given by this type of clients.

However, there can be circumstances when other factors may be more important for the execution of instructions on behalf of nonprofessional or professional clients. This might for example be the case for instructions above or below the standard business volume or orders for illiquid instruments. ČSOB may therefore, at its own discretion, execute instructions based on other factors that will, according to ČSOB, result in acting in the best interest of the client.

2.2. EXECUTION VENUES

An execution venue may be a regulated market, a multilateral trading system (MTS), an investment firm executing systematic internalization, a market maker or another liquidity provider, if it is not related to actions on the regulated market or a multilateral trading system or an investment firm executing systematic internalization or a foreign execution venue, whose function is similar to some of the execution venues listed above.

The principles of instruction execution contain for each type of instrument a list of different venues, where the instructions may be sent. They list those venues that enable ČSOB to continually reach the best possible results when executing the instructions of its clients.

In certain circumstances, ČSOB can also use other execution venues, for example when dealing with an instrument which is unusual for ČSOB.

ČSOB will regularly assess whether the execution venues included in the principles of instruction execution bring the client the best possible result, or if the execution arrangement should be changed.

Execution venues used by ČSOB:

- a) Issuer of securities of collective investment (most often ČSOB Asset Management, a.s., investiční společnost, KBC Asset management N.V., KBC Asset management S.A., KBC Fund Management Limited), ČSOB, a.s. respectively, if it executes the business on its own based on a contract with the issuer

- b) Prague Stock Exchange
- c) OTC markets

2.3. INSTRUCTION EXECUTION

ČSOB will execute the client's instruction in accordance with its execution principles under the best conditions by using one of the following methods or a combination thereof.

- (1) The instruction can be executed directly on the selected regulated market or MTS or, where ČSOB is not a direct member of the relevant market or MTS, ČSOB can transmit the instruction to a third party market participant, with whom ČSOB has arrangements for handling instructions for that regulated market or MTS.
- (2) The order can be transmitted to another broker or dealer or another entity of the KBC Group for execution, in which case ČSOB will either determine the ultimate execution venue and instruct the other broker or dealer accordingly or it has made sure that the broker or dealer have a set system in place which enables ČSOB to comply with its own principles of instruction execution under the best conditions.
- (3) An instruction related to a listed financial instrument can be executed outside a regulated market or MTS, for example by ČSOB acting as an execution venue itself. However, in order to be able to execute an instruction in a listed financial instrument outside a regulated market or an MTS, ČSOB has to obtain the prior explicit consent of the client. No such consent is required for the execution outside a regulated market or an MTS for non listed financial instruments.
- (4) Units in collective investment undertakings (participating certificates in mutual funds, shares of investment funds and shares of foreign funds) are dealt outside the so called regulated markets usually. The client's instructions are realized directly by ČSOB or passed on to a person who ensures the closure of the transaction. This execution method is connected to ensuring the price reflecting the economic value of the asset and is the most advantageous in respect to the costs.

These principles or a part of these principles may not be applied unless a specific instruction is received from the client.

2.4. SPECIFIC INSTRUCTION FROM THE CLIENT

Where the client gives specific instructions relating to the execution of an instruction, for example the indication of an execution venue, ČSOB will execute that instruction in accordance with this specific instruction and will be deemed to have taken all reasonable steps to provide the best execution of that instruction.

WARNING: a specific instruction from a client may – with respect to the aspects contained in such instructions - prevent ČSOB from taking the steps that it has designed and implemented in its principles of execution to obtain the best possible result for the execution of such instructions.

2.5. GROUPING OF INSTRUCTIONS

The client's instructions may be grouped with instructions of other clients. ČSOB is also entitled to carry out a client's instruction or a transaction on its own account together with an instruction from another client in a way that the grouping of instructions is not disadvantageous for clients, whose instructions are to be grouped, otherwise the client, whose instruction is to be grouped, must be informed that the grouping of this instruction could be to his disadvantage, if such a disadvantage can occur. The possible grouping of instructions does not have an effect on the fees the client is charged in connection to the services provided by ČSOB.

