Information for clients and potential clients about financial instruments and about risks related to financial instruments

I. Article
Information for clients and potential clients of business company U.P. o.c.p., a.s. on financial instruments

1. Provision of investment services, investment activities and ancillary services by company U.P. o.c.p., a.s. (hereinafter the "Trader") to its clients and potential clients (hereinafter the "Client") pursuant to Act No. 566/2001 Coll. on Securities and Investment Services and on change and completion of certain acts as amended (hereinafter the "Securities Act") relates to the obligation to provide a general description of the nature of the provided financial instruments. The general description means providing information to clarify the nature of the individual financial instruments and the risks associated with them. The general description will allow to create a sufficient basis for the investment decision of the Client. The purpose of the information contained herein is to provide a basic description of the nature of the financial instruments for Traders Clients, which are available to Clients through the employees responsible for sale of the products and through the Traders tied investment agents and through the Traders website at www.up.sk.
2. Podrobný popis obchodovania s finančnými nástrojmi, vysvetlenie súvisiacich pojmov, postupov a pravidiel obchodovania s jednotlivými finančnými nástrojmi je predmetom ustanovení príslušných Všeobecných obchodných podmienok (ďalej len „VOP“). VOP tvoria súčasť zmluvnej dokumentácie upravujúcej realizáciu obchodov s finančnými nástrojmi medzi klientom a Obchodníkom. VOP sú verejne dostupné pre klientov a potenciálnych klientov na internetovej stránke Obchodníka na webovom sídle Obchodníka na adrese www.up.sk .
3. General description of the nature of financial instruments:
   The Trader provides clients with the possibility to carry out financial transactions with transferable securities, in particular shares, bonds and mutual funds certificates. The Trader also provides clients with the opportunity to make investments in financial difference contracts (CFDs). Investing in financial instruments is characterized as placing the Client's available funds in financial instruments in order to achieve the goal set by the Client at a predetermined level of risk and investment timeframe.
   The objectives and goals of individual Clients are as specific as any financial instrument. In general, therefore, it is not possible to determine which financial instruments are suitable for which Clients. For this reason, when deciding on investment, it is necessary to take into account the individual needs of individual Clients and the specifics of individual financial instruments. In order to assess the suitability of the relevant financial instrument for a particular client in providing the portfolio management service, the Client is asked to complete a client questionnaire before concluding the Portfolio Management Agreement, on the basis of which the Trader assesses the suitability of the relevant product for the Client.

Three criteria forming the basic investment triangle:

Investment risk - the possibility of a decrease in the value of the client's investment,
Investment liquidity - the rate of conversion of the investment back to cash,
Investment return - amount of appreciation of client's funds.

This investment triangle says that it is not possible to reach all three vertices of this triangle at the same time. In other words, it is not possible to achieve a high return at the same time low risk and high investment liquidity. The two investment counterparts then represent an investment that yields high returns at high risk at low liquidity rate and investment with low risk, low return and high liquidity. Therefore, making a decision on a specific investment requires seeking a trade-off between return, risk and liquidity depending on the individual preferences of the Client.

4. Securities are money-valued inscriptions in the form prescribed by law that are associated with certain rights, in particular the power to claim certain assets or to exercise certain rights against persons designated by law.

   A share is a security that represents the portion of the share capital of the company that issued the share. Each shareholder is a shareholder of this company. In accordance with the Securities Act and the Articles of Association of the Company, the shareholder as a partner has the right to participate in the management of the company, its profit and the liquidation balance in the event of the dissolution of the company. The management of the company is carried out by individual shareholders through voting rights at the general meeting of the company, shareholders receive a share in the profit through a dividend (dividend payment is not guaranteed and their amount is approved by the general meeting of the company). In addition to dividend yield, shareholders can also earn revenue through rising share price. Usually, in cases where a company has a long-term positive and growing profit or loss, the value of the shares of such companies increases and thus provides investors with the opportunity to earn a return if the shares are sold at a price higher than the purchase price of those shares. Similarly, in the event of a negative development of the company's results, the share value may decrease.
   The basic motivation for investing in shares, as it follows from the above text, is to acquire a share in the company's assets, subsequently participate in its management and gaining the return on this investment through a dividend. The second motive, which may be associated with the previous one or may be realized separately, is the expectation of a positive change in the value of the shares over time. In this case, the investor relies on an increase in the value of the shares in the market, through which it would achieve a positive difference between the sale and purchase price. In the first case it is clearly a long term investment, in the second case it is possible to use short-term changes in the market price to achieve the expected result of the investment.

