UniCredit Bank

DESCRIPTION OF RISKS RELATED TO INVESTMENTS IN FINANCIAL INSTRUMENTS

General Terms and Conditions for Conducting Transactions with Financial Instruments of the UniCredit Banka Slovenija d.d. – APPENDIX 2

Table of contents

1. INTRODUCTION 2

2. GENERAL RISKS 2
2.1. Foreign exchange risk 2
2.2. Transfer risk 2
2.3. Country risk 2
2.4. Liquidity risk 2
2.5. Credit rating risk 2
2.6. Interest rate risk 2
2.7. Exchange risk 2
2.8. Total loss risk 3
2.9. Credit purchase of securities 3
2.10. Order transfers to the Bank 3
2.11. Guarantees 3
2.12. Tax aspects 3
2.13. Stock exchange risks, especially on less developed markets (e.g. Eastern Europe, Latin America, etc.) 3

3. BONDS AND OTHER DEBT SECURITIES 3
3.1. Definition 3
3.2. Yield 3
3.3. Credit rating risk 3
3.4. Exchange risk 3
3.5. Liquidity risk 4
3.6. Bond trading 4
3.7. Some special bond cases 4

4. SHARES 4
4.1. Definition 4
4.2. Yield 4
4.3. Exchange risk 4
4.4. Credit rating risk 4
4.5. Liquidity risk 4
4.6. Share trading 4

5. INVESTMENT FUNDS 4
5.1. General information 4
5.2. Yield 5
5.3. Exchange risk/Valuation risk 5
5.4. Tax consequences 5
5.5. Exchange traded funds 5
5.5.1. Yield 5
5.5.2. Risk 5

6. WARRANTS 5
6.1. Definition 5
6.2. Yield 5
6.3. Exchange risk 5
6.4. Liquidity risk 5
6.5. Warrant trading 5
6.6. Characteristics of warrants 5

7. STRUCTURED INVESTMENT PRODUCTS 5
7.1. Risks 6
7.2. Reverse convertible bonds 6
7.3. Interest spread bond 6
7.3.1. Yield 6
7.3.2. Risk 6
7.4. Guaranteed certificates 6
7.4.1. Yield 6
7.4.2. Risk 6
7.5. Discount certificates 6
7.5.1. Yield 6
7.5.2. Risk 6
7.6. Bonus certificates 7
7.6.1. Yield 7
7.6.2. Risk 7
7.7. Index certificates 7
7.7.1. Yield 7
7.7.2. Risk 7
7.8. Basket certificates 7
7.8.1. Yield 7
7.9. Knock-out certificates and turbo certificates 7
7.9.1. Yield 7
7.9.2. Risk 7
7.10. Double chance certificate 7
7.10.1. Yield 7
7.10.2. Risk 7
7.11. Twin win certificates 7
7.11.1. Yield 8
7.11.2. Risk 8

8. MONEY MARKET INSTRUMENTS 8
8.1. Definition 8
8.2. Components of yield and risk 8
8.3. Liquidity risk 8
8.4. Money market instrument types 8

9. STOCK-EXCHANGE SECURITIES FUTURES (OPTION AND FUTURES AGREEMENTS) 8
9.1. Purchase of options 8
9.2. Sale of option agreements and purchase or sale of futures agreements 8
9.3. Margin trading 9

10. OUTRIGHT OPERATIONS 9
10.1. Definition 9
10.2. Yield 9
10.3. Foreign exchange risk 9
10.4. Credit rating risk 9
10.5. Transfer risk 10

11. SWAPS 10
11.1. Definition 10
11.2. Yield 10
11.3. Credit rating risk 10
11.4. Transfer risk 10

12. INTEREST RATE SWAPS (IRS) 10
12.1. Definition 10
12.2. Yield 10
12.3. Interest risk 10
12.4. Credit rating risk 10
12.5. Special requirements for interest rate swaps 10
12.6. Special form: Constant Maturity Swap (CMS) 10
12.6.1. Definition 10
12.6.2. Yield 10
12.6.3. Interest rate risk 10
12.7. Special form: CMS Spread linked Swap 10
12.7.1. Definition 10
12.7.2. Yield 10
12.7.3. Interest rate risk 10

13. FORWARD RATE AGREEMENT (FRA) 10
13.1. Definition 10
13.2. Yield 11
13.3. Interest rate risk 11
13.4. Credit rating risk 11
13.5. Special requirements for FRA 11

14.	**FUTURES**	11
14.1.	Definition	11
14.2.	Yield	11
14.3.	Interest rate risk	11
14.4.	Liquidity risk	11
15.	**OVER-THE-COUNTER OPTION DEALINGS**	11
15.1.	Standard option – plain vanilla option	11
15.2.	Exotic options	11
15.3.	Special form – barrier option	11
15.4.	Special form – payout option	11
15.5.	Yield	11
15.6.	General risks	11
15.7.	Special risks in case of over-the-counter option dealings	11
16.	**FOREIGN EXCHANGE OPTIONS**	12
16.1.	Definition	12
16.2.	Yield	12
16.3.	Risks related to option purchase	12
16.4.	Risks related to option sale	12
16.5.	Special requirements for foreign exchange options	12
17.	**INTEREST RATE OPTION**	12
17.1.	Definition	12
17.2.	Yield	13
17.3.	Interest rate risk	13
17.4.	Credit rating risk	13
17.5.	Complete loss risk at purchase	13
17.6.	Special requirements with interest rate options	13
18.	**CROSS CURRENCY SWAP (CCS)**	13
18.1.	Definition	13
18.2.	Yield	14
18.3.	Interest rate risk	14
18.4.	Foreign exchange risk	14
18.5.	Credit rating risk	14
18.6.	Special requirements for interest rate swaps	14
19.	**COMMODITY SWAPS AND COMMODITY OPTIONS WITH CASH SETTLEMENT (»COMMODITY FUTURES«)**	14
19.1.	Background information on individual instruments	14
19.2.	Risks – details on different instruments	14
19.3.	Risks related to commodity futures in general	14

1. INTRODUCTION

Description of Risks Related to Investments in Financial Instruments (hereinafter referred to as: the Description) shall be intended for customers and potential customers of the UniCredit Banka Slovenija d.d. (hereinafter referred to as: the UCB) with the intention of forwarding information and warnings about risks related to financial instruments, which customers may purchase, sell, or order with the UCB or by means of which customers may perform other services via the Bank.

Risks may refer to a failure to achieve a certain expected yield deriving from capital employed and/or loss of capital employed to its complete loss, while several reasons related to financial instruments, markets, or issuers of these financial instruments may be the basis for such a risk. It shall not be possible to always predict these risks in advance; therefore, statements in this Description cannot be considered as final.

The purpose of this Description shall not be to forward information about all the risks, which would have occurred in performance of services with financial instruments, but to forward information about risks, which would enable customers mainly to understand their nature when making decisions about financial investments. At the same time, the UCB shall advise customers to familiarize themselves with additional disclosures of this financial instrument or service in detail prior to making a decision concerning a concrete investment service or transaction.

Statements in this Description shall not constitute the UCB's advice on potential investments and shall not be deemed the UCB's recommendation for performance of any of investment services. The Description shall not constitute the UCB's offer to a customer to conclude a relationship for any of investments services. Therefore, present Description shall not substitute customers' careful checking of a concrete product.

2. GENERAL RISKS

2.1. Foreign exchange risk

In case of a selected transaction, denominated in foreign currency, yield shall not depend only on the local yield of a security on a foreign market, but it also strongly depends on development of the foreign currency's exchange rate in relation to customer's base currency. Therefore, a change of exchange rate may either increase or decrease the investment's yield and value.

2.2. Transfer risk

With transactions, which are linked to the rest of the world (e.g. a foreign obligor), there shall exist – depending on respective country - additional risk for the realization of the investment to be prevented or aggravated due to measures of political and exchange and legal nature. Furthermore, there may appear problems in order implementation. In case of transactions in foreign currency, measures of this type may lead to the fact that a foreign currency can no longer be freely converted.

2.3. Country risk

Country risk shall indicate credit rating risk of a country and shall be influenced by aspects resulting from economic, political, social, or ethical environment of the country. If political or economic risk is estimated for a country concerned, this could lead to repercussions for all partners based in this country.

2.4. Liquidity risk

Market liquidity shall be a possibility for an investment to be purchased, sold, or accommodated at any time in accordance with prices suitable for a market. A market shall be liquid if customers are able to trade with their securities without fear of an average order (measured in terms of the turnover volume typical for a market) leading to significant currency fluctuations and its inability to be implemented or with its ability to be implemented only on a significantly changed exchange level.

2.5. Credit rating risk

Credit rating risk shall be risk of insolvency on the side of a partner or his/her potential inability for timely or final compliance with his/her obligations such as payment of dividends and interest, repayment, etc. An alternative definition for credit rating risk shall be the risk of the obligor or the issuer. It shall be possible to estimate this risk by means of credit assessment, which is a grading scale used to assess the issuer's credit rating, which is provided by evaluation agencies, while assessing, in particular, credit rating risk and country risk. The grading scale shall extend from "AAA" (the best rating) to "D" (the worst rating).

