Description of financial instruments and risks

I. INTRODUCTION

The purpose of this document is to provide Clients with the essence of financial instruments offered on unregulated market (OTC) and inform of the risks associated with investing in instruments offered by Dom Maklerski TMS Brokers S.A. (hereinafter TMS Brokers) through transaction systems and at the provision of investment advice service. Below mentioned are only the most important aspects of the risks of investing in the OTC instruments.

This document does not constitute a form of investment advice, nor has it the nature of investment advice.

The transaction systems of TMS Brokers, i.e. web platforms operated by TMS Brokers, allow for the conclusion of transactions in various financial instruments having a diversified risk scale.

In particular, it is possible to conclude transactions on contracts (rolling SPOT, CFDs, futures, FX forwards), and option instruments which, due to the complex nature, should be used by Clients with appropriate expertise and experience or who accept the consequences of entering into such transactions. The detailed scope of financial instruments available in the transaction system selected by the Client is specified in the relevant specification of financial instruments for this system.

Before making a decision to carry out a transaction in financial instruments the Client shall examine whether execution of such transactions is appropriate to its investment objectives, taking into account the experience, knowledge and appetite for risks. If the Client has any doubts as to the essence of the functioning and economic substance of financial instruments offered by TMS Brokers through transaction systems, the Client shall request an explanation from TMS Brokers.

II. BASIC CONCEPTS

II.1. MARGIN

Margin is the amount of the fixed percentage of the contract's value that an investor must deposit on the cash account to be able to buy or sell i.e. open position. The amount of the required margin depends on the sum of the net open positions of the Client valued at the current, changing market prices and is designed to cover possible losses arising from the valuation of investments.

The result of investing in the currency market is accounted for by exchange rate differences, which makes it possible to acquire and dispose of assets of much greater value than the amount of funds in the cash account of the investor. The relatively low value of the required margin stems from the fact that currency fluctuations usually do not exceed 1 -2% per day. The investor has no obligation to have funds in the cash account to cover the entire nominal value of the transaction, the investor covers only a part of it, which allows the application of the so- called effect of financial leverage.

II.2. LEVERAGE

The value of margin is only a part of the nominal value of the transaction that an investor may conclude, therefore derivative instruments are accompanied by leverage. This allows to achieve significant profits as well as incur severe losses with the investment of only a small amount of deposit. Investing with the use of leverage can have the effect of "multiplying" actually available funds compared to the cash market.

The higher the leverage, the greater the risk of a loss from investment if the price of the instrument evolved in a manner unfavourable to the investor, but also a chance to achieve significant profits if the change of the price is favourable for the investor.

A simulation of the leverage effect on the valuation of the client's account is provided below, assuming that the client opened a long position in the CFD contract using a leverage ratio (leverage) of 20:1.

Price of the underlying instrument	Rate of return from the underlying instrument	Result on transaction in CFD - 20:1 leverage	Rate of return in CFD - 20:1 leverage
150	50%	1000	1000%
125	25%	500	500%
110	10%	200	200%
100	0%	0	0%
90	-10%	-200	-200%
75	-25%	-500	-500%
50	-50%	-1000	-1000%

II.3. UNDERLYING INSTRUMENT

Underlying instruments shall be construed as equity instruments, debt instruments, other securities, currencies, interest rates, stock indices, commodities, cryptocurrencies and other instruments underlying certain derivatives.

II.4. DERIVATIVE

A derivative is a financial instrument whose value depends on, or is derived from one (or more) of underlying instruments. Derivative as such is a contract (agreement) between two or more parties. Its value is dependent on fluctuations in the value of underlying instruments. The most popular underlying instruments are stocks, bonds, commodities, currencies, interest rates and market indexes.

Derivatives can be classified according to the type of market in which transactions are concluded: OTC derivatives and listed derivatives. In the case of OTC derivatives (OTC) contract is concluded between two entities outside of regulated markets (exchanges and clearing houses), in the case of exchange-traded derivatives, the stock market is the place of the transaction. OTC instrument/OTC contract is a contract negotiated between two parties which does not participate in trading on a regulated market. Such contracts are often tailored to specific client's needs.

III. CATEGORIES OF RISKS

III.1. Market risk or risk of unfavourable change in the price of the underlying instrument:

Market risk or the risk of unfavourable change in the price of the underlying instrument is the risk that fluctuations in the price of a financial instrument resulting from changes in market factors, such as e.g. interest rates, exchange rates, indices, will have a negative impact on financial results.

Exchange rates, interest rates, like other market factors, for example stock indices, commodity prices evolve depending on the overall macroeconomic situation, condition of the economy, as well as are subject to changes resulting from the behaviour of other participants in the money market. This means that the expectations of other market participants, the policy they pursue, executed transactions may have a significant impact on the level and volatility of market factors (price parameters), and thus the valuation of financial instruments and financial results.

In order to illustrate the potential impact of significant market events on the valuation of financial instruments, TMS Brokers presents below two examples of situations characterised by a rapid, sharp price movement on specific financial instruments. The table also contains information on the range of price fluctuations and the reasons of the event[1] .

Financial instrument	**Date**	**Range of price movement**	**Reason**
USD/ZAR	10.01.2016	8% fall in ZAR in 10 minutes. It recovered 75% of the fall within 4 hours.	Reduction in Asian retail investors' exposure to the rand.
EUR/USD	18.03.2015	EUR/USD rose 2% in a matter of minutes before mostly retracing.	More dovish FOMC statement than expected.

Market risk for part of the transaction is linear, which means that changes in exchange rates or interest rates can translate proportionally to the value of transactions, and so results realised on them. The risk, however, can also be non-linear. In this case, change in the value of the instrument is greater than or smaller than the change in the exchange rate or interest rate and does not change proportionally, following the changes in interest rates or foreign exchange rates. Non-linear change in the value of transactions in relation to market conditions, relates inter alia to option transactions, both currency options and interest rate options and instruments based on the prices of bonds.

Example: The Client purchased a CFD for the EUR/USD currency pair (opened a long position) with the nominal value of EUR 10,000 at the exchange rate of 1.10. If the exchange rate increases to 1.15, the Client will make a profit on the abovementioned position of USD 500 (calculated as 10,000 x 005). If the exchange rate falls to 1.03, the Client's loss on the position will be USD 700. The result on the transaction is variable over time and related to the current valuation of the financial instrument. Upon closing of the position the financial instrument is "frozen" and recorded in the cash account.

[1] The following data come from the table presented in *The sterling 'flash event' of 7 October 2016,* http://www.bis.org/publ/mktc09.pdf, 01.2017, pp. 24-25. The table in the publication contains a further list of the discussed events together with more detailed information.

Below are presented basic categories of market risk:

Currency risk: the risk that the change in price of one currency against the other will adversely affect the valuation of the transaction and consequently the financial results of the Client, which take account of the result of the valuation.

Currency price is expressed by its exchange rate against other currencies. Valuation of the transaction leads to the determination of its value, e.g. foreign currency forward contract concluded, based on prevailing market conditions at the time of valuation. The valuation may take into account unique characteristics of the transaction, e.g. the size (nominal value) or method of settlement (by delivery or by means of cash settlement).

Where transactions are settled in foreign currencies, the Client also bears the risks arising from the conversion into the base currency of the cash account (e.g. PLN) resulting from the settlement of the transaction amount in foreign currency. For example, for EUR/USD transactions in which the settlement is conducted in USD, when the local currency of the Client is PLN, the risk of the USD/PLN conversion also arises. This risk results from changes in the exchange rate of the settlement (in our example: USD) against the base currency of the cash account (in the example: PLN)

Example: The Client deposited funds and his accounting balance is PLN 10,000. The Client has an open long position and incurred an unrealised loss on this position, on Monday as of the end of the day, at USD 1000 which at the exchange rate of 4.10 USD/PLN was equivalent to a negative valuation of PLN 4,100. The valuation of the entire Client's portfolio was therefore PLN 5,900. On Tuesday, due to the public holiday, there was no trading in the given instrument on the underlying instrument market, the price of the underlying instrument remained unchanged and the loss on Tuesday at the end of the day was still USD 1000. However, due to a drop of the USD/PLN exchange rate to 4.05, the negative valuation denominated in PLN improved and showed the value of PLN 4,050. Consequently, the valuation of the Client's portfolio was PLN 5,950.