   Bonds are securities in which the holder is the creditor of the issuer (issuer, debtor). The issuer of the bond is obliged to pay the nominal value to the holder on the stipulated maturity date and to pay interest (so-called coupon) according to predefined conditions, which are stipulated in the issue conditions. The yield from

investing in bonds consists of a coupon yield and a possible return on capital. While a coupon is usually known in advance, capital gains may arise as a difference between the price of a bond when it is bought and sold, or as the difference between its issue and repayment price. Therefore, the total bond yield can be precisely calculated in advance only if the holder holds it until maturity (the so-called yield to maturity).
There are several types of bonds. Depending on the issuer, these may be government, bank, municipal or corporate bonds. Special types of bonds are mortgage bonds covered by real estate (e.g. lien on them).

Money market instruments are financial instruments that are usually traded on the money market. The maturity of money market instruments is therefore shorter, usually within one year. Money market instruments include mainly treasury bills and certificates of deposit. The level of materiality of most risks is usually lower for money market instruments compared to bonds.
Mutual funds certificates or securities issued by foreign collective investment undertakings are financial instruments of collective investment. Collective investment is the collection and management of the funds of a large number of individual investors and the subsequent mass investment of these funds in securities and other financial instruments. The return on investment in funds is variable and cannot be determined in advance. It depends on the returns of individual financial instruments in the fund portfolio. According to the composition of the portfolio there are money market funds, bond funds, equity funds, mixed funds, fund of funds, real estate funds, etc.

Financial Difference Contracts are other financial instruments in which the Client may invest through the Trader. Financial difference contracts are sometimes referred to as "CFDs" or "Contract for difference". A financial difference contract is a derivative other than an option, a future, a swap or a forward interest rate agreement designed to provide the holder with a long or short exposure to fluctuations in the price, level or value of the underlying asset regardless whether it is traded in trading place and which must be settled in cash or can be settled in cash at the choice of one of the contracting parties for any reason other than insolvency or any event resulting in termination of the contract.
Financial Difference Contracts represent high-risk and speculative transactions, at which it is calculated, for example, with the future movement of the two-currency exchange rate, using a leverage effect that increases the profitability of the trade but also increases the riskiness of the trade and increases the potential loss.

The Trader offers investing in financial difference contracts as part of portfolio management, which the Trader performs under the Portfolio Management Agreement concluded with the Client. As part of portfolio management, the Trader invests in financial difference contracts in relation to the parent pairs (sometimes referred to as Forex) on behalf of the Client. In portfolio management (under the Portfolio Management Agreement concluded with the Client), the Trader, at its own discretion, opens and closes individual positions (buys and sells currency pairs on the Forex), speculating on a future fall or increase in the price of the relevant currency pair.

Portfolio management and trading in currency pairs is carried out by the Trader using algorithmic trading and leveraging.

Algorithmic trading means a system of trading with no or limited human intervention when, in the order generation or quotation process or the order execution optimization process, decisions are made at any phase of the initiation, generation, routing or execution orders or quotations, by an automated system according to predetermined parameters (simply, computer trading trades on a predetermined strategy, with little or no human intervention).

When leverage is used, the Client's own funds and partly the funds borrowed to the Client's account are used to execute the transaction, which multiplies the possible profits and losses from the transaction.

In connection with the marketing, distribution and sale of portfolio management in relation to a financial instrument, financial difference contracts, the Trader warns the client of the risk of losses in accordance with the National Bank of Slovakia Decision on Intervention Measure in relation to financial difference contracts and the Trader warns the Client in accordance with the said NBS decision that:

"*Financial Difference Contracts are complex instruments and are associated with a high risk of rapid financial losses as a result of leverage. Financial Difference Contracts are subject to financial losses on non-professional investor accounts. You should consider whether you understand how CFD work, and whether you can afford to take the high risk of suffering financial loss.* "

The current percentage of non-professional client accounts managed by the Trader that incur losses are listed on the Traders website at www.up.sk in the Documents section in the document under the heading Notice to Non-professional Clients.