2.6. Interest rate risk

Interest rate risk shall result from the possibility of a change in financial instrument's value due to changes of the level of market-related interest rates. Increasing level of market-related interest rates shall lead to exchange losses for the duration of fixed interest-bearing bonds, and a falling level of market-related interest rates shall lead to exchange gains.

2.7. Exchange risk

Exchange risk shall signify potential fluctuations of the value of individual investments. In the case of liability transactions (e.g. outright operations, futures, option issuing), exchange risk may lead to margin or to increase of transactions' amounts or to tying up of additional funds.

2.8. Total loss risk

Total loss risk shall signify risk for an investment to become of no value. Total loss risk may occur especially when the issuer of a security is no longer in condition of complying with his/her payment obligations (or he/she becomes insolvent) due to economic or legal reasons.

2.9. Credit purchase of securities

Credit purchase of securities shall present increased risk for the lessor, since loan means must be repaid independently of the investment's yield. However, it shall be taken into account that loan costs reduce the yield of an investment.

2.10. Order transfer to the Bank

Orders to the Bank for the purchase or sale shall include the minimum information stated in the General Terms and Conditions of Conducting Transactions with Financial Instruments and the Policy of Order Implementation.

2.11. Guarantees

The notion of a guarantee may have different meanings. On the one hand, this notion shall refer to a promise of a third party other than the issuer, by means of which this third party ensures the issuer's compliance with obligations. On the other hand, guarantee may refer to a promise of the issuer him-/herself to perform a certain service independently of the development of specific indicators, which, as such, would be decisive as far as the amount of the issuer's obligations is concerned. Guarantees may also refer to a broad range of other circumstances.

Equity guarantees shall usually be valid only until their life is about to expire (repayment), due to which there may certainly occur currency fluctuations (exchange losses) during the period of their validity. Quality of equity guarantee shall substantially depend on the rating of the guarantee provider.

2.12. Tax aspects

A bank adviser shall provide information to the customer about general tax aspects of different investments. The UCB shall recommend to customers to assess the effect of an investment on their personal tax situation themselves or in cooperation with their tax adviser.

2.13. Stock exchange risks, especially on less developed markets (e.g. Eastern Europe, Latin America, etc.)

There shall be no direct connections with majorities of stock exchanges on developing markets, which means that all orders have to be transferred via telephone first. In so doing, there may occur mistakes or time lags.

In the case of some developing share markets, limit orders for purchase or sale shall, in principle, not be possible. Thus, it shall be possible to forward limit orders only after adequate demand with an intermediary at his/her location via telephone, which may lead to time lags. It may also occur that these limits are never realized.

In the case of some stock exchanges on developing markets, it shall be difficult to acquire topical exchange rates, which aggravates the assessment of current positions of customers.

If trading with a certain bill on a stock exchange is stopped, then it may be impossible for a sale of these securities to occur via respective stock exchange of their purchase. Transfer to another stock exchange may lead to problems as well.

In case of some stock exchanges on developing markets, opening hours shall be far from suiting Western European standards. Short stock exchange opening hours lasting three or four hours a day may cause a bottleneck or noncompliance with stock exchange orders.

3. BONDS AND OTHER DEBT SECURITIES

3.1. Definition

Bonds, treasury bills, and certificates of deposit shall be securities, in case of which the issuer (obligor) vis-à-vis the holder (the purchaser) shall undertake to remuneration of the received principal value and its repayment under the conditions referring to bonds. In addition to these bonds, which are bonds in the strict sense, there shall also exist bonds, which significantly derogate from the mentioned characteristics. The Bank shall in particular draw the customers' attention to securities described in the "Structured products" section. Therefore, what shall especially apply in this area is the fact that, as far as risks, which are specific to this product are concerned, it is not the designation of a bond that is decisive, but it is the concrete form of a product.

3.2. Yield

Yield of a bond shall consist of remuneration deriving from the principal value and potential differential between the purchase price and the price attained at sale/repayment.

Thus, yield may be stated in advance only where a bond is kept until repayment. In the case of variable bond remuneration, it shall be impossible to state yield in advance. Yield (to final maturity), which is charged according to customary international criteria, shall apply as a comparative number/unit for yield. If a bond offers yield, which is significantly above the yield of bonds of comparable duration, it shall be necessary to state specific reasons for that, e.g. increased credit rating risk.

Selling price attained at the time of sale prior to repayment shall be uncertain, therefore, yield may be higher or lower than the one, which has been calculated originally. Cost burden shall also be taken into consideration when calculating yield.

3.3. Credit rating risk

There shall exist risk that the obligor is not able to comply with his/her obligations or he/she is able to comply with his/her obligations only to some extent, e.g. in the event of insolvency. When deciding for an investment, customers shall also consider the obligor's rating.

A guideline for the assessment of the obligor's rating shall thus be rating or assessment of the obligor by an independent credit rating agency. Assessment "AAA" or "Aaa" shall signify the best rating (e.g. German federal bonds); the worse the assessment (e.g. B or C), the higher credit rating risk – and so much higher is probably also remuneration (risk premium) of a security on account of increased exposure risk (credit rating risk) of the obligor. Bonds rated BBB or better shall be designated as the "investment grade" due to some sectoral requirements concerning the minimum assessments of investment credit rating risk (e.g. investments of insurance companies).

3.4. Exchange risk

If a customer keeps a bond until the end of its life time, he/she shall receive at repayment the takings at repayment promised by bond requirements. In this connection, customers shall take the risk of early cancellation by the issuer into consideration – if terms of issue are set in advance.

Upon sale prior to expiry of life time, customers shall get market price (exchange rate). It shall be formed in relation to supply and demand, which, inter alia, depend on the current interest level. Thus, for example, in the case of fixed interest-bearing bonds, exchange rate shall fall if interest for comparable life times increase, and vice versa, the value of a bond shall be higher if interest for comparable life times fall. A change of the obligor's rating may also affect a bond's exchange rate.

In the case of variable interest-bearing bonds, whose yield is bound by indices (stock, inflation), exchange risk shall be significantly higher than in the case of bonds, whose remuneration depends on the value of the interest rate on the money market.

The extent of a change of a bond's exchange rate as a reaction to a change in the interest level shall be described by duration. It shall depend on the bond's remaining life time. The longer the duration, the more changes of the general interest level shall affect the exchange rate in the positive as well as in the negative sense.

3.5. Liquidity risk

Realization of bonds may depend on several factors, e.g. on the issue amount, remaining life time, exchange market practices, and market situation. A certain bond may also be difficult or impossible to dispose; in such a case, it shall be necessary to keep it until repayment.

3.6. Bond trading

Bonds may be traded with on a stock exchange or outside of it. On the customer's request, the UCB shall normally submit him/her a buying and selling rate for bonds specified. In the case of bonds, which are traded with on a stock exchange, rates that are created on a stock exchange, may significantly derogate from prices outside the stock exchange. It shall be possible to limit risk of a shallow marketby limit orders.

3.7. Some special bond cases

Bonds included in supplementary capital

These bonds shall be subordinated bonds of banks in case of which remuneration is implemented only at adequate requisite operating results (prior to formation in provisions). Repayment of the principal value prior to liquidation shall be conducted only in line with proportional deduction during the entire period of life time of bonds, which are included in supplementary capital of incurred net losses.

Bonds included in subordinated capital

These bonds shall be subordinated bonds in case of which customers shall only be paid, in the event of the obligor's liquidation or bankruptcy, after all other non-subordinated obligations of the obligor have been paid. Thus, the subordinated bonds shall have the same status as shares except that they do not provide dividends but interest and that their ownership does nor bring rights to vote.

Other special bond cases

Advisers shall provide further information about other special bond cases, such as exchangeable bonds, convertible bonds, and zero-coupon bonds.

4. SHARES

4.1. Definition

Shares shall be securities, which contain a record of participation in a company (stock corporation). The most essential rights of a shareholder shall include a profit share of the company and a right to vote at a shareholders' meeting. (The exception shall be preference shares).

4.2. Yield

Yield deriving from investments in shares shall consist of payments of dividends and exchange gains/losses; it shall be impossible to be definitely assessed. Following the decision of the general meeting, a dividend shall be distributed profit of a company. Dividend amount shall be stated in absolute figures per share or as a percentage of the face value. Yield, which derives from a dividend and is bound by share rate, shall be called yield per share, which will typically be significantly below the dividend stated in percentage. A more important part of yield from investments in shares shall regularly derive from the development of share value/rate (see Exchange risk).

4.3. Exchange risk

In most cases, a share shall be a security traded on a stock exchange. As a general rule, exchange rate shall be established daily in accordance with supply and demand. In general terms, exchange rate of a share shall adhere to the company's economic development and general economic and political framework conditions. Irrational factors (moods, opinions) may also affect the development of an exchange rate and thus yield. Investments in shares may lead to considerable losses.

