TYPES OF FINANCIAL INSTRUMENTS

Stifel Europe AG may provide its services in relation to shares, bonds, exchange traded fund ("**ETFs**") and/or promissory note loans (*Schuldscheindarlehen*). The types of financial instruments, including a general description of the nature and risks of financial instruments are described below in line with section 63 para. 7 of the Securities Trading Act (*Wertpapierhandelsgesetz*).

1 Shares

Shares are securities issued by companies to raise equity and securitise a share in the equity of a company. A shareholder is therefore not a creditor as with a bond, but a co-owner of the company. The shareholder is involved in the economic success and failure and participates in this through profit distributions, dividends, and through the share price performance.

There are different types of shares that grant different rights. The most important types are ordinary shares, preference shares, bearer shares and registered shares. Ordinary shares grant voting rights and are the most common type of share in Germany. In contrast, preference shares do not grant voting rights. To compensate for this, shareholders receive preferential treatment, e.g. in the distribution of dividends. A bearer share does not require the shareholder to be entered in a share register. Shareholders can exercise their rights even without registration. Bearer shares are therefore easier to transfer, which typically improves tradability. In the case of registered shares, the name of the holder is entered in a share register. Without registration, the rights arising from ownership of the share cannot be asserted.

Risks associated with shares are, in particular:

- **Price risk**: Shares can be traded on the stock exchange, but also over the counter. The price of a share is determined by supply and demand. Models for share price calculation are always subject to subjective assumptions. The price formation depends to a large extent on the different interpretations of the information available to market participants. The associated risk of a negative share price development can be roughly divided into company-specific risk and general market risk. The company-specific risk depends on the economic development of the company. If the company's economic performance is worse than expected, this can lead to negative share price developments. In the most unfavourable case, namely in the event of insolvency and subsequent bankruptcy of the company, the investor may suffer a total loss of his invested capital. However, it is also possible for the price of a share to move as a result of changes in the market as a whole, without this change in price being due to company-specific circumstances. Price changes that are caused more by general trends on the stock market and are independent of the economic situation of the individual company are referred to as general market risk.
- **Insolvency risk**: As shareholders are only paid in the event of insolvency once all other creditor claims have been satisfied, shares are considered a relatively high-risk asset class.
- **Dividend risk**: Future dividends cannot be predicted. If a company generates less than the planned profit or no profit at all and has not set aside any reserves, the dividend may be reduced or suspended altogether. However, a share investor is not entitled to a distribution even if a profit is realised. If accruals (*Rückstellungen*) are deemed necessary by the company, e.g. due to expected future costs (lawsuits, restructuring, etc.), the company may be able to suspend the dividend despite having realised a profit.
- **Interest rate change risk**: In the course of rising interest rates, share prices may fall as, for example, the company's borrowing costs may increase or future profits may be discounted at a higher interest rate and thus valued lower at the present time.
- **Liquidity risk**: Usually, buying and selling prices are quoted on an ongoing basis for exchange-traded shares, especially for companies with a high enterprise value that are part of a major share

index, such as the DAX. If, for various reasons, there are no tradable prices on the market, the shareholder temporarily has no opportunity to sell his share position, which can have a negative impact on his investment.

2 Bonds

Bonds refer to a wide range of interest-bearing securities. In addition to classic bonds, these also include index-linked bonds, mortgage bonds (*Pfandbriefe*), inflation-linked bonds and structured bonds. All bond types have the same basic function. In contrast to shares, bonds are not only issued by companies but also by public institutions and governments. They do not grant the holder a right to a share. By issuing bonds, an issuer raises debt capital. Bonds are tradable securities with a nominal amount (amount of debt), an interest rate (a coupon unless in case of a zero bond) and a fixed term.

As with a loan, the issuer undertakes to pay the investor a corresponding interest rate. The interest payments can be made either at regular intervals during the term or cumulatively at the end of the term. At the end of the term, the investor also receives the nominal amount. The amount of interest to be paid depends on various factors. The most important parameters for the interest rate are usually the credit rating of the issuer, the term of the bond, the underlying currency and the general market interest rate level. In the case of inflation-linked bonds, the nominal amount and interest rate also depend on the development of inflation.

The income that investors can realise by investing in bonds results from the interest on the nominal amount of the bond and from any difference between the purchase and sale price.

Risks associated with bonds are, in particular:

- **Issuer/credit risk**: An obvious risk when investing in bonds is the issuer default risk. If the issuer is unable to fulfil its obligation to the investor, the investor is threatened with a total loss. In contrast to equity investors, however, investors in bonds are in a better position in the event of insolvency, as they provide the issuer with debt capital and their claim can be serviced (possibly partially) from any insolvency assets. An issuer with a low credit rating generally has to pay a higher interest rate to the buyers of the bonds as compensation for the credit risk than an issuer with an excellent credit rating. In the case of collateralised bonds (i.e. covered bonds), the credit rating depends primarily on the scope and quality of the collateral (cover pool) and not exclusively on the issuer's credit rating.
- **Inflation risk**: Inflation risk is the change in the purchasing power of the final repayment and/or the interest income from an investment. If inflation changes during the term of a bond such that it exceeds the interest rate of the bond, the effective purchasing power of the investor falls (negative real interest).
- **Interest rate change risk and price risk**: The key interest rate level set by the central bank has a significant influence on the value of a bond. If interest rates rise, for example, the interest on a bond with a fixed interest rate becomes relatively less attractive and the price of the bond falls. A rise in market interest rates is therefore generally accompanied by falling bond prices. Even if an issuer pays all interest and the nominal amount at the end of the term, this can result in a loss for a bond investor if, for example, he sells before the end of the term at a price that is below the issue or purchase price of the bond.