5. The Trader currently offers financial instruments that are designed for non-professional clients. In the future, if the Trader will offer financial instruments intended solely for professional clients, this will be stated in the information relating to such financial instruments.
6. Under the Portfolio Management Service in relation to the Financial Instrument and Financial Difference Contracts, the Trader offers investment strategies based on the hedging rate of the relevant product offered by the Trader, with the hedging rate set at 60% or 70% or 80% of the deposited amount (after deduction of fees and withdrawals) based on the results of a suitability test that the Trader evaluates based on information received from the client. The more detailed meaning of the hedging rate is described in the contract documentation for the product.

II. Article
Risks associated with investing in financial instruments

1. Investing through financial instruments is subject to various risks that may, to a greater or lesser extent, affect the return on investment. The purpose of this document is to provide summary information and general warnings about the risks associated with financial instruments so that the investor (Client) has a general overview of the financial instruments, understands their operation and is sufficiently aware of the risks involved in making an investment decision.

2. It is wrong for an investor to make an investment decision without understanding the nature and characteristics of each financial instrument and without understanding the extent of its exposure to the risks involved. Any investment or investment decision of an investor should therefore take into account the knowledge and experience of the investor with the individual financial instruments, the investment objectives, goals and, last but not least, the financial situation of that investor.
3. The Trader endeavours to explain to the Client the general risks that exist with most financial instruments. The risks described in this document may occur simultaneously for individual financial instruments and may have an unforeseeable impact on the value of the investment. Equally, investors must be aware that each financial instrument has a certain degree of risk, and therefore low-risk investment strategies also contain a degree of uncertainty. The substantive risks associated with the investment then depend on various factors, including the way the financial instrument was issued or structured.
4. All Clients or Prospective Clients have the right to provide information on the general nature of financial instruments and the risks associated with financial instruments that any Trader is obliged to provide to him in good time before providing the services so that they form a sufficient basis for the investor to take an investment decision.
5. The obligation of the trader to inform Clients about individual risks associated with financial instruments depends on the Client's categorization and takes into account the Client's expertise and experience related to the execution of transactions with financial instruments.
6. Risk refers to the likelihood of damage, loss or threat. Financial risk is generally defined as the potential financial loss of an entity and it occurs on the financial markets. A potential loss is not an existing realized or unrealized financial loss but a future loss resulting from investing in the financial instrument. These are risks that can be expected and their effects on the overall appreciation of the investment can be reduced. Even with the right investment, the risks of the financial market can also be used to achieve higher returns on investment. The individual risks associated with investing in financial instruments can be risks that can be applied to all types of financial instruments. The purpose of this part of the document is therefore to summarize a description of the underlying risks associated with financial instruments that are generally applicable to any financial instrument.
7. The Trader states as types of risks in particular:

   Market risk
   Market risk exposes the investor (Client) to risk from market development in the form of changes in exchange rates (currency pairs), interest rates, share prices, credit spreads, index values or market volatility. In general, market risk means the risk that market prices of financial instruments will not evolve in the manner envisaged by the mathematical and statistical models used by the Trader. Market risk is present in all financial instruments and is significantly reflected in financial difference contracts.

   Credit risk
   Credit risk arises in relation to cash and cash equivalents, financial derivatives and deposits with banks and other financial institutions, transactions with clients and customers, including outstanding receivables and future agreed transactions. The

trader defines credit risk as the degree of uncertainty arising from the business activity, i.e. the risk of default by debtors, business partners and other counterparties. This risk is the risk, for example, of a bank in which a client's funds or financial instruments are deposited, or the risk of a broker through which the Trader trades.

Interest rate risk

The risk of loss due to changes in the price of interest rate sensitive instruments is interest rate risk. These include, in particular, the risk of changes in interest rates, changes in the shape of the yield curve, changes in interest rate volatility and changes in the relation or range of interest rate indices. A change in interest rates may expose the holder of a financial instrument to the risk of loss if the financial asset is sensitive to a change in the interest rate and the investor decides to sell the instrument before the maturity date. The most frequent occurrence of interest rate risk is in relation to debt investment instruments. For equity investment instruments such as shares, the interest rate risk is significantly lower as it affects share price developments in the long-term macroeconomic perspective.

