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# Information for investors in financial instruments

2023

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In accordance with the regulations which govern provision of investment and ancillary investment services, the Bank is required to inform clients of all the circumstances that may prove relevant to investments in financial instruments. This document is to give clients information about the Bank and its licences, the types of services provided by the Bank, measures and procedures applied by the Bank in order to protect

investment, measures applied in order to prevent conflict of interest, the investor protection fund, investment products and financial instruments and the risks of investing in such products and instruments.

The information presented herein are solely informative, allowing clients to make an informed investment decision.

# 1. Information about the Bank

## 1.1. General information about the Bank

OTP Banka d.d. is a member of the OTP Bank Nyrt, Hungary  
Registered office: **Domovinskog rata 61, 21000 Split, Croatia**  
Website; e-mail: [www.otpbanka.hr](http://www.otpbanka.hr); [info@otpbanka.hr](mailto:info@otpbanka.hr)  
Tel: (072) 201 555

- Taxpayer ID No: 52508873833.
- Swift: OTPVHR2X
- LEI 5299005UJX6K7BQKV086

Registered with the Commercial Court in Split **under company registration No. 060000531**

## 1.2. Authorisation for investment services and activities

OTP banka d.d. (hereinafter the Bank) is authorised to provide investment and ancillary investment services and carry out investment activities based on the authorisation granted by the Croatian National Bank further to the consent of the Croatian Financial Services Supervisory Agency (hereinafter the Agency). In accordance with the authorisation, the Bank is authorised to provide investment and ancillary services and carry out investment activities, specifically:

- Reception and transmission of orders in relation to one or more financial instruments,
- Execution of orders on behalf of clients,
- Dealing on own account,
- Investment advice,
- Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis,;
- Placing of financial instruments without a firm commitment basis, and
- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.

## 1.3. Name and address of the competent authority

- Croatian national Bank, Trg hrvatskih velikana 3, 10000 Zagreb ([www.hnb.hr](http://www.hnb.hr)),
- Croatian Financial Services Supervisory Agency, Franje Račkoga 6, 10000 Zagreb, telephone No: 01 6173 200, facsimile: 01 4811 406, e-mail: [info@hanfa.hr](mailto:info@hanfa.hr); website: [www.hanfa.hr](http://www.hanfa.hr)

## 1.4. Tied agent

- Bank does not act through tied agents.

## 2. Information for investors in line with the regulatory provisions

### 2.1. Regulatory framework

In the Republic of Croatia, the capital market area is regulated through the Capital Market Act (OG 65/18, 17/20 and 83/21; hereinafter referred to as the Act), which has so far been amended on several occasions, primarily due to further alignment with the *acquis communautaire*, i.e. in order to allow for full integration of the financial market of the Republic of Croatia with the single market of EU countries. The mentioned amendments have enabled liberalisation of the capital market and cross-border cooperation.

MIFID, which is short for the EU Directive titled Markets in Financial Instruments Directive, is often taken as a synonym of the Act. Last amendments thereto, the so-called MIFID 2 (Directive 2014/65), apply across the European Economic Area as from 03/01/2018. The Croatian Capital Market Act has been amended accordingly as well. **The main purpose of MiFID 2 is to consolidate investor protection across Europe and increase investment security.**

According to the provisions of MIFID 2, the Croatian Act has been amended. The Act provides for the definition of a „financial instrument“, the types of investment services, rules of business conduct upon provision of investment services and ancillary investment services and, amongst other things, it now compels service providers to extend elaborate information to clients, compiled into an investor document such as this one.

Other provisions transposed into the Act are those from Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories, and any amendments thereto that may take place from time to time, within the European Union and the European Economic Area. The mentioned Regulation provides for the operation of institutions responsible for the settlement of financial instruments, and operations of the central depositories, removes impediments for international settlement, aligns deadlines and the manner of settlement of financial instruments, and introduces rules in connection with the security and orderly functioning of the depositories. Commission Delegated Regulation (EU) 2018/1229 with regard to regulatory technical standards on settlement discipline (RTS) also makes a part of the CSDR documents. In accordance with the standards on settlement discipline, in case of delay in matching of the settlement transactions or a failed settlement on the intended settlement date, the securities depository shall generate cash penalties that will be distributed to the end clients via the custodian/sub-custodian chain.

Other regulations intended for the protection of shareholders include SRD II Directive, related to Directive (2007/36/EC, 2017/828/EU) and Commission Implementing Regulation (2018/1212/EU), and any amendments thereto that may take place from time to time, as laid down to encourage the long-term shareholder engagement in the in the general meetings of listed companies in EEA\*, to regulate the assumptions for the exercise of shareholders rights as regards shareholder identification, the transmission of information and the facilitation of the exercise of shareholders rights.

Observing and applying the provisions of the Companies Act (hereinafter referred to as CA), through which the provisions of SRD II have been transposed into the national legislation, the Bank shall reply to a request to disclose information regarding

shareholder identity to the issuers and/or third parties. If the share is kept on a custody account held in the name of a client, the Bank shall disclose the shareholder's identity without the consent of the Client deemed as the end-shareholder, regardless of the regulatory provisions. If the shares are held on an omnibus account or a password-protected account, which is classified as the account of the client – agent (the position are not owned by the Client), the Bank shall forward the request to disclose information regarding shareholder identity to such agent, and send a response to the issuer/third party with the name of the client – agent, indicating that it is not the end shareholder. The client –agent shall send a response to the issuer/third party without delay, that is, by 10:00 if the request to disclose information regarding shareholder identity was received the previous day after 16:00.

In accordance with CA and SRD II, information regarding shareholder identity are any information that provide for the identification of the shareholder, including at least the following:

- a. name, date and place of birth, taxpayer ID number of the natural person, company name or name of the shareholder, and – in case of legal persons – their registration or taxpayer ID number, data on the place of registration and LEI number;
- b. contact details (including full mail address and electronic mail address, if any);
- c. number of shares held;
- d. categories or classes of shares held and the date of their acquisition, if so indicated in the request to disclose information regarding shareholder identity.

The information shall be collected and processed in order to enable the issuers to identify their existing shareholders, and establish a direct communication with them, thus facilitating the exercise of shareholder rights and their engagement in the company. The issuers and the intermediaries must not keep the personal data of the shareholders supplied to them in line with the mentioned regulations for the period longer than 12 months after the learn that the concerned person is no longer a shareholder.

### 2.2. Information on investor categorisation

Upon provision of investments services, the Bank is required to assign clients an investor category, as retail investor, professional investor or eligible counterparty.

**The main objective of this categorisation is to protect investors during investments** as, depending on the selected category, the Bank applies business conduct rules. A rule states that investors are to be warned against all the risks that arise from investment in financial instruments offered or demanded.

#### Investor categories

**Retail investors** are clients of the Bank who lack the necessary experience, knowledge and expertise with regard to making an independent decision on investment and properly assessing related risks. They are not eligible for the “professional investor” category as provided for in the Act.

**Professional investors** are clients of the Bank who are deemed to have the necessary experience, knowledge and expertise with regard to making an independent decision on investment and properly assessing related risks.

\*EEA (The European Economic Area) countries relate to all the European Union countries including Island, Liechtesstein and Norway.



### **Professional investors are:**

1. Entities which are required to be authorised or regulated to operate in the financial markets, such as: investment firms, credit institutions, other authorised or regulated financial institutions, insurance companies, collective investment schemes and management companies of such schemes, pension funds and management companies of such funds, commodity and commodity derivatives dealers, local legal entities, and other institutional investors not mentioned herein yet subject to authorisation or regulated to operate in the financial market.
2. Large undertakings meeting two of the following size requirements on a company basis, referring to the preceding business year:
  - total assets: at least EUR 20,000,000.00
  - net turnover: at least EUR 40,000,000.00 and
  - equity: at least EUR 2,000,000.00.
3. National and regional governments, including public bodies that manage public debt at national or regional level, central banks, international and supranational institutions such as the World Bank, the IMF, the ECB, the EIB and other similar international organisations.
4. Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitisation of assets or other financing transactions.

**Eligible counterparties** are clients for whose account or with whom the Bank **executes orders and/or receives and transmits orders and/or trades for own account and/or provides ancillary services** directly related to those transactions.

Eligible counterparties are: investment firms, credit institutions, insurance companies, UCITS and fund management companies, pension funds management companies and pension funds, other financial institutions subject to mandatory authorisation in line with special regulations or the business of which is regulated through EU regulations, national government and public bodies that manage public debt and central bank, supranational organisation.

### **Category change option**

The Bank shall automatically classify and treat as retail investors all natural and legal persons that cannot be considered professional investors. If the Bank assigns a client retail investor category, upon investing the client shall avail of the highest level of protection, however the client may always apply for a different category of protection.

At any point investors may request (in writing) to be assigned a different category. In that case the Bank shall inform the client in writing of all the consequences resulting from the requested change of protection level.

Upon receipt of a written request by a retail investor, and before granting the request to waive the highest level of protection (which ensues from the rules of business conduct), the Bank shall take all the reasonable steps in order to establish whether at least 2 of the following criteria of professional investor have been met:

- the client carried out transactions of significant volume at an average frequency of 10 per quarter over the previous four quarters;
- the size of client financial instrument portfolio exceeds EUR 500,000.00;
- the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

The clients categorized as professional investors or eligible counterparties are entitled, based on the relevant request, to be treated as retail investors.

The Bank may treat clients as professional investors, exclusively based on a written request and where it deems that the clients, depending on the type of transaction or service, is sufficiently knowledgeable, has the required experience and expertise, and is able to make own decisions on investment, as well as grasp the inherent risks.

## **2.3. Information on investment services**

The Bank is able to offer various investment services dealing with investment in and trading in financial instruments. Investment services are divided into advised sale services and non-advised sale services. Ancillary services are custodian over financial instruments. All the services have their own characteristics with regard to the client, which are listed further below:

### **2.3.1. Non-advised purchase/sale of financial instruments**

The Bank is able to purchase or sell financial instruments upon client request. Where such sale or purchase includes complex financial instruments, Bank's experts shall offer additional protection to client.

Such protection consists of an assessment of suitability of investment in the requested product. The assessment is carried out based on the questionnaire the clients are asked to complete and thus provide information on their knowledge and expertise in financial instruments investments. The employee will inform the clients of the results of assessment and, where the client's investment is considered appropriate; the client may give an order for the purchase. Where the requested product is deemed unsuitable, the client shall be warned about the risks. If the client demands that the order be executed nonetheless, such option shall be made available subject to signing of the required statements.

This assessment is not carried out for non- complex financial instruments.

In this particular procedure, the employee will not advise the client on the product.

If the client desires to be advised on the investment, the employee will offer another service – investment advice.

### **2.3.2. Investment advice**

#### **2.3.2.1. General information on investment advice**

Investment advice is a service where the Bank gives the client personal recommendations on an investment in a financial instrument. In order for the Bank to do so, the investor shall provide requested information that bank's experts – investment advisors could assess whether a particular investment is suitable for the client.

The information needed for the assessment pertains to:

#### **1. client's investment objectives:**

- desired investment period
- risk appetite
- risk profile
- purpose of the investment

#### **2. financial status of the client:**

- source and amount of regular income and assets
- liquid assets
- investments
- real estate
- regular financial liabilities

#### **3. knowledge and experience of the client:**

- type of service, transactions and financial instruments the client is familiar with
- nature, volume and frequency of client's transactions involving financial instruments and period of their execution
- profession and occupation of the client

The purpose of this assessment is to act in the best interest of the investor and assess which type of investment is the most appropriate for him/her. If the client does not provide all the required information or provides only partial information, the Bank will not be able to assess the appropriateness of client's investment. Therefore, it is in the best interest of the investor to provide complete and accurate information.

### **2.3.2.2. Suitability report**

When providing investment advice, the Bank shall supply the retail investor with the so-called Suitability Report, which is prepared based on the client's personal situation. The Report concisely lists advice given and explains why a specific recommendation is suited to client's objectives and needs, taking into consideration the available information.