4.4. Credit rating risk

A customer shall partake in a company as a shareholder. In the case of bankruptcy of that company, invested share may be of no value.

4.5. Liquidity risk

Realization of shares listed on poorly liquid markets (especially listings on unorganized markets, OTC trading) may be problematic.

In the case of a listing of a share on several stock exchanges, there may also appear differences at its realization on different international stock exchanges (e.g. a listing of an American share in Frankfurt).

4.6. Share trading

Shares shall be traded with via stock exchange, periodically also outside of stock exchange. In case of trading via stock exchange, respective stock exchange rules (closing exchange rates, order types, arrangements regarding maturity, etc.) shall be taken into consideration. If a share is listed on several stock exchanges in a different currency (e.g. an American share is listed on the Frankfurt stock exchange in euros), exchange risk shall also involve foreign exchange risk.

In case of a purchase of a share on a foreign stock exchange, additional costs (e.g. Stamp duty in Great Britain), generated in addition to respective costs, which are charged by the UCB, shall be taken into consideration.

5. INVESTMENT FUNDS

5.1. General information

Investment certificates of investment funds shall be securities, which confirm co-ownership in an investment fund. Investment funds shall invest the investors' money in accordance with the risk spreading principle. The three main types shall be as follows: bond funds, equity funds, and mixed funds, which invest in bonds as well as in shares. Funds may invest in domestic and/or foreign values.

In addition to securities, investment spectrum of domestic investment funds shall also include money market instruments, liquid financial investments, derivatives, and proportions of investment funds. Investment funds may invest in domestic and outside sources.

Further distinction shall be made between:
- Payment funds (they pay out profit),
- Funds, which invest profits in full. Unlike a payment fund, in case of this type of funds, there is no payment of yield, instead of that profits shall be further accumulated in the fund,
- Fund of funds, which invest in other domestic and/or foreign funds,
- Guarantee funds, which are bound by an undertaking of one of guarantors, appointed by the fund, concerning payments in a specified life time, repayment of the principal value, or further development.

5.2. Yield

Yield deriving from investment funds shall consist of annual payments (in so far as payment funds and funds, where infra-annual yields are fully reinvested, are concerned) and depend on the movement of market values of securities in an investment fund with an investment policy fixed in advance; it shall be impossible to set it in advance. In relation to respective fund structure, it shall thus be necessary to take into consideration warnings concerning risk for bonds, shares, and option lists.

5.3. Exchange risk/Valuation risk

It shall generally be possible to sell proportions of a fund at redemption price at any moment. In exceptional circumstances, redemption may be temporarily postponed due to increased sale of fund's means and the arrival of takings. The amount of potential costs or order implementation days for purchase or sale shall be stated in the fund's prospectus. A fund's life time shall adhere to fund's rules and is typically unlimited. Contrary to bonds, there shall typically be no repayment in case of proportions in investment funds and thus no fixed rate at repayment. Risk concerning investing in funds shall depend on – as already stated in the yield section – investment policy and market development. Loss shall not be excluded. Despite the usual possibility of disposal at any time, investment funds shall be investment products, which are typically reasonable from the economics point of view if investment lasts for a longer period of time.

It shall be possible to trade funds – similarly to shares - on the stock exchange. Exchange rates, which are formed on stock exchanges concerned, may derogate from redemption price. In relation to this, there shall apply similar warnings regarding risks as in the case of shares.

5.4. Tax consequences

In relation to respective fund type, tax treatment of yields shall vary. Please consult your bank adviser for general information.

5.5. Exchange traded funds

Exchange traded funds (ETF) shall be proportions of funds, which are traded with on the stock exchange in the same manner as with shares. The ETF shall normally contain a basket of securities (e.g. a basket of shares), which emulates the index structure, which means that it follows the index in a certain security by means of securities contained in the index and their current weighting in the index, due to which an ETF is frequently called an indexed share.

5.5.1. Yield

Yield shall depend on the development of underlying values, which are found in a basket of securities.

5.5.2. Risk

Risk shall depend on the underlying instruments, which are contained in a basket of securities.

6. WARRANTS

6.1. Definition

Warrants shall be securities without interest and yield, which provide the holder the right to purchase (call options) a certain underlying value (e.g. shares) at a price fixed in advance (strike price) or sell it (put options) at a certain point in time or within a specified time-frame.

6.2. Yield

By acquiring a warrant, the warrant holder shall fix the purchase price of a share, which the warrant refers to. Yield may derive from the fact that share market price becomes higher than the strike price, which the customer has to pay, while deducting the warrant's buying price. The holder shall then have a possibility of purchasing the underlying value at the strike price and immediately selling it again at market price.

The increase of share prices shall normally reflect in reasonably higher increase or the warrant's exchange rate (the leverage effect). Most customers shall reach their yield by selling warrants and not by purchasing of shares, which warrants refer to.

The same shall apply mutatis mutandis for put warrants; their price usually increases when the exchange rate of shares, which they refer to, reduces.

It shall be impossible to set yield deriving from investments in warrants in advance. The maximum loss shall be limited to the level of the invested amount.

6.3. Exchange risk

Risk regarding investments in warrants shall be in the fact that the underlying value does not develop to its maturity in the manner, which has been taken into consideration as the basis for a decision to make a purchase. In the extreme case, total loss of invested capital may occur.

In addition, exchange rate of a warrant shall also depend on other factors. The most important shall include:

- Volatility of a share, which forms the basis. Volatility shall be a measure of expected range of fluctuations of a share price, which is based on historic time series. In principle, high volatility shall signify a higher price for a warrant.
- Warrant life time (the longer the life time, the higher the price).

Reduction of volatility or reduction of the remaining life time may cause – although customers' expectations as regards to development of the underlying value's exchange rate have been met - for the exchange rate of a warrant to remain the same or to fall.

The Bank shall advise against the purchase of a warrant just prior to the end of its life time. Purchase at high volatility shall put up the price of the customer's investment and is thus highly speculative.

6.4. Liquidity risk

As a general rule, warrants shall be issued only in smaller numbers. This shall cause increased liquidity risk. Thus, there may occur particularly high exchange rate deviations in the case of individual options.

6.5. Warrant trading

In most cases, warrant trading shall take place outside of the stock exchange. There shall typically be a differential between the buying and the selling exchange rate. This differential shall be on the customer's account. In case of trading on the stock exchange, customers shall pay particular attention to liquidity, which is frequently very limited.

6.6. Characteristics of warrants

Warrants shall not be standardized. Therefore, it shall be of extreme importance for customers to obtain information about their precise structure, namely, about:

Implementation method:
Is it possible to implement the option right at any time (the American option) or only on the implementation date (the European option)?

Subscription relation:
How many options are required for the purchase of one share?

Implementation:
Share supply or cash settlement?

Maturity:
When does the option expire? Please take into consideration that the UCB shall not implement customers' options without their express order.

Last trading day:
The last trading day shall usually be a few days before maturity date, so that it is impossible beyond argument to proceed from the fact that an option can be sold until the last day of its maturity.

7. STRUCTURED INVESTMENT PRODUCTS

"Structured investment products" shall refer to investment instruments, whose yields and/or input repayment are largely not fixed, but they depend on certain future events or development. Furthermore, these investment

products shall be designed to enable the issuer to call off the product ahead of time or an automated removal occurs in the event of a pre-set requisite event.

Individual types of products shall be described below. To designate these types of products, usual common terms, which are not used uniformly on the financial market, shall apply. Due to a diversity of possibilities of connecting, combining and paying of these investment instruments, there has developed a broad range of forms of investment instruments, whose selected designations or names shall not always uniformly follow the respective form. Therefore, it shall always be necessary to check specific conditions of a product.

7.1. Risks

1) If payments of interest and/or yield are agreed upon, they may depend on future events or development (indices, baskets, individual shares, fixed prices, raw materials, precious metals, etc.).
2) Repayment of the principal value may depend on future events or development of events (indices, baskets, individual shares, fixed prices, raw materials, precious metals, etc.) and may thus reduce in future or even entirely fall away.
3) As regards to payments of interest and/or yield and as regards to repayment of the principal value, special consideration shall be given to the following risks: interest rate risk, foreign exchange risk, sectoral risk, country risk, and credit rating risk, as well as tax risks.
4) Risks relating to items 1) to 3) may, without prejudice to existing guarantees for interest, yield, or principal value, lead to high currency fluctuations (exchange losses) during life time and may subsequently aggravate or prevent sale of an instrument prior to its maturity.

7.2. Reverse convertible bonds

These products shall be composed of components, whose risk is borne by the purchaser of bonds. The purchaser shall decide for a bond (bond component), whose interest rate includes option money. The structure shall thus offer higher interest rate than a bond of comparable maturity and comparable credit rating risk. A bond shall be repaid in money or in shares, depending on development of exchange rate of shares, which serve as a basis (share component).

