

INFORMATION ABOUT THE PRINCIPLES OF THE BEST EXECUTION OF CLIENT ORDERS (“INFORMATION”)

Introduction

This document includes important information about the procedures and policies regarding the best execution of the client orders in the provision of investment services and the related services. It is intended for the clients of Československá obchodní banka (hereinafter “ČSOB”) to inform them about the best execution obligations.

1. Information about principles the best execution of client orders

ČSOB takes all the required steps to ensure that the best possible result is achieved in the execution of client orders. These steps are included in this document entitled “Best Execution Principles” (hereinafter the “Principles”).

The best execution of client orders does not mean the obligation of ČSOB to execute each individual client order under absolutely the best conditions. It means compliance with the procedures and rules for client order execution with a view to ensure that the best possible result is achieved for client orders. For that purpose, ČSOB has introduced and maintains organisational structures, procedures and rules.

Through the steps specified above and summarised in these Principles, ČSOB complies with the regulatory requirements arising, in particular, from the directive on markets in financial instruments (MiFID II), the Capital Market Undertakings Act and the related legislation.

The principles shall apply to the “standard” clients (i.e. those categorised as retail clients) as well as the professional clients within the meaning of the Capital Market Undertakings Act (except the clients specified in Section 2a(1) of the Capital Market Undertakings Act).

The Principles do not apply to the eligible counterparties (within the meaning of Section § 2a(1) and Section 2d of the Capital Market Undertakings Act). However, the Principles do apply with regard to the eligible counterparties in the provision of the investment service of individual portfolio management.

Execution of client orders means acting to conclude an agreement to buy or sell an investment instrument specified in Section 3 of the Capital Market Undertakings Act or a structured deposit within the meaning of Section 2(1)(r) of the Capital Market Undertakings Act (hereinafter jointly as the “Product”) on behalf of the client, including the conclusion of agreement to sell a Product issued by ČSOB by a member of the ČSOB Group or KBC at the moment of its issuance (i.e. in case of issues). Execution of client orders also means concluding transactions or entering into derivatives on ČSOB’s own account where it is apparent that the client approaches ČSOB with confidence in the best provision of the services (for details see below).

The Principles do not apply to cases that do not concern the execution of client orders, and ČSOB is thus not obliged to comply with the best execution procedures and rules. Specifically, ČSOB may not proceed in accordance with these Principles if all the following conditions are met:

- the transaction is initiated by the client (in particular, a professional one);
- the market in the relevant Product is transparent, i.e. there are multiple bank or investment firms on the market who are prepared to make an offer to enter into the relevant Product at the request of the client;
- the circumstances of entering into the transaction demonstrably show that the client itself has determined the conditions on the market; and

- there is no contractual obligation of ČSOB to meet the best execution requirements (i.e. an agreement constituting a special relationship of confidence between the client and ČSOB). Where ČSOB has no specific instructions from the client, it will seek to execute the order in with the procedures and rules specified in these Principles.

2. Approach to the best execution

2.1 Principles of the best execution

A number of factors are considered with a view to the best execution of the orders of a ČSOB client. In particular, in the case of a retail (standard) client, the best execution shall be determined with regard to the total costs, which include the price of the Product and the costs relating to execution. In addition to the total costs, the key factors in executing client orders also include liquidity, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.

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

- a) the nature of the client, including its classification as a retail (standard) client or a professional client;
- b) the nature of the client order;
- c) the nature and the 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.

Other factors may be more important for executing the client orders. For example, this could apply to orders that exceed, or do not meet, the standard size of transactions or those that concern non-liquid Products. In such a case, ČSOB may execute the order on the basis of other factors it may consider relevant with a view to achieving the best possible results for the client.

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; and
- b) if possible, by means of comparison with similar or comparable Products.

In this case, ČSOB has no obligation to request quotes from other market participants.

The correctness of the price is also regularly and systematically verified through internally set-up control procedures after the transaction is entered into.

2.2 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 order by entering into a transaction with the client on own account. In such a case, ČSOB is the execution venue.

Under certain circumstances, ČSOB may also make use of other execution venues, e.g. to execute an order that is not typical for ČSOB.

ČSOB regularly evaluates whether the execution venues included in these Principles deliver the best result for the client or whether the method of executing orders need to be modified in this regard.

