

# Weekly Newsletter



## MARKET OVERVIEW

### EUROZONE

- Eurozone producer prices declined 0.3% MoM in November, from +0.8% in the previous month, partly due to the impact of the “gilets jaunes” demonstrations in France.

### UNITED KINGDOM

- Nationwide house prices took a pre-Brexit hit in December, declining by 0.7% MoM, the biggest monthly fall since July 2012.

### UNITED STATES

- Initial jobless claims for the week ended December 29 were higher than expected up 10,000 to 231,000.

### ASIA & EMERGING COUNTRIES

- The decrease in the China Caixin Manufacturing PMI was higher than expected at 49.7 in December, versus 50.2 in November, its first contraction since May 2017.

### THEME OF THE WEEK

Ring in the New Year

## SUMMARY

### INVESTMENT & MARKETS OVERVIEW

- Introduction / p. 2
- Market news and performance p. 3
- Overview of commodities and currencies p. 4
- Structured products OTP banka p. 5
- Structured products secondary p. 6

### GLOSSARY p. 7

Observation date in next two weeks		
ISIN	TICKER	DATE
XS1816572785	18M EUR PHOENIX PLUS 80% VK FTI	08/01/2019
XS1816572199	18M USD PHOENIX PLUS 80% VK MT	08/01/2019
XS1816573247	5Y EUR PH+ WO 75% SX7E SXPP SXDP 0,39% P.M.	08/01/2019
XS1574472384	3Y EURQ PHOENIX PLUS WORST OF 50% HUI SX5E 1.10% P.Q. 21042020	11/01/2019
XS1417403265	3Y USD FLOORED CAPPED FLOATER 100%KG [3.00%;(USDLIB3M;1.00%)] 12102019	12/01/2019
XS1778423894	5 Y USD PHOENIX PLUS SX7E 60% 1,415% p.q.	14/01/2019
XS1669740976	3Y USDQ PH+ SD WO 70% 2914 JT 18M EUR PHOENIX PLUS 80% TUI	16/01/2019
XS1864698011	BKNG TRIP	17/01/2019



## Ring in the New Year

2018 will be remembered as one of the poorest years in financial markets. Not so much in terms of percentage declines – the MSCI World index shed 4.2% on a net total return basis in USD, painful but much less so than 2002's -32.1% or 2008's -38.0% – but rather because so many markets lost ground at the same time. According to Société Générale Corporate and Investment Banking data, every single equity market declined last year in USD terms, as did every global sector apart from Healthcare. And although 10-year sovereign bonds did register positive returns on Q4 safe-haven flows, corporate bond markets lost ground across the board. What will the bells ring in for 2019?

The reasons behind the 2018 weakness are well known. Escalating protectionist rhetoric from the White House has raised fears that globalisation might go into reverse. Central banks have changed tack – after years of synchronised easing, asset purchases are slowing or going into reverse as gradual policy normalisation continues. Political worries are manifest – protests in France, budget slippage in Italy, the fog surrounding Brexit, the end of Republican dominance of US Congress, and so on. And investors have begun to fear that a recession might be at hand.

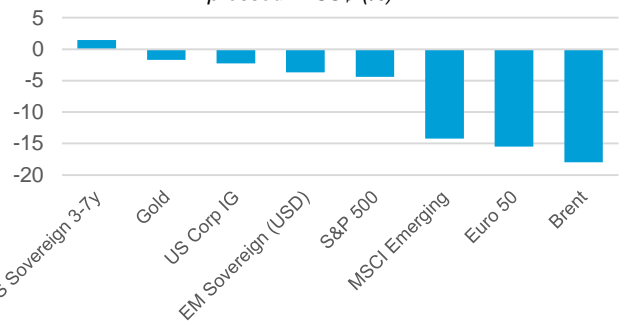
Looking at each in more detail, we should highlight that Washington and Beijing have provided some crumbs of trade comfort in recent weeks – delegations are now set to meet in China on January 7-8. Regarding central banks, the Federal Reserve has recently indicated that rates were now close to neutral – after four hikes in 2018, we only expect two this year. And with underlying inflation currently at 1.9% year-on-year and key rates at 2.25-2.50%, monetary policy is hardly restrictive.

Political events remain highly uncertain of course, but even here there are more encouraging signs. The Macron government has announced massive fiscal stimulus to address some "détails jaunes" concerns. The Italian parliament has now approved a lower deficit than initially sought by the coalition. With time ticking away, Theresa May's Withdrawal Agreement remains the only Brexit deal on the table. And the split in Congress between the Republican Senate and Democrat House spells legislative gridlock – paradoxically, this means good visibility for investors.