The purchaser of a bond shall thus be the owner of put (option component), who sells to the third party a right to sell him/her shares and who thus assumes risk concerning negative movement in exchange rate. The purchaser of a bond shall thus bear a risk of exchange rate development and therefore receive a premium, which essentially depends on volatility of a share (and subsequently a clean-up put option), which serves as a basis. If he/she does not keep the bond until the end of its life time, this risk shall be joined by the interest rate risk. A change of interest rate level shall additionally affect the bond's exchange rate and subsequently the bond's net yield.

In comparison to a regular bond, the above mentioned elements shall present additional risk elements, which are linked with such an instrument and which contribute to greater risk of the investment and thus higher yield. In relation to this, it shall be necessary to also consider appropriate comments on risks in the following chapters: credit rating risk, interest rate risk, and share exchange risk.

7.3. Interest spread bond

These products, which have been created as bonds, shall initially be provided with a fixed coupon. After the closing period of fixed interest rate, all products shall divert to variable remuneration. Annual coupon shall largely depend on respective topical interest situation (yield curve). In addition, these products may be provided with a target interest rate option; this means that a product is called off ahead of time when the target interest rate set in advance has been achieved.

7.3.1. Yield

In the fixed interest phase, customers shall normally achieve a higher coupon than in the case of traditional bonds. In the variable interest phase, customers shall be given the opportunity to achieve higher yield than in the case of fixed interest-bearing bonds, but it may also be substantially lower, depending on the outcome of market circumstances.

7.3.2. Risk

In the life time, there may, conditional on market situation, occur currency fluctuations, which are also more significant in relation to respective interest development. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

7.4. Guaranteed investment certificates

In the case of guaranteed investment certificates, opening face value or a certain percentage from the face value shall be paid out at the end of life time, independently of price movement of the underlying instrument, which it refers to.

7.4.1. Yield

Yield, which is supposed to derive from development of the underlying instrument's value, may be limited by the amount of the highest repayment, which has been set by the certificate's conditions, or other restrictions of cooperation in the development of the underlying value. Customers shall have no right to dividends and comparable payments of the underlying value.

7.4.2. Risk

In its life time, certificate value may fall below the agreed minimum repayment. At the end of its life time, the value shall normally be in the amount of the minimum repayment. However, the minimum repayment shall depend on the issuer's rating. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

7.5. Discount certificates

In the case of discount certificates, customers shall receive the underlying value (e.g. a share, which serves as the basis or an index) at a discount on the current exchange rate (safety margin), but it shall thus participate only up to a certain top limit of the underlying value's exchange rate (CAP or reference price) in the event of positive development of the price of the instrument, which the certificate refers to. When a discount certificate is due, the issuer shall be given the right to choose whether to repay the certificate at the top value (CAP) in cash or settle the trade in the form of an instrument, which the certificate refers to (e.g. sell his/her shares or pay a certain amount corresponding to the index value if a certain index is included as the underlying value).

7.5.1. Yield

Potential yield shall be presented by the differential between the buying rate of the underlying value, which is more favorable for the discount, and the maximally specified limit of the exchange rate (CAP).

7.5.2. Risk

In case of strongly falling exchange rates of the underlying value, customers shall be granted shares (at that moment, equivalent of granted shares will be below the buying price) at the end of life time. Since granting of shares is possible, it shall be necessary to consider warnings concerning share-related risks. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

7.6. Bonus certificates

Bonus certificates shall be debt securities in case of which, on certain assumptions, also a bonus or the positive differential in the price of an instrument, which they refer to (individual shares or an index), is paid in addition to face value at the end of their life time. A bonus certificate shall have fixed life time. Conditions of such certificates shall determine settlement by means of a sum of money or a supply of an instrument, which they refer to, at maturity. Type and amount of repayment at end of life time shall depend on development of the underlying value.

The following shall be determined for a bonus certificate: an underlying limit, an underlying limit lying below the underlying level, and a bonus level lying above the underlying value. If the value-price of the instrument, which the certificate refers to, droops to the underlying limit or below it, the bonus shall fall away and the repayment is implemented in the amount of the instrument's market value. Otherwise the bonus shall be repaid at the end of certificate's life time in addition to the principal value paid at the beginning.

7.6.1. Yield

Customers with bonus certificates shall acquire, in relation to the issuer, an application to pay a sum of money, which depends on the price movement of the instrument, which the certificate is issued for. Certificate yield shall thus depend on the price movement of this instrument.

7.6.2. Risk

Risk shall depend on the subordinated instrument. In the case of the issuer's bankruptcy, there shall not exist a right to separate settlement or an exclusion right concerning the instrument, which the certificate is issued for. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

7.7. Index certificates

Index certificates shall be debt securities (for the most part, they are listed on stock exchange). They shall offer customers a possibility to participate in a certain index without having to possess securities or financial instruments comprised by that index. The index, which serves as the basis, shall normally be reflected in the certificate price in the ratio of 1 : 1.

7.7.1. Yield

Customers with index certificates shall acquire, in relation to the issuer, a right to payment of a sum of money, which depends on the level of the index, which serves as the basis. Yield shall thus depend on the movement of the index, which serves as the basis.

7.7.2. Risk

Risk shall depend on the value of the index, which is followed. In the case of the issuer's bankruptcy, there shall not exist a right to separate settlement or an exclusion right concerning the underlying value. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

7.8. Basket certificates

Basket certificates shall be debt securities. They shall offer customers a possibility to participate in the development of a certain basket's value, without having to possess securities contained in the basket of securities. Structure of a basket, which is followed, shall depend on the issuer. Securities contained in a basket may be weighted in the same or a different manner. It shall be possible to adjust the structure at certain points in time (e.g. annually).

7.9. Knock-out certificates and turbo certificates

Knock-out certificates shall be certificates, which ensure a right for a certain underlying value to be bought or sold at a certain exchange rate if this underlying value does not reach throughout its duration the exchange rate threshold set in advance (the knock-out limit). If an investment reaches the threshold once, it shall end early and is usually essentially lost. Depending on the expected trend of exchange rate of an instrument, which the certificate refers to, it shall be possible to distinguish between the long knock-out certificates, which stake on increasing of exchange rate (if exchange rate rises, the certificate increases) and the short knock-out certificates, which have been established especially for declining markets (the value of the certificate is increasing while the value of the instrument, which it refers to, is falling).

In addition to usual knock-out certificates, there shall also be issued knock-out certificates containing leverage. Such knock-out certificates shall largely be called the "turbo certificates." Leverage (turbo) shall cause for the value of a turbo certificate to react more strongly to movements of exchange rate of a respective underlying instrument and may increase more strongly, but it may also fall. Thus, it shall be possible to make bigger profits with smaller contributions, but, by doing so, risk of loss increases.

7.9.1. Yield

Yield may arise from the positive differential between the buying or market price and the strike price (a possibility for an underlying value to be bought at a lower strike price or sold at a higher strike price) or from the differential between the market buying and market selling price of the certificate.

7.9.2. Risk

When a knock-out barrier has once been achieved in the life time, the certificate shall fall due with no value or the determined remaining value shall be disbursed (the product results in failure). In case of some issuers, achieving of a knock-out barrier intraday shall suffice for a certificate to result in failure. The closer the current stock exchange rate to the basic exchange rate, the greater the leverage effect. At the same time, danger shall increase for the knock-out limit to be achieved and the certificate to be either of no value or the determined remaining value to be disbursed. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

7.10. Double chance certificate

The double chance certificate shall offer a possibility to participate above-proportionally in the price movement of the instrument, which it refers to, in anticipation of a certain share rate or index status, which is moving in a certain range within an exchange rate range set in advance.

7.10.1. Yield

Yield may be above-proportional in relation to value movement of the underlying instrument, which the certificate refers to.

7.10.2. Risk

However, if the determined closing exchange rate is below the opening exchange rate on the valuation date (certificate's maturity date), the certificate shall only record development of the underlying instrument's exchange rate, which the certificate is worded to. In the case of a fall of exchange rate below the stop mark, customers shall receive a fixed maximum repayment amount at the end of life time without the possibility of partaking in the increase of the exchange rate. If the exchange rate is between these two points, the profit shall be above proportional in relation to movement of the underlying instrument. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

7.11. Twin win certificates

At maturity, owners of twin win certificates shall receive an amount paid out

by the issuer, which depends on development of the value of the underlying instrument, which serves as the basis. Certificates shall be fitted with a limit. If (normally) this limit is not reached for the duration of twin win certificates, customers shall partake in the absolute yield of the underlying instrument, deriving from the underlying price determined by the issuer; this means that also losses of the underlying instrument's values may signify the certificate's profit. If a barrier is encountered and surpassed during the duration of twin win certificates, repayment shall be implemented at a current market price of the underlying instrument, which the certificate refers to. Above-proportional participation in the increase of the underlying instrument's value may be envisaged above the underlying price (if so determined by the issuer), but the maximum repayment amount can be limited.

7.11.1. Yield

In case of not encountering a barrier, customers may also profit from the negative development of the underlying instrument's value, because they partake of the absolute yield; losses derived from the underlying instrument may thus transform in profits. Due to different factors (e.g. the underlying instrument's fluctuation band, its remainder of duration, and the distance of the underlying instrument's price from the limit) may cause the certificate to react more strongly or more weakly to fluctuations of the underlying instrument's value.

