Information for Investors

in Financial Instruments

May 2021

Definitions

The following terms used herein shall have the meanings as set forth below, unless provided otherwise by the context:

Bank	Raiffeisenbank Austria d.d. Magazinska 69 10000 Zagreb Hrvatska Phone: +385 1 4566 466 072 62 62 62 Fax: +385 1 4811 624 E-mail: info@rba.hr Internet: www.rba.hr Swift: RZBHHR2X IBAN: HR0624840081000000013 MBS: 080002366 OIB: 53056966535 The Bank has received an authorization for the performance of the following investment services and activities: a) execution of orders on behalf of clients, b) dealing for own account, c) investment counselling, d) underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis, e) placing of financial instruments without a firm commitment basis, and f) ancillary services of safekeeping and administration of financial instruments for the account of clients, including custody and related services. The authorization was issued by the Croatian Securities Commission (legal ascendant of the Croatian Financial Services Supervisory Agency having its registered office in Zagreb, Franje Račkog 6, www.hanfa.hr) and the Croatian National Bank (having its registered office in Zagreb, Trg hrvatskih velikana 3, www.hnb.hr). The Bank is a member of the Zagreb Stock Exchange. The Bank is a member of the Central Depository and Clearing Company. The Bank participates in the investor protection scheme.
Financial instruments	Financial instruments as defined in Article 3 of the Capital Market Act
Global Custodian / Sub-Custodian	A third party or a financial institution in which the Bank holds a Financial Instrument Account and / or Cash Account(s) Information in respect of the Global Custodian, Sub-Custodians, the Croatian depository and numbers of custody accounts in which the Client's Financial Instruments are held in local depositories are specified in the Markets List and can be obtained from the Custody and Depository Business, in the Bank's business network and on the Bank's web page.
HANFA	Croatian Financial Services Supervisory Agency

Assets	Financial instruments and Cash held in Custody and Brokerage Account
Cash Account - Brokerage	Brokerage Account in which Client's Cash Assets are deposited. The Cash Account is opened for the Client's account with the following institution under the account number: Raiffeisenbank Austria d.d. IBAN: HR1824840081300069103.
Cash Account - Custody	Custody Account in which Client's Cash Assets are deposited. The Cash Account is opened for the Client's account with the following institution under the account number: Raiffeisenbank Austria d.d. IBAN: HR8224840081300095499.
Client	One or more private individuals or legal persons or pools of assets without legal personality, which enter into an agreement on brokerage and/or custody services with the Bank.
MIFID II relevant financial instruments	A financial instrument as defined under Article 4, paragraph1, item 15 of the Directive (EU) 2014/65, quoted in trading venues (regulated market, multilateral trading facilities (MTFs), organized trading facilities (OTFs), systematic internalisers) belonging to the European Economic Area (EEA) or of which the underlying assets are quoted in the said trading venues. Transactions in the mentioned instruments are reported to the supervisory body.
Authorised person	The person performing the relevant function (providing advice, information in connection to Financial Instruments or services and activities) in keeping with the Rules on Qualifications and HR Requirements for Providing Investment Services for the account of the Bank. The Bank shall ensure that such authorised persons have the required competences and expertise as are appropriate for an individual relevant function, regulatory requirements and rules of business ethics. At the Client's request, the Bank will present or issue a certificate confirming that the person performing the relevant function, for which function the Bank is responsible and competent, is the authorised person with regard to the relevant function they perform.
CMA	Capital Market Act (Official Gazette no. 88/08) including any amendments and modifications thereto made from time to time

Information for Investors

on Financial Instruments

and Risks Related to Investment

in Financial Instruments

and Other Forms of Assets

TABLE OF CONTENTS

General Information

The information presented herein have the purpose to inform the Clients of the circumstances that can be relevant in connection to the investment services extended by the Bank. This complements, but does not constitute a replacement for, the required agreements. In the event of inconsistencies, the provisions of the respective agreements shall be applicable.