Interest rate risk: the risk that changes in domestic or foreign interest rates negatively will adversely affect the value of the transaction and consequently the financial performance of the Client. The level of interest rates will affect the value of virtually all financial instruments, including those that rely mainly on a change in stock exchange indices (futures) or currency exchange rates (FX forwards, options).

III.2. Liquidity risk:

Liquidity risk is the risk associated with a lack of or limited trading of a financial instrument that cannot be bought or sold at any time or the risk that the settlement price of the transaction is significantly different from the price that could be obtained in a fully liquid market. Increased liquidity risk may in particular occur if market downturns. The liquidity risk affects to lesser extent instruments with standard volumes, with a large trading market (e.g. FX spot on major currencies, especially EUR/USD) than instruments of unusual (usually too small) volumes and unique (exotic) characteristics (such as certain groups of currencies considered on the market to be exotic currencies).

As far as liquidity risk is concerned, TMS Brokers recommends that Clients read two publications of the Bank for International Settlements:

- "BIS Working Papers No 629. The beneficial aspect of FX volatility for market liquidity"[2];
- "The sterling 'flash event' of 7 October 2016"[1].

The conclusion from the above documents is the observation that the normal volatility, typical for the market, has, in principle, a positive impact on the increase in liquidity.

However, the Client should be aware that at times of significantly reduced or increased volatility, the liquidity risk increases. Low volatility means that potential profits are insufficient for investors to make a decision on entering into a transaction. On the other hand, too high volatility demonstrates the instability and uncertainty of the market and prevents investors from investing.

Example of a situation where the liquidity risk materialises: on 15 January 2015 SNB (Swiss National Bank) made a decision resulting in a sharp and significant change in the Swiss franc exchange rate against all other currencies. As a result of this situation, the largest banks and financial institutions stopped quoting currencies or quoted them with a significant spread which significantly exceeded the spread under normal conditions. Within a few minutes the CHF exchange rate changed by approximately 15-20%. As a result of this situation overdrafts arose in accounts of investors, in particular investors who concluded transactions based on instruments containing the leverage. The Client should be aware that such situations may re-occur in the future and a change resulting from them may turn out to be greater than in the presented example.

The liquidity risk may also materialise in relation to positions opened in financial instruments where the underlying instrument are, for instance, shares of companies. As a result of public disclosure of, for example, information about the extremely poor financial condition of an enterprise, the number of sellers of shares may significantly increase and under a limited demand it may cause a significant drop in the share price at a given moment. This means that in such a situation previously purchased financial instruments may be sold at significantly different prices than in a situation of market equilibrium before the disclosure of this information. As a consequence, the investor may incur a material loss of capital and in extreme cases, when the instrument is based on the leverage, also the overdraft.

	Bid price	Ask price
CFD quote before public disclosure	20	20.1
CFD quote after public disclosure	10	20.1

[2] J. Koosakul, I. Shim, *BIS Working Papers No 629. The beneficial aspect of FX volatility for market liquidity,* https://www.bis.org/publ/work629.pdf, 04.2017.

III.3. Requirement to provide margin and automatic closing of positions:

The Client may be asked to provide a variation margin, the type and value of which will be determined by TMS Brokers in accordance with the principles set out in the regulations and agreements relevant for the type of transaction.

The standard margin required by TMS Brokers is cash. The Client shall provide the margin whenever the Client opens a new position or supplements the already established margin if the value determined in the agreement with TMS Brokers is exceeded due to transaction valuation that is unfavourable for the Client.

Example: Upon the conclusion of the transaction, the amount constituting the margin is blocked on the Client's account. The sum of all blocked margins (concerning many open positions in financial instruments) constitutes the required margin. The Client's account shows the operating register balance, determined as the accounting balance of, the current valuation of open positions and other liabilities or receivables of the Client. If the value of the operating register balance reaches the value of the required margin, the Client will be requested to supplement the margin, i.e. to deposit funds in the account (Margin call). For example, for the TMS Connect, TMS Prime or TMS Trader service, the margin call is implemented if the margin level (quotient of the operating register balance and the required margin) shows the value of or falls below 100%), by highlighting the operating register bar in the transaction system in red. In the TMS Direct and TMS MiniDirect system, the Client is requested to supplement the margin if the margin level indicator shows the value of 110% (quotient of the required margin and operating register balance). The Margin call is implemented by sending a message in the transaction system.

If the Client fails to supplement the margin, for the TMS Connect, TMS Trader and TMS Prime services, when the margin level drops to 50%, the "Stop Out" order is activated, which involves the automatic closing by TMS Brokers of the position that brings the greatest loss for the TMS Trader, TMS Prime and TMS Connect systems. If the position bringing the greatest loss is from the market on which a transaction cannot be concluded at a given time, then the position traded at that time which brings the second largest loss is closed.

If the Client fails to supplement the margin, for the TMS Direct and TMS MiniDirect services, when the ratio of the required margin to the valuation of the portfolio reaches or exceeds 150%, the "Stop Out" order is activated, which involves the automatic closing of all positions in the Client's account.

Example of "Stop Out" operation: The Client deposited funds in the cash account and his accounting balance is PLN 20,000. The client opened a long position with nominal value of USD 200,000 at the ask price of 3.8927. Several hours later, the bid price was 3.8729, the Client's situation is as follows:

- commission — PLN 31.14
- accounting balance of the account PLN 20,000 – PLN 31.14 = PLN 19968.86
- margin required: USD 200,000 * 2% = USD 4,000, 4,000 * 3.8912 = PLN 15,564.8;
- valuation of position (3.8927 - 3.8729) * 200,000 = PLN -3960.

Funds utilisation ratio: (PLN 20,000 - PLN 31.14 + (PLN - 3960)) / (PLN 15,564.8) = 103%;

If the bid price shows the value of 3.8710, the Client will be called to supplement the margin or take other measures to limit its exposure to risk.

If the bid price drops below 3.8315 then: The funds utilisation ratio will be 50%.

(PLN 20,000 - PLN 31.14 + (PLN - 12,240))/ (PLN 15,564.8) = 50%;

In this situation, an order will be generated to close the open position in the Client's account.

TMS Direct and TMS MiniDirect platform

Example of "Stop Out" operation: The Client has funds of PLN 30,000 in the account. The Client opened a short position with nominal value of USDPLN 155,000 at a bid price of 4.2145. Several days later, the ask price was 4.3100, the Client's situation is as follows:

- account balance PLN 30,000
- margin required: PLN 13,064.95 (2%*155,000*4.2145)
- valuation of position (4.2145 - 4.3100) * 155,000 = PLN -14,802.5.

Funds utilisation ratio: 13,064.95 / (PLN 30,000 -14,802.5) = 86%;

If the ask price shows the value of 4.3315, the Client will be called to supplement the margin or take other measures to limit its exposure to risk.

If the ask price increases to 4.3519 and above, then: The funds utilisation ratio will be 150% and above.

13,064.95/(PLN 30,000 - PLN 21297) = 150%.

In this situation, an order will be generated to close all open positions in the Client's account.

III.4. Credit risk:

The risk related to the fact that the counterparty with whom the transaction was concluded or the issuer of a financial instrument will be unable to fulfil its obligations.

As part of the credit risk, pre-settlement risk can be distinguished which is understood as a situation in which before the contractual maturity, the counterparty, for instance due to its bad financial situation, refuses to deliver on its commitments, including those resulting from transactions with other counterparties, and settlement risk construed as failure to comply with obligations on the settlement date.

III.5. Force majeure:

This is a risk or circumstances beyond human control which cannot be foreseen in advance, affecting business operations.

III.6. Operational risk:

The risk associated with the possibility of system failures, personnel or procedural problems, as well as intended actions of persons representing the parties to the transaction or third parties, aimed at obtaining illegitimate benefits. This risk may affect directly or indirectly the parties to the transaction and / or parameters of the transaction.