Execution venues used by ČSOB:

- a) ČSOB
- b) An issuer of collective investment securities (usually ČSOB Asset Management a.s., KBC Asset management N.V., KBC Asset management S.A., KBC Fund Management Limited), or ČSOB if it enters into the transaction itself under an agreement with the issuer.
- c) MTF (e.g. Bloomberg MTF)
- d) OTF

2.3 Specific instruction regarding order execution

If ČSOB receives a specific instruction from the client regarding the execution of an order, it executes the order in accordance with that instruction. In such a case, ČSOB may, within the boundaries specified in the order, deviate from these Principles and proceed differently than as set out by the rules specified in these Principles.

NOTICE: A specific client instruction may – with regard to certain elements contained in such an instruction – prevent ČSOB from taking the steps adopted and implemented by it in its Principles to achieve the best possible result of executing such orders for the client.

2.4 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) ČSOB manages the above-mentioned conflicts of interest so as to avoid any adverse impact on the clients' interests.
- (4) If it is impossible to fully exclude a potential conflict of interest, ČSOB will adopt any and all measures necessary to prevent this conflict of interest and its negative impact on the client's interests. However, if this process is not sufficient to reliably prevent an adverse impact of the conflict of interest on the client's interests, ČSOB will take measures to mitigate the risk of the negative impact on the client. In such a case, ČSOB will inform the client about the nature and source of the conflict of interest before the investment service is provided to enable the client to make an informed decision.
- (5) In connection with directing client orders to, or entering them in a specific execution venue, ČSOB accepts no inducements that could result in the violation of the conflict of interest management requirements and rules.

3. 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. In particular, ČSOB regularly verifies and evaluates whether the execution venues specified in these Principle continue to enable ČSOB to obtain on a consistent basis the best possible result for the clients, and any deficiencies are corrected.

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

4. 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

5. Client consent with the Principles and with trading on an OTC market

By submitting an order to ČSOB for execution (including by entering into a transaction with ČSOB) the client consents to these Principles.

These Principles enable the execution of the client order outside a regulated market, a multilateral trading facility and an organised trading facility (i.e. on an OTC market) under the terms and conditions specified by the applicable laws and regulations and these Principles. Since the order is not executed by a central counterparty on an OTC market, there may be an increased counterparty risk.

The client expressly agrees that the client's order may be executed on an OTC market under the conditions specified above.

The client may ask ČSOB for additional information about the Products, executing orders, these Principles and any other issues related to the best execution of orders.

At the client's request, ČSOB will provide additional information about executing an order on an OTC market and the consequences thereof.

6. 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 related to these types of Products.

This chapter outlines such policies.

- The rules and procedures described in these Principles do not prohibit ČSOB from acting otherwise if it does not believe that adherence to the standard procedure in accordance with these Procedures would not deliver the best result for the client in the relevant specific case. It is an exceptional situation that may occur under extraordinary circumstances such as low liquidity, volatility due to political, economic or social events or the publication of financial data or in case of an adverse change in the creditworthiness of the issuer of the relevant Product.
- In case of emergency, e.g. a system failure, ČSOB may not be capable to execute the order in accordance with the procedures described herein. Under such exceptional circumstances, ČSOB will seek to execute the order in the manner that is most favourable to the client.
- The competitive and fair price is checked for financial market products (i.e. all the Products except collective investment securities). In case of failure to meet the specified internal rules, ČSOB will proceed in accordance with a pre-determined escalation procedure, in which the systems implemented to ensure the best execution of orders are verified any deficiencies identified are corrected.

6.1 Bonds, structured securitised debt and money-market instruments

As regards bonds, structured securitised debt and money-market instruments, ČSOB approaches executing orders from retail and professional clients in the same way.

Typically, these are bonds, structure securitised debt and money-market instruments issued by ČSOB, i.e. ČSOB is the issuer of such Products (typically, investment certificates). In this case, ČSOB itself is the execution venue because the Product, issued by ČSOB, is not inherently available in other venues. The client order is thus executed by ČSOB by entering into a transaction on its own account. With a view to the best execution of the client order ČSOB has set up internal models for determining the competitive and fair price; such models are subject to internal verification.

As regards orders concerning bonds, structure securitised debt and money-market instruments that have not been issued by ČSOB, ČSOB generally executes such orders in such a venue that provides sufficient liquidity for the relevant Product.