Information on RBA

1. Licence

The Bank is licensed to perform services in the banking business, including investment services for its Clients. The competent regulatory body is the Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga (HANFA)), Franje Račkog 6, Zagreb, as well as the Croatian National Bank, Trg hrvatskih velikana 3, Zagreb. Further, the Bank is subject to supervision by the European Central Bank (ECB) within the single supervisory mechanism (SSM) that consists of the ECZ and the competent national bodies in keeping with the Regulation (EU) 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

2. Communication

The Bank uses Croatian and English to communicate with its Clients. The Bank is available for meetings during the working hours, or through the communication channels as agreed under the respective agreements or General Terms and Conditions. The legally binding agreements between the Bank and its Clients shall be made in the written form.

Information on Investment Services

1. Services Offered

The Bank offers the following services pertaining to investments and transactions in financial instruments:

1.1 Buying / Selling Financial Instruments

The Bank provides for buying and selling of financial instruments to its Clients. Depending on the instrument, the Bank can act in the capacity of the buyer or seller in a transaction, or as the intermediary in a transaction it contracts for a Client's account with a third party, and therefore it is often necessary to use also other intermediary partners to whom a Client's orders are transferred for execution.

1.2 Custody including Settlement Account Management

The Bank offers its Clients the custody service for financial instruments, and in the process, it regularly engages services of professional sub-custodians or third parties.

2. Information on Risks Related to Financial Instruments

The general type of Financial Instruments in connection to investment services that will be performed, as well as the risks related to such Financial Instruments are contained below herein.

3. Additional Information for Clients

The Bank will notify its Clients of the investment services it offers continuously, as under the valid and effective regulations. Prior to contracting a transaction related to Financial Instruments, Clients will receive information on the costs arising from the offered investment service or acquisition of a relevant Financial Instrument. Depending on the product and type of the investment service, such information will be available in the standardized or personalized form. Clients will receive information on the respective costs, fees and additional incentive also after the deals have been made, regularly as prescribed under the valid and effective regulations.

Certificates of Order Execution or Transaction Agreements will be delivered to Clients in the manner as agreed on the following business day or a day after the Bank receives the relevant confirmation from the third party with whom the order was executed. Also, Clients will receive regular custody statements for the Financial Instruments with the Bank in keeping with the terms and conditions as under the relevant custody agreements.

Statements on the Financial Instruments or Cash of Clients: the Bank holds the Financial Instruments or Cash of its Clients and delivers the Statements on the Financial Instruments or Cash to every individual Client for whom it holds the Financial Instruments or Cash on a permanent medium at least trimestrally, save if the Statement had been delivered in another periodic report.

Execution of Clients' Orders

The Bank prescribed the principles according to which Clients' orders are to be executed, so as to achieve the best possible results for the Client – Order Execution Policy. The Bank executes Clients' orders pursuant to this policy, save in the case if otherwise instructed by a Client. The policy is available at the Bank's headquarter and on the website: http://www.rba.hr/.

Incentives

1. Basic Principles of Product Sales Compensation

From some partners whose products it sells, the Bank receives a Trailer fee for offering a wide range of products (basic buying and possibility to sell), for continuous Client management, education measures and processing. Such fees are required to maintain the high degree of quality and to further increase the buying ability, the quality of counselling and information to Clients. The amount of the current fee depends on the product type and on the issuer or intermediary themselves.

The Bank lays great importance on services tailored according to Client's needs, taking into consideration the risk diversification principle. Therefore, the Bank provides a wide range of products appropriate for Clients. The Bank will not retain any additional incentive that it has not used towards improving the service to its Clients. During the period in which the Bank gives or receives additional incentive in connection to the services it extends to its Clients, it shall inform every Client separately of the total amount or the quantity of received additional incentive once a year.

The Bank can receive such Trailer fees from its partners, among others from Raiffeisen Kapitalanlage-GesmbH and Raiffeisen Invest d.o.o.

2. Detailed Information

Per request, the Bank's Clients can receive more details of the above agreements and fees personally.