The Bank shall provide the Suitability Report before the relevant transaction is concluded. However, subject to consent of the client, where the transaction is concluded by remote communication so the client cannot be handed the Suitability Report, the Bank may prepare the report on a durable medium once the transaction is executed. The client may request a deferral of the transaction conclusion – even in the event of availability of the statement – until such time the Suitability Report is supplied.

If the client demands a service that includes regular suitability assessments and reports, the Bank shall offer him /her reports which, once the initial service is in place, will cover only the changes to the included services or instruments and/or clients' circumstances.

Upon regular suitability assessment, the Bank will re-examine the suitability of given recommendations at least once a year in order to improve its service. The frequency of the assessments depends on the client's risk profile and the type of the recommended financial instrument. The Bank has set up special measures, which enable suitable and up-to-date client information.

### **2.3.2.3. Additional requirements in connection with investment advising**

The Bank provides the so-called non-independent investment advice for retail investors as part of its private banking service, with regard to a limited number of structured products offered by its contractual partners Societe Generale, 29 Boulevard Haussmann, 75009, Paris 9 and GOLDMAN SACHS International, Plumtree Court, 25 Shoe Lane, EC4A 4AU, London, which issue these financial instruments. In the process, the Bank strictly adheres to the legal standards on inducements.

### **2.3.3. Provision of services in derivatives dealings**

In trading in derivatives such as swap, forward and other contracts that pertain to interest rates, currencies, the Bank offers non-advised investment services, which the client agrees with the Bank on his own initiative. Seeing that we are dealing with complex financial instruments, and depending on investor categorisation, the Bank will estimate whether the desired transaction is appropriate given the knowledge and experience of the person entering into a transaction on behalf of the client. The purpose of this check is to protect the client upon investing. The assessment is carried out based on the Suitability Questionnaire given to client to fill in with information on client's knowledge

and experience in the area of investments in complex financial instruments (see section 2.3.1).

In individual cases, the Bank may offer investment advising service for derivatives. Because of the limited range of products, the Bank will offer non-independent investment advice limited to the transactions with products developed by the Bank. Advice on such transactions may be given for risk protection purposes in situations where the client demands the execution of such a transaction. The client will be asked to fill in a Suitability Questionnaire with information on investment objectives and tolerance of the risks pertaining to derivatives in order to establish whether a derivative is suitable for them.

The Bank assumes that professional investors, as well as the persons acting on their behalf, possess the appropriate knowledge and experience for entering into transactions involving OTC derivatives and understanding relevant risks. Bank employees are qualified at recommended derivatives and able to provide necessary information on specific products.

Product costs incurred upon entry in OTP derivative transactions are listed in the so-called KIDs (Key Information Document), which are published on the Bank's website. The KIDs are generic in relation to relevant groups or subgroups of those transactions and show the maximum costs that can be incurred, depending on the client and terms of the transaction. The costs are given in percentages and absolute amounts calculated based on the assumed envisaged amount of the transaction of EUR 10,000. The Bank will not charge additional costs for the product or services in connection with OTC derivatives, unless client receives prior notification thereof.

### **2.3.4. Service of safekeeping of financial instruments – custody**

The Bank also offers its clients financial instrument custodianship, and other related services in accordance with orders and instructions of clients. The Bank sets up a custody account in its books, and manages the assets in that account for the client's account in a way that allows clear distinction between client's assets and Bank's assets.

Funds paid in for the purpose of settling the purchase of financial instruments or upon settlement of sale of financial instruments are kept with the Bank in a special purpose account. The funds held in that account are not part of the Bank's assets, or liquidation or bankruptcy estate, nor can they be seized in order to settle third persons' claims towards the Bank.

Financial instruments of issuers within the Republic of Croatia, owned by the clients, are kept in the custody accounts with the Central Depository & Clearing Company Inc. and/or in financial instruments accounts opened with an international third party/sub-custodian. In the event of investments in international financial instruments, which are traded in and the settlement of which takes place in international markets, the Bank relies on services of renowned third parties/sub-custodians for safekeeping of assets. Upon selection of a foreign sub-custodian the Bank shall take all the measures to ensure that the assets be stored in accordance with the national legislation, market practice and professional standards, whereas expertise and reputation on the market of a foreign custody bank are particularly taken into consideration, as well as regulatory requirements and market practices related to holding of financial instruments which could affect clients' rights. The Bank has set up necessary measures to ensure that all financial instruments stored with a third party/sub-custodian are easily distinguishable from the financial

instruments that belong to the third party/sub-custodian, by keeping them in separate accounts in third party's books or based on other equivalent measures that enable the same level of protection. The Bank will be held liable for the actions of its sub-custodians under the terms and in cases provided for in the General Terms and Conditions of Custody Operations.

The data on sub-custodians in which clients' financial instruments are presented on the „List of sub-custodians“ and are available at the Bank and on the Bank's website [www.otpbanka.hr](http://www.otpbanka.hr). Neither the Bank nor a sub-custodian shall use clients' financial instruments kept in custody accounts for own account or account of other clients, without prior explicit written consent of the clients, and the use of those financial instruments is limited to precise conditions to which the client agrees by signing them.

#### **2.3.4.1. Safekeeping of financial assets in omnibus accounts**

Where the relevant regulation does not provide for the safekeeping of a financial instrument in individual accounts, clients' financial instruments entrusted to the Bank for safekeeping will be kept together with equal financial instruments of other clients. Safekeeping of financial instruments in omnibus accounts may carry certain risks, which is why the Bank asks for clients' consent by having them sign the relevant agreement. The risk that may ensue from safekeeping of financial instruments in omnibus accounts is primarily operational, which the Bank mitigates through regular reconciliation of internal and third parties' records. Also, within its organisation the Bank applies internal surveillance and control to ensure adequate control of transfer of clients' assets which, as a rule, means that each order to transfer a client's assets shall be executed by two duly authorised individuals, one of whom to enter the order, and the other to validate the order. This is all aimed at avoiding the risk of inadequate administration, inappropriate record-keeping, and misuse and negligence in business operations.

Potential risks that may arise from safekeeping of financial instruments in omnibus accounts are presented further below:

**Identification of holders of financial assets** - Under the assumption that the financial assets in omnibus accounts do not belong to a third party, in the event of any loss, problems may arise in connection with identification of the client holder of the financial assets in the omnibus account. However, in most countries there are straightforward and simple regulatory solutions to these kinds of problems.

**Asset protection** - Failure to segregate assets at the central depository level represents the risk of having an intermediary, a participant in the central depository or another participant being considered the beneficial owner of the securities. Inappropriate identification of holders, without which the beneficial owner would not be considered the actual owner of the securities, may result in the beneficial owner being at risk of seizure of assets in the event of insolvency of one or more intermediaries.

**Forced "lending"** - Errors may be made during routine procedures and involuntarily by a foreign sub-custodian (third party). Once there is temporary imbalance, such an error may result in forced „lending“ of one client's financial assets to another client, who might decide to dispose of all of their assets at that particular time. Regulatory rules usually demand explanations to clients that their financial assets may also be lent to other clients where necessary.

**Transparency** - Omnibus accounts at the level of the central depository, together with inappropriate identification of beneficial owners of financial instruments may prevent regulatory authorities, tax authorities, issuers, and any other entity authorised to collect information on positions and trends

in financial instruments at central depository level, to identify beneficial owners of financial instruments.

**Corporate actions – the distance between the issuer and the client** - Where omnibus accounts are used, the structure necessarily implies indirect holding of financial assets. The issuer knows that the registered holder is not the client, but the identity of the client is unfamiliar to the issuer which may render corporate communications difficult. Some countries have set up specific rules to strengthen the relationship between the issuer and the client upon the use of an omnibus account. Delays could happen due to the distance between the issuer and the client: at the time the end client receives the notification on a corporate action, it could be at the eleventh hour or even too late for taking action.

**Corporate actions – distribution of shares or fractions** - In the event of several holders of financial assets in an omnibus account, upon distribution of shares or fractions for specific corporate actions problems may appear in terms of rounding up the number of assigned shares to individual clients in the accurate ratio.

**Corporate actions – conflicting votes** - Where the Bank holds several clients' securities in an omnibus account with a foreign sub-custodian, there could be clients that would like to cast the vote „in favour“, and others to cast the vote „against“. In theory, there could be risk of the relevant legal system not allowing one investor to cast opposing votes, partially „in favour“ and partially „against“.

**Tax processes** - The structure of omnibus accounts, without the investor categories or activity categories, may impair tax processing by tax authorities, agents, central depositories and intermediaries. As regards transaction tax, and the central depositories, which take part in determining and collecting transaction tax, the structure of omnibus accounts at the central depository level may impede telling taxable transactions apart from non-taxable ones. Such structure may lead to problems at the level of the central depository, if the central depository, the issuer or the sub-custodian are responsible for the process of tax calculation and collection.

**Other risks** - If the relevant tax system does not recognise the omnibus account as a valid legal form of an account, in the event that a third party is unable to separate the Bank's assets from clients' assets, there could be risk that the client does not hold title to its positions at all times.

These risks of safekeeping of assets in omnibus accounts could be greater in the cases where the legal or regulatory system has not clearly grasped the nature of omnibus accounts.

Additionally, one of the risks that could be mentioned is the risk of safekeeping of assets, i.e. financial instruments that may be listed and settled on several markets (multi listed securities), the so-called remote markets. In such cases of safekeeping of a financial instrument at a place that is not equivalent to the primary place of safekeeping according to the issuer's location, there is the possibility of untimely receipt of corporate actions from a third party at which the instrument is kept, as well as of shorter deadlines for the performance of voluntary corporate actions.

#### **2.3.5. General information on operations with investment funds**

In operations with investment funds, the Bank provides two investment services:

**Advisory service** is an investment advice service provided through an automatic system and which implies giving personal recommendations regarding the structure of financial assets



of clients - natural persons who are automatically classified as retail investors.

The investment advice service requires client profiling and assessment of suitability of services, products and transactions for the client. The client makes investment decisions that can, but don't have to be based on personal recommendations or the investment advice of the Bank.

The Bank provides investment advisory services on a continuous basis. At least once a year, the Bank assesses the suitability of the given recommendations.

The investment advice service is provided on a non-independent basis, which means that it is based on a limited analysis of financial instruments. Giving personal recommendations is limited to financial instruments - open-end investment funds (UCITS funds) managed by OTP Invest društvo za upravljanje fondovima d.o.o. (hereinafter: OTP Invest), Divka Budaka 1/d, 10000 Zagreb, Croatia, which is 81.7% owned by OTP banka d.d. and 18.3% by OTP Alapkezelő ZRT, Hungary. In fact, personal recommendations may relate to all investment funds managed by OTP Invest.

If the client does not want to be advised when buying a unit in the investment fund, bank will offer a non-advised service.

**Non-advised service** is investment service of reception and transmission of orders, whereby the Bank receives orders or client's requests for issuing, repurchasing and/or replacing of units in UCITS funds and forwards them to OTP Invest for execution.

The service is intended for all natural persons and legal entities. The client's request (for issuing and repurchasing of units) will be given through standardised templates and in accordance with the applicable general terms and conditions of the prospectus and rules of the relevant UCITS fund to which units the request relates. In this case, OTP Invest is responsible for the execution rather than the Bank.

The updated list of funds is available on the Bank's websites [www.otpbanka.hr](http://www.otpbanka.hr) and the company OTP Invest [www.otpinvest.hr](http://www.otpinvest.hr). The Bank receives and/or retains the right to receive a distribution fee from OTP Invest. The information on distribution fees and additional inducements are also available in the key investor information documents for each group of products, in accordance with the statutory regulations.

Potential conflicts of interest may result from the fact that the Bank is the majority owner of OTP Invest, an investment fund management company. In order to manage potential conflicts of interest adequately, the Bank undertakes and implements the procedures and measures outlined in the Conflict of Interest Policy, which is available at request.

