Warning about Risks Associated with the Use of Investment Instruments

A risk can be defined as inability to achieve the expected return on invested capital, or complete loss of invested capital. This risk can result from a number of causes. It is therefore impossible to list all the types of risks associated with the use of investment instruments.

General Warnings about Risks

- Past yields from investment instruments are no guarantee of future yields.
- Investment involves the risk of fluctuating value.
- The return on originally invested funds is generally not guaranteed.
- The chosen strategy associated with the use of an investment instrument and the financial goals should correspond to the client's risk profile.
- The higher the potential yield, the higher the risk.

The risk management system and organisation of risk management are based on the realised products and services of Citfin – FT and on all other related activities. The organisation of risk management is based on defined authorities and responsibilities arising from the organisational system and internal organisational structure of Citfin – FT.

The risk arising from futures trades is associated primarily with the developments in current exchange rate in the client's disfavour (market exchange rate is more favourable for the client than the exchange rate of the futures trade), which may lead to losses, potentially even losses exceeding the value of the deposit made by the client.

Basic Types of Risks

Foreign Exchange Risk

Foreign exchange risk is affected by the development of an investment instrument denominated in a foreign currency. In the case of futures trades, this risk can mean the client would have been able to potentially exchange foreign currency during or at the end of the due period for the trade at a better rate than at the time the trade was arranged. The potential losses may exceed the original value of the trade.

Interest Rate Risk

Interest rate risk arises from the inability to know future changes of market interest affecting the potential yield from the investment instrument. This risk becomes more significant with larger drops or increases in market interest rate.

Solvency Risk

Solvency risk expresses the inability of a debtor to fulfil their obligations. It is associated with the risk of insolvency of the business partner. That may lead to temporary or definitive inability of the client to make the futures trade.

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Liquidity Risk

Liquidity risk represents a state where the volume of payables and receivables at a given time is not in agreement (higher volume of payables than receivables, or of other quick liquidity assets).

Market Risk

Market risk is affected by fluctuations in yield rates and prices of investment instruments as a result of market fluctuations. Market risk encompasses a number of factors - economic and macroeconomic development, consumer preferences and political changes.

Credit Risk

Credit risk is risk of losses arising from the failure of a contractual counterparty to fulfil its obligations according to the terms of the contract based on which the company became a creditor.

Operational Risk

Operational risk is associated with risks caused by the failure of the human or technical factor, inadequacy or failure of internal processes or systems, influence of external events and breach or non-fulfilment of valid legal standards.

Concentration Risk

Concentration risk represents a group of risks arising from disproportionate concentration of exposures to variously connected parties or groups of parties or to parties from the same branch or geographical area, or risks arising from the same activity, traded commodity or from other concentrations with a common risk factor.

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