Complaints

The Bank takes any and all necessary measures to offer appropriate solutions and to execute its services in the best possible manner. The Bank's ultimate goal is Client satisfaction. If a Client believes that the Bank failed to fulfil their expectations or they believe to have any reason to object, the Client shall send a written statement presenting in detail the possible causes for such complaint to the following address, and the Bank shall investigate their case as soon as possible:
Raiffeisenbank Austria d.d.
Central Operations - Complaints
Magazinska cesta 69, 10000 Zagreb
e-mail: reklamacije.kune@rba.hr

If a Client is dissatisfied with their complaint resolution and believes that a repeated contact with the Bank will not contribute to resolving of the situation at hand, they can file a complaint to the competent institutions (e.g.: consumers can institute mediation with the Mediation Centre of the Croatian Chamber of Commerce).

Various

1. Foreign Currency Transactions

If it is necessary, when placing orders, to effect a payment in a foreign currency or convert into the Kuna a payment received in a foreign currency, the Bank executes the conversion on the basis of the exchange rate it usually applies in its dealings with Clients as on the settlement date.

The applicable valid exchange rate list is available on the Bank's website: www.rba.hr.

2. Additional Taxes and Costs

In addition to the fees set under the agreements between the Client and the Bank and the cash expenses, the Client can incur additional costs and taxes (e.g. tax for domestic and foreign capital gains) that are not necessarily paid through the Bank or invoiced by the Bank. The Clients themselves are responsible to meet their tax duties, especially those pertaining to their homeland.

3. Client Down-payments

Amounts paid by Clients to the Bank within the scope of the transactions in connection to Financial Instruments debit the instructing participant's account with the Bank, save if otherwise agreed.

Definition of Risk

Risk is uncertainty, or the possibility of losses resulting from adverse variances from an expected result.
The prerequisites for the existence of risk are uncertainty and exposure.

Uncertainty is the result of not knowing future effects. **Exposure** is any type of transaction or business decision that involves uncertainty as to the achievement of results. Losses in an economic sense result from a reduction in the present value of assets, or a lack of increase in the present value of assets.

The most common types of risk are shown below. This list is in no way exhaustive and not all risks are shown - just the most common risks recognised by the Bank.

Risk Types

1. **Credit Risk**

Credit risk occurs in all forms of credit exposure. Credit risk is the risk that a debtor will not be able to meet their obligations (within the agreed amount or deadline) due to default on payment or for other reasons. Similarly, credit risk is also a deterioration of the financial standing of companies in which the investor has a stake. Furthermore, in cases of the company's insolvency or bankruptcy the investor may lose the entire value of their investment. In addition, the residual risk remaining after risk reduction techniques represents a credit risk since, in the event of a default, certain security instruments may be unable to yield the anticipated amount. We differentiate between subcategories of credit risk as follows:

a. Counterparty Risk
This category of credit risk arises in informal (OTC) market derivatives, repo transactions, transactions of borrowing securities and commodities, transactions with long maturities and transactions of issuing loans for the purchase of securities and payment of a fee. This type of risk is prone to fluctuations in market prices (e.g. in swaps, forward transactions…) and can be linked to cases of so-called wrong-way risk, i.e. cases in which exposure is increased when the credit quality of the counterparty falls. It also includes special techniques of risk reduction such as netting agreements, margining.

b. Default Risk
Default risk is the risk of the counterparty not meeting its contractual financial obligations. Such a failure to meet obligations (default) occurs when the debtor is unable to meet their credit obligations. Default entails non-payment, or the enforced restructuring of the debtor's contractual obligations. Financial loss in cases of default depends on a number of factors, e.g. the type of product, security instruments (type, value) and rank of placements.

c. Migration Risk
Migration risk is the potential for loss resulting from a change in the fair value of credit exposure, arising due to a deterioration in the client's credit rating.

d. Country Risk
Country risk is the risk of the debtor being unable to meet foreign financial obligations due to political and economic difficulties in the debtor's country. Country risk, aside from political risk, also includes a worsening of the economic climate in a country (economic risk). Political risk is the probability that a change in the political circumstances of a foreign country will result financial losses for the investor.

- **Political risk** includes wars, strikes, revolutions, trade embargoes, political and economic sanctions, expropriation, nationalisation, moratorium on payments abroad, also including non-convertibility of the domestic currency, suspension of a currency regime.
- **Economic risk** includes a worsening of a country's economic indicators, which can affect the financial situation of the debtor, devaluation/depreciation having a significant impact on the debtor's business and on their competitiveness.