## 2.4. Client order execution

### 2.4.1. Best Execution Policy

In order to achieve the best outcome possible when executing client order, the Bank has set up special rules, which are provided in the document titled Best Execution Policy. The Bank shall execute orders exclusively based on policy, unless client provides different instructions. The Policy provides a detailed account of the way the orders will be executed, and the measures and procedures enabling prompt, up-to-date and accurate execution of orders in relation to any orders submitted by other clients or to the interests of the Bank, and lays down appropriate trading venues for individual order categories.

The Policy is available at client request, or via WEB site of the bank [www.otpbanka.hr](http://www.otpbanka.hr) under the Financial Markets menu. Before execution of the order, the client gives consent to the Best Execution Policy, which makes an integral part of the contractual

documentation. The Policy applies to all the Bank's clients, except for those categorised as eligible counterparties.

### 2.4.2. Client order execution

The Best Execution Policy relates to financial instrument purchase or sale orders for the account of the client being provided investment and /or ancillary services, as the bank accepted further to regulatory provisions.

When the Bank executes an order based on client explicit instruction, it is considered that the obligation to achieve the best possible result for client has been fulfilled.

The Best Execution Policy does not apply in cases when the Bank and the client agree a fixed price for the purchase or sale of a financial instrument (OTC transactions).

The Bank executes the orders either directly in the trading venue, or transfers the orders for domestic or foreign shares, and bonds to:

- Interkapital vrijednosni papiri d.o.o. Masarykova 1; 10000 Zagreb
- OTP BANK NYRT, Nádor street 16; 1051 Budapest

### 2.4.3. Best execution criteria

The Best Execution Policy ensures that the client fully understands the Bank's best execution principles, and the way the Bank executes orders, same as the definition of key elements of the policy. When determining the relevant factors for the best execution, in addition to other criteria, the Bank must take into account the following factors:

- characteristics of the client, including the categorisation into retail or professional investors
- features of the financial instrument in question
- characteristics of the trading venue to which the order can be sent for execution

When executing client orders, the Bank must take all reasonable steps to obtain best possible results for the client, taking into consideration different aspects of the order, and especially the following elements:

- price of the financial instrument being traded,
- costs related to order execution,
- speed of order execution,
- likelihood of execution,
- likelihood of settlement,
- size and significance of the order, and
- currency risk.

As for client categorisation, the Bank differs retail investors and professional investors when executing orders. Where the Bank executes an order on behalf of a retail client, the best possible result shall be determined in terms of the total consideration, representing the price of the financial instrument and the costs relating to execution, which shall include all expenses incurred by the client which are directly relating to the execution of the order, including execution venue fees, clearing and settlement fees and any other fees paid to third parties involved in the execution of the order. Where there is more than one competing venue to execute an order for a financial instrument, the Bank shall consider own commissions and the costs for executing the order at each of the eligible execution venues, and provide the client with detailed information so as to enable him to understand potential advantages and disadvantages of each such venue. The Bank can provide investment and ancillary services for the account of the client via another investment firm. In that case, the Bank, as intermediary, remains liable for the completeness



and accuracy of the transferred information. The investment firm that receives an order from the Bank (as the intermediary) shall remain responsible for concluding the service or transaction.

#### **2.4.4. Execution venue**

The execution venue is determined upon giving of the order. The execution policy provides for the execution venues that enable the Bank to achieve best possible results when executing client orders, on continuous basis, as well as for the information about trading venues, circumstances and facts that it assesses when choosing the execution venue. The Bank uses the following venues to execute client orders for financial instrument purchase or sale at the domestic market:

- regulated market (Zagreb Stock Exchange - ZSE),
- multilateral trading platform (MTP)
- outside a regulated market or MTP, if the financial instrument is not listed at the regulated market or MTP, unless the client demands otherwise.

The Bank forwards client orders for financial instrument purchase or sale at the foreign market to be executed at the following trading venues:

- regulated market,
- MTP,
- systematic internaliser,
- other markets comparable to the regulated market or MTP,
- outside a regulated market (OTC markets and similar)

In case a financial instrument is listed on more than one stock exchange, the Bank shall send the order to the stock exchange where it can obtain best possible result for the client, unless the client requests otherwise.

In a situation when so required by a third person or by the technical and operational infrastructure for order execution, the Bank can ask the client to determine the execution venue. Such determination of the execution venue shall be considered an explicit instruction, and the Bank shall deem to have fulfilled its obligation to achieve the best possible result by executing such order following the explicit instruction.

Information about the execution venues the Bank uses for each individual type of financial instruments are available in Annex 1 to the Best Execution Policy.

When providing investment services related to trading at foreign markets, the Bank shall take into account whether the relevant trading venues can be accessed by its foreign partners (brokerage companies) whose services it uses at such markets.

##### **2.4.4.1. Settlement of clients' transactions in the SKDD-CCP system**

Central counterparties (CCPs) act as mediators between other counterparties in the financial market and ensure successful settlement of the liabilities that result from transactions. By its decision, HANFA enabled SKDD-CCP Smart Clear d.d. (hereinafter SKDD-CCP) to provide central counterparty services. Through the process of novation, in the Croatian market SKDD-CCP shall become a buyer to every seller, and a seller to every buyer, thus ensuring the execution of transactions, and reducing systemic risk of the market.

As a member of SKDD-CCP, the Bank opted to become a CM (clearing member) i.e. individual member of the Clearing System. SKDD-CCP distinguishes between three types of client accounts: basic account (in which the Bank's assets are held), omnibus account (in which several clients' assets are held), and segregated account (in which individual clients' assets are held).

Bank will settle the transactions involving financial instruments,

which are suitable for settlement via SKDD-CCP, further to executed orders in the Zagreb Stock Exchange, by crediting and debiting the omnibus account held with SKDD-CCP, unless another course of action has been agreed with the relevant client.

At any point, a client may request the Bank in writing to open an individual account, which would be used for clearing solely the client's transactions. If an individual account is set up for the client, in accordance with the Schedule of Brokerage Charges, the Bank will calculate and charge the fee for opening the account, and managing the account.

The identity of a client i.e. holder of a segregated account, whose assets and positions (kept for the client's account) differ from the assets and the positions kept for other clients of the same Member, shall be known to SKDD-CCP at all times. SKDD-CCP shall set up a segregated account for such a client, which allows for unambiguous identification (for instance the client's taxpayer ID No., etc.).

The monetary assets noted in the Cash Account for settlement are owned by SKDD-CCP.

When deciding on the type of account to open, the clients shall consider the following facts:

- Omnibus account is set up on behalf of the Bank, for the account of the clients, where collateral and netted positions are tied to several clients, and there is risk of transfer of operations.
- Individual account is set up on behalf of the Bank, for the account of a specific client to whom collateral and netted positions are tied, and the account is not exposed to the risks of other clients and it is hedged against the risk of the Bank. In the event of transfer of operations to another Member of SKDD-CCP, the client shall independently decide on whom to transfer the account and assets, as decisions of other clients of the Bank do not concern them.

Collateral required as security and hedging against the risk of settlement of the transactions executed on Zagreb Stock Exchange will be provided by the Bank from own funds.

Collateral required as security and hedging against the risk of the transactions via a separate individual account of the client with SKDD-CCP will be provided by the Bank from own funds, unless agreed otherwise with the client.

##### **2.4.5. Order execution outside regulated markets**

Achieving the best possible result for the client in respect of the products traded outside a regulated market or a stock exchange (OTC, over-the-counter) entails a number of elements rather than just the price as the decisive factor. The products for which no trading platforms have been introduced, or where such platforms cannot be used due to absence of contractual documentation with potential trading partners, trading shall be carried out as an OTC transaction. In that case, the best possible result (price to quality ratio) is still to be achieved by continuous data analysis. Given the fact that OTC products (in this case FX derivatives which include local currency, and interest swap) are relatively illiquid, the Bank collects different market data (as the Client may provide in connection with certain transaction details: expiry date, volume, currency pair) in respect of:

- price (historic product price)
- volume
- product volatility
- cost
- execution speed
- execution likelihood
- order size and nature
- risk likelihood (if applicable)

By gathering the above information the Bank learns about some market prices on account of the counterparty limit (counterparty limit setup, ISDA master agreement, CSA), and then defines a range within which it selects the best possible price for the client, taking into account the above listed factors. In that regard, the main parameters for determining the price within the acceptable range (according to the information of the local and international market participants) are the following:

- EUR yield curve
- FX swap/FX forward/outright
- USD yield curve

Thus, the Bank can achieve the best possible result for the client considering the options available for closing of the transaction at the market.

## 2.5. Reporting

### 2.5.1. Regular reporting

In line with the regulatory provisions, the Bank will keep investors informed about the investment services, the executed orders and the balance of assets.

Upon execution of the order, the client will be provided all important information regarding such execution, no later than the first business day after the execution, or – in case of the execution by a third party – no later than the first business day following the supply of a receipt by such third party. Any receipts of executed orders or conformations will be delivered to the client as contracted, on the following business day or one day after the day the Bank receives the relevant third party receipt. The Bank will provide an individual report about the balance of such financial instruments or funds on a durable medium at least every three months, unless such report is delivered in another periodical report.

Likewise, the client will receive regular reports on client financial instruments in custody accounts with the Bank, in line with the relevant custody agreements.

### 2.5.2. Reporting on costs and fees

Before any transaction involving financial instruments, the Bank shall inform the client about the costs and fees pertaining to the offered investment service and the acquisition of the financial instruments.

Depending on the investment service and the product type, such information shall be provided either in standard or in personalised form (**ex ante**).

For the purpose of provision of information about the actual costs and fees, the bank shall report to the client on all incurred costs and connected fees once a year, after the end of the calendar year. The scope and the dynamics of the reporting per client category shall be laid down in the relevant agreements. Regardless of the type of investment service provided, the bank and the clients who are professional investors or eligible counterparties can agree on restricted implementation of detailed requirements on annual information on all costs and fees, unless a derivative is embedded in the financial instrument in question.

## 2.6. Managing the conflict of interest

The Conflict of Interest Policy was introduced to ensure impartiality of the Bank and its employees when providing services. The Policy is based on regulatory provisions and lays down the rules for management and prevention of conflict of interest when trading in financial instruments.

The basic objective of the Policy is to prevent the conflict of

interest, which is achieved by:

- Setting up of measures for detection of the conflict of interest,
- Setting up the process of containment of situation where prevention is no longer an option,
- Setting up of high professional standards for the employees, and
- Making sure that all the employees and concerned persons are aware of the obligation to follow the procedures.

Conflict of interest can exist in circumstances where the Bank and/or employees and/or persons directly or indirectly connected to the Bank or an employee is / are found in a situation where:

1. they may obtain financial gain or avoid financial loss to their clients' detriment,
2. they have an interest in or benefit from the result of the business undertaken on behalf of the client or transaction concluded for the account of the client, which differs from the client's interest,
3. they have financial or another motive for favouring the interests of another client or group of clients, thus causing damage to the client's interest,
4. their activities are the same as the activities of the client,
5. they have received an additional inducement, by a person who is not a client, based on the transaction concluded on behalf of the client, in the form of money, commodities, services and similar, which differs from a commission or fee typical for conducting such a transaction.

The Bank has defined the confidential areas in its organisational structure. Certain information (especially the information not publicly disclosed, that could have impact on the price of financial instruments – inside information) must not be conveyed from one area of confidentiality to another. The Bank has strict procedure in place to prevent and control the exchange of information between the relevant persons involved in the activities bearing the risk of the conflict of interest, where any exchange of information may damage the interest of one or more clients. The Bank has set up a process of employee transactions monitoring as well as trading in certain financial instruments over a certain period.