7.11.2. Risk

Twin win certificates shall be instruments for high-risk investments of assets. If the underlying value's exchange rate, which forms the basis for an underlying instrument, develops negatively, there may occur loss of the essential part or the total of the invested capital. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

8. MONEY MARKET INSTRUMENTS

8.1. Definition

Money market instruments shall include money transactions (lending and borrowing of money) such as, for example, certificates of deposit, bills, global note facilities, trade bills, and all debt securities with a life time of up to approximately five years and a fixed rate. Furthermore, proper repo transactions shall also belong to money market transactions.
8.2. Components of yield and risk
Components of yield and risk of money market instruments shall mainly correspond to components, which are described in the "Bonds and other debt securities" section. Distinctive features shall occur with regard to liquidity risks.

8.3. Liquidity risk

There shall typically not exist a regulated secondary market for money market instruments. Therefore, it shall not be possible to ensure availability at any time.

Liquidity risk shall become less burning if the issuer guarantees the repayment of the invested capital at any time and has the requisite rating for it.

8.4. Money market instrument types

Certificate of Deposit

Money market securities issued by banks and with a life time normally from 30 to 360 days.

Bills

Money market securities issued by banks and with a life time of up to 5 years.

Trade bills

Money market instruments, short-term debt obligations with a life time from 5 to 270 days, issued by large companies.

Global note facility

A version of a debt security, which allows the issue of trade bills in the USA as well as on European markets in a number of portions, as defined by the issuer. For example, a company issues a debt security with maturity of 3 years and when there appears liquidity requirement in 3 months' time, it issues the same debt security again.

Medium-term debt securities

Debt securities of the capital market with typical maturity of 1 to 5 years.

9. STOCK-EXCHANGE SECURITIES FUTURES (OPTION AND FUTURES AGREEMENTS)

In case of option and futures agreements, there shall be great possibilities of profit facing as great risks of loss. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

9.1. Purchase of options

Purchase of options shall signify a purchase (long position) of a call or a put, by means of which customers acquire a right to purchase or sale of a financial instrument, which the option refers to, or, if this is excluded as in the case of index options, a right to payment of a sum of money, which is calculated from the positive differential between the exchange rate, which was taken as the basis at acquisition of the option, and market exchange rate at implementation. Implementation of this right shall be possible throughout the entire life time in the case of American options, and at the end of the agreed life time in the case of European options. To be granted this right, customers shall pay an option price (option premium), while in the event of a change in exchange rate, the value of the customers' right may, against customers' purchase-related expectations, reduce to total loss of value at the end of the agreed life time. Loss risk shall thus be included in the price (premium), which customers pay for the option.

9.2. Sale of option agreements and purchase or sale of futures agreements

Sale of call options

The notion shall refer to the sale (short position) of a certain call option, by means of which customers assume liability to supply the instrument, on the basis of which the option has been issued, at a certain price at any time (in the case of call options of the American type) or at maturity (in the case of call options of the European type). For the assumption of this liability customers shall receive an option premium. In the case of growing exchange rates, it shall be necessary to consider that customers are to supply the instrument, which the option has been written to, at the agreed price while the market price may be significantly above this price. It shall be this differential that presents customers' risk of loss, which is impossible to be set in advance and is in principal unlimited. If the instrument is not in the customer's possession (unsecured short position), then he/she shall acquire it on the market at the time of supply (hedging transaction). In such a case, risk of loss shall not be able to be set in advance. If the instrument is in the customer's possession, then he/she shall be protected against losses due to cover. Since these instruments are to be blocked for the duration of an option transaction, customers shall not be able to dispose of them within this period and protect themselves against falling exchange rates by selling them. Loss shall thus be the differential between the buying price and the price at which customers are liable to sell the financial instrument, reduced for the premium, which they have received for the sale of the option.

Sale of put options

Sale of put options shall refer to sale (short position) of a certain put option, by means of which a customer assumes a liability to purchase the instrument, on the basis of which the option has been issued, at a certain price at any time (in the case of put options of the American type) or at maturity (in the case of put options of the European type). For the assumption of this liability

the customer shall get option price. In the case of falling exchange rates, it shall be necessary to assume the instrument, which the option has been written to, at the agreed price while the market price may be significantly below this price. It shall be this differential that hides the customer's risk of loss, which is impossible to be determined in advance and is basically unlimited. Immediate sale of the instrument (after the option-purchase has been implemented) shall be possible only with realized loss. However, if customers are not thinking about immediate sale of the instrument and wish to keep it in their possession, then they shall consider the need to use requisite financial resources.

Purchase or sale of futures agreements

Purchase or sale of futures agreements shall refer to a purchase or sale of a future agreement, by means of which customers assume liability, to purchase (long position) or sell (shot position) the instrument, which the futures agreement refers to, at a certain price at the end of the agreed duration. In the case of growing exchange rates, it shall be necessary to consider that, based on an arrangement, customers are to sell their instruments at the agreed price while the market price may be significantly above this price. In the case of falling exchange rates, it shall be necessary to consider that the instruments are to be purchased at the agreed price while the market price may be significantly below this price. It shall be this differential that is hiding the risk of loss. In the event of liability on a firm commitment basis, requisite financial resources shall be available in the full extent and when due. If a financial instrument, for which the customer has sold a futures agreement, is not in the customer's possession (unsecured short position), then the customer shall acquire it on the market at the time of supply-sale (hedging transaction). At that time, risk of loss shall not be able to be set in advance. If the instrument is in the customer's possession, then he/she shall be protected against risks due to cover and may sell it immediately.

9.3. Margin trading

If, in the case of futures, supply or assumption of an instrument, which serves as the basis, is not possible (e.g. with index options and index futures agreements), then customers shall be liable to, if their market expectations have not been met, pay a certain sum of money (cash settlement) resulting from the differential between the exchange rate, which was the basis at conclusion of an option or futures agreement and the exchange rate at its implementation or maturity. It shall be this differential that presents the customers' risk of loss, which is impossible to be set in advance and is in principle unlimited, while, in such a case, customers shall also always consider the requisite liquidity to cover the transaction. A majority of futures, which are listed on regulated markets, shall otherwise be rarely implemented with actual settlement (purchase/sale) of securities, which they refer to. In relation to price movement of the instrument, which they refer to, their price shall change and purchasers realize profit or loss by selling long positions or purchasing short positions. At maturity of a futures agreement, a position may be transferred to the next futures period by means of the so called rollover transaction. Dates and months of standardized futures agreements, which are listed on regulated markets, shall be provided in advance.

9.4. Margins

in the case of unsecured sale of options (unsecured short position) and in the case of futures sale or purchase (futures) it shall be necessary to deposit margin in the form of money guarantee or an instrument, which the agreement refers to (margin). Customers shall be liable to deposit such margin at opening as well as additionally, if need be (development of exchange rate contrary to customers' expectations), at any time for the whole duration of an option or futures agreement. If customers are not in a position to deposit the potentially requisite additional margin, the UCB shall, in accordance with the General Terms and Conditions of Conducting Transactions, immediately close the customer's amounts accrued and realize the already provided margin to cover the transaction.

9.5. Offset of items

In trading with American options and in the case of futures agreements, the customers shall be granted a possibility of offsetting their items also prior to maturity date. But the UCB shall recommend its customers not to trust entirely the assumption that this possibility is granted because it always strongly depends on market conditions, and, in adverse market conditions, transactions can be conducted only at unfavorable market price, so losses can occur here as well.

9.6. Other risks

Options shall comprise rights on the one hand and obligations on the other – futures agreements shall comprise solely obligations – with short duration and defined maturity or delivery dates. The following additional risks shall result from this and the speed of this type of transactions:

- Options, which are not disposed in due course, shall fall due and thus become of no value.
- If a deposit of additional margin deemed necessary is not made in due course, the UCB shall offset customers' items and realize margin provided up to that moment regardless of customers' liability to cover balance due.
- In the case of a short position of options, the UCB shall, in the event of purchase of instruments, implement steps necessary for customers without any advance information.
- If customers conduct futures transactions in foreign currency, unfavorable development on the foreign exchange market may increase their risk of loss.

Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

10. OUTRIGHT OPERATIONS

10.1. Definition

An outright operation shall include a firm undertaking to purchase or sell a certain amount in foreign currency on a certain date in future or in a given period at exchange rate, which is set when transaction is conducted.

10.2. Yield

Yield (profit/loss) for speculative users of outright operations shall derive from the differential between market foreign-exchange rate for the duration of the agreement or at maturity and the contractual foreign-exchange rate. The instrument shall be used as collateral against risk, which means the setting of foreign-exchange rate in such a manner that transaction costs together with yield do not increase or reduce due to changes of foreign-exchange rate.

10.3. Foreign exchange risk

In the event of use of the instrument as collateral against risk, foreign exchange risk shall present the possibility for the purchaser/seller to purchase/sell a foreign currency more favorably during or at the end of life time of outright operation than at the time of conduction of the transaction or, in the case of open transactions, in the fact that he/she has to buy it at less favorable price. The amount of potential loss may substantially exceed the original agreement value.