The Client should bear in mind the fact that transactions executed via electronic systems carry the risk of errors or delays in the completion of the transaction or transmission of data. As a result of the irregularities in the operation of the systems, the order made by the customer may not be implemented, or the conditions of its implementation may differ from the original intent of the Client.

The abovementioned intentional or unintentional actions of persons and institutions having a significant impact on financial markets, the operation of transaction algorithms or system failures may cause flash crash events, meaning a rapid, unpredictable and deep drop in the price of a given financial instrument in a very short time (in seconds or minutes). In flash crash events rebound of the price of a given instrument usually to levels close to the pre-event valuation is as fast as the drop. Such events may however affect transactions concluded by Clients by activating Stop Loss orders. A Stop Loss order after activation is implemented at the first available price, which, as a result of large price fluctuations caused by flash crash events, may mean that the Stop Loss order will be implemented at a price much lower than that resulting from the Client's order.

III.7. Tax risk:

Risk associated with disputing tax settlements of the Client by tax authorities. To minimise this risk, TMS Brokers recommends that Clients obtain assistance of tax advisers to determine tax consequences of the acquisition and disposal of financial instruments.

III.8. Inflation risk:

The risk that inflation will have a negative impact on the return from the transaction. This risk means that as a result of inflation the amount of funds received on the transaction settlement date, may have less purchasing power (will not allow for the acquisition of the same basket of goods), in relation to purchasing power on the day of the transaction.

These categories relate to the basic types of risks that are associated with financial instruments traded on unregulated market (OTC), offered by Dom Maklerski TMS Brokers SA through transaction systems. However, it cannot be ruled out that in certain circumstances there will be risk types other than the categories above, or those that have been presented will have a greater impact on the situation of individual Clients.

Descriptions of risks presented in the document relate mainly to individual transactions (instruments). Conclusion of multiple transactions at the same time, included in the so-called transaction structures (e.g. option structures), entails a risk profile which may differ materially from the risk profile of individual transactions. In exceptional cases, this may mean a higher risk borne by the Client.

III.9. Risk of spreads:

Transaction spreads may change in certain situations, the result of which may be an unfavourable change in the value of assets on the Client's account and incurring unexpected losses. Spreads widen in particular in the following conditions:

- Outside of working hours of a local market for a given financial instrument,
- In the period of above-average price fluctuations,
- In the period of limited liquidity,
- In connection with present or expected effects of economic and political events affecting financial markets,

- During the holiday season on the local market for a given financial instrument,
- In cases of events defined as force majeure,
- In other justified cases.

III.10. Risk of execution of pending order at a different price than the price specified in the order

Dom Maklerski TMS Brokers S.A. is committed to making every possible effort to execute the order immediately after reaching the order price specified by the Client, but does not guarantee the execution of the order at that price. In particular in the event of a price gap between the closing price and the opening price of the next trading session for a given financial instrument, pending orders concerning that instrument whose price falls within the range between the closing price and the opening price, are executed at the opening price, and not at the price specified in the order.

For the OTC market, prices that follow periods of price gaps may vary depending on the source (broker or news agency).

III.11. Risk of executing transactions on instruments based on commodities

Goods are characterised by above-average volatility, higher than that observed for any other assets. This volatility stems from the fact that goods are not always easy to store, they may spoil fast and their resources on the Earth's surface may be limited. In a situation of weather- related events or geopolitical changes of the available resources of the goods, their price may be subject to rapid fluctuations. Changes in the availability of the goods may also result in a change to characteristics of a given commodity forward rates, especially in changes of the normal situation occurring for a given commodity from contango to backwardation and vice versa. For the reasons mentioned above, instruments based on commodities quotations should be subject to specific risk analysis by the Client.

III.12. Counterparty risk

Counterparty risk is classified as credit risk and means the possibility of incurring financial loss due to a failure of the transaction partner to meet its obligations. It means that the Client is exposed to the risk of declaration of bankruptcy by TMS Brokers or significant deterioration of its creditworthiness before final settlement of transactions. TMS Brokers bears counterparty risk of other cooperating entities such as: banks, liquidity providers, other investment firms in which hedging transactions are concluded. Declaration of bankruptcy by the abovementioned entities may have an impact on the credit situation of TMS Brokers and hence - also on the risk borne by the Client.

Financial instruments offered by TMS Brokers are no subject to central clearing obligation. Additionally, transactions with Clients are executed under the proprietary dealing model, which means that the Client does not have the possibility of transferring positions in financial instruments to another investment firm.

III.13. Risk of concluding transactions on instruments based on prices of the so-called virtual currencies (cryptocurrencies)

Virtual currencies are a relatively new phenomenon. They are not formally currencies, i.e. legal currencies issued by central banks, but on the contrary - they compete with them. As a result, some countries are considering a ban on virtual currency trading, or forcibly close quasi-exchanges that operate on their territory. Such decisions made by regulators can seriously affect the relationship of supply and demand, which will have a direct impact on the valuation of financial instruments based on the prices of such virtual currencies.

Virtual currency trading is done on quasi stock exchanges (formally not regulated markets) 24 hours a day and 7 days a week. Thus, at a time when other financial markets are closed, liquidity on the virtual currency market will be reduced, and in consequence these markets will be more vulnerable to changes involving even small notionals - this will have a direct impact on the valuation of financial instruments where underlying instrument are prices of virtual currencies. Also, it should be noted that TMS Brokers does not offer trading hours for the financial instruments it offers that coincide with trading hours on the underlying instrument (i.e. virtual currencies) - this applies in particular to weekends. As a result, there may be price gaps.

It should also be pointed out that due to significant increases in the virtual currency markets, the risk of sudden reversal of this trend and significant decreases in the prices of the underlying instrument increases drastically.

IV. DESCRIPTION OF FINANCIAL INSTRUMENTS AND INDICATION OF RISKS

The types of risks presented below should be considered as important but not the only risks associated with entering into or settlement of transactions in financial instruments offered by Dom Maklerski TMS Brokers S.A.

IV.1. FX SPOTS

Description

FX spots are typical for the unregulated currency market. Settlement takes place in real time by transferring the difference between the price prevailing at the opening of the position and the price at the closing of the position in the currency. These transactions do not require any of the parties to deliver the underlying instrument. For this reason, transactions executed by TMS Brokers are accounted for as derivatives. FX Spots enable the use of leverage. In the case of currency instruments, these are considered transactions of purchase / sale of a currency for another currency implemented on an ongoing basis at prices quoted on-line by the electronic transaction system made available to the Client. For other financial instruments, this may be the rate or price of the stock exchange index, stocks, raw materials or other underlying instrument.

If the Client does not conclude a reverse transaction in relation to the originally executed transaction by the end of the day, the position is retained for another day. The operation of a transfer of transactions to another day involves the calculation of SWAP points, i.e. adjustment of the price of conclusion of spot transactions with their value.

When FX Spot transaction is concluded, the Client incurs additional obligations related to the requirement to maintain and supplement an appropriate level of the margin on the terms described in the terms and conditions of a specific transaction system.

Risk description:

- <u>Risk of an unfavourable change in the price of the underlying instrument (Market risk)</u>

  There is a risk that a change in price of one currency against another will have a negative effect on the valuation of the transaction and consequently the financial performance of the Client. The risk depends on the difference in exchange rates established in the transaction and prevailing on the market on the settlement date of the transaction.

Example: The Client purchased a CFD for the EUR/USD currency pair (opened a long position) with the nominal value of EUR 10,000 at the exchange rate of 1.10. If the exchange rate increases to 1.15, the Client will make a profit on the abovementioned position of USD 500 (calculated as 10,000 x 005). If the exchange rate falls to 1.03, the Client's loss on the position will be USD 700. The result on the transaction is variable over time and related to the current valuation of the financial instrument. Upon closing of the position the financial instrument is "frozen" and recorded in the cash account.