Here are some of the procedures and measures undertaken by the Bank to prevent the conflict of interest:

- the principles to be observed by all the employees, and applied in their everyday work, especially by the organisational segments where the conflict of interest is more likely to appear;
- all organisational units employees shall not receive gifts or other inducements. Exceptions may be allowed in line with the applicable internal regulations;
- the objective of activity segregation within the Bank is to prevent an individual from exerting excessive influence on the manner in which other individuals perform investment business and activities, that is, from providing of services in a way that would most probably lead to the conflict of interest;
- given that Bank's employees can be exposed to potential conflict of interest or have access to inside information whilst performing their duties, the Bank has in place the procedures applicable to all employees, and to the relevant persons in particular, when trading in financial instruments;
- employees of the Bank shall not carry out administrative, managerial or executive duties in another bank, investment firm or another legal entity without prior approval of the Board, and/or Compliance Directorate;
- reporting of duties performed by related persons: the employee holding a managerial position on behalf of the Bank and other

legal entities (clients, suppliers, service providers, agents, etc.) where such positions are held by persons related to the concerned employee, shall report such circumstance to the line manager in order to avoid the conflict of interest;

- employees shall report any position they might hold and that involve management or control of a legal entity that is in a business relationship with the Bank, or any position they might hold in local government or associations.

### **Informing the client about the conflict of interest**

In cases when the rules of conduct laid down in the Policy and the applicable procedures of the Bank cannot prevent the conflict of interest to a reasonable extent, the client shall be notified about the type and the source of the conflict of interest prior to commencement of the provision of the relevant investment service or activity. The final measure for prevention of the conflict of interest can be a refusal to provide the investment service required.

## **2.7. Inducements**

**Inducements** include compensations, commissions, monetary or non-monetary benefits connected with the services provided to the client, and which the Bank receives from or provides to a third person or a person acting on behalf of such third person. The Bank shall ensure that the clients get comprehensive and full information about the service provided, and will therefore keep them informed about all costs and fees paid by/to third parties for investment or ancillary services rendered. The Bank shall not keep for itself any additional inducements that it has not used for enhancing the quality of service provided to the clients.

**The business segments/employees providing investment or ancillary services, or selling financial instruments, shall not receive and keep any additional inducements that could cause a biased or disrupted provision of services, unless such inducements are forwarded to clients..**

## **2.8. Investor protection scheme**

The investor protection system is laid down by the Capital Market Act. The scheme provides for the foundation and management of an Investor Protection Fund (hereinafter: the Fund), the definition of an covered event and the payment of a covered claims. The Fund shall be founded and managed by the Fund Operator. Investor protection scheme shall be implemented and supervised by the Agency.

The basic purpose of the scheme is to cover the claims of the clients, which a Fund Member is not able to pay and/or repay to the investor in case of the onset of the covered event. Given that the Bank provides investment and ancillary services and activities, its membership in the Investor Protection Fund is obligatory.

In line with the provisions of the Capital Market Act, client's assets are kept on the accounts separate from Bank's assets. The assets belonging to clients are neither the property of the Bank or part of its assets, or of liquidation or bankruptcy estate, nor can they be used in the enforcement proceedings in connection with claims against the Bank.

The amount covered shall be capped at EUR 20,000.00. The assets of the Fund shall be used for coverage of client's claims from the Fund member, who cannot settle the liabilities due to:

1. initiated bankruptcy procedure against the Bank
2. determination, by the Agency, that the Bank is unable to fulfil its obligations towards the investors in a way that it cannot settle its financial liability and/or return the financial instruments of the investor, and it is not likely that such circumstances will change in the foreseeable future.

Pursuant to the decision on the initiation of the bankruptcy procedure, passed by the competent court, the Agency shall pass a decision on the occurrence of a covered event, and shall submit it without delay to the Fund Operator and the Fund Member unable to fulfil its obligations. The decision passed by the Agency shall be published in the Official Gazette and on its website. It shall be deemed that the event eligible for coverage has occurred when the above mentioned conditions have been met.

### **Determining the amount of secured claims**

The amount of the secured claim of each client shall be determined by the Fund Operator, taking into consideration all regulatory and contractual provisions pertaining to each separate claim, paying special attention to the calculation of potential counter-claims, on the day when instituting bankruptcy proceedings or publishing the Agency's decision. The covered amount of the Fund's member claims shall be determined on the same day. The value of the financial instruments that the Fund Member is obliged to return to the client is determined in accordance with their market value, on the day when instituting bankruptcy proceedings or publishing the Agency's decision. Having received the Agency's decision, the Fund Operator shall start a procedure in order to compensate clients of the Fund Member that is unable to fulfil its obligations and shall inform the public thereof. Such information shall be published by the Fund Operator at least in one daily newspaper without delay. On the basis of information about clients of the Fund Member unable to fulfil its obligations, the Fund Operator shall send notification to every client, inviting them to submit a compensation claim. The client of the Fund Member (which is unable to fulfil its obligations) may submit his compensation claim within five months from the day of publishing the Agency decision in the Official Gazette. By derogation from the above provision, when the client was prevented from filing a compensation claim for reasons beyond his influence within the deadline set in paragraph 6 of this Article, he is allowed to file a compensation claim subsequently, within 1 year from the day of publishing the Agency's decision in the Official Gazette. In this case, the client is obliged to provide evidence confirming their inability to do so. The client shall lose the right to reimburse the covered amount after the expiry of 5 years from the day of publishing the Agency's decision in the Official Gazette.

At the request of the Fund Operator, the Fund Member that is unable to fulfil its obligations shall promptly submit the following:

- a list of the clients of the Fund Member that have the right to compensation, with all the records relating to the clients' claims, as provided for in the Capital Market Act, and possible compensation amounts the clients are entitled to,
- other required information.

In accordance with the Capital Market Act, the following claims of the client, whether natural or legal person, connected to the investment service and safekeeping and administration of financial instruments for the account of clients, including custodianship and related services contracted with the client, shall be insured up to the amount of EUR 20,000.00 per client:

- monetary claims in euro and currencies of Member States owed by a Fund Member to a client or belonging to a client, and which are held on behalf of the client;
- financial instruments belonging to a client of a Fund Member and held by him, administered or managed on behalf of the client.



The amount of secured claims of a client of the Bank shall be calculated as the total amount of claims of clients, regardless whether the Bank keeps them at one or more accounts, on one or several contractual bases or in relation to one or several investment services, in euro or in the currency of a Member State, up to the secured amount. This amount shall include interests from the date when bankruptcy proceedings were initiated against the Bank or from the date of publication of the Agency's decision on the occurrence of the case.

The following funds shall be exempt from the above provisions:

- Funds of clients of the Bank that are covered by the law regulating the protection of deposits in credit institutions for the purpose of protection of depositors in case of unavailability of deposits,
- Claims of clients of the Bank arising out of transactions in connection with which a criminal conviction has been obtained for money laundering.

The following shall not be regarded as clients of the Bank (a Fund Member) whose claims have been covered by the investor protection scheme further to the Capital Market Act, regardless of the country where the registered offices are located:

- certain professional investors (credit institutions, investment firms, financial institutions; insurance undertakings, collective investment undertakings, pension funds management companies and pension funds);
- companies making up a group with a Fund Member which is unable to meet its obligations; a legal or a natural person holding more than 5% of voting shares in the capital of a Fund Member which is unable to meet its obligations;
- parent or subsidiary undertakings of a Fund Member which is unable to meet its obligations;
- board and supervisory board members of a Fund Member which is unable to meet its obligations if such persons are in the abovementioned positions or employed by a Fund Member when bankruptcy or liquidation proceedings are initiated over a Fund Member or on the date of disclosure of the Agency's decision on the covered case, or were in these positions or employed during the current or previous financial year;
- tied agents of an investment company which is unable to meet its obligations, and which act in such a capacity on the date of opening of bankruptcy or liquidation proceedings over an investment firm or on the date of disclosure of the Agency's decision on the covered case, or were in these positions during the current or previous financial year,
- persons responsible for carrying out the statutory audits of a Fund Member's financial statements, and persons responsible for preparation and archiving of accounting documents of a Fund Member and preparation of financial statements;
- directors, supervisory and management board members of this person holding 5 or more percent of the capital of a company which is a parent or a subsidiary undertaking in relation to a Fund Member, and persons responsible for the audit of financial reports of this company; marital or extramarital partners and close relatives of persons or their spouses, and second degree relatives in a direct line or in a collateral line of descent of persons referred to in points 5 to 8 hereof; clients of a Fund Member who have contributed to the covered case by non-fulfilling their obligations towards a Fund Member.

The Fund Operator shall be the Central Depository and Clearing Company (SKDD), which manages the Fund, takes all actions on behalf and for the account of the Fund, and represents it in all

affairs before the central state, judicial, administrative, and other bodies in order to exercise its rights.

#### **Proceedings of the Fund Operator upon the occurrence of a covered event:**

1. Having received the Agency's decision referred to in Article 231 hereof, the Fund Operator shall start a procedure in order to compensate clients of the Fund Member and shall publish the related information at least in one daily newspaper and on the internet site of the Fund Operator.
2. On the basis of information about clients of the Fund Member unable to fulfil its obligations, the Fund Operator shall send notification to every client, inviting them to submit a compensation claim, and send them the related form.
3. Within 60 days from the date of release of the Agency's decision, the Fund Operator shall prepare the most significant data and information required for establishing of rights to compensation of the covered claims.
4. The investor shall send the compensation form to the Fund Operator exclusively by mail. The deadline for submission of the compensation claim shall be five months from the day of publishing the related Agency's decision in the Official Gazette.
5. The Fund Operator shall determine the amounts of secured claims held by clients of the Fund Member by taking into account the regulatory and contractual provisions pertaining to every individual claim, and especially potential offsets, with the balance as of the day of instituting bankruptcy proceedings or publishing the Agency's decision about the covered event.
6. The Fund Operator shall determine the rights to the amounts of secured claims within 30 days from the day of publishing of the Agency's decision.
7. Such established amounts of secured claims shall be credited to the account provided in the compensation claim, without delay, and no later than 90 days from the day one's right to compensation/amount was determined. Investors whose claims are covered shall be every natural person or legal entity whose assets the Bank holds, administers or manages on their behalf, save for the following:
  1. credit institutions,
  2. investment firms,
  3. financial institutions,
  4. insurance undertakings,
  5. collective investment undertakings,
  6. pension funds,
  7. companies making up a group with the Fund Member,
  8. a legal or a natural person holding more than 5% of voting shares in the capital of a Fund Member which is unable to meet its obligations,
  9. parent or subsidiary undertakings of the Fund Member which is unable to meet its obligations,
  10. board and supervisory board members of the Fund Member who is unable to meet its obligations if such persons are in the abovementioned positions or employed by the Fund Member when bankruptcy or liquidation proceedings are initiated over the Fund Member or on the date of disclosure of the Agency's ruling on the covered case, or were in these positions or employed during the current or previous financial year,
  11. tied agents of the Fund Member which is unable to meet its obligations, and which act in such a capacity on the date of opening of bankruptcy or liquidation proceedings over the Fund Member or on the date of disclosure of the Agency's decision on the covered case, or were in these

- positions during the current or previous financial year,
12. persons responsible for carrying out the statutory audits of the Fund Member's financial statements, and persons responsible for preparation and archiving of accounting documents of the Fund Member and preparation of financial statements ,
  13. directors, supervisory and management board members of this person holding 5 or more percent of the capital of a company which is a parent or a subsidiary undertaking in relation to the Fund Member, and persons responsible for the audit of financial reports of this company,
  14. marital or extramarital partners and second degree relatives in a direct line or in a collateral line of descent persons referred to in items 10 to 13 of this paragraph,
  15. clients of the Fund Member who have contributed to the covered case by non-fulfilling their obligations towards the Fund Member.

All of the above provisions on the investor protection scheme represent a mere summary. A comprehensive information about the scheme can be found in the pertaining provisions of the Capital Market Act and the Instructions of the Fund Operator, as available at [www.skdd.hr](http://www.skdd.hr).

## 2.9. Certificates of authorised persons performing the relevant functions

Upon client request, the Bank will issue a certificate confirming that employee performing a certain relevant function in the Bank is an authorised person to perform such relevant function in accordance with applicable regulations.

According to the applicable regulations, the following functions in the Bank (relevant functions) can only be performed by authorised persons who meet the prescribed requirements:

- Providing information to clients about services, activities and offering services;
- Providing information to clients about financial instruments or structured products;
- Brokerage transactions (acceptance and transmission of orders in relation to one or more financial instruments or effecting of orders on behalf of clients);
- Treasury operations (trading for own account);
- Investment advice.