10.4. Credit risk

Credit risk in the case of outright operations shall exist in the risk of the counterparty's inability to pay, which signifies potential current or final failure to fulfil an outright operation and thus the urgency of possibly more expensive subsequent cover on the market.

10.5. Transfer risk

Trading with some foreign exchange may be limited mainly due to rules governing regulation of the foreign exchange rate in the country issuing the foreign exchange. Correct implementation of an outright operation should thus be at risk.

Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

11. SWAPS

11.1. Definition

A swap shall be exchange of two currencies for a certain period of time. Interest rate differential of both involved currencies shall be considered as the premium or discount in the reverse foreign-exchange rate.

11.2. Yield

Yield (profit/loss) for swap users shall derive from positive/negative development of interest rate differential and it may be achieved during a swap in the event of an opposite transaction.

11.3. Credit risk

Credit risk in the case of swaps shall exist in the risk of the counterparty's inability to pay, which means the potential current or final failure to fulfil a swap and thus a possibly more expensive subsequent cover on the market.

11.4. Transfer risk

Trading with some foreign exchange may be limited mainly due to rules governing regulation of the foreign exchange rate in the country issuing the foreign exchange. Correct implementation of an outright operation should thus be at risk.

Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

12. INTEREST RATE SWAPS (IRS)

12.1. Definition

An IRS shall govern exchange of differently defined interest rate liabilities on a fixed nominal amount between two contracting partners. As a general rule, it shall include exchange of fixed for variable payments of interest. Thus, there shall only occur an exchange of payments of interest, but not an exchange of the principal value.

12.2. Yield

The IRS purchaser (the payer of fixed interest) shall achieve his/her yield if the level of market-related interest increases. The IRS seller (the taker of fixed interest) shall achieve his/her yield if the level of market-related interest falls.

12.3. Interest rate risk

Interest rate risk shall result from uncertainty about future changes of the level of market-related interest. The purchaser/seller of the IRS shall be exposed to risk of loss if the level of market-related interest falls/grows.

12.4. Credit rating risk

Credit rating risk in the case of swaps shall exist in the risk of loss of positive cash resources due to the noncompliance with obligations on the side of the contracting partner or in the fact that it is necessary, if need be, to implement subsequent cover on the market at worse price.

12.5. Special requirements for interest rate swaps

The IRS shall not be standardized. Details of implementation shall be preliminarily regulated by an agreement for other than eligible clients. These products shall be custom-made. Therefore, it shall be of extreme importance for customers to obtain information about their precise conditions, namely, about:

- The nominal amount,
- Their life time, and
- Interest definitions.

12.6. Special form: Constant Maturity Swap (CMS)

12.6.1. Definition

A constant maturity swap shall govern the exchange of differently defined interest rate liabilities on a fixed nominal amount between two contracting partners. As a general rule, this shall include an exchange of the floating rate of the money market (e.g. a 3-month EURIBOR) for interest rate on the capital market (e.g. a 10-year EURIRS). However, the fixed interest rate in the swap shall not remain fixed for the whole duration of its life time, but it adjusts to new market levels at regular intervals (in this case to the level of a 10-year EUR IRS).

12.6.2. Yield

The CMS purchaser (the payer of "fixed" interest rate) shall achieve his/her yield if the slope of the yield curve reduces, i.e. when, for example, long-term interest on the capital market falls and interest on the money market grows. It shall be impossible to set yield deriving from the CMS in advance.

12.6.3. Interest rate risk

Interest rate risk shall result from uncertainty about future changes of the level of interest on the capital and money markets. The purchaser/seller of the CMS shall be exposed to risk of loss if the yield curve becomes steeper/flatter.

12.7. Special form: CMS Spread linked Swap

12.7.1. Definition

In the case of the CMS spread linked swap, the differently defined interest liabilities shall exchange. These shall normally include interest rate on the money market (e.g. a 3-month EURIBOR; alternatively, there could also be an interest rate fixed for the entire life time) on the one hand and a differential between two CMSs on the other (e.g. a 10-month EUR CMS minus a 2-year CMS frequently fitted with a certain factor x (e.g. 2times)). The CMS spread shall frequently be fitted with a certain fixed coupon for a determined initial life time.

12.7.2. Yield

The purchaser of the CMS spread linked swap (the payer of the differential between the CMSs) shall reach his yield when both interest rates (the 10- and the 2-year CMS) approach each another. It shall be impossible to set yield deriving from the CMS spread link swap in advance.

12.7.3. Interest rate risk

Interest rate risk shall result from uncertainty about future changes of the interest level of the more short-term capital market vis-a-vis the more long-term capital market relating to the interest level on the money market (or from the amount of the fixed interest rate).

13. FORWARD RATE AGREEMENT (FRA)

13.1. Definition

An FRA shall serve to advanced fixing of interest rates for future time-frames. Since trading on the inter-bank market does not take place on the stock exchange, standardization does not exist. A FRA shall thus be an instrument,

which is custom-made with regard to the amount, currency, and interest period, unlike related forward rate products.

13.2. Yield

The purchaser/seller of the FRA shall fix the interest rate by his/her acquisition/sale. If the reference rate is above the agreed interest rate on maturity date (the price of FRA), the purchaser shall receive the net balance. If the reference rate is below the agreed interest rate on maturity date (the price of the FRA), the seller shall receive the net balance.

13.3. Interest rate risk

Interest rate risk shall result from uncertainty about future changes of the level of market-related interest. In principle, this risk shall be reflected the strongly, the more significantly the market interest rate grows/falls.

13.4. Credit rating risk

Credit rating risk in the case of FRA shall exist in the risk of non-compliance with obligations on the side of the contracting partner, in the loss of cash resources, or in the fact that it is necessary, if need be, and thus more expensively to implement subsequent cover on the market at a worse price.

13.5. Special requirements for FRA

FRAs shall not be standardized. These products shall be custom-made. Therefore, it shall be of extreme importance for the customer to obtain information about their precise conditions, namely, about:

- The nominal amount,
- Their life time, and
- Interest definitions.

14. FUTURES

14.1. Definition

The notion shall refer to futures on short-term investment securities and securities of the money or capital market, with standardized maturity and standardized agreement size. Futures shall be traded with on the stock exchange. Yield of an investment (interest rate or exchange rate) may thus be fixed in advance by means of futures. Unconditional liabilities, which are to be complied with irrespective of further development and occurrence of risks dealt with below, shall also be concluded with futures.

14.2. Yield

Yield (profit/loss) for speculative users of futures transactions shall result from the differential between interest or exchange rates at the end of life time of a futures transaction in accordance with conditions of this futures transaction. Financial risk of existing or future positions shall reduce if they are used for the purposes of collateralization.

14.3. Interest rate risk

Futures value shall primarily depend on the development of interest rate (yield) of the instrument, which it follows. The position concerning risk with the purchaser shall thus be compared with the position of the holder of the instrument, which it refers to. Risk shall result from uncertainty concerning future changes of the level of market related interest.

The purchaser/seller of futures shall be exposed to interest rate risk in the form of an obligation of excess charge or compliance with his/her liability on maturity date if the level of market-related interest grows/falls. In principle, this risk shall function the strongly, the more significantly the level of market-related interest grows/falls. Loss potential resulting from this may amount to a multiple of the original contribution of capital (entry).

14.4. Liquidity risk

Liquidity risk in the case of futures shall exist in the fact that settlement (sale/re-purchase) of a futures may lead to significant and unfavorable currency fluctuations on certain markets in the event of above-average order status.

15. OVER-THE-COUNTER (OTC) OPTION DEALINGS

15.1. Standard option – plain vanilla option

The purchaser of this option shall acquire a time-barred right to call or put an instrument, which the option refers to (e.g. securities, foreign exchange, etc.) at a certain fixed strike price or (e.g. in the case of interest rate options) a right to net balance, which is calculated from the positive differential between the strike and market price at the moment of implementation. The seller of the option shall undertake to comply with rights of the purchaser of the option. Options shall envisage different implementation conditions:

- the American type: at any time within the entire duration and
- the European type: at the end of duration (at maturity).

15.2. Exotic options

Exotic options shall be financial derivatives, which derive from standard options (plain vanilla options).

15.3. Special form – barrier option

In addition to the strike price, there shall exist a barrier. When it is achieved, the option activates (knock-in option) or deactivates (knock-out option).

15.4. Special form – payout option

An option with a determined payout amount, which the purchaser of the option receives against payment of a premium if exchange rate (interest rate) of the underlying value moves below or above (considering the option) the barrier.

15.5. Yield

The purchaser of options shall make profit if the exchange rate of the instrument, which the option refers to, grows above the strike price of the purchase (call) or below the strike price of the sale (put). Option holder may sell the option or implement it to realize profit (the plain vanilla option, the activated knock-in option, the not yet deactivated knock-out option). The seller of the option shall receive a premium for his/her undertakings. In the case of the non activated knock-in option or the deactivated knock-out option, the option right shall cease and the option becomes of no value.