- Leverage risk

Owing to the use of leverage, investors can enter into transactions with a nominal value which far exceeds the amount of the margin provided. Therefore, even small fluctuations in the prices of underlying instruments may have a significant impact on the value of the margin and, consequently, can cause losses in excess of the value of the margin paid.

In addition, TMS Brokers can use a portfolio approach for certain transaction systems for the calculation of margin for the account. This means that in the case of several opened positions in OTC Financial Instruments in one account, required margins for each of the open positions in OTC Financial Instruments may cancel each other out.

- Risk of reduced availability of a market for a particular underlying instrument (Liquidity risk)

Liquidity risk is associated with a lack of or limited trading in the instrument, which means that this instrument cannot be bought/sold at any time or the price at which the transaction is implemented significantly differs from that which could be achieved in conditions of full market liquidity. This may also contribute to difficulties with exiting the investment. Liquidity risk is low in the case of major currencies such as: EUR, USD, GBP, JPY and other, and the national currency PLN, and may be higher for currencies that are less common in trade.

Example of a situation where the liquidity risk materialises: on 15 January 2015 SNB (Swiss National Bank) made a decision resulting in a sharp and significant change in the Swiss franc exchange rate against all other currencies. As a result of this situation, the largest banks and financial institutions stopped quoting currencies or quoted them with a significant spread which significantly exceeded the spread under normal conditions. Within a few minutes the CHF exchange rate changed by approximately 15-20%. As a result of this situation overdrafts arose in accounts of investors, in particular investors who concluded transactions based on instruments containing the leverage. The Client should be aware that such situations may re-occur in the future and a change resulting from them may turn out to be greater than in the presented example.

- Risk associated with requirement to supplement the margin

Transactions secured by the margin are subject to risks. They allow to open a position worth more than the value of the account, so if the trading of the underlying instrument changes for the worse from the point of view of the investor, the investor may incur severe losses, including a loss of the amount of the margin. If the Margin Level ratio drops below a certain value specified in the Terms and Conditions of the transaction system, TMS Brokers may close some or all open positions on the Client's account.

Additionally, the following circumstances may constitute a risk factor related to the requirement to supplement the margin:

- TMS Brokers will make a decision to raise margin rates, and the Client should pay additional funds to maintain open positions,

- for TMS Trader, TMS Prime and TMS Connect systems, as a result of additional payments the accounting balance of the cash account will increase causing an increase of the margin rate applied to open positions and the Client should pay additional funds in order to maintain open positions.

Detailed rules of closing Client's positions by TMS Brokers are specified in the individual regulations for the services.

- Country risk

This risk is associated with the potential increase of the spread, or as a last resort with suspension of the quotations on the instrument, which is the underlying instrument of CFD, caused by events of a political or macroeconomic nature or natural disasters (Force Majeure) in a given country which is the country relevant for that underlying instrument.

Country risk also involves amendments in the foreign exchange law or suspension in the convertibility of the currency by the authorities exercising the power or pursuing the monetary policy in the country.

- Counterparty risk

The conclusion of FX Spots involves credit risk of TMS Brokers which means the risk of losing the ability to promptly pay liabilities by TMS Brokers, including the risk of a bankruptcy of TMS Brokers. This risk may result in a failure of TMS Brokers to make to the Client payments arising from the terms and conditions of concluded transactions.

TMS Brokers reserves that Client's receivables arising from FX Spots concluded on the basis of relevant terms and conditions do not constitute funds enjoying the guarantee coverage within the meaning of the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring.

IV.2. CONTRACT FOR DIFFERENCE (CFD)

Description

Contract for difference (CFD) is a derivative that allows investors to trade based on changing market prices of shares and indices without having the ownership right to the share. This instrument is non-standard, so the parameters of a CFD, as well as the transaction value, the minimum change in price or time to maturity are not fixed. CFD was created in order to reproduce the traditional trading in stocks on the derivatives market, save that an investor buying a CFD does not become a shareholder in the company's capital, but rather his profits arise from fluctuations in the prices of the underlying instrument and, in the case of having a long position, may also result from the payment of dividends or the sale of rights to subscribe for new shares.

CFDs offered by TMS Brokers are virtual, i.e. the settlement takes place by transfer of the difference between the price of the underlying instrument at the time of opening the position, and the price of the instrument at the closing of the position. These transactions do not require any of the parties to deliver the underlying instrument. Investments in CFDs allow the use of leverage.

When CFD transaction is concluded, the Client incurs additional obligations related to the requirement to maintain and supplement an appropriate level of the margin on the terms described in the terms and conditions of a specific transaction system.

Risk description:

- Risk of an unfavourable change in the price of the underlying instrument (Market risk)

  There is a risk that prices of the underlying instrument will change for the worse from the perspective of the investor and at the time of closing the position the investor may incur a severe loss which may additionally increase as a result of the operation of the leverage.

- Leverage risk

  Owing to the use of leverage, investors can enter into transactions with a nominal value which far exceeds the amount of the margin provided. Therefore, even small fluctuations in the prices of underlying instruments may have a significant impact on the value of the margin and, consequently, can cause losses in excess of the value of the margin paid.

- Risk of reduced availability of a market for a particular underlying instrument (Liquidity risk)

  Liquidity risk may arise from limited liquidity of a given underlying instrument or the complete suspension of trading in the relevant market which means that the order may be implemented but at the price that is significantly different from the price that could be obtained in a fully liquid market, or that a transaction cannot be concluded or order placed, which consequently leads to a loss / a failure to achieve profit. This may also contribute to difficulties with exiting the investment.

  Example of a situation where the liquidity risk materialises: on 15 January 2015 SNB (Swiss National Bank) made a decision resulting in a sharp and significant change in the Swiss franc exchange rate against all other currencies. As a result of this situation, the largest banks and financial institutions stopped quoting currencies or quoted them with a significant spread which significantly exceeded the spread under normal conditions. Within a few minutes the CHF exchange rate changed by approximately 15-20%. As a result of this situation overdrafts arose in accounts of investors, in particular investors who concluded transactions based on instruments containing the leverage. The Client should be aware that such situations may re-occur in the future and a change resulting from them may turn out to be greater than in the presented example.

- Risk associated with requirement to supplement the margin

  Transactions secured by the margin are subject to risks. They allow to open a position worth more than the value of the account, so if the trading of the underlying instrument changes for the worse from the point of view of the investor, the investor may incur severe losses, including a loss of the amount of the margin. If the Margin Level ratio drops below a certain value specified in the Terms and Conditions of the transaction system, TMS Brokers may close some or all open positions on the Client's account.

  Additionally, the following circumstances may constitute a risk factor related to the requirement to supplement the margin:

  - TMS Brokers will make a decision to raise margin rates, and the Client should pay additional funds to maintain open positions,

  - for TMS Trader, TMS Prime and TMS Connect systems, as a result of additional payments the accounting balance of the cash account will increase causing an increase of the margin rate applied to open positions and the Client should pay additional funds in order to maintain open positions.

  Detailed rules of closing Client's positions by TMS Brokers are specified in the individual regulations for the services.

- 5) Risk of suspension of trading by the market maker

  There is a risk that the trading in equity instrument, which is the underlying instrument for CFD, will be halted or suspended by the operator of the stock exchange relevant for the equity instrument. In such a situation, trading in CFD on indices may also be halted or suspended. Consequently, the Client may not be able to conclude a transaction and may incur losses.

  If the operator of the stock exchange decides to cancel the transactions concluded in a given price range, Dom Maklerski TMS Brokers can also cancel transactions using CFDs.

- Risk of forced closing of short positions on CFDs

  If the Client has open positions on CFDs there is a risk of forced closure of short positions after an unfavourable price for the investor.

- Risk of bankruptcy of the issuer of underlying instrument for CFD

  In the case of bankruptcy of the issuer of an equity instrument, which is an underlying instrument for a CFD contract, legal systems of the countries in which such instruments are traded may provide for various legal consequences for the traded financial instruments of the issuer.

  Example: A US company quoted on the NYSE Stock Exchange applies "Chapter 11" — US regulations concerning debt arrangement bankruptcy. These regulations allow for the cancellation and extinction of ordinary shares without the right to convert shares of the company in bankruptcy into shares of the company established as a result of the reorganisation.