As regards the US economy, the picture is much better balanced than recent headlines suggest. Although December ISM manufacturing confidence fell sharply, at 54.1 it remains consistent with continued expansion. And although US housing was weak last year, the average level of consumer confidence in 2018 was the highest since 2001, bolstered by the lowest level of unemployment since 1969. Indeed, our proprietary model puts 12-month recession probability at only 28%.

**Main asset classes performance in 2018**

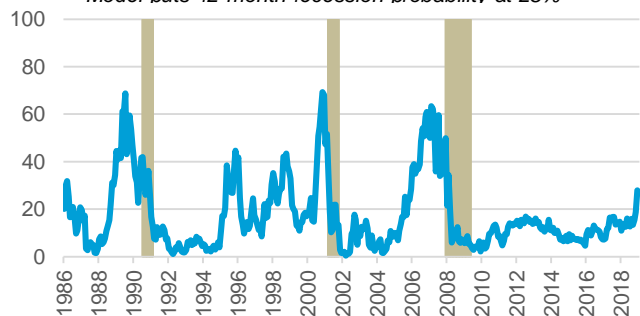
Expressed in US\$ (%)



Sources: SGPB, Datastream, data as of 07/01/2019

**US Recession Probabilities**

Model puts 12-month recession probability at 28%



Sources: SGPB, Macrobond, data as of 07/01/2019

### Putting it all together

- We continue to expect global economic expansion in 2019, albeit at a slower pace than last year.
- Corporate earnings-per-share growth this year is expected at 7.2% for the MSCI World.
- Trailing EPS multiple fell sharply in 2018 – from 20.5x to 16.1x, 20% below its 20-year average – making valuation rather more attractive than twelve months ago.
- In all, we still prefer equities to bonds for 2019



## Food for thought

What happened last week?

### EUROZONE

Eurozone final **manufacturing PMI fell for the fifth consecutive month, printing at 51.4, versus 51.8 in November**, still above the 50-threshold level distinguishing expansion from contraction.

**Eurozone consumer prices were up 1.6% YoY in December, down from the previous month's 1.9%, or the slowest since April.**

**Eurozone producer prices declined 0.3% MoM in November, from +0.8%** in the previous month, partly due to the impact of the "gilets jaunes" demonstrations in France.

### UNITED STATES

**ISM Manufacturing PMI fell unexpectedly to 54.1 in December, from a previous reading of 59.3.**

Initial jobless claims for the week ended December 29 were higher than expected up 10,000 to 231,000.

Total vehicle sales rose slightly to 17.5 million units in December, from 17.4 million in November.

### UNITED KINGDOM

**Manufacturing PMI unexpectedly hit a 6-month high at 54.2 in December, from 53.6 a month earlier**, on the back of new order inflows amid pre-Brexit stockpiling. **Construction PMI fell to 52.8 from 53.4 in November.**

**Nationwide house prices took a pre-Brexit hit in December, declining by 0.7% MoM, the biggest monthly fall since July 2012. Simultaneously, the drop in home-loan approvals in November to 63,728 was sharper than expected at the lowest since April.**

### ASIA & EMERGING MARKETS

**The decrease in the China Caixin Manufacturing PMI was higher than expected at 49.7 in December, versus 50.2 in November, its first contraction since May 2017. However, Caixin Services confidence hit the highest level since January.**

**Indonesia's inflation rate came in at 3.1% YoY in December, lower than November's 3.2% but higher than expected**, with food prices boosting the headline figure.

### This week's key events

		Per.	Prev.	Cons.
<b>USA</b>				
7 Jan.	Factory Orders MoM	Nov.	-2.1%	0.3%
11 Jan.	Inflation rate YoY	Dec.	2.2%	1.9%
<b>Eurozone</b>				
7 Jan.	Retail Sales MoM	Nov.	0.3%	0.1%
8 Jan.	Economic Sentiment:	Dec.	109.5	108.5
<b>United kingdom</b>				
11 Jan.	GDP Estimate YoY	Nov.	1.5%	1.3%
11 Jan.	Manufacturing output YoY	Nov.	-1.0%	-0.6%
<b>Asia &amp; Emerging markets</b>				
10 Jan.	China: Inflation rate YoY	Dec.	2.2%	2.1%
10 Jan.	China: outstanding loan growth	Dec.	13.1%	13.2%