The Bank keeps a register of authorised persons in accordance with the relevant regulations. Along with prescribed conditions, an authorized person may perform more relevant functions, as well as other tasks.

## 2.10. Complaints

The basic business principle of the Bank and its Group is to satisfy clients and potential clients. Therefore, the Bank continuously establishes, maintains and improves complaints management procedures for the purpose of obtaining information to improve the provision of services.

If the Client / potential client in communication with employees of the Bank has any concerns or objections to the provided services, they can contact the Bank to discuss the case and propose a solution. For this purpose, the Bank has organized a separate function that operates according to the Principles of Handling of Clients' Complaints, which can be found on the Bank's web site at the following link: <https://www.otpbanka.hr/hr/node/6628>  
In accordance with the applicable policy, a complaint can be

filed with the branch employee or in writing directly to the following address:

**OTP banka d.d.,  
Odjel upravljanja prigovorima (Complaints Department),  
Ulica Domovinskog rata 61,  
21000 Split,**  
to the following e-mail address: [prigovori@otpbanka.hr](mailto:prigovori@otpbanka.hr)

To file a complaint, it is necessary:

- To provide personal information (name and surname, address, taxpayer's ID number, client / account number)
- Give a detailed description of the event / document that is the subject of the complaint
- Provide appropriate evidence (if the client has them or should have them)

The Bank will analyse and respond to your complaint as soon as possible, observing the statutory deadlines.

In case the client / potential client is not satisfied with the complaint resolution, he/she may repeat the complaint process. If the client / potential client is dissatisfied with the complaint resolution, he/she may submit it to the relevant institutions such as HANFA, the Croatian National Bank and the Mediation Centre with the Croatian Employers' Association (HUP), the Consumer Protection Association, and similar.

Also, in accordance with the Ordinance on reporting violations or suspected violations of the provisions of the Capital Market Act, Regulation (EU) no. 600/2014, Regulation (EU) no. 596/2014, Regulation (EU) no. 909/2014 and Regulation (EU) 2019/2033, the applicant as a natural person can report or disclose information to HANFA (Croatian Financial Services Supervisory Agency) about actual or potential violations of the Law, Regulation (EU) no. 600/2014, Regulation (EU) no. 596/2014 or Regulation (EU) no. 909/2014 and Regulation (EU) 2019/2033 in terms of those regulations. Violation reports are received through one of the following communication channels: in writing directly or by post, by email to a special email address indicated on the HANFA website, orally by phone to a special number published on the HANFA website and on meeting with authorized employees of HANFA. In addition, the client is entitled to initiate a process of alternative consumer dispute resolution in all disputes with the Bank. The above-mentioned process can be initiated with the competent body: Mediation Centre at the Croatian Mediation Association, Nikole Tesle 1, 10000 Zagreb, e-mail: [info@mirenje.hr](mailto:info@mirenje.hr), [www.mirenje.hr](http://www.mirenje.hr).

# 3. Information for investors on financial instruments and the risks associated with investments in financial instruments

## 3.1. Financial instruments in general

The financial market can be defined in general as the place where the supply and demand for financial resources are met. The financial resources in the financial markets differ from the point of view of investment risk. The financial resources are traded by using certain financial instruments.

The financial instruments, in their broadest sense, are agreements that contain the rights and obligations of a financial relationship. Therefore, the financial market can also be defined as the place where the financial instruments are traded.

When arranging a deal with the client, the Bank must warn the client or potential client of the risks associated with a particular financial instrument before the client makes a decision to purchase or sell financial instruments.

In accordance with the statutory provisions, the Bank informs its clients and potential clients of the nature of the financial instruments that are traded and their risks.

Listed hereafter are the statutory definition of the type of financial instruments, as well as the nature of those financial instruments and their risks with which the Bank operates. This description explains the nature of the specific type of financial instruments, their functioning and performance, as well as the risks specific to each financial instrument. This information aims to provide the client with sufficient details to enable him/her to make an investment decision.

## 3.2. Types of financial instruments pursuant to the Act:

### A. Transferable securities

### B. Money-market instruments

### C. Units in collective investment undertakings

### D. Derivatives which include:

- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivative instruments, financial indices or financial metrics which may be settled physically or in cash,
- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the request of one of the parties, otherwise than by reason of default or other termination event,
- Options, futures, swaps and any other derivative contracts relating to commodities that can be physically settled, provided that they are traded on a regulated market, MTF or OTF, except for wholesale energy products traded on an organized trading platform and which must be physically settled in accordance with the terms of the law,
- Options, futures, swaps, forward agreements and any other derivative contracts relating to commodities, that can be physically settled, if they are not otherwise mentioned in sub-point 3 of this point and if they have no commercial purpose, but have the characteristics of other derivative financial instruments,
- Derivative instruments for the transfer of credit risk,
- Financial contracts for differences,

- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties, otherwise than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices, and measures not otherwise mentioned in this point, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF or an MTF, and
- Emission allowances consisting of any units recognised for compliance with the requirements of laws regulating the environmental protection (emissions trading scheme).

## E. Structured products

### A. Transferable securities

#### Shares

Shares are equity securities, whereby clients acquire ownership over a part of a company. The most important rights that shares bring to their shareholders are the right to participate in the profits of the company and the right to vote at the General Shareholders' Meeting.

The yield consists of dividends paid and the difference between the purchase price and the market price of the share, and cannot be anticipated in advance. A dividend is the earnings of a company that is distributed to shareholders. The amount of dividends to be paid to the shareholders may be expressed in absolute amount per share, or as a percentage of the nominal value of the share, which is decided upon at the General Shareholders' Meeting. The ratio between the dividend paid and the market price of the share is called the dividend yield. Most of the yield on investments in shares is usually generated from changes in their market price.

Trading in these financial instruments is intended for small and professional investors and is provided by the Bank as part of the service of receiving and transferring orders and executing client orders.

#### Risks associated with investment in shares

They represent the risk of making a loss generated by unfavourable trends in prices of a financial instrument, general level of interest and price, credit rating of the issuer, etc., and the most common risks associated with investing in this asset class are the following:

**Market risk** - Most of the shares are traded on stock exchanges and the share price is determined by the supply-demand ratio on a daily basis. When investing in shares, one should bear in mind that such investments can also cause significant losses. In general, the price of a share depends on the business results of a given company, but also on the general economic climate and political conditions. Changes in the price of a share and, consequently the yield realised, are affected by many subjective factors such as public opinion or investors' expectations.

**Liquidity risk** - It represents the risk that the investors may not be able to sell their financial instruments at fair market prices



due to decreased appeal or due to market inefficiency. Holders of financial instruments may be exposed to market-value risk upon any sale of financial instruments prior to maturity. Liquidity implies the possibility of selling a financial instrument or closing a position in a financial instrument at the market price at any time. In case of illiquid market, giving of standard size sales orders may cause significant price fluctuations, the order can be impossible to execute or the order can only be executed at a significantly lower price.

**Currency risk** - Under the influence of various economic-political factors and changes in supply and demand for foreign currencies, the foreign exchange rate is subject to frequent fluctuations leading to derogations from the value of the agreed currency and the currency in which the payment must be made. The holder of a financial instrument denominated in a foreign currency or an instrument with an underlying assets are denominated in a foreign currency may be exposed to adverse currency exchange rate fluctuations and its impact on the yield.

**Risk of non-payment of a dividend** - Although the company usually pays out dividends in a given period, such payment is not certain as is subject to business results of the issuer, and to the decision on dividend payment of the General Shareholders' Meeting.

**Credit risk** - It represents the probability that the other party involved in the transaction will not be able to meet their obligations. The shareholders have an equity in the company, which means that in case of company's insolvency or bankruptcy, their investment may lose its value in full.

**Risk of suspension of a financial instrument** - Risk of suspension or termination of trading / listing - represents the risk of suspension of trading in financial instruments or the underlying assets on a regulated market.

**Risk of transferring account to another Member of a counterparty** - Member to which business operations are transferred may accept only part of the positions and assets in the omnibus account; in other words, it is impossible to obtain consent of all clients to the account transfer to another Member, which renders the transfer impossible.

## **Bonds**

Bonds are a type of debt securities that oblige the issuer to repay the borrowed funds within a specified period and to pay a certain interest on principal, in accordance with the terms of the bond. Bonds are traded on stock exchanges or directly between market participants.

In addition to standard bonds with predetermined fixed interest rates and the obligation to repay the entire principal at maturity, there are other types of bonds, such as variable rate bonds, convertible bonds, zero-coupon bonds, bonds with embedded warrants, etc.

The yield of a bond consists of interest on principal and the difference between the purchase price and the market price of such bond. Consequently, the yield of the bond can be determined in advance only if the bond is held to maturity. In order to compare the expected yield on bonds, different standard bond yields expressed as a percentage on an annual basis (e.g. yield to maturity) are used. If the level of the calculated yield of a particular bond is significantly higher than the required yield of another bond of the similar maturity, there are certainly reasons for this - the most common reason is a considerably higher level of credit risk of the issuer of such bond. If the bond is sold before maturity, its price cannot be determined in advance, which means that the yield may differ from the originally expected yield. Likewise, when calculating the total yield of the bond, account

should be taken of the transaction costs.

Trading in these financial instruments is intended for professional investors and eligible counterparties and the Bank renders such service as part of the receipt and transfer of orders and the execution of orders for clients.

## **Risks associated with investing into bonds**

**Credit risk** - Credit risk is the likelihood that the bond issuer will not be able to settle due liabilities, that is, it arises in the event of insolvency. Therefore, the borrower's creditworthiness must be taken into account when making an investment decision. Credit rating (evaluation of the creditworthiness of the issuer) issued by any of the independent rating agencies provides certain guidelines on credit risk assessment. The highest rating is, for example, "AAA", which is assigned to bonds of the most financially viable and stable countries. The lower the credit rating of the issuer (e.g. "B" or "C"), the greater the credit risk and the demanded yield of the investor on such bonds due to the so-called risk premium.

**Market risk** - If the bond is held to maturity, the investor will be paid out the price at maturity, as defined in the terms and conditions of the bond. The "withdrawal" risk, i.e. the ability of the issuer to withdraw the bond before its maturity (such possibility must be known in advance and foreseen in the terms and conditions of the bond) must be taken into account.

If the bond is sold before maturity, the investor will get the market price formed by the supply and demand ratio. As a rule, prices of the bonds with fixed coupon interest rates fall when the ask market interest rates on bonds of the similar maturity are increased, and vice versa, the value of bonds may be expected to increase in case of a drop of the ask interest rates on bonds of the same maturity. The market price of the bond may also be affected by the change in the credit rating of the issuer.

**Liquidity risk** - Liquidity of the bond depends on many factors, including the volume of issues, the remaining time to maturity, market rules and conditions. Some bonds are very difficult or even impossible to sell and must be held to maturity. This risk represents the risk that the investors may not be able to sell their financial instruments at fair market rates because of their low appeal or due to market inefficiency. The holders of such financial instruments may be exposed to market-value risk upon any sale of the financial instruments prior to maturity.

Liquidity implies the possibility of selling a financial instrument or closing a position in a financial instrument at the market price at any time. In case of illiquid market, giving of standard size sales orders may cause significant fluctuations in prices, the order can be impossible to execute or the order can only be executed at a significantly lower price.

**Risk of premature redemption** - It represents the risk of a lower yield on investment in the event of the financial instrument being redeemed before its maturity date as defined in its terms of issue. If an option for premature redemption of the financial instrument is included in the issue terms, then such instrument carries a higher risk.

**Currency risk** - Under the influence of various economic and political factors and changes in the supply and demand for foreign exchange, the exchange rate is subject to frequent fluctuations leading to differences between the value of the agreed currency and the currency in which the payment must be made. The holder of the financial instrument denominated in a foreign currency or the instrument the underlying assets of which are denominated in foreign currency may be exposed to adverse currency exchange rate fluctuations and their impact on the yield.

**Inflation risk** - It represents the likelihood that the other party involved in the transaction will not be able to meet its obligations.

