



# Appendix to Client Information on the Securities Business

Intended for all clients, potential clients and stakeholders.

This Appendix to the document Client Information on the Securities Business presents some local factors specific to COMMERZBANK Aktiengesellschaft, pobočka Praha (“the Bank”) that differ from the Securities Trading Information for Clients published on [www.commerzbank.cz](http://www.commerzbank.cz) and, where appropriate, it supplements that document.

## General information on COMMERZBANK Aktiengesellschaft, pobočka Praha

---

Your contractual partner:

**COMMERZBANK Aktiengesellschaft, pobočka Praha**

Jugoslávská 934/1, Vinohrady, 120 00 Prague 2

Telephone: +420 221 193 111, Fax: +420 221 193 699

[www.commerzbank.cz](http://www.commerzbank.cz)

## Services

---

Please note that not all services mentioned in “Securities Trading Information for Clients” are provided by the Bank or that some services, although available, may not be provided by the Bank to the same extent as that specified in the above-mentioned document.

The Bank provides the following investment services:

- Reception and transmission of orders in relation to one or more financial instruments
- Execution of client orders on behalf of clients in relation to one or more financial instruments
- Dealing on own account in relation to one or more financial instruments

The Bank explicitly states that it does not provide the service of investment advice.

The Bank’s product portfolio includes the following derivatives:

- Plain vanilla currency derivatives (forwards, swaps, options)
- Interest rate swaps, interest rate options
- Cross-currency swaps

These derivatives are used primarily for currency risk hedging.

The Bank is also a Sales Location for Commodity Trading, FX Structured Products, EU EA.

For more information, please contact 221 193 152, 221 193 157.

## Recording of electronic communications and telephone calls

---

The Bank keeps records of all client communication, including electronic communications, telephone call recordings,

and minutes of face-to-face meetings, for ten years in accordance with Act No 256/2004 Coll, on Capital Market Business, as amended.

The client has the right to request copies of these records and documents.

The client has the right not to agree to the recording of electronic communications and telephone calls, in which case communication with the client on investment-related matters must be discontinued.

COMMERZBANK Aktiengesellschaft, Frankfurt am Main retains all electronic communications and telephone recordings for five years or, in relation to products for which the Bank serves as a Sales Location, for up to seven years.

## Taxes

---

Taxes are governed by the laws of the Czech Republic. Clients should check (if possible by consulting a tax adviser) their tax regime and the applicability of relevant tax regulations.

## Contractual framework

---

The business relationship is established according to the laws of the Czech Republic.

For the avoidance of doubt, it is specified that the contractual framework of the Bank’s clients includes the General Terms and Conditions of COMMERZBANK Aktiengesellschaft, pobočka Praha.

Clients may communicate with the Bank in Czech or English. Unless otherwise agreed, the Czech version of documents will be regarded as the definitive version for all purposes. Any texts provided in other languages are intended solely as a means to understand the document’s decisive language version.

For the avoidance of doubt, it is specified that, if the contractual documentation is in Czech, the language of communication is Czech. If the contractual documentation is in English, the language of communication is English.

Regulator in the Czech Republic:  
Czech National Bank Na Příkopě 28  
115 03 Prague 1

The Financial Arbitrator is competent to resolve disputes between the Bank and the client relating to service provision in those cases where a Czech court of law would otherwise have the jurisdiction to hear the dispute.

## Derivatives – characteristics and description

---

A derivative is an instrument derived from underlying assets. It is a form of “futures trading”, in which there is a delay between the negotiation of a trade and the fulfilment of the conditions stemming from that trade. The most common underlying assets are interest rate, currency and equity instruments or commodities.

Derivatives are generally grouped among investment instruments which carry a risk of the complete loss of the amount invested and a risk of incurring additional financial liabilities. For these instruments, the client has a legal obligation to pay additional financial liabilities that may arise from developments in an instrument's market price, which may fluctuate significantly over the period that it is held. Upon settlement, there is a risk of losing part or all of the amount invested, and additional financial liabilities may even be incurred. A leverage effect may be linked to derivatives. Leverage can generally be defined as a mechanism where a small percentage change in the price of the underlying asset of a derivative or investment instrument purchased on credit translates into a percentage change in the profit or loss on the client's own invested funds that is several times larger.

### Basic functions of derivatives:

- Hedging  
Hedging can be described as a way of mitigating, spreading or transferring financial risks to other entities. There are several hedging strategies, such as hedging against changes in the exchange rate, against changes in the price of a commodity, against changes in the price of a security, against changes in interest rates, or against changes in the securities market.
- Speculation  
Derivatives trading for purposes of speculation is based on expectations of future movements in the price of the underlying asset. Speculators buy underlying assets for future delivery if they believe that their spot market price in the future will be higher than the current forward market price. One of the advantages of speculative operations is that they require little or no capital.
- Arbitrage  
Arbitrage is the practice of making a profit by taking advantage of price differences where the same asset or instrument is traded on two or more markets. The arbitrageur buys the asset or instrument in a market where its price is lower and then sells it in a market where its price is higher. The arbitrageur bears only minimal risk because the two transactions are executed simultaneously.

### Description of derivatives in the Bank's product portfolio:

- Forward  
A forward represents the buyer's obligation to buy a certain quantity of an underlying instrument at a certain future date

for a specified price. The risk stemming from the settlement of the trade is borne by the client because settlement takes place bilaterally between the buyer and the seller. Forwards are traded on over-the-counter (OTC) markets.

- Swap  
A swap is a commitment by two parties to exchange certain underlying assets at certain intervals in the future. It effectively involves two or more forwards that are contractually interconnected. The Bank trades swaps on the OTC market.
- Option  
Unlike other derivatives, an option represents not only the obligation, but also the right, of the holder to buy or sell a certain instrument at a certain date or time in the future for a specified price, and the seller's obligation to sell or buy the instrument under set conditions.

### Description of basic risks attached to derivatives in the Bank's product portfolio:

**Currency risk** – the currency risk increases an investment instrument's overall market risk due to a possible change in the exchange rate. For example, if securities are denominated in EUR and the EUR subsequently depreciates, they record an increase in their market value expressed in CZK, even though the EUR price of these securities does not change in any way. Currency risk mainly relates to investment instruments denominated in a currency other than the domestic currency and to currency derivatives.

**Market risk** – the risk of a change in the market price of an investment instrument due to market factors (the interest rate, the exchange rate, the price of the underlying assets, etc.). Currency and interest rate risks are forms of market risk. Interest rate risk – the risk of a change in the market price of an investment instrument due to a change in interest rates. In particular, trades in debt securities and interest rate derivatives are exposed to interest rate risk. The fluctuation of the market price of most debt securities is inversely proportional to interest rate movements.

**Liquidity risk** – liquidity is the ability to readily convert an investment instrument into cash. The liquidity risk is particularly relevant for less commonly traded, structured, or individualised investment instruments and for investment instruments where the buyer undertakes to hold the instrument for at least a certain minimum period.

The client may take steps to manage the above-mentioned risks and hedge against them. The basic risk management tools are diversification, hedging, and the selection of credit-worthy investment instruments.

This document and also the document Client Information on the Securities Business is available also in a paper form.