The structure of the CFD assumes that its value reflects changes in quotations and corporate events for the underlying instrument.

Therefore, Dom Maklerski TMS Brokers may close the position of the Client in the event of redemption or withdrawal from the trading of the underlying instrument for the CFD. The Client may lose some or all of the funds invested.

There is also a risk that if the bankruptcy proceedings of the issuer of the underlying instrument are lengthy, the CFD contract will not be closed and the Client will not be able to settle the tax loss.

- Orders executed partially

  In low liquidity conditions, Client's orders may be partially executed, at subsequent prices available as part of the order sheet in the order validity period. The transaction price will be determined as the price being the weighted average of the partial prices at which the order was processed.

  In such a case, the risk is the fact that the price of the transaction may differ from the price specified by the Client in the order.

- Risk of executing a limit order at a price lower than the price specified by the Client

  For TMS Trader, TMS Prime and TMS Connect systems, in the case of limit orders, it is possible to execute the Client's order at a better, the same or worse price than the price specified by the Client in the order. The different parameterisation of the TMS Direct system means that limit orders, in the case of this system, can be executed only at the same or better price than the price specified by the Client in the order.

- Moment of charging the mark-up on CFD

  For some trading systems, TMS Brokers may stipulate that the mark-up will be charged on spreads. As regards the calculation of the mark-up, there may be different rules regarding the moment of charging it for individual categories of financial instruments.

  Example: In the case of CFDs on futures or CFDs on currency pairs, the market price of the Financial Instrument shown in the TMS Direct system is the result of the price of the underlying instrument and the mark-up on spread. Therefore, the Client sees in the transaction system the price of the instrument with the mark-up already included.

  In the case of CFDs on stocks, in the TMS Direct transaction system the mark-up is added at the post-transaction stage, which means that the transaction will be executed at the price of the Underlying Instrument, however the purchase price of the CFD on stocks will be adjusted with the TMS Brokers mark-up as part of post-transaction activities. As a result, the transaction price will be different from the price ordered by the Client in the order.

  The abovementioned different rules for determining the moment of charging the mark-up affect the possibility of executing pending orders. In the second case described, orders will be executed more frequently than in the first case, which increases the probability of implementing the strategy defined by the Client.

- Counterparty risk

  The conclusion of CFD transactions involves credit risk of TMS Brokers which means the risk of losing the ability to promptly pay liabilities by TMS Brokers, including the risk of a bankruptcy of TMS Brokers. This risk may result in a failure of TMS Brokers to make to the Client payments arising from the terms and conditions of concluded transactions.

  TMS Brokers reserves that Client's receivables arising from CFD transactions concluded on the basis of relevant terms and conditions do not constitute funds enjoying the guarantee coverage within the meaning of the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring.

IV.3. CONTRACT FOR DIFFERENCE (CFD) BASED ON CRYPTOCURRENCIES

Description

Contracts for difference (CFDS) based on cryptocurrencies do not differ from a technical point of view from other contracts for difference. However, the specificity of their underlying instrument results in exposure to specific risk categories (including the risk of volatility of the price of the underlying instrument, regulatory risk, technological risk).

Cryptocurrencies, otherwise known as virtual currencies or digital currencies, are settlement units based mostly on *blockchain technology,* i.e. a distributed accounting system based on cryptography which stores the information on holdings in these units. A characteristic feature of cryptocurrencies is their decentralisation. This means that they are not related with any central issuer. Due to the unregulated legal status of cryptocurrencies, investments in derivatives based on cryptocurrencies involve a very high level of risk**.**

When CFD transaction on cryptocurrencies is concluded, the Client incurs additional obligations related to the requirement to maintain and supplement an appropriate level of the margin on the terms described in the terms and conditions of a specific transaction system.

Risk description:

- Risk of volatility of the price of the underlying instrument (Market risk)

  There is a risk that the price of the underlying instrument will change to investor's disadvantage (in a direction different from that expected by the investor) and at the time of closing the position the investor may incur a severe loss which may additionally increase as a result of the operation of the leverage. The cryptocurrency exchange rate is characterised by particularly high volatility. Individual transactions may significantly affect the behaviour of their exchange rate. The cryptocurrency exchange rate may develop under the influence of macroeconomic indicators which are characteristic for the majority of underlying instruments, i.e. interest rates, unemployment rate, economic growth rate, inflation level or political situation. The cryptocurrency exchange rate is also considerably influenced by events closely related to the cryptocurrency market, such as hard forks, i.e. a split of the blockchain of a given cryptocurrency.

  In addition, it should be noted that there is a significant risk of arbitrage between the various exchanges on which the same cryptocurrency is traded. This means that the price of the same cryptocurrency — for instance Bitcoin can be significantly different in several entities. The same applies to futures issued by supervised exchanges. For example, the Bitcoin futures contract on the CME exchange and the CBOE exchange may differ in price despite the same maturity date.

- Regulatory risk

A change in the laws as well as an official position taken by competent supervision authorities with regard to the legal classification of cryptocurrencies may have a direct or indirect impact on the economic situation of investors, and thus on the price of the underlying instrument, liquidity and volume of trading.

- Technological risk:

In the case of cryptocurrencies, confidence in a third party that guarantees the integrity of trading has been replaced by trust in the IT system. Actions performed as part of the blockchain are based on the consensus mechanism which consists in approving the transaction and adding new blocks to the existing blockchain. An attempt to change one block involves a change of the entire blockchain following it, so the transactions concluded on the given blockchain are irreversible. According to the current state of the art, it is not possible to break the register based on the blockchain, however entities providing cryptocurrency exchange services are exposed to hacker attacks, which may contribute to the loss of trust in the entire technology and consequently to the possibility of total loss of the value of cryptocurrencies.

Owing to the total decentralisation of cryptocurrencies which are the underlying instrument for derivatives based on them, investors are not exposed to the risk of the issuer's bankruptcy.

- Leverage risk

Owing to the use of leverage, investors can enter into transactions with a nominal value which far exceeds the amount of the margin provided. Therefore, even small fluctuations in the prices of underlying instruments may have a significant impact on the value of the margin and, consequently, can cause losses far in excess of the value of the margin paid. Cryptocurrencies are an underlying instrument that is particularly vulnerable to considerable exchange rate fluctuations, therefore the risk of incurring losses if the leverage is applied is very high.

- Risk of reduced availability of a market for a particular underlying instrument (Liquidity risk)

Liquidity risk may arise from limited liquidity of a given underlying instrument or the complete suspension of trading in the relevant market which means that the order may be implemented but at the price that is significantly different from the price that could be obtained in a fully liquid market, or that a transaction cannot be concluded or order placed, which consequently leads to a loss / a failure to achieve profit. This may also contribute to difficulties with exiting the investment.

Example of a situation where the liquidity risk materialises: on 15 January 2015 SNB (Swiss National Bank) made a decision resulting in a sharp and significant change in the Swiss franc exchange rate against all other currencies. As a result of this situation, the largest banks and financial institutions stopped quoting currencies or quoted them with a significant spread which significantly exceeded the spread under normal conditions. Within a few minutes the CHF exchange rate changed by approximately 15-20%. As a result of this situation overdrafts arose in accounts of investors, in particular investors who concluded transactions based on instruments containing the leverage. The Client should be aware that such situations may re-occur in the future and a change resulting from them may turn out to be greater than in the presented example.

- Risk of financing costs (high swap points due to rolling)

The risk of financing costs (high swap points due to rolling) is the risk related to the fact that the costs of financing of these instruments — i.e. costs of maintaining a position by the client, due to their nature and above all due to the volatility are significantly higher than other currencies.

- Risk associated with requirement to supplement the margin

Transactions secured by the margin are subject to risks. They allow to open a position worth more than the value of the account, so if the trading of the underlying instrument changes for the worse from the point of view of the investor, the investor may incur severe losses, including a loss of the amount of the margin. If the Margin Level ratio drops below a certain value specified in the Terms and Conditions of the transaction system, TMS Brokers may close some or all open positions on the Client's account. Detailed rules of closing Client's positions by TMS Brokers are specified in the individual regulations for the services.