ČSOB may use the multilateral trading facility of Bloomberg (BMTF) as another execution venue for this type of Products. In order to execute client orders regarding this particular type of Products, ČSOB has chosen BMTF because this system usually enables the comparison of prices from multiple counterparties for the specific title. ČSOB then chooses the quote that is best for the client among the quotes shown in BMTF. In addition, the Bloomberg system also includes the ALLQ (ALL QUOTES) functions, which enables the participants using this function to display and respond to the indicative supply and demand prices. ČSOB may be one of such participants and may therefore use this function to request binding quotes at initiative of the client. Consequently, this has a positive impact on the price and speed of the execution of the order; however, there is no guarantee of liquidity for all the products traded by the BMTF.

With regard to the above, ČSOB considers BMTF an execution venue through which it is possible on a consistent basis to execute client orders concerning bonds, structured securitised debt and money-market instruments that are not issued by ČSOB under the best conditions.

If ČSOB concludes that none of the above-mentioned options meets the internally defined criteria of sufficient liquidity, the client order will be executed on an OTC market. The crucial factors, i.e. liquidity, price and costs, are considered when executing the client order in this manner.

6.2 Collective investment securities

As regards collective investment securities, ČSOB approaches executing orders from retail and professional clients in the same way.

ČSOB will generally execute orders concerning collective investment securities itself on the basis of contractual arrangements with the issuer, or it will forward such orders to an intermediary of the transfer of such a product.

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 a price that equals its current value applicable on the date on which ČSOB has received the application of the unit holder for redemption; 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 the securities of the specific collective investment undertaking in the client's portfolio on a certain date represents the value of the share of client in the assets of the relevant undertaking on that date. The value of a security of a collective investment undertaking is known only after the closing prices of the securities held in the portfolio of the undertaking are received and processed. 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.

6.3 Derivatives traded on a regulated market, in a multilateral trading facility and an organised trading facility

As regards the derivatives traded on a regulated market, in a multilateral trading facility or an organised trading facility, ČSOB approaches executing orders from retail and professional clients in the same way.

The transactions in these derivatives will be generally placed on the most liquid market.

6.4 OTC derivatives

As regards OTC derivatives, ČSOB approaches executing orders from retail and professional clients in the same way.

The derivative transactions entered into on the OTC market include various options, forwards, swaps and their combinations. These products are traded on the OTC market, i.e. outside a regulated market, a multilateral trading facility or an organised trading facility.

Prospective clients or clients interested in entering into OTC derivatives are presumed to contact various banks or investment firms to obtain information about the price of such Products. ČSOB has procedures in place to ensure that the price of these Products is created competitively and fairly using up-to-date market data. In the pricing, ČSOB relies on internal models, which are subject to internal verification requirements using market data.

OTC FX derivatives (together with IR and COMM products) represent part of the portfolio of hedging OTC Products. ČSOB actively trades OTC FX derivatives within KBC Trading portfolios. To check the competitiveness of prices at which client transactions are carried out, ČSOB has the necessary procedures in place to reflect the current market conditions (volatility) of the products offered. KBC and ČSOB internally re-evaluate all OTC FX derivative transactions by employing using its own internal pricing models, allowing independent assessment of the external prices market conformity and quality. As a result, clear valuation rules for individual asset classes and currency / currency pairs are established and monitored on an ongoing basis.

OTC IR derivatives represent (together with FX and COMM products) part of the portfolio of hedging OTC Products. ČSOB actively trades OTC IR derivatives within KBC Trading portfolios. To check the competitiveness of prices at which client transactions are carried out, ČSOB has the necessary procedures in place to reflect the current market conditions (volatility) of the products offered. KBC and ČSOB internally revalue all OTC IR derivative transaction transactions employing its own internal pricing models, allowing independent assessment of the external prices market conformity and quality. As a result, clear valuation rules are set for each asset class, which are continuously monitored.

OTC Commodity hedging derivatives represents part of OTC hedging products (together with FX and IR ones). As ČSOB serves as competence centre for commodities hedging sales, ČSOB also has the requisite procedures in place to ensure that the prices offered for these products are accurate and reflect the prevailing market condition. Commodity hedging products are covered on back-to-back basis, when for all quotations, 2-3 external prices from most competitive external market makers are considered prior to quoting the client price. Some of these external counterparties are providing ČSOB with Commodity trading e-platforms (such as Marquee, Cortex, etc.), allowing to monitor pricing consistency. Furthermore, ČSOB internally revalues all Commodity related transactions, using own in-house pricing models, which allows to assess external prices' quality.