Holders of payout options shall create their yield when the instrument, which it refers to, achieves the barrier during the option's life time or at the end of its life time and thus releases the option's payout.

15.6. General risks

The value (exchange rate) of options shall depend on strike price, development and volatility of the instrument, which is being followed, their life time, interest structure, and market position. Contribution of capital (the option premium) may thus reduce to complete devaluation. If the exchange rate of the instrument, which is being followed, does not develop in accordance with expectations of the option seller, loss potential resulting from it shall be theoretically unlimited (plain vanilla option, barrier option) or shall move in the amount of the agreed payout (the payout option). In particular, it shall be taken into consideration that rights arising from options, which are not utilized within a time-limit, lapse upon the expiry of the time-limit and are thus written off as worthless.

Warning: the UCB shall not implement customers' option rights without their express order.

15.7. Special risks in the case of over-the-counter option dealings

Over-the-counter options shall normally not be standardized. These instruments shall mainly be custom-made. Therefore, it shall be of extreme

importance customers to obtain information about their precise details (implementation method, implementation, and maturity).

Credit rating risk in the case of purchase of over-the-counter options shall exist in the risk of loss of the already paid premium due to the non-compliance with obligations of a business partner. The customer shall thus have to indirectly implement the more expensive subsequent cover on the market.

There shall typically not exist a regulated (secondary) market for over-the-counter options as custom-made products. Therefore, it shall not be possible to ensure availability at any time.

Options have been created as instruments of collateral against market risks and the UCB shall recommend their application mainly for such purposes. As a speculative product, they shall be extremely demanding. Thus, the UBC shall recommend them only to customers with expert knowledge from this field. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

16. FOREIGN EXCHANGE OPTIONS

16.1. Definition

The purchaser of a foreign exchange option shall acquire a right, but not obligations, to purchase or sell a certain amount of foreign exchange at a certain exchange rate fixed in advance and at a certain moment or time-frame. The seller (issuer) of the option shall grant the right concerned. The purchaser shall pay the seller a premium for this right to choose. By concluding this relation, the following obligations shall be created:

- By purchasing the call option, the purchaser shall acquire a right to purchase a certain defined amount of a certain currency at a certain price (strike price) on or before the determined date (supply date).
- The seller of the call option shall undertake to sell, upon demand of the purchaser of the option, a certain defined amount of a certain currency on or before the determined date at strike price.
- By purchasing the put option, the purchaser shall acquire a right to sell a certain defined amount of a certain currency on or before the determined date at strike price.
- By selling the put option, the seller shall undertake to purchase, upon the wish of the purchaser of the option, a certain defined amount of a certain currency on or before the determined date at strike price.

16.2. Yield

Yield of the call option may result from the fact that currency market price is higher than the strike price, which the purchaser is to pay, while deducting the purchase price (or the premium). Then, the purchaser shall have a possibility to purchase foreign currency at strike price and immediately sell it at market price and realize the profit, or to sell the option before maturity. The seller of call option shall receive a premium for the sale of the option. The same shall apply mutatis mutandis for put options at development of currencies in the opposite direction.

16.3. Risks related to option purchase

Risk of total loss of the premium

Risk related to the purchase of foreign exchange options shall exist in total loss of the premium, which is to be paid irrespective of whether the option is realized in future.

Credit rating risk

Credit rating risk in the case of purchase of foreign exchange options shall exist in the risk of loss of the already paid premium due to the non-compliance of obligations of a business partner and thus urgency for the more expensive subsequent cover on the market to be implemented.

Foreign exchange risk

Risk regarding foreign exchange options shall be in the fact that the exchange parity does not develop up to the option's maturity in the manner, which has served as a basis for the customer's decision to make a purchase. In the extreme case, total loss of the premium may occur.

16.4. Risks related to option sale

Foreign exchange risk

Risk regarding sale of options shall be in the fact that the quoted value of a foreign currency does not develop up to the option's maturity in the manner, which has served to the purchaser as a basis for his/her decision. Risk potential for issued options, which results from it, shall not be limited. The foreign exchange option premium shall depend on the following factors:

- Volatility of the currency's exchange rate, which is being followed (comparative unit for the fluctuation band of the quoted value),
- The selected strike price,
- Option's life time,
- Current foreign exchange rate,
- Interest of both currencies, and
- Liquidity.

Transfer risk

Possibilities of transfer of individual foreign exchanges may be limited particularly by the currency's country of origin concerned. Correct implementation of the transaction should thus be at risk.

Liquidity risk

There shall typically not exist a regulated secondary market for foreign exchange options as custom-made products. Therefore, it shall not be possible to ensure availability at any time. As a general rule, issuers of an option shall also be the ones willing to purchase it at a certain price. Some forms of foreign exchange options shall also be listed on stock exchanges, but they are mainly instruments, which are adapted to needs of individual purchasers and are always sold only Over the Counter (OTC).

16.5. Special requirements for foreign exchange options

Foreign exchange options shall not be standardized. Therefore, it shall be of extreme importance for the customer to obtain information about their precise details, namely, about:

Implementation method:

Is it possible to implement an option right at any time (American option) or only on the defined implementation day (European option)?

Maturity:

When does the right expire? Warning: the UCB shall not implement customers' option rights without their express order.

Options have been created as instruments of collateral against market risks and the UCB shall recommend their application mainly for such purposes. As a speculative product, they shall be extremely demanding. Thus, the UBC shall recommend them only to customers with expert knowledge from this field. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

17. INTEREST RATE OPTIONS

17.1. Definition

Interest rate options shall constitute an answer about the highest and the lowest interest rate of an option for interest rate swaps. They may serve:
a) For the purpose of collateral or
b) To create yield on the speculative basis.

A distinction shall be made between the call and put options. The basic forms shall be: interest rate caps, interest rate floor, or options on the IRS (Swaption).

The purchaser of the call option – cap shall substantively fix his/her interest rate for future borrowing of money. Option value shall grow from the point of view of speculation by increasing market interest level.

Sale of the call interest rate option may be used only as a speculative instrument, where the seller receives a premium and undertakes to pay the differential between the market and the option interest rate.

In the case of the interest rate floor, the purchaser shall secure the minimum interest rate for future investments. From the point of view of valuation or speculation, the interest rate floor value shall increase with falling interest rates:

Ad a) for the purposes of collateral: in relation to the selected reference period, the current 3- or 6-month market (spot) interest rate shall be compared to the advanced strike price each three or six months. If the market price is higher than the strike price, payment of the differential shall be made to the cap's holder.

Ad b) to create yield on the speculative basis: the cap value shall increase with growing interest, while, in this case, forward interest rates (future interest rates, which are traded with today) and not the current ones shall be decisive.

Vice versa shall apply mutatis mutandis for the purchase/sale of the floor. In this case, the purchaser shall secure the lowest level of interest, while the seller shall have the speculative position.

The swaption shall be an option on the interest rate swap (IRS = an arrangement on swap of interest payments). In principle, a distinction shall be made between the swaption of the payer (payer = fixed payer) and the receiver (the receiver of the fixed side at the IRS). It shall be possible to purchase as well as sell both option forms.

Further distinction shall be made between two methods of execution with different risk profiles:

Swaption with swap settlement
At implementation of a swaption, the purchaser shall enter into an IRS:
- By purchasing the payers option on the IRS, the purchaser shall acquire a right to enter an IRS on the option's implementation date, where he/she pays a fixed interest rate agreed by the strike price and receives variable interest payments for it.
- By selling the payers option on the IRS, the seller shall undertake to enter an IRS on the option's implementation date, where he/she receives a fixed interest rate agreed by the strike price and pay variable interest payments for it.
- By purchasing the receivers option on the IRS, the purchaser shall acquire a right to enter an IRS on the option's implementation date, where he/she receives a fixed interest rate agreed by the strike price and pays variable interest payments for it.
- By selling the receivers option on the IRS, the seller shall undertake to enter an IRS on the option's implementation date, where he/she pays interest rate agreed upon by the strike price and receive variable interest payments for it.

Swaption with cash settlement
At implementation of an option to the IRS, the purchaser shall receive the differential between the money value of the market IRS and the money value of IRS defined by swaption. The purchaser and the seller shall not actually conclude the IRS.

17.2. Yield

Holder of the interest rate options shall achieve his/her yield if, on the implementation date, the level of marketrelated interest moves above the strike price of the cap or below the price of rate floor. In the case of an interest rate swaption, yield shall be expected when, on the implementation date, the level of market-related interest with the payers swaptions shall be above the agreed strike price or with the receivers swaptions it shall be below the agreed strike price. The received option premium shall remain with the seller irrespective of whether the option is implemented or not.

17.3. Interest rate risk

Interest rate risk shall result from the possibility concerning future changes of the level of market-related interest. The purchaser/seller of a certain interest rate option shall be exposed to interest rate risk in the form of exchange loss if the level of market-related interest increases/falls. In principle, this risk shall be reflected the strongly, the more significantly the market interest rate grows/falls. Risk potential for the seller, which results from it, shall not be limited.