2. Market Risks

Market risks are defined as potential losses caused by external influences on the value of an investor's assets and arise due to changes or adverse movements in prices on financial markets. Market risk is the possibility of losses resulting from unexpected and adverse changes in market prices and factors such as interest rates, foreign currency exchange rates and share prices. It includes changes in the value of assets being traded, such as shares and bonds, price fluctuations in market indexes, correlation, spreads and the impact of changes in volatility and liquidity factors.

a. Interest Rate Risk

Interest rate risk is the risk of an adverse effect on profitability resulting from changes in interest rates. An investor is exposed to interest rate risk when there is the possibility of unanticipated changes in interest rates that could have a negative effect on net interest income or profitability, and on the market value of a portfolio. Interest rate risk arises from the non-harmonisation of the investor's assets and liabilities, and sensitivity to changes in different interest rates.

b. Credit Spread Risk

Credit spread risk is the risk of losses due to adverse movements in the market prices of debt instruments with unexpected changes in credit spread (margin). Credit spread risk arises from investors' changeable appetite for risk, which influences market prices thus causing an increase or decrease in the credit margin. This does not cause a change in the issuer's creditworthiness, but in the issuer's specific risk. Credit spread risk is an important factor in portfolios relying on a strategy of trading in spreads or credit derivatives.

c. Exchange Rate Risk

Exchange rate risk is the risk of adverse changes in the fair value of positions (stated in domestic currency) due to changes in exchange rates and/or changes in the price of gold. Positions in foreign currencies, as well as positions in gold, can carry exchange rate risk. The Bank uses local currency as the reference currency in statements to the investor. The value of the portfolio is sensitive to changes in exchange rates if it contains spot or future monetary flows nominated in a currency that differs from the bank's base currency, including positions in exchange rate clauses.

d. Equity Risk

Equity risk relates to potential losses due to unfavourable price movements of exposures in shares and other forms of direct or indirect investment in companies. The range of exposure to this risk includes equity positions, equity derivatives or derivatives in stock market indexes, funds and other investments in equity positions (e.g. via investment funds). It is considered that investors in these positions are exposed to equity risk.

e. Commodity Risk

Commodity risk refers to the risk of a reduction in the fair value of commodity positions due to adverse changes in their prices. The term commodity refers to a physical product that is traded and/or can be traded on a secondary market, and which represents a separate asset, including raw materials and goods (e.g. oil, gas and electrical energy, grains, steel, etc.), but not including gold, which is treated as a currency. Physical possession of goods is usually expensive due to the costs of transport and warehousing.

f. Volatility Risk

Volatility risk is defined as an adverse change in the market prices of certain positions due to changes in the market's expectations of the future volatility of those positions' price. Volatility risk, i.e. the value of an option, is measured using various indicators:

- delta (delta shows the change in the price of an option due to a change in the price of the underlying instrument);
- gamma (gamma expresses expected changes in the value of delta due to small changes in the price of the underlying instrument);
- vega (sensitivity to the price of an option due to changes in volatility).

A change in volatility automatically results in a change in the fair value of options, and thus immediately affects earnings/profit.

g. Market Liquidity Risk

Market liquidity risk refers to the risk arising from the impossibility for the investor to simply offset or liquidate a position at market prices either due to market deficiencies or inadequate market depth.
Market liquidity risk is associated to the possibility of changes in the difference between the value of market offers for purchase and for sale (the bid-ask spread), as well as the fact that there is no bid-ask quotation for the appropriate volume of transactions at any moment (or period). Therefore, the investor may find it impossible to buy or sell some liquid assets under normal market conditions.
This can happen due to excessive positions in those assets, inadequate market depth, or on account of other adverse business conditions on the market. Market liquidity risk becomes less important in the long term.

3. Other Risks

This category highlights other risks that can arise when investing in financial instruments that are not covered by any of the so-called primary types of risk.