Sources: DataStream Bloomberg 7 January 2019, Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month P = preliminary figure A = advanced figure F = final figure seasonally adjusted ECB = European Central Bank



## Market performance

### Interest rates

	Last	1wk	3mth	YTD	12mth
EONIA (EUR)	-37 bp	-3 bp ↓	0 bp	-1 bp	-1 bp
3mth Euribor (EUR)	-31 bp	0 bp →	1 bp	0 bp	2 bp
3mth Libor (USD)	280 bp	-1 bp →	39 bp	-1 bp	110 bp
3mth Libor (GBP)	91 bp	1 bp →	11 bp	0 bp	39 bp
10-year US Treasury bond	255 bp	-19 bp ↓	-61 bp	-14 bp	11 bp
10-year German bond	15 bp	-8 bp ↓	-33 bp	-10 bp	-29 bp
10-year French bond	65 bp	-5 bp ↓	-18 bp	-7 bp	-16 bp
10-year UK bond	120 bp	-11 bp ↓	-38 bp	-7 bp	-2 bp

### Credit

	1wk	3mth	YTD	12mth
BAML EURO Corp. IG	0,1% →	-0,5%	0,1%	-1,1%
BAML EURO Corp HY	-0,4% ↓	-4,2%	-0,5%	-4,4%
BAML GBP Corp IG	0,7% ↑	0,3%	0,7%	-1,7%
BAML US IG	0,8% ↑	1,1%	0,7%	-1,3%
BAML US HY	0,7% ↑	-4,7%	0,2%	-2,5%
BAML Global EM Sov. External Plus	0,5% ↑	-0,5%	0,4%	-4,9%

### Exchange rates

	Last	1wk	3mth	YTD	12mth
EUR/USD	1,14	-0,3% ↓	-0,7%	-0,7%	-5,2%
EUR/CHF	1,12	-0,4% ↓	-1,3%	-0,2%	-4,2%
GBP/USD	1,26	-0,1% →	-2,4%	-1,0%	-6,5%
USD/JPY	108	-3,0% ↓	-6,0%	-1,7%	-4,3%
USD/BRL	3,76	-3,0% ↓	-3,7%	-3,2%	16,0%
USD/CNY	6,87	0,1% →	0,0%	-0,1%	5,7%
USD/RUB	68,7	-1,1% ↓	4,3%	-1,4%	20,3%

### Government bonds\*

	1wk	3mth	YTD	12mth
United States (3-7yr)	1,0% ↑	3,7%	0,7%	2,3%
United Kingdom (3-7yr)	0,4% ↑	1,7%	0,4%	1,2%
Germany (3-7yr)	0,2% ↑	1,1%	0,3%	1,2%
Japan (3-7yr)	0,1% →	0,4%	0,0%	0,2%

### Equities\*\*

	Last	1wk	3mth	YTD	12mth
MSCI AC World	448	-0,4% ↓	-13,9%	-1,6%	-11,5%
Eurostoxx 50	2 955	0,6% ↑	-12,9%	-1,6%	-12,8%
DAX	10 417	0,3% ↑	-15,2%	-1,4%	-19,7%
CAC 40	4 611	0,3% ↑	-15,7%	-2,5%	-10,6%
S&P 500	2 448	-1,6% ↓	-15,9%	-2,3%	-8,0%
FTSE 100	6 693	1,7% ↑	-10,1%	-0,5%	-9,0%
SMI	8 466	3,3% ↑	-7,7%	0,4%	-7,6%
Topix	1 494	-0,5% ↓	-16,9%	0,0%	-16,0%
IBOV Brazil	90 986	6,5% ↑	9,3%	3,5%	16,7%
MICEX Russia ***	2 376	2,1% ↑	-4,7%	0,7%	10,3%
MSCI EM	950	-0,3% ↓	-7,8%	-1,7%	-17,5%
SENSEX 30 India	35 514	-0,8% ↓	-1,0%	-1,5%	6,4%
Hang Seng (H-K)	25 064	-1,6% ↓	-7,2%	-3,0%	-15,1%
Shanghai Composite	2 464	-0,8% ↓	-12,7%	-1,2%	-26,9%

### Commodities

	Last	1wk	3mth	YTD	12mth
Brent	\$54,9	3,3% ↑	-35,6%	3,3%	-18,7%
Gold	\$1 289	1,1% ↑	7,3%	0,6%	-2,1%
Silver	\$15,7	2,9% ↑	6,6%	1,1%	-8,7%