Currency risk

We take this risk when investing in a foreign currency. It is a danger that the foreign currency in which the currency of the asset is denominated will depreciate during the investment period against the domestic currency and, as a result, the return on investment expressed in the domestic currency will decrease. Thus, the occurrence of exchange rate risk is where there is a risk of loss arising from changes in the prices of instruments sensitive to changes in the value of exchange rates. This mainly concerns the risk of a change in the spot rate and the risk of a change in the volatility of the exchange rate. The investor may be exposed to the exchange rate risk in cases:

a. the purchase of a financial instrument is denominated in a foreign currency, with foreign currency purchased for its domestic or other foreign currency, and plans to transfer the funds back to the domestic or foreign currency upon completion of the investment,
b. the investment is carried out by means of a financial instrument that allows the return on investment or, where applicable, also the amount initially invested, to be paid out in a currency other than the original currency of the investment during or at maturity of the product.

Liquidity risk

A risk where the purchase or sale of a financial instrument cannot be made as quickly or within the time frame as the investor requires is called liquidity risk. The market liquidity of the relevant financial instrument depends on how is the market organized (regulated market or OTC market), on the number of market participants, but largely on the characteristics of the financial instrument itself. In general, the shorter is the financial instrument established on the market, the lower is its liquidity. The liquidity of individual financial instruments is not a constant variable and may change over time as well as, for example, as a result of a shift in time zones when global liquidity in markets moves along with time.

The investor should inquire about the liquidity of the financial instrument and the possibility of their resale, especially if it requires the execution of a transaction in shares outside the main indices of individual exchanges. It should also require

liquidity information for normally traded shares if it has no experience in investing in that share or if a longer period of time has elapsed since the last transaction.

Risk of the place of execution

The risk of the place of execution is associated with the market or place where transactions in the relevant financial instrument are executed. Where the place of performance is not the same as the "home" place of execution of the investor. At the same time, the investor is exposed to currency risk.

Any investment in a foreign market or containing a foreign element may be associated with the risk of the foreign market in question, which may differ from domestic market risks. A specific case is emerging markets, which often contain risks that do not occur in developed markets. Investments in these markets are often speculative in nature and should be carefully assessed taking into account the potential risks associated with these markets. These risks are described in more detail in Section 2.8 of this document.

Risk of inflation

Inflation (depreciation of the value of money) actually reduces the return on investment. To calculate real investment gains, we need to subtract the inflation rate. It should be remembered that as the inflation rises, the purchasing power of the investment decreases.

Risk of relative performance

Relative performance risk is the risk that the performance of a financial instrument will not reflect the performance of a benchmark (market standard). It occurs when an investor purchases a financial instrument on the basis of comparing its performance with another financial instrument considered a benchmark.

Country risk

New taxes, new regulatory rules, new legislation, or restrictions on the benefits that an investor has acquired at the time of investing in the relevant financial instrument providing these benefits pose a country risk. This can only be done by the government or any relevant official authority. A country's risk is also closely related to the political risk associated, in particular, with a possible change in the country's political forces or direction of the country, accompanied by a change in the tax, legal, fiscal or other system affecting the return on investment related to that country. The existence of political risk entails the nervousness of individual market participants. This may result in higher volatility in the price of financial instruments, which may result in sell-offs in the markets due to a change in investor's attitude to risk.

Risk of volatility

Volatility measures the volatility of the price of a financial instrument and is high if the price of a financial instrument changes significantly over a period of time (for some instruments it is on daily basis, for others it is a longer period). The volatility risk is associated with price fluctuations of individual financial instruments. It is determined by comparing the average difference between the lowest and the highest price of a financial instrument over a specified period of time and reflects the risk of potential loss due to the rate of variation in the price of that financial instrument.

For each financial instrument, market and observation period, the volatility is individual. Volatility is a highly unstable quantity in terms of its value over time. Even

volatility itself has its volatility. Therefore, before investing, the client should inquire about the current or historical volatility of the financial instrument and its impact on the profitability of the intended investment decision.

Settlement risk
The risk that a transaction in a financial instrument is not settled or that a financial instrument is not delivered on an agreed date is the settlement risk. The risk in this case is equal to the difference between the agreed price of the financial instrument and the actual market price on the settlement date, where difference can mean a loss if the transaction would not be settled and the trade in the financial instrument would have to be realized at the current market price .