Settlement Risk

Settlement risk is the possibility that a transaction will not be realised in accordance with the contractual terms. Settlement risk occurs in cases of time delays when exchanging cash, securities or other assets. As such, settlement risk includes credit, market and liquidity risk:

- **credit risk** occurs when the counterparty does not deliver the security or cash after the first party has already paid or delivered the security paper according to the contract,
- **market risk** occurs in cases of delay in settling a transaction when trading losses may occur. During that time the market value of the subject of the transaction (i.e. the security or other asset) can change adversely for the credit institution,
- **liquidity risk** occurs in cases when the counterparty does not deliver the contractual value on the day of settlement, but later.

Environment-Related Risks

These types of risks relate to the environment in which the issuer does business:

- **country rating downgrade risk** of the country in which the issuer's registered office is located,
- **sovereign risk** – risk arising from lack of ability and/or willingness to repay due government debt
- **political risk** – risk of unexpected political changes or instabilities in a country
- **inflation risk** – risk arising from decline in the value of a financial instrument resulting from an increase in general price level (inflation)
- **FX risk** – risk arising from change in FX rate may affect return on investment in foreign currency
- **transfer risk** – risk of imposing a restriction on transferring capital out of the country

Issuer Risks

Issuer risks are directly associated with the business operations of the issuer:

- **credit risk** – risk of decline or complete loss of financial instrument's value due to deteriorated solvency, credit rating or initiated bankruptcy proceedings against the issuer
- **management and operational risks** – risks that may cause the issuer of Financial Instruments to become unable to meet agreed obligations
- **dividend risk** – risk that the stock company will not pay the dividend which depends on the decision of the stock company's general meeting and business activities of the respective company
- **reputational risk** – risk of adverse influence of a certain event or activity on issuer's reputation
- **ecological risk** – risk of adverse effect on environment resulting from performing certain business activities

Financial Instrument Risks

Financial instrument risks are related to the legal status of the Financial Instrument:

- **risk related to the legal status of the Financial Instrument** (for instance, risk related to documentation for issuance of financial instruments: decisions and decrees of competent authorities, subscription documents, payment, prospectus approval; risk related to financial instrument quotation documentation)

Regulatory Risks

Regulatory risks relate to the activities of the government and other regulatory bodies:

- **risk of changes in tax-related and other regulations** – probability that tax-related and other regulations of the Client's country and/or in countries in which the Client's assets are investments could change and thus adversely affect yields. The risk of changes of tax-related and other regulations is beyond the Bank's control and influence whatsoever.
- **risk of suspension** of a financial instrument by a regulatory authority.

Risks Associated with Safekeeping of Assets in Omnibus Custody Accounts

- **Risk associated with the lacking or insufficient knowledge of the *nominee* concept** by applicable national legislation of the third country (risk that the Client's Financial Instruments which are held by a third party can not be distinguished from the assets of the third party or the Bank's own assets):
  - risk that a person on whose name the account has been set up (Bank or Sub-Custodian) is considered as the registered owner of the Financial Instruments in the custody account and therefore this person lawfully exercises all the rights pertaining to the custodied Financial Instruments and the financial instruments are included in the third party's bankruptcy estate (the risk exists only if the custody account with the third party has been opened in the name and for account of the third party or the Bank, and in jurisdictions where holding of financial instruments for account of another party is not fully or adequately regulated)
  - risk that it will not be possible to vote at the issuer's General Meeting with split votes or a share of votes attached to the Financial Instruments held in an omnibus account for several Clients
  - risk of market thresholds being applied on the omnibus account and not on an individual Client
  - risk that one of the Client fails to perform legal obligations, for instance, to obtain the required approval or to notify competent authorities in case of acquiring a qualifying holding, and in this case Financial instruments of all Clients may be temporarily blocked, and the Clients may not be able to exercise voting rights due from the respective instrument
  - risk that it will not be possible to deliver Financial Instruments from the omnibus custody account maintained with a local Sub-Custodian to the custody account kept with another local Sub-Custodian
  - risk of corporate actions in case assets are held in an omnibus account, if certain rights result from the holding of a certain number of financial instruments, there is a risk that it will not be possible to appropriately allocate them to actual holders.
- **Tax risk** – application of a higher rate of withholding tax than the rate set out in the Double Taxation Agreement
- **Operational risk** – risk that the Assets of one Client will be used for account of another due to a mistake or intention or fraud committed by an employee of the Bank /Sub-custodian or Sub-custodian's third party. This risk is mitigated by regular reconciliation of turnover and balances in omnibus accounts at the Global Custodian/Sub-custodian against account turnover and balances in Bank's books and regular reconciliation of cash assets of clients, which assets are kept aggregated in the Cash Account – Brokerage and the Cash Account – Custody and against the Bank's analytics records of Clients' Assets for every Client separately. This allows the Bank to differentiate one Client's assets from the assets of other Clients and from the assets of the Bank at any time. Further, the Bank applies measures of internal oversight that ensure control of Client's Assets transfers so that every transfer of Client's Assets, when possible, must be executed by two persons with appropriate authorities, of which one shall enter the transfer order, and the other shall authenticate it (the four-eyes principle), and to the effect of avoiding incorrect updating, irregular record-keeping and misuse or neglect in business dealings.