### Thursday close

EUR/USD	1.14
GBP/USD	1.26
EUR/CHF	1.12
USD/JPY	108
Brent	\$54.9
Gold	\$1289

Performance should not be seen as a guarantee of future returns. Source: Datastream 04 January 2019. \*Government bonds = 3-7 year returns. \*\*Equities; total return in local currency. \*\*\*Price return for MICEX equity index. 1wk = 1-week change 3mth = 3-month change 12mth = 12-month change YTD = year-to-date change YoY = year-on-year change BAML = Bank of America Merrill Lynch JPM = JP Morgan IG = Investment Grade EM = emerging markets.

## OTP banka structured products (pricing as of 7.1.2019.)

	ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE
1	XS1119148853	5Y EUR DEPOSIT LINKED NOTE	Košarica valuta	EUR	9% p.a.	10/12/2019	94,21%
2	XS1212271008	5Y EUR TWINWIN 65 SX5E100 CAP	Eurostoxx 50	EUR	sudjelujući	12/06/2020	102,30%
3	XS1265964210	5Y EUR DEPOSIT LINKED NOTE	WO Total, Repsol, Statoil	EUR	5,70% p.a.	16/10/2020	95,97%
4	XS1314889129	USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,70% p.a.	17/03/2021	96,56%
5	XS1334783617	AUD CAPPED & FLOORED FLOATER NOTE	AUD-BBR-BBSW	AUD	2,10% p.a.	29/04/2019	99,03%
6	XS1367217558	USD FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,50% p.a.	01/07/2021	97,77%
7	XS1416369285	3Y EUR PHOENIX PLUS WO	ENGIE, E.ON, Enel	EUR	3,0% p.s.	08/08/2019	102,51%
8	XS1417403265	3 Y USD CAPPED & FLOORED FLOATER NOTE	USD LIBOR 3M	USD	1,0% p.a.	12/10/2019	99,80%
9	XS1574509565	3Y EUR PH+ SECURITY WORST OF 70% CA FP MEO GY BN FP 1.50% PQ 22042020	WO Carrefour, Metro, Danone	EUR	1,50% p.q.	22/04/2020	70,35%
10	XS1574472384	3Y EURQ PH+ WO 50% HUI SX5E 1.10% PQ 21042020	WO Eurostoxx 50, HUI	EUR	1,10% p.q.	21/04/2020	97,67%
11	XS1706791214	3Y EUR PHOENIX PLUS 60% WO EDF BNP CO 1,91%	WO EDF BNP CO	EUR	1,91% p.q.	04/12/2020	74,76%
12	XS1759355412	3Y EUR PHOENIX PLUS 60% WO ISP UCG 1,95% p q	WO ISP UCG	EUR	1,95% p.q.	01/03/2021	64,88%
13	XS1778765930	4Y EUR PH+ WO SPX,SX5E, CAC 1,0% P.Q.	WO SPX,SX5E, CAC	EUR	1,0% p.q.	28/03/2022	88,93%
14	XS1778576535	5Y EUR PH+ WO 55% SX7E SXPP SXDP	WO SX7E SXPP SXDP	EUR	0,33% p.m	05/04/2023	77,22%
15	XS1778423894	5 Y USD PHOENIX PLUS SX7E 60% 1,415% p.q	Eurostoxx Banks	USD	1,415% p.q.	20/04/2023	71,58%
16	XS1778379898	5 Y USD PHOENIX PLUS SX7E 60% 1,30% p.q	Eurostoxx Banks	USD	1,30% p.q.	27/04/2023	69,08%
17	XS1797182869	18M EUR PHOENIX PLUS 80% VK	WO Vallorec, Arcelormittal	EUR	1,45% p.m	31/10/2019	32,45%
18	XS1816572785	18M EUR PHOENIX PLUS 80% VK FTI	WO Vallorec, Technip	EUR	1,75% p.m	16/12/2019	30,17%
19	XS1816572199	18M USD PHOENIX PLUS 80% VK MT.- SG CIB	WO Vallorec, Arcelormittal	USD	1,91% p.m	16/12/2019	29,58%
20	XS1816573247	5Y EUR PH+ WO 75% SX7E SXPP SXDP 0,33% P.M-SG CIB	WO SX7E SXPP SXDP	EUR	0,39% p.m	15/06/2023	79,21%
21	XS1842908557	4Y USD TWIN WIN CL1	CL1	USD	sudjelujući	08/08/2022	96,97%
22	XS1864698011	18M EUR PHOENIX PLUS 80% TUI BKNG TRIP CIB	WO TUI, BKNG, TRIP	EUR	0,95% p.m.	24/10/2020	89,09%
23	XS1864726242	4Y USD CAPPED AND FLOORED FLOATER	USD LIBOR 3M	USD	2,0% p.a.	26/10/2022	97,62%
24	XS1864647612	3 Y USD PHOENIX PLUS WO FP RDS PUT LEVERAGE 70% SG CIB	Total, RDS	USD	1,60% p.q.	01/11/2021	94,39%
25	XS1864640286	3 Y USD PHOENIX PLUS WO FP RDS PUT LEVERAGE 60% SGCIB	Total, RDS	USD	1,80% p.q.	01/11/2021	94,12%
26	XS1864598906	5 Y EUR PHOENIX PLUS ON SX7E SGCIB	Eurostoxx Banks	EUR	1,31% p.q.	13/11/2023	88,87%