2.6. CONFLICT OF INTERESTS

- (1) When providing investment services ČSOB identifies and manages conflicts of interest between itself and its clients or between the clients themselves, in accordance with the principles set out in the legislation.
- (2) Being a member of a group of businesses, ČSOB identifies and manages conflicts of interest likewise with respect to all predictable circumstances, which can initiate conflicts of interest resulting from the structure of the group of businesses and the subject of enterprise of its members.
- (3) The above mentioned conflicts of interest must not negatively affect the interests of clients.
- (4) If, despite the adopted measures it is not possible to reliably prevent a negative impact of conflicts of interest on the interest of the client, ČSOB shall inform the client about the nature or source of the conflicts of interest.

3. BEST EXECUTION BASED ON THE TYPE OF INSTRUMENT

For each class of financial instruments, ČSOB has defined the key execution factors that will be taken into account when executing instructions and information and the execution venues that best suit its requirements. In this chapter a summary is presented.

- The principles described in this Information do not restrict ČSOB to act otherwise in case it considers that in acting so the instruction might not be executed in a way that the best possible result for the client is obtained.
- In case of emergency, such as a disruption of the execution system, ČSOB may not have the possibility to execute the instruction according to the described method. In these exceptional circumstances, ČSOB will try to execute the instructions in the most advantageous way under the current circumstances.

3.1. BONDS / MONEY MARKET INSTRUMENTS AND OTHER DEBT SECURITIES

ČSOB will generally pass the instructions to bonds or money market instruments to the home regulated market, eventually foreign regulated market, if this place provides the given instrument sufficient liquidity.

In case ČSOB concludes that no execution venue meets the internally defined criteria of sufficient liquidity, the instruction will be executed outside a regulated market or an MTS. The determining factors for change of execution venue, price and costs, will be respected. For the pricing ČSOB may rely on internal models that are subject to internal verification.

3.2. UNITS IN COLLECTIVE INVESTMENT UNDERTAKINGS

ČSOB will generally execute the instructions to units in collective investment undertakings on its own, based on a contractual agreement with the issuer, or pass them on to the transfer agent of the instrument.

It is generally understood that units in collective investment undertakings are dealt for prices which correspond to the price of the given unit in collective investment undertakings. The value of the units of a specific fund of collective investment owned by the client as at a certain date represents the values of the client's share of the assets of the given fund as at that date. The value of a unit in a collective investment fund can be known after the receipt and processing of the final prices of the units kept in the fund's portfolio. This principle of establishing the price of a unit in a collective investment generally ensures the fulfillment of the execution of the client's instruction under the most advantageous conditions. In exceptional situations, when it is not possible to provide the sale or purchase of a unit in the above mentioned way, another manner of execution of the client's instruction will be chosen, which will as much as possible respect the requirement of the most advantageous conditions for the client, especially in relation to the price and cost connected to the transaction.

In the case when the handover to a transfer agent would be unfeasible or unpractical, ČSOB will choose an alternate method of executing the instruction, respecting as much as possible the principle of the best result related to price and costs.

3.3. DERIVATIVES DEALT ON THE REGULATED MARKET

Transactions with these derivatives will generally be placed on the most liquid market.

3.4. DERIVATIVES DEALT OUTSIDE THE REGULATED MARKET (OTC DERIVATIVES)

These products include various options, futures, swaps, forward rate agreements and combinations thereof relating to currencies, interest rates or yields and securities, financial indices and commodities. These instruments are dealt outside the regulated market. Spot transactions, deposits or loans are not included in this regulation.

ČSOB is aware of the fact that a potential client or clients interested in OTC derivatives contact various investment firms to attain information about the price of the instrument. ČSOB has set procedures to ensure that the price of a product is created in a competitive and fair way. For the pricing ČSOB may rely on internal models that are subject to internal verification.

4. MONITORING AND UPDATING

ČSOB will monitor the effectiveness of its instruction execution arrangements and its execution principles in order to identify and, where appropriate, correct any deficiencies. In particular, ČSOB shall assess, on a regular basis, whether the execution venues included in the principles of instruction execution under the best conditions provide for the best possible result for the client, or whether changes to the execution arrangements need to be made.

ČSOB shall notify its clients of any material changes to its instruction execution arrangements or of the instruction execution under the best conditions

5. DEMONSTRATION OF BEST EXECUTION OF CLIENT'S INSTRUCTION

The client is entitled to request ČSOB to demonstrate that it is executing or has executed his instruction in accordance with these principles of best execution.