Additionally, the following circumstances may constitute a risk factor related to the requirement to supplement the margin:

- TMS Brokers will make a decision to raise margin rates, and the Client should pay additional funds to maintain open positions,

- for TMS Trader, TMS Prime and TMS Connect systems, as a result of additional payments the accounting balance of the cash account will increase causing an increase of the margin rate applied to open positions and the Client should pay additional funds in order to maintain open positions.

- Risk of forced closing of short positions on CFDs

If the Client has open positions on CFDs there is a risk of forced closure of short positions after an unfavourable price for the investor.

- Orders executed partially

In low liquidity conditions, Client's orders may be partially executed, at subsequent prices available as part of the order sheet in the order validity period. The transaction price will be determined as the price being the weighted average of the partial prices at which the order was processed.

In such a case, the risk is the fact that the price of the transaction may differ from the price specified by the Client in the order.

- Risk of executing a limit order at a price lower than the price specified by the Client

For TMS Trader, TMS Prime and TMS Connect systems, in the case of limit orders, it is possible to execute the

Client's order at a better, the same or worse price than the price specified by the Client in the order. The different parameterisation of the TMS Direct system means that limit orders, in the case of this system, can be executed only at the same or better price than the price specified by the Client in the order.

- Moment of charging the mark-up on CFD

  For some trading systems, TMS Brokers stipulates that the mark-up will be charged on spreads.

  In the case of CFDs based on cryptocurrencies the market price of the financial instrument shown in the TMS Connect, TMS Prime and TMS Trader systems is the result of the price of the underlying instrument and the mark-up on spread. Therefore, the Client sees in the transaction system the price of the instrument with the mark-up already included.

  Due to the fact that different rules for the moment of charging the mark-up for the individual categories of financial instruments may exist for the determination of the mark-up, this may affect the order in which pending orders are executed. This, in turn, affects the probability of implementing the investment strategy defined by the Client.

- Counterparty risk

  The conclusion of transactions in CFDs based on cryptocurrencies involves credit risk of TMS Brokers which means the risk of losing the ability to promptly pay liabilities by TMS Brokers, including the risk of a bankruptcy of TMS Brokers. This risk may result in a failure of TMS Brokers to make to the Client payments arising from the terms and conditions of concluded transactions.

  TMS Brokers reserves that Client's receivables arising from transactions in CFDs based on cryptocurrencies concluded on the basis of relevant terms and conditions do not constitute funds enjoying the guarantee coverage within the meaning of the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring.

IV.4. FOREIGN EXCHANGE FORWARD (FX Forward)

Description

It is a contract between two parties to purchase/sell a predetermined amount of foreign currency on a strictly specified date in the future and at a price precisely defined at the time the contract is concluded. Forward contracts are not traded on a regulated market. Terms of the forward contract are negotiated individually between the parties. FX forwards offered by TMS Brokers via a transaction system selected by the Client are virtual transactions and on the date of the settlement of the forward transaction, the financial instrument changes into a CFD contract, without a change of the underlying instrument for which it was issued.

Investing in FX forwards allows the use of leverage.

- Long position in the contract is the obligation of the buyer to buy the underlying asset at a predetermined contract price. The purchaser entering into such a contract expects the price of the underlying instrument to rise by the maturity of the contract.
- A short position in the contract means the undertaking by the seller to deliver the underlying asset at a predetermined contract price. The seller entering into such a contract expects the price of the underlying instrument to drop by the maturity of the contract.

When FX Forward transaction is concluded, the Client incurs additional obligations related to the requirement to maintain and supplement an appropriate level of the margin on the terms described in the terms and conditions of a specific transaction system.

Risk description:

- Risk of an unfavourable change in the price of the underlying instrument (market risk)

  In the case of a purchase of the forward instrument the investor makes a profit if the price of the underlying instrument at the time of contract settlement is higher than the contract price while taking into account the cost of the contract. In contrast, the investor suffers a loss if the price of the underlying instrument at the time of contract settlement is lower than the price specified in the contract.

  If forward instruments are sold, the investor makes a profit if the price of the underlying instrument at the time of contract settlement is lower than the contract price, and the investor suffers a loss if the price of the underlying instrument at the time of contract settlement is higher than the price specified in the contract.

- Leverage risk

  Owing to the use of leverage, investors can enter into transactions with a nominal value which far exceeds the amount of the margin provided. Therefore, even small fluctuations in the prices of underlying instruments may have a significant impact on the value of the margin and, consequently, can cause losses in excess of the value of the margin paid.

- Risk of reduced availability of a market for a particular underlying instrument (Liquidity risk)

  Liquidity risk is associated with a lack of or limited trading in the instrument, which means that this instrument cannot be bought/sold at any time or the price at which the transaction is implemented significantly differs from that which could be achieved in conditions of full market liquidity. This may also contribute to difficulties with exiting the investment. Liquidity risk is low in the case of major currencies such as: EUR, USD, GBP, JPY and other, and the national currency PLN, and may be higher for currencies that are less common in trade.

  Example of a situation where the liquidity risk materialises: on 15 January 2015 SNB (Swiss National Bank) made a decision resulting in a sharp and significant change in the Swiss franc exchange rate against all other currencies. As a result of this situation, the largest banks and financial institutions stopped quoting currencies or quoted them with a significant spread which significantly exceeded the spread under normal conditions. Within a few minutes the CHF exchange rate changed by approximately 15-20%. As a result of this situation overdrafts arose in accounts of investors, in particular investors who concluded transactions based on instruments containing the leverage. The Client should be aware that such situations may re-occur in the future and a change resulting from them may turn out to be greater than in the presented example.

- Risk associated with requirement to supplement the margin

  Transactions secured by the margin are subject to risks. They allow to open a position worth more than the value of the account, so if the trading of the underlying instrument changes for the worse from the point of view of the investor, the investor may incur severe losses, including a loss of the amount of the margin. If the Margin Level ratio drops below a certain value specified in the Terms and Conditions of the transaction system, TMS Brokers may close some or all open positions on the Client's account.

  Additionally, the following circumstances may constitute a risk factor related to the requirement to supplement the margin:

  - TMS Brokers will make a decision to raise margin rates, and the Client should pay additional funds to maintain open positions,

  - for TMS Trader, TMS Prime and TMS Connect systems, as a result of additional payments the accounting balance of the cash account will increase causing an increase of the margin rate applied to open positions and the Client should pay additional funds in order to maintain open positions.

  Detailed rules of closing Client's positions by TMS Brokers are specified in the individual regulations for the services.

- Counterparty risk

  The conclusion of FX Forwards involves credit risk of TMS Brokers which means the risk of losing the ability to promptly pay liabilities by TMS Brokers, including the risk of a bankruptcy of TMS Brokers. This risk may result in a failure of TMS Brokers to make to the Client payments arising from the terms and conditions of concluded transactions.

  TMS Brokers reserves that Client's receivables arising from FX Forwards concluded on the basis of relevant terms and conditions do not constitute funds enjoying the guarantee coverage within the meaning of the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring.

IV.5. FUTURES

Description

A contract between two parties in which one party undertakes to purchase, and the other to sell a specified quantity of a standardised underlying instrument at a strictly specified future date and at a price precisely defined at the time the contract is concluded.

Futures contracts are traded on regulated markets. These transactions may require the selling party to sell, and the buying party to collect, the underlying instrument. That is why futures are closed by TMS Brokers before the maturity stated in the term sheet, on the last day of contract trading without the obligation of physical delivery of the underlying instrument.

Investing in futures enables the use of leverage.

Terms of trading in futures are strictly determined by the regulated market on which the contract is traded. Each futures contract has a certain size, denomination and currency as well as the expiry date (contract standard).

The underlying instruments for futures contracts offered by TMS Brokers may include precious metals, energy, agricultural commodities, bonds, interest rates, currencies and indices.

A purchase or sale of a futures contract gives rise to the open position. The buyer of the contract opens a long position while the seller of the contract opens a short position.