**Country risk** - It represents the exposure of market participants to political and other risks to which the country in which they operate is exposed. The most common risks are the risks of unexpected regulatory changes and the risk that the country will default on its debt.

**Event risk** - Event risk represents the risk that the financial instrument may lose its value due to an event that is not related to the financial market trends such as natural disasters.

## B. Money market instruments

Money market instruments are all types of instruments usually traded on the money market such as central bank bills, treasury bills, commercial papers and certificates of deposit, save for payment instruments. Factors affecting the risk and yield of money market instruments coincide with the factors defined for debt securities to a considerable degree. Differences mainly come down to liquidity risk. Generally, there are no regulated secondary markets for money market instruments. Therefore, there is no guarantee that these instruments can be sold at any particular time.

### Treasury bills

Treasury bills are instruments issued by finance ministries, mainly with a maturity date of up to one year. In Croatia, the Ministry of Finance issues treasury bills with maturities of 91, 182 and 364. Treasury bills are subscribed at auctions held by the Croatian Ministry of Finance. <http://www.mfin.hr/hr/trezorski-zapisi-poziv-na-aukciju>

Trading in these financial instruments is intended for professional investors and eligible counterparties.

### Commercial papers

Commercial papers are debt instruments issued by companies in order to acquire liquid funds. As they are not issued by countries but by companies of very different creditworthiness, as a rule they represent a less secure instrument than treasury bills. The commercial papers are securities of significant nominal value with maturity up to 364 days.

Trading in these financial instruments is intended for professional investors and eligible counterparties.

### Certificates of deposit

Certificates of deposit are credit securities of banks and other specialized financial institutions that undertake to pay the principal together with accrued interest on expiry of a certain maturity date. They are bank promissory notes with short and long maturities, used to secure the bank's credit potential and to mobilise fixed-term deposits with banks because, unlike fixed-term deposits that cannot be easily withdrawn before maturity, they can be relatively easily liquidated as securities.

Trading in these financial instruments is intended for professional investors and eligible counterparties.

### Repo and reverse repo transactions

Repurchase agreement is a transaction where contracting parties agree to the sale and future repurchase of a financial instrument within a specific contracting period, where the financial instrument serves as collateral securing the facility. A repurchase transaction is a transaction where the seller sells a financial instrument with the agreement to buy it back at a pre-determined price (interest included).

A reverse repo agreement is a transaction in which one contracting

party purchases a financial instrument with the agreement of selling the financial instrument at a future date.

Most often, the repo and reverse repo agreements fall into the category of short-term transactions with a timeframe of up to a year, and are intended for professional investors and eligible counterparties.

Risks related to repo and reverse repo transactions are:

**Credit risk** – stands for the risk of one of the parties to a transaction being unable to fulfil its obligation.

**Market risk** – represents the risk related to changes to interest rate trends and the value of a financial instrument.

**Foreign exchange risk** – under the influence of various economic and political factors, as well as changes to the foreign currency supply and demand, the exchange rate is subject to frequent fluctuations that entail departures from the value of the agreed currency and the payment currency. The holder of the financial instrument denominated in a foreign currency or the instrument the underlying assets of which are denominated in a foreign currency may be exposed to unfavourable fluctuations of the exchange rate and their impact on the yield.

**Operational risk** – represents the risk caused by inadequate business processes, employees' actions (human factor), systems and external events. It is inherent to everyday operations.

**Liquidity risk** – represents the risk related to liquidity of counterparties and of the financial instrument from the repo or reverse repo agreement. In the event of an illiquid financial instrument and inability of the contracting party to repurchase the instrument, the buyer shall be forced to sell the financial instrument at unfavourable market terms.

**Legal risk** – stands for the risk related to legal documentation that supports a repo or a reverse repo transaction, which is deficient in the sense that it is either incorrect or incomplete.

## C. Shares in collective investment undertaking Investment funds

Investment fund means an undertaking for collective investment the sole purpose of which is raising capital through a public or private offering and investment of this capital in different types of assets in accordance with a predefined investment strategy of the investment fund, but to the exclusive benefit of unit-holders of that investment fund. Trading in these financial instruments is intended for retail and professional investors and the Bank renders such service as part of the receipt and transfer of orders, including also investment advice.

Collective investment undertaking means an undertaking that has been authorised by the Agency in accordance with the act regulating establishment and operations of funds and management companies.

As for the method of raising funds, we can differentiate:

- Open-end investment funds – investment and payment from the fund is possible at any time and is open to all those who wish to invest, such as retail and professional investors or eligible investors / counterparties.
- Closed-end investment funds – issue and sell units in a relatively short and limited period at the appropriate bid price; the number of units is exactly determined (unlike the open-end fund), it does not redeem the units, but the fund's shares are traded on the stock exchange. Investment fund may be an **open-end investment fund with a public offering** (UCITS fund) and an **alternative investment fund** (AIF fund).

**UCITS fund** (Undertakings for Collective Investment in Transferable Securities) an open-end investment fund with a public offering

is established by the **investment fund management company** that is licenced to operate by the supervisory authority of the country in which is located. The supervisory authority in Croatia is HANFA, so the operations of UCITS funds are regulated by the Act on Open-end Investment Funds with a Public Offering.

**UCITS funds** are the funds that are established to raise monetary assets from their investors, which are then invested in short- and long-term investments, taking into account the principles of security, profitability, liquidity and risk dispersion (investment in different securities and financial instruments – shares, bonds, treasury bills, deposits, and similar), all in accordance with the provisions of the Act on Open-end Investment Funds with a Public Offering. Each UCITS fund has the **fund's prospectus**, which is an underlying document describing the fund's essential characteristics (e.g. the fund's name, the types of assets in which the fund invests, investment restrictions, investment risks, fees charged, information on management company, depositor and auditor of the fund, etc.) and it represents a call for the purchase of units of UCITS fund. In addition to the prospectus, the company for managing the UCITS fund shall compile and make available the **fund's KIID** (Key Investor Information Document)/ PRIPPs KID (KEY Information Documents for Packaged Retail and Insurance-based Investment Products, which is an identification document of the fund, and contains its rules and information about the fundamental rights, obligations and responsibilities of all involved parties, as well as other statutory information.

**AIF fund** can be established as open-end and closed-end alternative investment funds. These are, for example, hedge funds, real estate funds, etc. Units in AIFs can be distributed in the Republic of Croatia exclusively through private offering, i.e. to professional investors and/or eligible counterparties, and only exceptionally by public offering, i.e. to professional investors, eligible counterparties and/or retail investors. Unincorporated open-end AIF and a closed-end AIF can only be managed by an external manager, while a closed-end AIF with legal personhood can be managed by an external or internal manager. All AIFs have the relevant rules (the document that governs all the characteristics, rights and obligations of the fund and investor), whilst the prospectus is only mandated for certain types of AIFs. The assets of AIF and UCITS funds are divided into equal units. Unit holders in investment funds are investors who buy units with their invested assets. One of the main principles for investing in the investment funds is the principle of risk diversification, so the assets of unit holders or investors are invested in several different financial instruments and in a variety of different types of financial instruments depending on the level of investment risk of each investment fund.

Return on investment in investment funds cannot be foreseen

exactly, given that it depends on the fluctuations in the Net Asset Value (NAV). NAV is the value of total assets of the fund divided by the number of units or shares. The fluctuation of the value of a unit depends on a number of factors, of which the most important are:

1. Investment policy of the fund (specified in the fund's articles of association and prospectus), and
2. Market value of a particular asset in the fund.

### Funds traded in the market

ETF - Exchange traded fund (ETF) is an investment fund the units of which are traded in a regulated market. Its value changes in the course of a trading day depending on the market supply and demand.

Each ETF seeks to track a specific underlying instrument, such as oil, gold, or individual stock market indices.

Individual ETF types:

- Index ETF tracks a specific index. The essential elements of the index are shares, bonds, commodities, currencies, etc.
- Commodity ETF tracks the value and enables exposure to certain commodities (raw material) such as precious metals, energy sources, and agricultural products.
- Currency ETF – tracks value and enables exposure to as specific currency, and sometimes even a basket of currencies.
- Leveraged ETFs track investments in specific financial instruments in order to multiply the yield of an underlying instrument, using financial leverage, which in turn increases potential profit and loss.

Investment in ETF funds is intended for small investors, professional investors and eligible counterparties.

### TYPES OF INVESTMENT FUNDS ACCORDING TO THE STRUCTURE OF SECURITIES IN WHICH THEY INVEST

Investment funds are grouped according to the investment strategy i.e. investing in one or more major financial assets such as shares, bonds, money market instruments, so we can distinguish: *(Table)*

**Money funds** invest in safe low-risk securities (central bank bills), money market instruments, bank deposits, short-term debt securities of the most quality issuers. The main objective of the money fund is to ensure liquidity and security of deposits, with their continuous and steady growth in value.

**Bond funds** are a type of investment funds that invest in bonds of different issuers. The yields of the funds are stable with a reduced risk due to security provided by bonds.

**Mixed funds** represent a different combination of bonds and equity funds, balancing between the stable yield on debt

	Money fund	Bond fund	Mixed fund	Equity fund
Fund's profile	Very conservative	Conservative	Moderately conservative	Dynamic
Portfolio structure	Central bank bills and treasury notes	Mostly bonds	Shares and bonds	Mostly shares
Recommended investment period	Short-term (up to 1 year)	1 - 3 years	Over 2 years	Long-term (3-5 years)
Volatility of unit price	Very low	Low	Moderate	Moderate to high
To whom is the Fund intended?	You wish a stable deposit and you need access to the invested funds in the near future.	You wish a higher return on cash fund and you won't be needed the funds soon.	You wish the possibility of higher stock yields and the stability of the bonds.	You are willing to invest for a longer period of time and expect higher yields.



securities and the potential growth in equity investments.

**Equity funds** as a rule invest in shares with the primary goal of long-term yields. Despite the fact that equity funds are considered very risky, long-term investment in shares generates the highest yield rates. When investing for a longer period, the volatility of share prices is lower and the recommended investment horizons are from 3 to 5 years and longer.

### **Risk associated with investing in investment funds**

Investment in an investment fund means assuming certain risks. In general, the risk of investing in the capital market is the probability or possibility that the return on investment is either unsatisfactory or negative.

Risk assessment and analysis are a key and inevitable part of every investment decision. Prior to the decision to invest the fund's assets in specific securities or deposits, the Company assesses and analyses the risk of each investment as well as its relationship with the existing securities in the fund's portfolio. The aim is to achieve the investment objectives of the fund by assuming risks corresponding to the nature and characteristics of the fund and with an adequate level of diversification of fund assets.

Investment in the fund is not equal to a bank deposit and, therefore, not secured by the State Agency for Deposit Insurance and Bank Resolution or by any other financial institution.

**Market risk** - Market risk is the risk of future fluctuations in market conditions leading to a downturn in the yield on financial instruments or decreasing their value, which will have an adverse effect on the yield of the investment fund. The financial instruments categorised into a trade portfolio are recognised at fair value and all changes in the market conditions directly affect the revenues from trade. Market conditions largely reflect the economic and political conditions in the countries where the assets are invested, as well as the position of the global economy. Market risk includes pricing risk, interest rate risk and currency risk.

**Price risk** is the risk of loss or decrease of an investment value due to a decrease in the price of a financial instrument. The risk of the financial instruments price fluctuation arises from changes in the supply and demand and the potential to reach a certain price level. The financial instruments price fluctuation risk is a basic risk inherent in all investments in financial instruments. Materialisation of the fluctuation risk such as a decrease in the market price of a particular financial instrument in which the fund's assets are invested, may lead to a lower yield on investment.

**Interest rate risk** is the risk of an investment value decrease due to interest rate changes. If the market interest rates rise, the price of debt securities falls and vice versa, while their yields follow the interest rate trends. The price change in case of the mentioned type of investment is affected by the time to maturity as well, in which case short-term debt securities are less susceptible to interest rate risk changes.

