



# **Financial Market Products and Their Risks**

## **Investment Products**

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## Introduction

The aim of the document is to provide the client with information about the nature of the Investment instruments for investing purposes (hereinafter "investment products") offered by Československá obchodní banka, a. s. and about the risks related to them so the client can make a qualified decision on purchasing/selling based on sufficient information.

We provide the main characteristics, risk profile and a summary of any variants derived from the basic product for every investment product type.

### Investment products:

Investing means placing available money in financial instruments to make a return (i.e. a profit). The risk level of each investment product is shown by a product score that takes into account the volatility of the investment, as well as other factors such as capital protection, credit rating, asset allocation, foreign-currency exposure or liquidity. Product scores range from 1 to 7, with 1 as the lowest risk level and 7 the highest.

The value of a product score can change over time depending on market conditions. The list of investment and savings products with the latest information on product score changes can be found at [www.csob.cz/mifid](http://www.csob.cz/mifid) or in the product sheet for each product.

The information in this document is general and cannot be considered as an offer under Section 1732 of Act No. 89/2012 Coll., the Civil Code, as amended (hereinafter the "Civil Code") or as a public offer under Section 1780 of the Civil Code to invest in any instrument mentioned or as investment advice.

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## Explanatory notes

### Description of risks

#### Credit risk

The risk of the counterparty's inability to fulfill its obligations. In most cases, this is caused by the counterparty's poor financial situation or imminent threat of bankruptcy.

#### Liquidity risk/Limited market availability

The risk of a hedging product being difficult to trade for a reasonable price (before maturity) or a hedging product being difficult to trade at any price.

#### Currency risk

The risk of the value of a hedging product being influenced by exchange rate movements.

#### Interest rate risk

The risk of the value of a hedging product being influenced by interest rate movements.

#### Risks of external influences

The risk of the value of a hedging product being influenced by external factors such as a tax regime, etc.

#### Commodity risk

The risk of the value of assets being influenced by price movements on the commodity market.

#### Inflation risk

The risk of the value of a hedging product being influenced by price level movements.

### General

#### OTC ("over the counter")

A product traded over the counter is a hedging product traded outside regulated markets.

#### Leverage effect

The rate of change in the price of a hedging product as a result of a change in the price of the underlying asset.

#### Volatility

Variability in the price of a security, funds, a market, an index or an interest rate within a specified period.

#### Settlement with delivery

The trade is settled with the delivery of the underlying asset (physical delivery).

#### Settlement in cash

The trade is settled in cash (in the main currency), as opposed to the settlement with physical delivery.

#### Settlement without delivery

The trade is settled in cash (in the main currency), because the underlying asset is not convertible.

#### Product score

ČSOB divides its products according to the level of risk involved (1 = the least risky, 7 = the most risky).

## Characteristics of options

These characteristics are related to option financial products (with a complexity level of products within a group of 2 or higher).

### European

The holder can exercise the option only at the exactly defined option maturity date (Option Exercise Date).

### American

The holder can exercise the option at any time during the contract term.

### Barrier

A barrier is a predetermined limit on a market parameter of the underlying asset, potentially affecting the outcome of a contract.

Different product parameters can be defined y using barriers:

- Single: the outcome of the contract is potentially affected by one barrier
- Double: the outcome of the contract is potentially affected by two barriers
- Standard: the barrier is applicable during the entire contract
- Partial: the barrier is only applicable during a part of the contract (window)

### Knock-in

The option does not come into effect until a barrier is breached (suspensive condition).

### Knock-out

The option is effective until a barrier is breached; once a barrier is breached, the option will cease to be effective (dissolving condition).

### One touch

A contract feature stipulating that if a predetermined level (of the price of the underlying asset) is reached, then a predetermined payout will be made.

### No-touch

A contract feature stipulating that if a predetermined level (of the price of the underlying asset) is not reached, then a predetermined payout will be made.

### Range

A contract feature stipulating that the outcome of the contract depends on the price of the underlying asset either staying within or outside a predefined range.

## List of abbreviations

FX	Foreign eXchange
FI	Fixed Income
IR	Interest Rate
MM	Money Market
CM	Capital Market
OTC	Over The Counter

## The risk of loss on a trade

The client should assess the risk of a loss with regard to the risks of the underlying asset (type of product, see “Introduction”).

## Taxes

The taxes on financial instruments depend on the characteristics of the product and the individual situation of each client and may vary by country.

A client with doubts about taxes is recommended to consult an independent financial or tax advisor. Investors should also take into account that tax regulations and their consequences interpreted by the competent authorities change over time. Therefore, the exact future tax impact on the investment cannot be predicted.

## Description of financial instruments: Investment Products

In addition to the basics described below, ČSOB also offers a wide range of complex structures (composed of these basics). As the range of these structures frequently changes, this brochure only contains a selection of available products. More accurate information and a more detailed description of the risks can be found in the detailed descriptions of available products (“termsheet”).

## Investment Fund

### Description

A collective investment fund collects money from the public and invests it in accordance with a predefined investment strategy contained in the prospectus of each fund.