The interest rate option premium shall depend on the following factors:
- Interest volatility,
- The selected strike price,
- Option's life time,
- The level of market-related interest,
- Current financing costs, and
- Liquidity.

These factors may cause – despite the fact that customers' expectations as regards to development of the option's interest have been met - for the option price to remain the same or to fall.

17.4. Credit rating risk

Credit rating risk in the case of purchase of interest rate options shall exist in the risk of loss of positive cash resources due to the non-compliance with obligations on the side of the business partner or in the fact that it is necessary, if need be, to implement subsequent cover on the market at worse price.

17.5. Risk of total loss at purchase

Risk relating to the purchase of interest rate options shall exist in total loss of the premium, which is to be paid irrespective of whether the option is realized in future.

17.6. Special requirements with interest rate options

Interest rate options shall not be standardized. These products shall be exclusively custom-made. Therefore, it shall be of extreme importance for customers to be informed about their precise details, namely, about:

Implementation method:
Is it possible to implement an option right at any time (American option) or only on the defined implementation day (European option)?

Implementation:
Supply of the underlying value or cash settlement?

Maturity:
When does the right expire? Warning: the UCB shall not implement customers' option rights without their express order.

Options have been created as instruments of collateral against market risks and the UCB shall recommend their application mainly for such purposes. As a speculative product, they shall be extremely demanding. Thus, the UBC shall recommend them only to customers with expert knowledge from this field. Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

18. CROSS CURRENCY SWAP (CCS)

18.1. Definition

A CCS shall govern a swap of differently defined interest rate liabilities as well as of different currencies on a fixed nominal amount between two contracting

partners. This shall typically include a swap of fixed or variable payments of interest in two different currencies. Both payments of interest may certainly be made also in variable interest payable. Payment flows may be implemented in different currencies on the basis of the same amount of the principal value, which is fixed by respective spot exchange rate on the conclusion date.

In addition to swap of interest rate liabilities or interest rate claims at the initial as well as at the final exchange, a swap of principal values shall be conducted. Based on the needs of individual business partners, the initial exchange of the principal value may be omitted.

18.2. Yield

It shall be impossible to set yield deriving from the CCS in advance. The CCS market value shall be influenced by movement of interest rates of both currencies and exchange rate of these currencies. In the event of positive movements of exchange rate and interest rates, yield may be realized by early liquidation or sale.

18.3. Interest rate risk

Interest rate risk shall result from uncertainty concerning future changes of the level of market-related interest. The purchaser/seller of the IRS shall be exposed to risk of loss if the level of market-related interest grows/falls.

18.4. Foreign exchange risk

Foreign exchange risk shall result from uncertainty about future changes of the conversion rate of selected currencies. In particular, it shall be underlined that in the case of an IRS including a principle value swap, in the end, exchange rate risk shall not exist only in the event of non-compliance with obligations of a business partner, but throughout the duration of swap.

18.5. Credit rating risk

Credit rating risk in the case of a purchase/sale of an IRS shall exist in the necessity for customers to implement subsequent cover on the market due to the non-compliance with obligations of their business partner.

18.6. Special requirements for IRS

IRS shall not be standardized. These products shall be custom-made. Therefore, it shall be of extreme importance for customers to obtain information about their precise conditions, namely, about:

- The nominal amount,
- Their life time,
- Interest definition,
- Currency definition,
- Exchange rate definition, and
- Initial exchange (swap at the beginning of transaction) yes or no.

Customers may acquire information about more detailed characteristics and risks of an individual investment instrument belonging to this group with their advisers or a suitable bank expert.

19. COMMODITY SWAPS AND COMMODITY OPTIONS WITH CASH SETTLEMENT (»COMMODITY FUTURES«)

Commodity futures shall be special agreements, which contain rights or obligations for the purchase or sale of a certain commodity at a price fixed in advance and at a certain point in time or throughout a precise time period. Commodity futures shall be presented via financial instruments described below.

19.1. Background information on individual instruments

Commodity swaps:

A commodity swap shall be an arrangement on exchange of a type of fixed payments of commodity prices (“fixed price”) for changing payments of commodity prices (“market price”), where only cash settlement (“net balance”) always occurs.

The purchaser of a commodity swap shall acquire a right to reimbursement if the market price is above the fixed price. On the contrary, the purchaser of a commodity swap shall be obliged to pay the net balance if the market price is under the fixed price.

The seller of a commodity swap shall acquire a right to settlement if the market price is below the fixed price. On the contrary, the seller of a commodity swap shall be obliged to pay the net balance if the market price is above the fixed amount.

Both payment currents (fixed/variable) shall be conducted in the same currency and on the basis of the same nominal amount. While the fixed side of the swap is of the benchmark nature, the variable side shall represent a price of the commodity concerned published on a commodity-forward market or a certain index of the commodity price on a certain date at the stock exchange.

Commodity options with cash settlement

The purchaser of a commodity put option shall acquire, against payment of a premium, a right to receive on the implementation date the amount of the differential between the strike and the market price, in relation to the face value, if the market price is below a certain fixed price set in advance.

The purchaser of the commodity call option shall acquire, against payment of a premium, a right to receive on the implementation date the amount of the differential between the strike and the market price, in relation to the face value, if the market price is above a certain fixed price set in advance.

19.2. Risks – details on different instruments

Risk related to commodity swaps and commodity options with cash settlement

If expectations are not met, it shall be necessary to pay the differential existing between the exchange rate, which serves as the basis at conclusion, and the current market exchange rate at transaction’s maturity. This differential shall constitute loss. It shall be impossible to set the maximum amount of loss in advance. It may exceed given guarantees.

Risks related to purchased commodity options – value loss

A change of exchange rate of the underlying value (e.g. a certain raw product), which the option as the subject of the agreement follows, may reduce the option’s value. In the case of the call option, value reduction shall occur with exchange rate losses, and in the case of the put option, with exchange rate profits made by the contractual instrument, which the option follows.

Reduction of the options’ value may also occur if the exchange rate of the underlying value does not change because other factors of price determination (e.g. life time or frequency and intensity of price fluctuations of the underlying value-volatility) take part in the management of option’s value.

Customer’s risk related to sold commodity options – leverage effect

Risk regarding sale of commodity options shall be in the fact that the value of an underlying instrument does not develop up to the option’s maturity in the manner, which has served to the seller as a basis for his/her decision. Risk potential for the issued options, which results from it, shall not be limited.

19.3. Risks related to commodity futures in general

Price fluctuations

The amount of payment obligations from commodity futures shall be calculated from prices on a certain commodity–futures market.

Commodity–futures markets may depend on strong price fluctuations. A

number of factors, related to offer and demand for commodity, may affect prices. It shall be difficult to anticipate or envisage price determination factors in advance. Unforeseen events, such as natural disasters, illnesses, epidemics, as well as authority's orders, may likewise have appreciable implications for the price than developments, which are impossible to include, e.g. weather effects, harvest fluctuations, or risks concerning supply, storage, and transport.

Foreign exchange risk

Commodity prices shall often be indicated in a foreign currency. Customers shall be exposed to further risk of the foreign exchange market if they enter a commodity transaction, where their liability or counter-service, to which they have a right, is made out in foreign currency or a certain calculation unit or the value of the contracting subject is set in relation to this.

Offset / liquidity

Commodity-futures markets shall generally be shallower than financial forward markets and may thus be less liquid. It shall be possible for customers not to be able to sell a certain commodity-forward position at a certain point in time or sell it only partially due to inadequate market liquidity. Furthermore, the spread between the bid and ask shall be relatively high. In addition, liquidation of positions may be difficult or impossible in certain market conditions. For example, a majority of commodity-futures stock exchanges shall be authorized to determine limits of price fluctuations, which do not allow, for a certain period in time, bid and ask outside of determined limits. Thus, liquidation of individual positions may be limited or completely prevented.

Limit orders / stop orders

Limit orders and stop orders shall be orders, which serve to limiting of trade losses in the event of certain commercial movements. Despite the fact that such possibilities of risk limitations are admissible on a majority of commodity-futures exchanges, limit or stop orders shall generally not be provided for commodity OTC transactions and instruments.

Forward and spot market

It shall be of extreme importance to understand the relation between prices of futures agreements and prices on the spot market. Even if market forces are able to equate differentials between the price of a futures agreement and the price on the spot market for a commodity under consideration to such an extent, enabling the price differential on the supply date to amount practically to zero, a number of market factors, including supply and demand, may provide for differentials between the price of a futures agreement and the price on the spot market for the commodity concerned to still exist.

Market price determination

Market prices shall be listed on commodity–futures markets or under market practice (an OTC instrument in accordance with the "request for quote" principle). It may be impossible to calculate market prices for the agreed closing date due to system failures, system disruptions on the stock exchange, or due to other reasons. If arrangements for alternative market price determination are not agreed upon, the clearance agent shall be the one authorized to determine market price in accordance with rational application of his/her discretionary right.

Ljubljana, 13th June 2019