**Important:** There is limited availability of structured products on secondary market so availability should be checked before every transaction.

## Structured products bought on secondary market (pricing as of 7.1.2019.)

ISIN	NAME	UNDERLYING	CURRENCY	BONUS	MATURITY	PRICE	
1	XS1456533634	5Y USD PHOENIX PLUS SECURITY 50% HUI 1.68% P.Q. 19102021	HUI	USD	1,68% p.q.	19/10/2021	100,35%
2	XS1471994811	3Y USDQ PHOENIX PLUS 70% DAI GY 2.40% P.Q. NC2Q 06012020	Daimler	USD	2,40% p.q.	06/01/2020	70,96%
3	XS1472027330	2Y USDQ PH+ WO 70% BMW GY DAI GY VOW3 GY 3.24% P.Q. NC2Q 140119	BMW, DAIMLER, VOLKSWAGEN	USD	3,24% p.q.	14/01/2019	57,53%
4	XS1533380355	5Y EUR PHOENIX PLUS 50% CO FP 1,81% P.Q. NC2Q 12052022	Casino Guichard	EUR	1,81% p.q.	12/05/2022	64,77%
5	XS1574623341	3Y CHF PHOENIX PLUS 60% 70% LH	Lafarge Holcim	CHF	3,0% p.s.	22/04/2020	81,43%
6	XS1555608782	5Y USDQ PHOENIX PLUS STEP DOWN 50% CO FP 2,20% P.Q.	Casino Guichard	USD	2,20% p.q.	16/05/2022	64,52%
7	XS1511962331	3Y USD PHOENIX PLUS 80% HUI 7.60% P.S.	HUI	USD	7,60% p.s.	03/03/2020	81,21%
8	XS1622385232	5Y EUR PHOENIX PLUS 70% BNP FP 2.18% P.Q. NC2Q 06062022	BNP	EUR	2,18% p.q.	06/06/2022	61,82%
9	XS1570747094	5Y EURQ PH+ SD SC 75% NOVN SAN PFE ROG 2.12% PQ NC2Q 270622	WO Novartis, Sanofi, Pfizer, Roche	EUR	2,12% p.q.	27/06/2022	93,39%
10	XS1583545865	5Y EUR PHOENIX PLUS 60% CO FP 2% P.Q.	Casino Guichard	EUR	2,0% p.q.	08/08/2022	66,01%
11	XS1622812326	2Y EUR PHOENIX PLUS WO 80% CS FP BNP FP INGA NA 7.62% P.S. 21082019	WO AXA, BNP, ING	EUR	7,62% p.s.	21/08/2019	52,26%
12	XS1620557394	5Y EURQ PH+ SECURITY WO 75% SX5E CAC SMI 1.02% P.Q. NC4Q 29092022	WO SX5E,CAC, SMI	EUR	1,02% p.q.	29/09/2022	92,44%
13	XS1513289469	2Y USDQ PH+ STEP DOWN WO 60% GG NEM ABX 2.40% P.Q. 17052019	WO Goldcorp, Newmont mining, Barrick gold	USD	2,40% p.q.	17/05/2019	90,54%
14	XS1669740976	3Y USDQ PH+ SD WO 70% 2914 JT DAI GY VOW3 GY 2.95% P.Q. 30102020	WO Volkswagen, Daimler, JT	USD	2,95% p.q.	31/10/2020	60,63%
15	XS1658366932	4Y EUR PH+ SD SEC WO 57% RWE EOAN ENGI 1,375% P.Q.	WO EOAN, ENGIE RWE	EUR	1,375% p.q.	07/12/2021	97,20%
16	XS1667712852	5Y EUR PH+ 60% ACA FP 1,75%	Credit Agricole	EUR	1,75% p.q.	22/12/2022	68,05%
17	XS1667711961	2Y EUR PH+ 70% RNO FP 2%	Renault	EUR	2,0% p.q.	08/01/2020	69,05%
18	XS1706665269	2Y EUR PHOENIX PLUS WO 80% CS FP RNO FP 16.35% P.A. 20122019	Renault, AXA	EUR	16,35% p.a.	20/12/2019	59,82%
19							
20							
21							