OTC product	Yes
Volatility	Depends on the type of fund, its investment strategy and portfolio composition
Leverage effect	Depends on the underlying asset/portfolio composition
Prospectus (Statute)	Yes
Guarantee	N/A
Financial commitments and other additional obligations	N/A
Product score	1–7

### Risk profile

Credit risk	Depends on the particular fund
Liquidity risk/Limitations on the available market	Depends on the particular fund
Currency risk	Depends on the particular fund
Interest rate risk	Depends on the particular fund
The risk of external influences	Depends on the particular fund
The structure risk compared to the risks of individual basics	N/A

### Variants

Go to <http://www.csob.cz/cz/Fondy/Stranky/Vsechny-fondy.aspx> for more detailed information on each collective investment fund (including the risk profile)

## Deposit Bill of Exchange / Promissory Note Programme

### Description

A deposit bill of exchange / promissory note is a discounted debt instrument issued by a bank or another company.

OTC product	Yes
Volatility	Low (depends on interest rate development trends and on supply and demand)
Leverage effect	N/A
Prospectus (Statute)	N/A
Guarantee	No
Financial commitments and other additional obligations	N/A
Product score	1–7

### Risk profile

Credit risk	Low
Liquidity risk/Limitations on the available market	Low
Currency risk	N/A
Interest rate risk	Low
The risk of external influences	Low
The structure risk compared to the risks of individual basics	N/A

### Variants

#### Deposit Bill of Exchange

Instrument issued by ČSOB.

#### Promissory Note Programme

Instrument issued by a company or municipality with its seat in the Czech Republic and administered by ČSOB.

#### High Yield Deposit Bill of Exchange

Instrument issued by ČSOB.



## Treasury Bill (T-Bill)

### Description

A T-Bill is a short-term (payable within one year from the issue date), discounted debt instrument issued by a central government body (in the Czech Republic by the Czech National Bank or the Ministry of Finance).

OTC product	Yes
Volatility	Low
Leverage effect	N/A
Prospectus (Statute)	N/A
Guarantee	N/A
Can be used as collateral	No
Financial commitments and other additional obligations	N/A
Linearity of financial flows	Payable in a single payment on the maturity date
Product score	1–7

### Risk profile

Credit risk	No
Liquidity risk/Limitations on the available market	Low
Currency risk	N/A (related to FX transaction)
Interest rate risk	Low
The risk of external influences	Low
The structure risk compared to the risks of individual basics	N/A

### Variants

#### ČNB Tbills

the Czech National Bank Bill

#### MoF tbills

T-bill issued by Ministry of Finance of the Czech Republic

## Bond

### Description

A bond is a security issued by an issuer (a company, bank, government, public institution or territorial units such as cities/towns and municipalities) to raise capital from investors (creditors) for a predetermined period at a predetermined interest rate. The issuer pays interest (coupon) on predetermined dates and repays the principal on the maturity date.

OTC product	Yes / No
Volatility	Low/Medium
Leverage effect	N/A
Prospectus (Statute)	Yes
Guarantee	N/A
Can be used as collateral	Yes/No (some selected bonds can be used as collateral)
Financial commitments and other additional obligations	N/A
Linearity of financial flows	Interest during the life of the bond and the principal in a single payment on the maturity date
Product score	1–7

### Risk profile

Credit risk	Low/Medium
Liquidity risk/Limitations on the available market	Low/Medium
Currency risk	Low
Interest rate risk	Low/Medium
The risk of external influences	Low/Medium
The structure risk compared to the risks of individual basics	N/A

### Variants

The list of variants below is not exhaustive:

#### “Public” – with a prospectus

It is issued for a large number of investors. It is also available to small investors, usually with a lower nominal value.

#### “Private issue” – without a prospectus

It is aimed at a limited number of investors or only professional investors. Usually with higher nominal value or with a minimum investment.

**Government bond**

Issued and guaranteed by a government.

**Zero-coupon bond**

“Zero coupon” – no interest is paid during the life of the bond. The bond is issued and traded at a discount price and the full nominal value is repaid by the issuer on the maturity date.

**Floating rate bond**

See Structures - Floaters

**Step-up/Step-down**

The interest rate increases/decreases over the life of the bond.

**Perpetual bond**

The bond has no specific maturity date. The coupons are paid for an infinite period and the principal is not repaid. In most cases, a perpetual bond includes an option enabling the issuer to repay the bond.

**Senior / subordinated bond**

Senior bonds have a higher priority in case of liquidation/bankruptcy. The holders of senior bonds are paid before the holders of subordinated bonds. Because of the higher risk, subordinated bonds usually have a lower credit rating than senior bonds.

**Structured bond**

A bond with its yield linked to a specific predetermined underlying asset – a stock basket, stock index, commodity basket, an individual commodity, a currency pair, a basket of currency pairs, etc. The yield is then derived from the performance of the relevant underlying asset.

## Floating rate bond

### Description

A floating rate bond is a security with an interest rate determined as a market rate and a spread (e.g. PRIBOR +/- a defined margin (e.g. 0.5%) or EURIBOR + 0.5%”).