- **Legal risk –** risk of possible loss arising from the possibility of default, partial default or delayed fulfilment of contractual obligations of the Bank due to changes or implementation of new coercive regulations and/or court, arbitration or administrative and legal measures.
- **Distance between issuer and actual holder of Financial Instrument** – the issuer of the Financial Instrument is aware that the service provider is not the actual holder of the Financial Instrument, but does not know who it is, so this may cause delays in the flow of information.
- **Risk of bankruptcy and insolvency** or inability by a third party to perform any obligation relating to the investment service or activity.

In addition to the above, as regards instruments traded through financial leverage (described below herein), in particular market situations, the investor can take over, as a result of transactions in such instruments, financial and other potential obligations along with the cost of instrument acquisition. This risk type is not present in other instruments in the Bank's offer, except if not otherwise stated in the prospectus of a particular instrument.

Shares

Definition

A share is a security that grants the owner the right to participate in the management of a company, the right to a share in realised profits and the right to the remainder of the assets after liquidation or bankruptcy. Some types of shares (preference shares) in addition to the above may give the owners certain other rights (e.g. the right to a guaranteed dividend, priority in payments of profits, etc.). The owner of a share does not have the right to demand that the issuer of the share buys the share back, except in the certain cases. Shares can be sold at their market price. Profits resulting from share ownership can be dividends (a share of the issuer's paid out profits) and capital gains, which result from the difference between the purchase and selling price of a share. By investing in shares a shareowner can also suffer a loss resulting from the difference between the purchase and selling price of the shares.

Risks Associated with Investment in Shares

Investment in shares is associated to equity risk. Equity risk refers to potential losses due to unfavourable price movements of exposure to shares and other types of direct or indirect investment in companies.

Volatility risk (the percentage of share price fluctuation) also affects share values. Investing in shares is also associated with exchange rate risk in cases where shares are denominated in a foreign currency. Liquidity risk also affects shares as a result of insufficient demand for a certain share.

Investing in shares does not guarantee the return of the initial investment or a regular payment of dividends. The amount and payment of dividends depends on the financial results of the company and on the decision of the general meeting of shareholders on the payment of dividends. The value of a share may fluctuate in relation to the value of the share issuer's assets and on financial results and market expectations.

Maximum loss is limited to the amount of the initial investment in the share, unless the share is used as a security instrument for a loan that is invested in the further purchase of financial instruments and is therefore exposed to the risk of leverage (the leverage effect).

As regards illiquid shares, restrictions are possible in connection to investment withdrawal on account of lacking demand for a particular instrument.

Debt Securities

Definition of Debt Securities

A debt security is a security that gives the holder the right to payment of the amount of the funds loaned (principal) and payment of interest on the principal (coupon), and represents an obligation assumed by the issuer to pay the principal and interest. Issuers of debt securities could be countries, municipalities, cities, financial institutions or companies. The issuer is obliged to make a single payment of the principal on a precisely defined date, or in agreed instalments according to a timetable defined in advance.

The issuer may have the right to buy up the principal before the expiry date, but only if this is clearly stated in the conditions of issue.