## GLOSSARY

**Accommodative monetary Policy:** when a central bank attempts to expand the overall money supply to boost the economy when growth is slowing by lowering the interest rate or by purchasing Treasury bonds.

**Basis Points:** A unit that is equal to 1/100<sup>th</sup> of 1% and used to denote the change in a financial instrument.

**Bear:** an investor who believes, for any technical or fundamental reason, that a security or the broader market will decline significantly. A bear takes the appropriate steps to limit losses during the period that they believe that the security will decline.

**Bovespa Index:** The Ibovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.

**BoC:** Central Bank of Canada

**BoE:** Central Bank of England

**BoJ:** Central Bank of Japan

**CPI (Consumer Price Index):** measures changes in the price level of a market basket of consumer goods and services purchased by households.

**Credit risk:** credit risk is the chance that a bond issuer will not make the coupon payments or principal repayment to its bondholders. In other words, it is the chance the issuer will default.

**Deflation:** a general decline in prices, often caused by a reduction in the supply of money or credit. Deflation can be caused also by a decrease in government, personal or investment spending.

**EPS (Earnings per Share):** the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

**ECB (European Central Bank):** created in 1998, the European Central Bank determines the monetary policy to be adopted within the Eurozone. To do so, it has various means, in particular the key interest rates. The ECB is responsible for the single currency. Its main mission consists of maintaining price stability within the Euro zone.

**EM/EC (Emerging market economies):** markets/ countries in the process of rapid growth and industrialization.

**Equity Risk Premium:** The excess return that an individual stock or the overall stock market provides over a risk-free rate.

**Euro Stoxx 50:** A market capitalization-weighted stock index of 50 large, blue-chip European companies operating within eurozone nations.

**Fed (Federal Reserve):** central bank of the United States and controls the money supply.

**FOMC (Federal Open Market Committee):** The branch of the Federal Reserve Board that determines the direction of monetary policy.

**Guaranteed capital:** on maturity, a capital-guaranteed structured product repays a minimum 100% of the capital invested on expiry. However, the investor bears the risk associated with the issuer of a structured product. If the issuer defaults, there is a risk of loss of capital.

**Hang Seng Index (Hong-Kong Index):** A market capitalization-weighted index of 40 of the largest companies that trade on the Hong Kong Exchange. The index aims to capture the leadership of the Hong Kong exchange, and covers approximately 65% of its total market capitalization.

**Investment-grade bonds:** a rating that indicates that a municipal or corporate bond has a relatively low risk of default.

**ISM Manufacturing Index:** monitors employment, production inventories, new orders and supplier deliveries.

**Issuer:** in the case of a structured product, an issuer is an entity that issues and distributes investment products. An issuer may be a bank or a company created specifically for this purpose. In the case of a bond, an issuer is an entity (government, company, government agency etc.) that issues bonds and borrows the amounts required for its financing.

**Long/ Short Strategy:** An investing strategy of taking long positions in stocks that are expected to appreciate and short positions in stocks that are expected to decline.

**Maturity date:** in finance, maturity or maturity date refers to the final payment date of a loan or other financial instrument, at which point the principal (and all remaining interest) is due to be paid. The term fixed maturity is applicable to any form of financial instrument under which the loan is due to be repaid on a fixed date.

**MSCI World Index:** index designed to provide a broad measure of equity-market performance throughout the world. The Index is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

**Overweight:** An analyst's opinion regarding the future performance of a security. Overweight will usually signify that the security is expected to outperform either its industry, sector or, even, the market altogether.