OTC product	Yes
Volatility	Low
Leverage effect	N/A
Prospectus (Statute)	Yes/No
Guarantee	N/A
Can be used as collateral	Yes/No (some selected bonds can be used as collateral)
Financial commitments and other additional obligations	N/A
Linearity of financial flows	Interest during the life of the bond with the principal paid in a lump sum on the maturity date
Product score	1–7

### Risk profile

Credit risk	Low/Medium (depends on the issuer's rating)
Liquidity risk/Limitations on the available market	Low/Medium
Currency risk	Low
Interest rate risk	Low/Medium
The risk of external influences	Low/Medium
The structure risk compared to the risks of individual basics	N/A

## Callable bond

### Description

A bond with a call option gives the issuer the right (but does not impose the obligation) to repay the principal at a predetermined date before the defined maturity date of the bond. This bond is referred to as a "Callable Bond".

A bond with a put option gives the bond holder (owner) the right (but does not impose the obligation) to demand early repayment of the principal at a predetermined date before the defined maturity date of the bond. This bond is referred to as a "Puttable Bond".

OTC product	Yes
Volatility	Low/Medium
Leverage effect	N/A
Prospectus (Statute)	Yes/No
Guarantee	N/A
Can be used as collateral	No
Financial commitments and other additional obligations	N/A
Linearity of financial flows	Interest during the life of the bond and the principal is paid as a lump sum on the maturity date
Product score	1–7

### Risk profile

Credit risk	Low/Medium
Liquidity risk/Limitations on the available market	Low/Medium
Currency risk	Low
Interest rate risk	Low/Medium
The risk of external influences	Low/Medium
The structure risk compared to the risks of individual basics	The risks are higher than for a standard bond

## Structured bond

### Description

A bond with its yield linked to a particular predetermined underlying asset – a stock basket, stock index, commodity basket, an individual commodity, a currency pair, a basket of currency pairs, etc. The yield is then derived from the performance of the relevant underlying asset.

OTC product	Yes
Volatility	Low/Medium
Leverage effect	Low
Prospectus (Statute)	Yes/No
Guarantee	No
Can be used as collateral	No
Financial commitments and other additional obligations	N/A
Linearity of financial flows	Coupon during the life of the bond and the principal paid as a lump sum on the maturity date
Product score	1–7

### Risk profile

Credit risk	Low/Medium
Liquidity risk/Limitations on the available market	Low/Medium
Currency risk	Low
Interest rate risk	Low/Medium
The risk of external influences	Low/Medium
The structure risk compared to the risks of individual basics	N/A

## Investment certificate

### Description

An investment certificate is similar to debt securities. Investment certificates differ from bonds in that it is not necessary to repay the entire principal, which allows an investment certificate with an above-average interest yield compared to a standard bond to be issued and sold to clients. Thus, the possibility of achieving an above-average return for the client is balanced by the fact that the structure of the certificate means that the client may not receive his entire investment on the maturity of the certificate.

OTC product	Yes
Volatility	Low/Medium
Leverage effect	Low
Prospectus (Statute)	Yes
Guarantee	No
Can be used as collateral	No
Financial commitments and other additional obligations	N/A
Linearity of financial flows	Depends on the construction and the underlying asset
Product score	1–7

### Risk profile

Credit risk	Low/Medium
Liquidity risk/Limitations on the available market	Low/Medium
Currency risk	Low/Medium
Interest rate risk	Low/Medium
The risk of external influences	Low/Medium
The structure risk compared to the risks of individual basics	N/A
Other risks	Depends on the type of the underlying asset

## Performance Promissory Note

### Description

A bill of exchange / promissory note is a discounted debt instrument issued by a bank or any other company. A ČSOB Performance Promissory Note includes the note issuer's option to repay in a currency other than the currency in which the note is issued.

OTC product	Yes
Volatility	Low
Leverage effect	Low
Prospectus (Statute)	No
Guarantee	No
Can be used as collateral	No
Financial commitments and other additional obligations	N/A
Linearity of financial flows	Payable in a single payment on the maturity date
Product score	1–7

### Risk profile

Credit risk	Low
Liquidity risk/Limitations on the available market	High
Currency risk	Low/Medium
Interest rate risk	Low/Medium
The risk of external influences	Low
The structure risk compared to the risks of individual basics	N/A



## Structured Deposit

### Description

A Structured Deposit is a deposit product where the interest depends on the developments of exchange rates, prices and other parameters of financial market instruments. It enables the client to participate in financial market developments, while guaranteeing the investment made.

OTC product	Yes
Volatility	Low
Leverage effect	Low
Prospectus (Statute)	N/A
Guarantee	N/A
Financial obligations and other additional duties	N/A
Product score	1–7 (depending on the Structured Deposit Variant)

### Risk profile

Credit risk	Low
Liquidity risk/Limitations on available markets	High
Currency risk	Low/Medium
Interest rate risk	Low/Medium
Risks of external factors	Low
The structure risk compared to the risks of individual basics	N/A