**Currency risk** relates to a change in the value of a foreign currency compared to EUR currency or other reference currency in which the yield on investment is measured.

**Credit risk** represents the likelihood that the issuer of a financial instrument incorporated in the assets of an investment fund or the person with whom the Company concludes deals in the financial markets will not fulfil their obligations in full or in part, thereby adversely affecting the liquidity or value of the assets. The likelihood that the realisation or settlement of concluded transactions is rendered difficult or impossible constitutes the settlement risk.

**Exchange rate fluctuation risk/currency risk** is a risk of change in the exchange rate of a currency in relation to the currency the unit price is denominated in. Given that a portion of assets of the fund can be invested into the financial instruments denominated in various currencies, in accordance with the investment strategy and limitations set out in the Fund Prospectus, such invested portion of the assets can be exposed to the exchange rate risk.

**Credit risk** means that the issuer of a security or the debtor under the financial instrument that is included in the fund's assets will not be able to settle the liabilities upon maturity, fully or partially, which would adversely affect the liquidity and the value of the fund's assets.

The impact of the credit risk is mitigated by diversifying the fund's assets and by making good estimates upon the credit risk assumption. As regards the assumed risk to return ratio, the same goes for credit risk as in the case of financial instrument price fluctuation.

**Interest rate risk** refers to the risk arising from changes in interest rates or liquidity terms, as administered by central banks, or due to changes in long-term interest rates on financial markets. In both cases, it is important to note that the interest rate increase leads to the decrease in prices of financial instruments that are particularly sensitive to interest rate changes: bonds, treasury bills and commercial papers (debt securities). Generally, in case of bonds, as financial instruments that are most sensitive to interest rate changes, the longer their maturity, the higher their risk. When measuring this risk, the modified duration is taken into account, that is, the modified duration of the bond / portfolio of securities. In the broader sense, the risk could be classified as a market risk, but it is often specified independently because of the possibility of pinpointing the source of price variability of financial instruments that are particularly sensitive to interest rate changes.

**Liquidity risk** refers to the impossibility of fast liquidation of securities at a price that does not deviate significantly from the average or the last trade price.

The fund invests most of its assets in liquid securities markets. Regardless of this, downturn of liquidity is possible due to significant disturbances in parts of financial markets or entire financial markets. This may lead to impossibility of fast liquidation of securities from the fund portfolio at the prices that would reflect their „fair value“. Consequently, the described circumstances may adversely affect the price of units in the fund and potentially cut the yield.

**Settlement risk** is the possibility that the securities transactions will not be settled, that is, the transfer of ownership will not be executed or the outstanding receivables will not be collected within the statutory and/or contractual terms.

**Operational risk** represent the risk of financial loss caused by inadequate business processes, employee behaviour (human factor), system and external events. The operational risk is present in the day-to-day operations of the fund and the Company.

**Conflict of interest risk** relates to any conduct of the Company's and the fund's affiliated entities, and any conduct of the Company's employees that may have negative consequences on the investors' interests.

**Continued suitability and appropriateness risk** may arise if the Company is not financially stable or the persons responsible for the management of assets, risk monitoring and other ancillary activities in the Company are not sufficiently professional, reliable and of good repute.

**Risk of changes in tax regulations** implies the possibility that the tax regulations in the Republic of Croatia or abroad, will change in a way that would adversely affect the fund's yield or profitability of investing in the fund.

**Concentration risk** represents the risk that increases with significant exposure of a part of the investment fund's assets, for example to a single issuer, asset category or a particular sector. **Liquidity risk** is the risk of not selling the financial assets at the price which is approximately the same as the fair value of such assets.

**Risk of changes in legislation** represents the likelihood that the tax and other regulations in the country of the investor and/or countries where the fund's assets are invested will change in a manner that would negatively affect the yield.

**Political risk** represents the risk of uncertainty of investing the investment fund's assets in particular countries due to instability of economic, political and social system, changes in international relations, country policy, economic measures, restrictions on foreign investments and other extraordinary events.

**Inflation risk** means that the investment amount has a lower real value because of the increase of the inflation rate in the currency of the related country compared to the value on the day the investment commenced.

**Event risk** means the risk of loss of value of a part of assets or the entire assets due to an event that is not related to the financial market trends, such as natural disasters.

**The risk of investing in real estate** is connected with the risk of a change in the value of a part of the fund's assets invested in real estate. The biggest loss is limited to the amount of initial investment into the fund, unless it serves as a security instrument under a loan invested further into the purchase of financial instruments and, in which case it is also exposed to the risk of financial leverage. Detailed information on investing into an investment fund can be found in the investment fund prospectus.

## D. Financial derivatives

A financial derivative is an instrument the value of which is reliant upon the value of another underlying instrument. Instead of trading in underlying instruments alone, parties undertake to exchange money, underlying instrument that is the subject of the agreement or any other value, at a specific date or within a specified time, based on the value of the underlying instrument. Underlying instruments may be interest rates, sale/purchase of foreign currency, stock market index, particular shares, bonds, commodities etc. The extent of transactions in financial derivatives in the global money and capital markets is continuously increasing, and market participants are constantly creating new types of derivatives based on new and diversified underlying instruments and payment formulas.

The main types of financial derivatives are:

- Forwards and Futures Contract
- Swap which is divided into Interest rate Swaps (IRS), FX swaps and Cross-currency-swaps (XCCY swap),
- Options
- Other financial derivatives

Financial derivatives are used as a hedge against the risk of the underlying instrument, for speculative purposes, and different types of arbitration. It should be noted that the derivatives enable earning big money or realising great losses. Due to the fact that it is generally not necessary to prepay the full value of the underlying document that is the subject of the transaction but the exchange of cash flows takes place in the future based on a predefined formula, derivatives enable the use of a high level financial leverage which significantly increases the risk of such an investment. In addition to the said, in some cases, apart from the risk of total loss of a stake, the risk may be even greater, i.e. theoretically even unlimited.

## Risks of investing in complex financial instruments/ derivatives

**Risk of premature redemption** - It represents the risk of a lower return on investment in the event of a financial instrument being redeemed before its maturity date as defined in its terms of issue. If an option for premature redemption of the financial instrument is included in the issue terms, then that instrument carries a higher risk.

**Liquidity risk** - It represents the risk that the investors may not be able to sell their financial instruments at fair market price due to decreased appeal or due to market inefficiency. Holders of financial instruments may be exposed to market-value risk upon any sale of financial instruments prior to maturity. Liquidity implies the possibility of selling a financial instrument or closing a position in a financial instrument at the market price at any time. In case of illiquid market, giving of standard size sales orders may cause significant price fluctuations, the order can be impossible to execute or the order can only be executed at a significantly lower price.

**Inflation risk** - It represents the risk of decrease in the value of financial instruments and lower rate of return on investment due to inflation.

**Currency risk** - being affected by various economic and political factors and changes in the supply and demand for foreign currency, the exchange rate is subject to frequent fluctuations leading to differences between the value of the agreed currency and the currency in which the payment must be made. The holder of a financial instrument denominated in a foreign currency or an instrument the underlying assets of which are denominated in foreign currency may be exposed to adverse currency exchange rate fluctuations and their impact on the yield.

**Credit risk** - It represents the likelihood that the other party involved in the transaction will not be able to meet its obligations.

**Interest rate risk** - In the event of a change of the interest rate level on financial markets, the price of a financial instrument might change.

**Country risk** - It represents the exposure of market participants to political and other risks to which the country in which they operate is exposed. The most common risks are the risks of unexpected regulatory changes and the risk that the country will default on its debt.

**Event risk** - Event risk represents the risk that the financial instrument may lose its value due to an event that is not related to the financial market trends such as natural disasters.

**Settlement risk** - Due to foreign currency restrictions and other measures that may render the free movement of capital in some countries difficult, the settlement of agreed transactions may be at stake.

**Conflict of interest risk** - It presents the risk that the activities undertaken by the Issuer for the purpose of risk hedging may affect the price of the underlying asset, the value of the financial instrument itself, and the redemption amount to be paid to the holder of the financial instrument.

**Financial leverage risk** - It represents the risk of a higher loss or lower return on investment due to financing of the investment by borrowing as there is a debt repayment obligation even though the investment is not profitable as well as the impact of financing costs on the yield on investment itself.

**Risk of trading/listing suspension or halt** - It represents the risk of suspending the trading in financial instruments or underlying instruments in a regulated market.

**Risks associated with setting the redemption limit** - It represents the risk of lower yield if the Issuer limits the redemption price upon the issue of financial instruments.

## **Financial instruments/derivatives available for sale in OTP banka d.d.**

### **Forwards**

A forward contract is a contract between the two parties to a transaction that includes a commitment to future exchange of a certain amount of assets at a predetermined agreed price. A forward contract protects both parties from unwanted price changes. Forward contracts, unlike futures contracts, are not traded on a stock market in a standardized form but are made directly between market participants (OTC).

### **FX Forwards**

One of the most frequently used types of forward contracts is FX Forwards.

FX Forwards is an agreement between two counterparties (the Client and the Bank) on the exchange of a certain amount of one currency for another currency at the agreed fixed rate on the agreed date in the future. With this contract, the Client undertakes to buy an amount in a particular currency (e.g. EUR) and sell the amount in another currency (e.g. USD) at a fixed forward rate at a specific date in the future.

This product is intended for professional investors and eligible counterparties.

### **Swaps**

The Swap Contract is an agreement between two or more parties to swap the underlying instruments. The most common swap contracts are FX swap and interest rate swap. In addition to the basic types of swaps such as FX and interest rate swaps, there is a large number of other combinations, such as cross-currency-swap. Swaps are often used as a hedge against certain risks, such as interest rate fluctuation risk.

### **FX swap**

FX swap is a binding agreement between the two counterparties (the Client and the Bank) about spot purchase (or sale) of the main currency for another currency and simultaneous sales (or purchases) of the main currency for another currency. The interest rate difference between the two currencies is reflected in the forward rate premium/ discount used to exchange the currency in the future. The delivery and receipt of swapped currencies are performed on the same date. The yield (gain / loss) in the case of FX swap derives from a change in the interest rate differential between the agreed currencies during the swap and is effected by the execution of the reverse transaction before the FX swap maturity.

This product is intended for professional investors and eligible counterparties.

### **Interest rate swap**

Interest rate swap is a binding agreement between the two counterparties (the Client and the Bank) on the exchange of one interest rate payment stream for another without simultaneous exchange of the principal. Most commonly, one party pays the same fixed interest rate while the other party pays the floating rate that is repeatedly determined for the subsequent period. These swaps apply to the contractually defined amount of principal.

The interest rate swap buyer, paying the fixed interest rate, earns profits in the event of an increase of market interest rates. The interest rate swap seller who receives a fixed interest rate, earns profit in the event of a decrease of market interest rates. The yield on a swap cannot be determined in advance and depends on changes of the market interest rates. Interest rate swaps terms

are not standardised, but are tailored to the requirements of parties involved in the swap (OTC product).

The service of trading in these financial instruments is intended for retail and professional investors and eligible counterparties, and is provided by the Bank as a part of our services of executing orders and investment advising.

This product is intended for professional investors and eligible counterparties.

## **E. Structured products**

A structured product is a security designed for the purpose of securing and transferring the credit risk associated with a financial asset, and which enables the holder of securities to receive regular payments that depend on the cash flow from underlying assets.

The product is an investment tool constituted of several financial instruments. It combines one or more types of financial assets such as equity, foreign currencies, interest rates, credit default swaps, commodities etc., and may be composed of even more sophisticated components such as options.

Investors bear the credit risk of the Issuer and/or Issuer's guarantor/warrantor. The product bears the risk of losing the initially invested principal during the life of the product or upon maturity. On the maturity date, a principal protected structure product guarantees the payment of the invested principal (reduced by the investment transaction fee, excluding all the prescribed taxes) only if the closing price of the underlying asset is equal to or above a certain level ("Threshold"). The main risk associated with this type of product is the risk of losing the principal, linked to the downward and upward trends in the market. There is a possibility that a part or the entire invested principal will be lost. The payoff of principal is not guaranteed in case of termination prior to maturity. The service of trading in these financial instruments is intended for retail investors, and is provided by the Bank as a part of the investment advising service.