Leverage trading risk
In leveraged trading (leverage), the possibility of profit or loss is multiplied depending on the lever used (the amount of foreign / borrowed funds used, or the ratio of the use of own and borrowed money for trade execution), and therefore the potential loss is multiplied and thus risks, in particular in relation to an unforeseen change, such as a change in the exchange rate of the currency pair in which the investment was made.

Operational risk
Operational risk is the risk of direct or indirect loss that may arise from inappropriate or erroneous Trader's internal processes, human factor failure, systems, or independent external events.

8. Risks in investing in emerging market countries

Securities trades have different settlement and their delivery procedures, and some settlement procedures may be affected in terms of volume, which determines the manner and procedure of their settlement. Failure to settle the transaction as a result of such procedural constraints may result in the investor being restricted or losing the opportunity to invest in other alternative investment opportunities.

Today, investors are increasingly focusing on investing in emerging markets financial instruments that allow investors to obtain alternative investments with higher returns than traditional markets. However, higher returns are also associated with a higher level of risk, which is often very specific to the market and financial instrument.

Emerging markets are markets for trading financial instruments, characterized in particular by:

a. the changing performance of the economy;
b. a certain level of political instability;
c. the changing performance of the economy;
d. a certain level of political instability.

Emerging markets are markets covered by one or more of the above characteristics.

An investor is exposed to risks when investing in financial instruments in a developed market and the issuer of these instruments is located in an emerging markets environment or the focus of its activities is directed primarily at these markets.

The investor should be aware of all the risks associated with investing in these markets before investing in such instruments. Investing in financial instruments available on emerging markets is often of a speculative nature.

The following list of risks provides basic information on the risks that should be taken into account, inter alia, when investing in emerging market countries.

Economic risk
Market turbulence and price fluctuations are more likely and larger in emerging market economies that are more sensitive to changes in interest rates and inflation. In addition, the focus of activities and production in such economies is often relatively narrow, and therefore individual events may have impact several times greater on the economy and markets than in developed economies and markets. Adequate regulation and monitoring by national regulators is a major shortcoming in emerging markets.

Currency risk
Emerging economies' exchange rates are subject to major and unpredictable changes in their value. Furthermore, it should be noted that some countries limit or otherwise restrict the trading with local currencies. Hedging and hedging operations may limit the potential losses and risks arising from local currency operations, but on the other hand these risks cannot be completely eliminated due to the unpredictability of local market behaviour.

Market risk
A smaller number of sophisticated methods of financial market monitoring can lead to low levels of transparency, efficiency, liquidity and regulation of individual markets. Moreover, these markets are characterized by high volatility, large price movements and the possibility of unauthorized influencing of market prices and misuse of information.

Settlement risk
Some emerging economies use clearing and settlement systems that may significantly differ from those used in developed economies. In some cases, such systems are absent or existing systems work unreliably with a number of transaction processing errors or cause significant delays in the settlement and delivery of financial instruments.

Legal risk
There may be legal uncertainty in these markets due to the inexperience of national jurisdiction with the functioning of financial markets. In addition, the absence or inadequate system of financial market monitoring may lead to difficulties and obstructions in exercising investor rights arising from holding financial instruments.

Political risk
The risk of fundamental changes in the national economy and the political system in the short term is increased by the instability of the political system and the inexperience of the policy makers of the country or government. Consequences for investors may include seizure of investor assets without compensation, limitation of investor rights in relation to the ownership of assets or a dramatic change in the value of the investor's assets as a result of state intervention or as a result of state, control and monitoring mechanisms.

Liquidity risk
The liquidity of individual markets also depends on demand and supply. Due to the impact of natural disasters or the impact of social, economic and political changes on the demand and supply of emerging markets, these can cause much faster and longer-term changes than in it would be in the case of developed markets, and in extreme cases can lead to absence of liquidity in the market. This may result in an investor's inability to sell its assets if it wants to close or reduce its investments in emerging markets.

III. Article
Final provisions

1. This document was approved by the Board of Directors of the Trader on 15.07.2019, effective from 15.07.2019
2. This document was published on 15.07.2019