Securities can be issued in various currencies. Debt securities can have the following kinds of agreed interest rates:

- fixed interest rate
- variable interest rate
- no coupon, and
- combined interest rate.

Risks Associated with Investment in Debt Securities

Investing in debt securities is associated with the risk of a fall in the price of the debt security in comparison to the purchase price, and of the issuer failing to meet its obligations. The value of the debt security depends on several factors and exposure to several types of risk:

- **Interest rate risk**: if interest rates rise, the value (price) of debt securities falls. In particular situations, heightened interest rate volatility is possible, whereby interest rate risk decrease results in debt securities price rise.
- **Credit risk** means the risk of a fall in the value of debt securities due to changes in market perception of the quality of the issuer's credit rating and the risk of the issuer failing to meet its obligations.
- **Market risk** means the risk of a fall in value of a debt security due to a fall in the overall debt security market.
- **Reinvestment risk** arises from the fact that if interest rates fall, the interest paid out on the debt security is invested at a lower interest rate, which will result in a lower overall yield from the investment in that security.
- **Risk of early redemption of debt securities** is associated with an option built into a security giving the issuer the right but not the obligation to redeem the bonds if interest rates fall, with the aim of reducing the issuer's cost of debt on a precisely defined date. The holder of the debt security can then reinvest the amount received at a lower interest rate. If the issuer has the right to partially redeem the principal, we call that the risk of partial early redemption. If the issuer has a built-in option for early redemption of all or part of the principal, then that debt security carries a higher volatility risk. The greater the fluctuation in interest rates, the higher the possibility that the issuer will exercise its early redemption right.
- **Liquidity risk** is associated with the risk of achieving a price that is lower than the current market price on the sale of the debt security due to low demand for some securities. As regards illiquid debt securities, restrictions are possible in connection to investment withdrawal on account of lacking demand for a particular instrument.
- **Exchange rate risk** relates to those debt securities issued in a foreign currency, or in a currency that differs from the local currency. In the event of adverse movements in the currency in which the debt security is issued in relation to the local currency (weakening of the foreign currency or strengthening of the local currency), the debt security holder may lose on the value of their investment in that debt security.
- **Inflation risk** refers to the possibility of the amount paid out by the issuer on maturity having a lower real value due to an increase in the inflation rate in that currency in relation to the date of the initial investment.
- **Political risk** means the risk of loss of value of a debt security due to changes in the political circumstances in certain countries or regions.
- **Event risk** means the risk of loss of value of a debt security due to an event not linked to fluctuations on the financial markets, such as natural disasters.

Maximum loss is limited to the amount of initial investment in the debt security, unless it is used as a security instrument for a loan that is invested in the further purchase of financial instruments, in which case it is also exposed to the leverage effect.

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 notes and certificates of deposit, aside from instruments of payment.

Factors affecting the risk and yield of money market instruments coincide to a considerable degree with those defined for debt securities. 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 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 days, with a denomination of HRK 100,000.00. Treasury bills are subscribed at auctions held by the Croatian Ministry of Finance.

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 vastly differing creditworthiness, as a rule they represent a less secure instrument than Treasury bills.

Certificates of deposit are marketable debt instruments issued by credit institutions which undertake to pay the principal together with accrued interest on expiry of a certain maturity date.

Investment Funds

Definition of Investment Funds

An investment fund is a collective investment undertaking, the sole purpose and intention of which is to pool funds through public or private offering and invest those funds in various types of assets in conformance with the investment fund's previously defined investment strategy, and exclusively for the benefit of the holders of stakes in that investment fund. An investment fund can be an open-end or closed-end, or an alternative investment fund or a UCITS fund. Investment funds can be grouped according to their investment strategy, and thus categorised as follows:

- **money market funds**
- **balanced funds**
- **bond/fixed-income funds**
- **stock/equity funds**
- **alternative investment funds** (e.g. hedge funds, real estate investment funds)

Risks Associated with Investment Funds

Investing in an investment fund assumes the acceptance of certain risks. Generally, the risk of investing on capital markets is the probability or possibility that the return on investment is insufficient or negative.