### **Investment risks**

The product cannot be considered a product with a guaranteed return of principal in any way. In case of unfavourable trends, the Investor bears the risk of a total decrease of the underlying asset. The product is flagged as high risk. During the life of the product, its valuation can be significantly affected by fluctuations in interest rates, dividend payments, the underlying asset itself, as well as market volatility and liquidity risk. In case of extraordinary events affecting the product and / or the underlying asset, the product may become completely illiquid.

Furthermore, the credit rating and credit range of the Issuer who warrants for this structured product and / or the Guarantor / Warrantor of this structured product can eventually change, affecting the product's evaluation. The investor should also be aware that the redemption of such structured product upon maturity depends on whether a credit event or a breach of contractual obligations affecting the Issuer and / or the Guarantor/Warrantor during the life of the structured product took place.

Prior to making a decision on an investment, investors are referred to the risk factors listed in the prospectus (if any) available on the Issuer's website.

**Product risk** - The investor is exposed to the potential risk of losing the total initially invested principal during the life of the product and upon maturity in case of premature redemption.

**Credit risk** - The investor is exposed to the insolvency of the Issuer and its Guarantor/Warrantor (which may result in partial



or total loss of invested nominal value) or a lower rating of the Issuer or its Guarantor / Warrantor (which may result in a risk to the market value of a security).

**Market risk** - The appraisal of the product value can be affected by the fluctuation of the underlying asset or changes in market parameters, in particular the level the underlying asset's value, market volatility, interest rate trends and refinancing conditions of the Issuer and its Guarantor / Warrantor. Hence, it may be lower than the issue price.

**Liquidity risk** - The appraisal of the underlying asset's value can be affected by the fluctuation of the underlying asset or changes in market parameters, in particular the level of the underlying asset's value, market volatility, interest rate trends and refinancing conditions of the Issuer and its Guarantor / Warrantor. Hence, it may be lower than the issue price.

**Volatility risk** - These securities are volatile instruments. A volatile instrument is likely to increase or decrease its value, more often and to a greater extent than the non-volatile instruments.

**Leverage risk** - These securities may include a financial leverage as well. It can be incorporated in a derivative component of complex financial instruments. When an investment involves a financial leverage, the effective exposure to the price evolution of the underlying asset increases. The financial leverage can expose investors to higher losses if the value of the underlying assets drops.

**Extraordinary events affecting the product and/or underlying asset or assets: alignment, replacement, repayment or premature redemption** - Taking into account the consequences that certain extraordinary events affecting the underlying instruments and / or the product itself may cause, the product documentation provides (i) the alignment or replacement mechanisms and, in certain cases even (ii) the premature redemption of the product. This can lead to product losses.

This short overview of terms and conditions does not identify all (direct or indirect) risks and other considerations that may be relevant to you when you conclude a transaction. This product was issued under the Issuer Program described in the Fund Prospectus. Investors confirm that they have read the information contained in the detailed documentation (basic prospectus, final terms or schedule setting up the price), or other documents issued by the Issuer in connection with this product before the investment decision is made. The documentation that includes, but is not limited to the related risk and alignment data, is available on the Issuer's web site.

**Long maturity** - In products with a maturity period over 5 years, the investor confirms that he is aware of the risks of long maturity. Due to a long maturity, some market parameters may have an above average impact on product valuation, including credit risk, interest rate risk, dividend risk, and volatility where appropriate. If this product is used as collateral for a loan / credit or margin account, the investor confirms that he is aware that the margin call risks will be significantly higher.

## 4. Communication with clients/investors

### 4.1. Communication principles

The manner of communication with the client / investor as well as sending the information, reports and other documents by the Bank is based solely on the client's consent. The consent is a part of the contractual documentation since the Bank is obliged to sign an agreement with the Client regulating mutual rights and obligations before the investment service is provided to the client for the first time.

Further to the Act, the Bank relies on electronic means of communication with clients (e-mail and official website [www.otpbanka.hr](http://www.otpbanka.hr) or [www.otpbanka.hr/globalna-trzista/dokumenti-globalnih-trzista](http://www.otpbanka.hr/globalna-trzista/dokumenti-globalnih-trzista)). However, clients may opt for receiving the information in a hard copy format. By giving your e-mail address you are deemed to have opted for e-mail communication with the Bank. The communication with the client is always subject to client's consent.

Information that is not personally addressed to the Client and should be provided to the Client further to the law, is provided on the Bank's website [www.otpbanka.hr](http://www.otpbanka.hr).

For smooth communication, the Client is obliged to notify the Bank of any change of the address, e-mail address or other data required for such communication and required by the Bank to meet its obligations when providing investment and ancillary services or conducting investment activities.

Both Croatian and English language are used in communication.

### 4.2. Relevant communication

Relevant communication includes all communication (personal conversations, communication via phone or e-channels) of the relevant Bank employee with identified clients or potential clients. Pursuant to statutory provisions, the relevant communication with the Client where he/she is either informed of the provision of investment services or contracting investment services, personally at a meeting or by telephone, will be recorded and archived in the form of memorandum or phone call record.

All relevant communication shall be kept for at least five years, and this period may be extended for another two years following the request of a supervisory authority. The same rules apply to internal communication when communicating with the Client in connection with the conclusion of transactions. Clients are entitled to ask the Bank to provide the recorded and archived communication for inspection at any time.

### 4.3. Integration of sustainability risks

As a credit institution and an investment adviser, as this term is defined in Article 2 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (hereinafter: SFDR), the Bank provides investment advice services pertaining to investment products manufactured by the financial markets participants that are members of OTP Group and/or with which the Bank has entered into investment product distribution agreements (thereinafter referred to as Partners). To that end, the Bank has adopted and published on their web site [www.otpbanka.hr](http://www.otpbanka.hr) the Policy on the integration of sustainability risks into investment advisory process, regulating the way the relevant sustainability risks (ESG risks) - which could have an adverse impact on the performance of the products within the investment advice service - are integrated into the process of providing the investment advice service.

SDFR defines the "sustainability risk" as an environmental, social

or governance (ESG) event or condition that, if it occurs, could cause a negative material impact on the value of investments. The Bank assumes the assessment of the environmental, social and governance risks (ESG risks) from the manufacturers, that is, Partners. The Bank shall continuously monitor the suitability factors, and demand the Partners to take them into account when creating the products. When the Partners, as the manufacturers of investment product included into the investment advice service by the Bank, start assessing the main adverse effects and publish the relevant data, the Bank shall use them and include them into their disclosures in accordance with the Policy on the integration of sustainability risks into the investment advisory process. Due to the restricted availability of data used by the manufacturers of financial instrument for the independent and objective assessment of the companies to be invested in, as concerns the sustainability factors, the Bank is currently not in a position to recommend the investment products categorised as sustainable. Consequently, the Bank is not in the position to disclose the assessment of potential sustainability risk effects on the yields of investment products contemplated as a part of the investment advice service. Such disclosure will be possible when the investment advice service includes the products categorised as sustainable investment products.

In order to learn about the details of individual preferences of its clients in terms of sustainability, the Bank has improved its investment advisory process in a way that the client or the potential client decides whether their sustainability preferences are to be reflected in their investment choices.

Considering that presently the Bank can offer solely the investment products not categorised as sustainable investment products, that is, that the Bank is not in a position to recommend the client or the potential client products in line with the indicated sustainability preferences, the client or the potential client is entitled to either desist from or proceed with the investment advice process. If the client or the potential client proceeds with the investment advice process, it shall be considered that their preferences are adjusted to the current offer of the Bank. An adjustment of the sustainability preferences shall not have any impact on other suitability assessment criteria, and the client or the potential client will be offered a product aligned with their investment goals, the acceptable risk, the financial standing, the knowledge and experience required for understanding of the associated risks and investment. When the manufacturers of the investment products integrated into the Bank's investment advice service start assessing the main adverse impacts and disclose the relevant data, the Bank shall use them and include them into own disclosures in accordance with its Policy on the integration of sustainability risks into the investment advisory process.

#### **Sustainability risks:**

##### **Funds:**

As for management of the sustainability risks related to issuers of certain funds, that is, issuers of financial instruments in portfolios of various funds and yields of the funds, neither positive nor negative correlation can be discerned between the various practices of the managers of funds at the moment. However, the sustainability risks can still have an adverse effect on the value of fund's investments, and thus also on the yield (results) of the fund.

Private banking clients can find information on sustainability-

related disclosures of individual investment funds on this link <https://www.otpbanka.hr/privatno-bankarstvo>. Additional information can be found in the relevant fund's Prospectus and Key Investor Information Document (KIID).

#### **ETFs,**

In accordance with the mentioned Regulation, these products qualify as financial products, which is why the Bank assesses the sustainability risks\*. Based on the currently available data, neither positive nor negative correlation can be established between the sustainability risks and yields of ETFs.

Comparing the management sustainability risk practices of ETF issuers, or issuers of instruments within individual ETFs, and yields of ETFs, neither positive nor negative correlation can be established at the moment. However, the sustainability risks can still have an adverse effect on the value of ETFs, and thus also on the yield (results) of the ETFs.

#### **Structured products**

The Bank distributes the products of its contractual partners intended for small investors, and uses the information disclosed by the manufacturers of financial products that are integrated in the investment advice service and which the bank recommends.

## **4.4. Contacts**

All inquiries may be sent to and all communication regulated by the agreement may be carried out via the following addresses and/or contacts in the Bank:

### **Markets Sales Services**

#### **Markets Sales Team Corporate Clients**

address: Domovinskog rata 61, 21 000 Split  
Ulica grada Vukovara 284a, 10 000 Zagreb  
phone Split: 072 / 204-620  
072 / 204-626  
phone Zagreb: 072 / 206-458  
072 / 206-480  
072 / 201-746  
072 / 201-749  
e-mail: [Treasury\\_sales@otpbanka.hr](mailto:Treasury_sales@otpbanka.hr)

#### **Markets Sales Team Institutional Clients**

address: Domovinskog rata 61, 21 000 Split  
phone: 072/ 204-254  
072/ 204-520  
072/ 204-503  
e-mail: [trading@otpbanka.hr](mailto:trading@otpbanka.hr)  
[Institutional.sales@otpbanka.hr](mailto:Institutional.sales@otpbanka.hr)

### **For brokerage services**

#### **Brokerage team**

address: Domovinskog rata 61, 21 000 Split  
phone: 072/ 204-622  
072/ 204-655  
e-mail: [brokeri@otpbanka.hr](mailto:brokeri@otpbanka.hr)

### **For private banking services**

#### **Zagreb Office**

address: Jurišićeva 2, 10000 Zagreb  
Ulica grad Vukovara 284a, 10 000 Zagreb

#### **Split Office**

address: Ivana Gundulića 36, 21 000 Split

#### **Rijeka Office**

address: Jadranski trg 1, 51 000 Rijeka

#### **Zadar Office**

address: Domovinskog rata 3, 23 000 Zadar  
e-mail: [privatno.bankarstvo@otpbanka.hr](mailto:privatno.bankarstvo@otpbanka.hr)

### **For custody services**

#### **Securities Services Department**

adresa: Ulica grada Vukovara 284a, 10 000 Zagreb  
e-mail: [Securities.Services@otpbanka.hr](mailto:Securities.Services@otpbanka.hr)

### **For distribution of shares in investment funds:**

#### **OTP Banka d.d. branch network**

\* Once the technical preconditions are met, the Bank will assess the sustainability risks within the domain of ETFs, as laid down in SFDR.





**Note:**

*The information contained herein is rather generic, and does not represent an investment recommendation or advice based on consideration of particular circumstances. It is intended for a broader investment public and shall not be considered an offer or an invitation to invest into financial instruments. Before submitting an application/order for the purchase and/or sale, you are required to examine the documentation pertaining to the chosen financial instrument, as supplied by our qualified employees, all in order to learn of all the features and risks of investing in financial instruments.*

**Apply from 1 of May 2023**