**P/B Value (Price/ Book value):** a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

**P/E ratio (Price/Earnings ratio):** the ratio [Share price/earnings per share] reflects the trading price of a share in relation to the expected earnings. As such, the higher this ratio, the more expensive the stock, and vice versa. Note: the P/E ratio also depends on profit growth; companies with high profit growth tend to have a higher P/E.

**PMI composite:** composite of five of the survey indices. These are New orders, Output, Employment, Suppliers' delivery times (inverted) and Stocks of purchases

**PMI (Purchasing Managers Index):** Economic indicator of the manufacturing sector.

**Protected capital:** a product with protected capital does not guarantee the repayment of all the capital invested on maturity. The main risk associated with this type of product is a risk of capital loss, linked to fluctuations in the capital markets. There is a risk part or all of the capital may not be returned, depending on the type of protection.

**QE (Quantitative Easing):** An unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply.

**Quarterly Earnings Report:** A quarterly filing made by public companies to report their performance. Included in earnings reports are items such as net income, earnings per share, earnings from continuing operations and net sales. These reports follow the end of each quarter. Most companies file in January, April, July and October.

**S&P500 (SPX Index):** An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

**Structured product:** structured products are investment solutions comprised of a number of financial instruments. They combine one or more financial assets such as equities, currencies, interest rates etc. with a more sophisticated options component.

**TPIX index:** an index that measures stock prices on the Tokyo Stock Exchange (TSE).

**Underweight:** An analyst's opinion regarding the future performance of a security. Underweight will usually mean that the security is expected to underperform either its industry, sector, or even the market altogether.

**USDollar Index (DXY):** A measure of the value of the U.S. dollar relative to majority of its most significant trading partners.

**Valuation:** the process of determining the current worth of an asset or company.

**Valuation metric:** assessment method to determine the valuation of an asset such as the P/E for equities.

**Volatility:** volatility is a measure for variation of price of a financial instrument over time.

## EXPLANATION OF RISK LEVELS

For example, risk level R1 corresponds to a defensive risk profile. These indicators are based on the 1-year 95% Value at Risk (VaR). VaR is a measurement of the maximum amount a portfolio could lose under normal market conditions over a given period with a given probability. If the 1-year 95% VaR amounts to x%, this means that there is a 95% probability that the portfolio will not lose more than x% of its value in one year.

Risk classification	0 Lowest Risk	1 Low Risk	2 Medium Risk	3 High Risk	4 - Highest Risk
Loss	There is a 95% probability that the product will not depreciate in value in one year.	There is a 95% probability that the product will not lose more than 5% of its value in one year.	There is a 95% probability that the product will not lose more than 15% of its value in one year.	There is a 95% probability that the product will not lose more than 30% of its value in one year.	There is a minimum of 5% probability that the product will lose more than 30% of its value in one year.

This document, subject to modifications, is given for purely informative purposes and does not constitute a contract and should be treated as a marketing communication providing general investment overview, investment opportunities and strategies. The information contained in this document is given for information purposes only. Capitalised terms refer to the glossary attached to this document.

This document was prepared by OTP Banka Private Banking division, a division within OTP banka d.d. Because of the fact that this document is given for information purposes only, Croatian Financial Services Supervisory Agency (HANFA) as supervisory body OTP bankad.d. did not approve this document and has no control over the content of it and it is not fully compliant with regulatory provisions that could be considered as investment advice in any way. The contents of this document are not intended to provide an investment service or an investment advice, and the document does not constitute and under no circumstances should it be considered in whole or in part as an offer, a solicitation, advice, a personal recommendation, or an invitation to make an offer or purchase, subscribe for or sell financial products referred to herein, or an invitation to invest in the class of assets mentioned herein from OTP Banka Private Banking division or OTP bankad.d. The information indicated in this document shall not to be considered as legal or fiscal or accounting advice. Some products described herein may not be suitable for all investors, and can present various risks, or result in a potential loss of the total invested amount, including a potential unlimited loss, and accordingly are reserved only for a certain category of investors, and/or adapted to investors who are sophisticated and familiar with these types of product(s) and understand the investment and the associated risks. No investment decision whatsoever may solely result from reading this document. Accordingly, before making an investment decision, each potential investor will be questioned by OTP Banka Private Banking division at OTP bankad.d. to determine his eligibility to subscribe for the envisaged product, and the compatibility of the investment with his investment profile and objectives. He should also consult his own independent financial, legal and tax advisers to obtain all the financial, legal and fiscal information which will allow him to appraise the characteristics and the risks of the envisaged product, as well as his fiscal treatment, in light of his own circumstances. The reader is warned that the placement of stock exchange orders requires full knowledge of the regulations and operation of the markets. Before investing, the reader must be aware of the rapid fluctuations that may occur on certain markets and their speculative nature or their lack of liquidity. It is possible that certain assets or categories of assets mentioned in the document are not appropriate investments for the reader. In certain cases, the investment made includes even an undeterminable high risk of loss that could exceed the initial investment. The full understanding and agreement to the related contractual and informative documentation including the documentation relating to the relevant risks is required from the potential investor prior to the subscription of any product(s) any investment. Neither OTP bankad.d. nor OTP Banka Private Banking division shall be held responsible for any consequences, including financial consequences, resulting from your investments in and/or your instructions in relation to investments in financial product(s) concluded on the basis of this document alone. This document is not intended to be distributed to a person or in a jurisdiction where such distribution would be restricted or illegal. It is the responsibility of any person in possession of this document to inform themselves of and to observe all applicable laws and regulations of relevant jurisdictions. This document is in no way intended to be distributed in or into the United States and the financial products referred to herein cannot be distributed or sold directly or indirectly in or into the United States or to any US person.