3 ETFs

ETFs are exchange traded open-ended investment funds that track the performance of an index, such as the DAX. They are also known as passive index funds. In contrast to active investment strategies, which achieve an excess return by selecting individual securities and determining favourable times for entry and exit, a

passive investment strategy is designed not to outperform a benchmark index benchmark, but to replicate it at the lowest possible cost.

Like other open-ended investment funds, ETFs give investors access to a broad portfolio of shares, bonds, or other asset classes such as commodities or property. Unlike other open-ended investment funds, ETFs are not usually bought or sold directly from a capital management company but are traded on a stock exchange or other trading centre. An ETF can therefore be traded like a share on stock exchanges. To improve liquidity, market makers are usually appointed for ETFs to ensure sufficient liquidity by regularly providing buy and sell prices. However, there is no obligation to provide liquidity.

ETFs can track the indices on which they are based in two different ways. In the case of physical replication, the index is replicated by purchasing all index components (e.g. the 30 shares of the DAX). In case of a synthetic replication, the ETF provider concludes an agreement in the form of a swap with a credit institution in which the exact performance of the desired index is guaranteed and collateralised. A synthetic ETF therefore does not hold the underlying shares.

Risks associated with ETFs are, in particular:

- **Price risk**: As ETFs passively replicate an underlying index and are not actively managed, they generally bear the risks of the underlying indices. ETFs therefore fluctuate in direct proportion to their underlying. Respectively, the risk/return profile of ETFs and their underlying indices are very similar. For example, if the DAX falls by 10 %, the price of an ETF that tracks the DAX will also fall by around 10 %.
- **Risk concentration**: The investor risk increases with the increasing specialisation of an ETF in a certain region, sector or currency, for example. However, this increased risk can also result in increased earnings opportunities.
- **Exchange rate risk**: ETFs contain exchange rate risks, if their underlying index is not quoted in the ETF's currency. If the index currency weakens against the ETF's currency, the ETF's performance will be negatively affected.
- **Replication risk**: ETFs are also subject to a replication risk, i.e. there may be deviations between the value of the index and the ETF. This tracking error can go beyond the difference in performance caused by the ETF fees. Such a deviation can be caused, for example, by cash holdings, rebalancing, corporate actions, dividend payments or the tax treatment of dividends.
- **Counterparty risk**: In addition, synthetic replicating ETFs are subject to counterparty risk. If a swap counterparty fails to fulfil its payment obligations, this may result in losses for the investor.
- **Risk of transfer or termination of the investment fund** (*Sondervermögen*): Under certain conditions, both the transfer of the investment fund to another investment fund and the termination of management by the management company are possible. In the event of a transfer, continued management may take place at less favourable terms. In the event of termination, there is a risk of (future) lost profits.
- **Trading outside of exchange hours**: If ETFs and their underlyings are traded on different exchanges with different trading hours, there is a risk that transactions in these ETFs will be executed outside the trading hours of the respective underlyings. This can lead to a deviation in performance of the ETF compared to the underlying index.
- **Securities loan**: In order to optimise returns, an investment fund may enter into securities lending transactions to optimise returns. If a borrower is unable to fulfil its obligation to return the securities and the collateral provided has lost value, the investment fund may incur losses.

4 Promissory note loans (in the form of a money market instrument)

Promissory note loans are a component of corporate financing, especially for companies without access to the capital market. Generally, promissory loan notes have a term of three to ten years and qualify as loans. However, promissory loans notes with a term of 397 days maximum qualify as money market instruments. These promissory note loans in the form of money market instruments have a fixed or variable interest rate, with the amount of the interest rate depending on various factors, in particular the creditworthiness of the company, the term of the loan, the placement volume, the quality of the loan collateral provided as security and the general capital market situation and are tradable on the money market.

Risks associated with promissory loan notes in the form of money market instruments are, in particular:

- **Counterparty risk**: Provided the counterparty becomes insolvent, the investor may suffer partial or total loss of the invested capital.
- **Interest rate change risk**: Due to changes in interest rates, the value of the promissory loan note may fall during its term.
- **Liquidity risk**: The investor bears the risk that promissory loan note will have to be held in an illiquid market until maturity or that it will be have to be sold at an unfavourable price before maturity.
- **Foreign currency risk**: If the investment is denominated in a currency other than the investor's home currency, there is a risk that the value of the investment may fall from the investor's perspective due to exchange rate fluctuations. It is possible that the price gain of an investment in a foreign currency may result in an overall loss for the investor due to exchange rate fluctuations. Exchange rates can fluctuate very strongly.

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