- Long position in the contract is the obligation of the buyer to buy the underlying asset at an agreed-upon price. The purchaser entering into such a contract expects the price of the underlying instrument to rise by the maturity of the contract.

- A short position in the contract means the undertaking by the seller to deliver the underlying asset at an agreed-upon price. The seller entering into such a contract expects the price of the underlying instrument to drop by the maturity of the contract.

When Futures transaction is concluded, the Client incurs additional obligations related to the requirement to maintain and supplement an appropriate level of the margin on the terms described in the terms and conditions of a specific transaction system.

Risk description:

- Risk of an unfavourable change in the price of the underlying instrument (Market risk)

  In the case of a purchase of the futures instrument the investor makes a profit if the price of the underlying instrument at the time of contract settlement is higher than the contract price while taking into account the cost of the contract. In contrast, the investor suffers a loss if the price of the underlying instrument at the time of contract settlement is lower than the contract price declared in the contract.

  If the futures instrument is sold, the investor makes a profit if the price of the underlying instrument at the time of contract settlement is lower than the contract price, and the investor suffers a loss if the price of the underlying instrument at the time of contract settlement is higher than the contract price declared in the contract.

- Leverage risk

  Owing to the use of leverage, investors can enter into transactions with a nominal value which far exceeds the amount of the margin provided. Therefore, even small fluctuations in the prices of underlying instruments may have a significant impact on the value of the margin and, consequently, can cause losses in excess of the value of the margin paid.

- Risk associated with requirement to supplement the margin

  Transactions secured by the margin are subject to risks. They allow to open a position worth more than the value of the account, so if the trading of the underlying instrument changes for the worse from the point of view of the investor, the investor may incur severe losses, including a loss of the amount of the margin. If the Margin Level ratio drops below a certain value specified in the Terms and

Conditions of the transaction system, TMS Brokers may close some or all open positions on the Client's account.

Detailed rules of closing Client's positions by TMS Brokers are specified in the individual regulations for the services.

- Risk of change in the margin by the clearing counterparty

  The Client should be aware of the risk of change in the margin requirement, which in turn may lead to the requirement to supplement the margin, and in the absence of adequate funds in the account, to closing of open positions.

- Risk of suspension of trading

  Prices may vary within certain ranges, a change in price during the day beyond certain spreads can lead to an automatic suspension of trading of the financial instrument. Consequently, the Client may not be able to close an open position.

- Counterparty risk

  The conclusion of Futures involves credit risk of TMS Brokers which means the risk of losing the ability to promptly pay liabilities by TMS Brokers, including the risk of a bankruptcy of TMS Brokers. This risk may result in a failure of TMS Brokers to make to the Client payments arising from the terms and conditions of concluded transactions.

  TMS Brokers reserves that Client's receivables arising from Futures concluded on the basis of relevant terms and conditions do not constitute funds enjoying the guarantee coverage within the meaning of the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring.

IV.6. OPTIONS

Description

An option is a financial instrument having the form of a contract between the purchaser (buyer) and writer (seller), according to which the buyer has the right (but not the obligation, as in the case of futures and forwards) to buy (call option) or sell (put option) a given instrument at an agreed-upon price.

For the purchased right the buyer pays a premium to the writer, in order to bind the writer to honour the buyer's right. Transactions in options allow the use of leverage. Options may be both transactions with a physical delivery and without physical delivery. Options offered by TMS Brokers are instruments traded both on the regulated market.

Buyer of option — holds a synthetic long position in the underlying instrument. To close the position he should sell the option with the same exercise date and the same strike price.

Writer of option - takes a synthetic short position in the underlying instrument. To close the position, he must acquire the option with the same exercise date and the same strike price.

When option transaction is concluded, the Client incurs additional obligations related to the requirement to maintain and supplement an appropriate level of the margin on the terms described in the terms and conditions of a specific transaction system.

Risk description:

- Risk of an unfavourable change in the price of the underlying instrument (Market risk)

  The risk mainly depends on the change in future values of volatility of the underlying instrument, time remaining to the settlement, and usually to a lesser extent — on interest rates for the currencies specified in the transaction.

  Option buyer's risk is much lower than the risk of the seller. In the worst case, the option buyer can lose the premium paid to the seller, while the seller's loss can be unlimited.

  The risk borne by the Call option seller is unlimited and is realised in the case of increase of the exchange rate for a currency pair specified in the terms of the transaction. The higher the difference between the market exchange rate and the contract rate specified in the terms of the transaction, the greater the valuation of the Call option, and therefore the higher the settlement amount that the seller of the option must pay if it is exercised.

  The risk borne by the seller of Put option is limited only by the nominal amount of currency sold and is realised in the case of a fall of the exchange rate for the currency pair specified in the terms of the transaction. The higher the difference between the contract rate set in the conditions of the transaction and the market exchange rate, the higher the valuation of the Put option and therefore the higher the settlement amount the writer of the option must pay if it is exercised.

- Leverage

  Market risk is multiplied by the application of the leverage owing to which the investor can enter into transactions on options whose initial value is low in comparison with the price of the underlying instrument. Therefore, even small fluctuations in prices of underlying instruments may have a significant impact on the value of the positions in options and, consequently, can cause losses in excess of the value of margin paid.

- Risk of reduced availability of a market for a particular underlying instrument (Liquidity risk)

  This type of risk is usually limited in the case of transactions based on exchange rates for major currencies such as: EUR, USD, GBP, JPY or PLN but may be higher for currencies that are less common in trade. This may also contribute to difficulties with exiting the investment.

  Example of a situation where the liquidity risk materialises: on 15 January 2015 SNB (Swiss National Bank) made a decision resulting in a sharp and significant change in the Swiss franc exchange rate against all other currencies. As a result of this situation, the largest banks and financial institutions stopped quoting currencies or quoted them with a significant spread which significantly exceeded the spread under normal conditions. Within a few minutes the CHF exchange rate changed by approximately 15-20%. As a result of this situation overdrafts arose in accounts of investors, in particular investors who concluded transactions based on instruments containing the leverage. The Client should be aware that such situations may re-occur in the future and a change resulting from them may turn out to be greater than in the presented example.

- Risk associated with requirement to supplement the margin

Transactions secured by the margin are subject to risks. They allow to open a position worth more than the value of the account, so if the trading of the underlying instrument changes for the worse from the point of view of the investor, the investor may incur severe losses, including a loss of the amount of the margin. If the Margin Level ratio drops below a certain value specified in the Terms and Conditions of the transaction system, TMS Brokers may close some or all open positions on the Client's account. Transactions involving a sale of option involve unlimited risk.

Detailed rules of closing Client's positions by TMS Brokers are specified in the individual regulations for the services.

- Counterparty risk

  The conclusion of option transactions involves credit risk of TMS Brokers which means the risk of losing the ability to promptly pay liabilities by TMS Brokers, including the risk of a bankruptcy of TMS Brokers. This risk may result in a failure of TMS Brokers to make to the Client payments arising from the terms and conditions of concluded transactions.

  TMS Brokers reserves that Client's receivables arising from transactions on options concluded on the basis of relevant terms and conditions do not constitute funds enjoying the guarantee coverage within the meaning of the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring.

IV.7. IRS - Transactions hedging interest rate risk

IRS - symmetric derivative transaction - mutual exchange of specific interest payments denominated in the same currency. The amount of interest payments is determined based on the IRS notional principal amount, the length of interest periods, the reference rate for floating interest payments and a fixed interest rate for fixed interest payments. Due to a change in the settlement date of the hedged loan, the final settlement date of the IRS transaction may be changed. The change of the IRS Transaction settlement date may result in cost/revenue in respect to early settlement of IRS transactions.

IRS may be recommended only to Clients who have entered into the Advisory Services Agreement with TMS Brokers. This instrument is used to hedge the interest rate risk and may be offered only for this purpose. IRS allows to hedge against the risk of adverse changes in interest rates as a consequence of the possibility of determining future financing costs and limiting the impact of changes in interest rates on Client's operations.