Any investment may have tax consequences and it is important to bear in mind that neither OTP bankad.d. nor OTP Banka Private Banking division provide any tax or legal advice. The level of taxation depends on individual circumstances and such levels and bases of taxation can change.

The communicated information is only relevant in value at the time at which it was drafted. The price and value of investments and the income derived from them can go down as well as up. Changes in

inflation, interest rates and the rate of exchange may have an adverse effect on the value, price and income of investments issued in a different currency from yours. The simulations and examples included in this document are provided only for indicative and illustration purposes and may vary depending on the market fluctuations and the information and views reflected in this document may change. OTP bankad.d. and OTP Banka Private Banking division disclaim any responsibility to update or make any revisions to this document. The historical data and information herein, including any quoted expression of opinion, have been obtained from, or are based upon, external sources that OTP bankad.d. and OTP Banka Private Banking division consider to be reliable but have not been independently verified and are not guaranteed as to their accuracy or completeness. Neither OTP bankad.d. nor OTP Banka Private Banking division shall be liable for the accuracy, relevance or exhaustiveness of this information. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realised, and should not be deemed an assurance or guarantee as to the expected results of transaction(s) involving such investment product(s)/ asset class (es). OTP bankad.d. and OTP Banka Private Banking division accepts no responsibility for the accuracy or otherwise of information contained in this document. OTP bankad.d. and OTP Banka Private Banking division accepts no liability or otherwise in respect of actions taken by recipients on the basis of this document only and does not hold itself out as providing any advice, particularly in relation to investment services. The opinions, views and forecasts expressed in this document (including any attachments thereto) reflect the personal views of the author(s) and do not reflect the views of OTP bankad.d. and OTP Banka Private Banking division unless otherwise mentioned. This document is confidential, intended exclusively to the person to whom it is given, and may not be communicated nor notified to any third party (with the exception of external advisors on the condition they themselves respect this confidentiality undertaking) and may not be copied in whole or in part, without the prior written consent of OTP bankad.d. and/or OTP Banka Private Banking division. This document has been distributed in Republic of Croatia by OTP bankad.d., Domovinskog rata 61, 21000 Split, OIB: 69326397242.

#### Conflict of interest:

The circumstances that led to the drafting of this document do not result from an independent research. This notice was prepared with the greatest care by members of the OTP bankad.d. and OTP Banka Private Banking division. The employee(s) who elaborated this document may have a direct or indirect interest in the sale of the mentioned products. Agents or employees of OTP bankad.d. and OTP Banka Private Banking division who may have participated directly or indirectly in the drafting of this document may hold, have held, or will hold positions in any of the investments mentioned in this document. Regarding the treatment of conflicts of interest, Societe Generale - OTP banka d.d. refers to the provisions of Bank's Conflict of interest policy available upon request.

#### Risk level

The suitability of these investments depends on your own investor profile, financial knowledge and experience and also your investment objectives. If the investment themes and solutions presented are of interest to you, do not hesitate to contact OTP Banka Private Banking division.

In order to draw our clients' attention to the risk associated with each investment solution, each product is classified according to its specific risk level, on a risk scale ranging from the lowest level of risk to the highest level of risk as shown in table on previous page.