When IRS transaction is concluded, the Client incurs additional obligations related to the requirement to maintain and supplement an appropriate level of the margin on the terms described in the terms and conditions of a specific transaction system.

Risk description:

- Risk of an unfavourable change in the price of the underlying instrument (Market risk)

  There is a risk that prices of the underlying instrument will change for the worse from the perspective of the investor and at the time of closing the position the investor may incur a severe loss which may additionally increase as a result of the operation of the leverage. In such a case, the Client will transfer to TMS Brokers the amount of interest that is higher (or will receive from TMS Brokers the interest amount that is lower) than expected. Additionally, in the case of an Early IRS Settlement, the settlement amount received by the Client may be lower than expected (or the settlement amount paid by the Client may be higher than expected).

- Leverage risk

  Owing to the use of leverage, investors can enter into transactions with a nominal value which far exceeds the amount of the margin provided. Therefore, even small fluctuations in the prices of underlying instruments may have a significant impact on the value of the margin and, consequently, can cause losses in excess of the value of the margin paid.

- Risk of reduced availability of a market for a particular underlying instrument (Liquidity risk)

  Liquidity risk may arise from limited liquidity of a given underlying instrument or the complete suspension of trading in the relevant market which means that the order may be implemented but at the price that is significantly different from the price that could be obtained in a fully liquid market, or that a transaction cannot be concluded or order placed, which consequently leads to a loss / a failure to achieve profit. This may also contribute to difficulties with exiting the investment.

  Example of a situation where the liquidity risk materialises: on 15 January 2015 SNB (Swiss National Bank) made a decision resulting in a sharp and significant change in the Swiss franc exchange rate against all other currencies. As a result of this situation, the largest banks and financial institutions stopped quoting currencies or quoted them with a significant spread which significantly exceeded the spread under normal conditions. Within a few minutes the CHF exchange rate changed by approximately 15-20%. As a result of this situation overdrafts arose in accounts of investors, in particular investors who concluded transactions based on instruments containing the leverage. The Client should be aware that such situations may re-occur in the future and a change resulting from them may turn out to be greater than in the presented example.

- Risk associated with requirement to supplement the margin

  Transactions secured by the margin are subject to risks. They allow to open a position worth more than the value of the account, so if the trading of the underlying instrument changes for the worse from the point of view of the investor, the investor may incur severe losses, including a loss of the amount of the margin. If the Margin Level ratio drops below a certain value specified in the Terms and Conditions of the transaction system, TMS Brokers may close some or all open positions on the Client's account.

  Detailed rules of closing Client's positions by TMS Brokers are specified in the individual regulations for the services.

- Counterparty risk

  The conclusion of IRS involves credit risk of TMS Brokers which means the risk of losing the ability to promptly pay liabilities by TMS Brokers, including the risk of a bankruptcy of TMS Brokers. This risk may result in a failure of TMS Brokers to make to the Client payments arising from the terms and conditions of concluded transactions.

TMS Brokers reserves that Client's receivables arising from IRS concluded on the basis of relevant terms and conditions do not constitute funds enjoying the guarantee coverage within the meaning of the Act on the Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring.

- Legal and tax risk

  Legal and tax risk is related to the possibility of changes in the regulations on trading in financial instruments, regulations regarding companies, conducting business operations as well as tax, customs and other regulations.

- Mismatch risk

  Mismatch risk may arise in the case of a mismatch of the actual flows of the Client with its liabilities resulting from the transaction.

V. DESCRIPTION OF RISK IN PRACTICE - ACCUMULATION OF RISKS

The risks associated with investing in financial instruments offered by TMS Brokers and described in this document may occur independently, however, in certain cases they may also accumulate due to the correlation occurring between them. The Client should be aware of the possibility of a situation where several types of risk will materialise as a result of the cause and effect. To illustrate such situation, an **example is** given below**:**

On 7 October 2016 a flash crash occurred on pound sterling (GBP) during which GBP depreciated drastically versus other currencies in a very short period of time. The occurrence of this event involves the accumulation of several types of investment risk:

- liquidity risk resulting from the fact that the event occurred at 1:00 AM Polish time, i.e. at a time when the global currency market has low liquidity;

- market risk resulting from an unfavourable change in the price of underlying instruments in the form of GBP exchange rates;

- spread risk associated with above-average fluctuations in exchange rates resulting from the publication of material news affecting the financial market;

VI. - currency risk for transactions settled in GBP.

RISK MITIGATION

1. TMS Brokers recommends that before investing money in financial instruments the Client familiarises himself with the impact that leverage may have on profits/losses from the transaction, statistics on the profitability of transactions (published quarterly, as a supplement to the "Description of Financial Instruments and Risks"), the time of order execution (published quarterly as a supplement to the Best Execution Policy), with the nature of the market and technical conditions of the selected transaction system through which transactions will be concluded on Client's account. In particular, it is recommended to use the demo version of transaction system available free of charge on TMS Brokers website.
2. TMS Brokers also recommends to investors who are beginners to take part in training in financial instruments and market mechanisms organised by TMS Brokers or other entities. TMS Brokers conducts individual training workshops in the registered office of TMS Brokers at a request of the Client.
3. Before making a decision to conclude a transaction in financial instruments the Client - given his own experience, objectives and personal risk appetite - should consider whether the conclusion of such transaction is the appropriate activity for him. If the Client has any doubts, he must request an explanation from TMS Brokers.
4. If the Client uses the service of the execution of orders to buy or sell financial instruments on behalf of the principal, in order to reduce the risks associated with entering into transactions involving the establishment of a margin, the Client should consider taking a variety of hedging measures, in particular placing orders that limit the occurrence of loss (stop -loss).
5. The Client should adapt the technical equipment for the purposes of smooth functioning of electronic communication with TMS Brokers transaction servers.
6. The Client should take into account, when placing stop orders, possibility of executing of orders on terms worse than expected, especially in the presence of price gaps.
7. The Client should take into account, when planning the investment, any fees and commissions associated with support for transaction processing, as well as the rules for determining swap points.

Example of calculating swap points: The Client deposited funds in the cash account and his accounting balance is PLN 10,000. On Monday the Client opened a short position with nominal value of AUD/USD 100,000 at the exchange rate of 0.9700. Overnight, the exchange rate did not change but due to maintaining the short position (the calculation takes place around midnight) TMS Brokers calculated swap points (in accordance with the Swap Points Table) with the value of -0.5211 pips (pip is one ten-thousandth of dollar) for each unit of the base currency. As a result, the operating register balance was reduced by USD 5.21.

Example of calculating commission and mark-up: The Client deposited funds in the cash account and his accounting balance is PLN 20,000. The client opened a long position with nominal value of USD 200,000 at the ask price of 3.8927. As a result of opening the position, a commission for opening and closing the position of PLN 31.14 PLN was charged (100000 * 0.004% * 3.8925). After opening, the position concerned is valued at the bid sale price. Consequently, if the bid price does not change before and after opening the position, its valuation initially has a negative value (spread cost). A negative valuation is the spread value * the volume of the open position.

The commission charged and the initially negative valuation of the position reduces the valuation of the Client's account. As a result, the balance of the operating register is reduced, and thus the level of funds utilisation changes unfavourably for the Client as compared to the expected level.

If the funds utilisation rate is calculated as the quotient of the operating register balance to the required margin, assuming an invariable valuation of the position, the Client's situation is as follows:

- commission = PLN 31.14
- accounting balance of the account = PLN 20,000
- margin required: PLN 15,564.8 = USD 200,000 * 2% * 3.8912

- valuation of position (3.8927 - 3.8902) * 200,000 = PLN -500.
- Funds utilisation ratio:
- (PLN 20,000 – PLN 31.14 - PLN 500) / (PLN 15,564.8) = 125%

Funds utilisation ratio without taking into account costs of commissions and mark-up (PLN 20,000) / (PLN 15,564.8) = 128%.

Information about investing in instruments offered by Dom Maklerski TMS Brokers S.A. can be found depending on the transaction system selected or in the case of investment advisory services also on the websites of TMS Brokers (www.tms.pl).