The basic types of risk associated with investing in investment funds are:

- **Market risk** refers to the possibility that future changes in market conditions will lead to a reduction in return of the investment instrument, or a reduction in its value, which will consequently have a negative effect on the return of the investment fund. Financial instruments classified in a trading portfolio are recognised at fair value, and all changes in market conditions have a direct effect on trading income. Market conditions are to a large extent an expression of the economic and political conditions in the countries in which the assets are invested, as well as the state of the global economy. Market risk includes price risk, interest rate risk and exchange rate risk.
- **Price risk** is a risk of loss, or reduction in value of the investment due to a fall in the price of the financial instrument. In particular situations heightened volatility of the financial instrument price is possible, whereby price risk increases.
- **Interest rate risk** is the risk of a reduction in the value of investment due to changes in interest rates. If market interest rates rise, the price of debt securities falls and vice versa, while their yields approximately

follow fluctuations in interest rates. The time remaining until maturity also affects changes to the prices of the above types of investment, with short-term bonds less exposed to interest rate risk.

- **Exchange rate risk** is the risk of a change in the exchange rate of a foreign currency in relation to the kuna or other reference currency in which investment returns are measured.
- **Credit risk** represents the probability that the issuer of a financial instrument included in the assets of an investment fund, or person with whom the Company concludes transactions on the financial markets on behalf of the investment fund, will not wholly or partially fulfil its obligations, which would have a negative effect on the liquidity and value of assets.
- **Settlement risk** is the probability that the realisation or settlement of concluded transactions will be difficult or completely impossible.
- **Concentration risk** represents a risk that increases with significant exposure of shares in the assets of an investment fund to, for example, a single issuer, single asset category or particular sector.
- **Liquidity risk** is the probability of the impossibility of the fast sale of a financial asset at a price close to the fair value of that asset.
- **Risk of change in statutory regulations** represents the probability that the taxation and other legal regulations in the country of the investor and/or countries in which the assets of the funds are invested change so as to adversely affect their yields.
- **Political risk** represents the uncertainty of investing investment fund assets in certain countries due to instability in the economic, political or social system, changes in international relations, state policies, economic measures, limitations on foreign investments and other extraordinary events.
- **Inflation risk** means that the amount invested has a lower real value due to an increase in the inflation rate in the currency of a certain country compared to the date of initial investment.
- **Event risk** means the risk of depreciation of some or all assets due to events not associated with fluctuations on the financial markets, such as natural disasters.
- **Property sector investment risk** is associated with the risk of a change in value of the part of a fund's assets invested in property.

As regards investment funds with a fixed investment period, restrictions may be applicable in connection to investment withdrawal at a particular desired moment. Further, for some investment funds an exit fee may be applicable, which results in reduced return of the initial transaction costs for a particular financial instrument.

Maximum loss is limited to the amount of initial investment in the investment fund unless it is used as a security instrument for a loan that is invested in further purchases of financial instruments and is thus also exposed to the leverage effect.

More detailed information on investing in investment funds can be found in the investment fund's prospectus.

Financial Derivatives

Definition

Financial derivatives are instruments, the value of which depends on the value of the underlying instruments from which they are derived. Underlying instruments include interest rates, currencies, stock market indices, individual shares, bonds, commodities, etc..

According to the definition in the Capital Markets Act, the following instruments are considered financial derivatives:

- options, futures, swaps, forward rate agreements and all other derivative contracts relating to securities, currencies, interest rates or yields or other derivative financial instruments, financial indices or financial measures,
- options, futures, swaps, forward rate agreements and all other derivative contracts relating to commodities,
- derivative instruments for the transfer of credit risk,
- financial contracts for differences,
- options, futures, swaps, forward rate agreements and or other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics, and
- any other derivative financial instruments relating to property, rights, obligations, indexes and measures not included in this item, which share the characteristics of other derivative financial instruments taking into

account, among other things, whether they are traded on a regulated market and/or on a multilateral trading platform, and whether they are netted and settled via recognised clearing organisations or subject to regular margin calls.

Financial derivatives are used to provide protection from the risk of changes in the value of the underlying financial instrument (hedging), for speculative purposes and for various types of arbitrage. Trading financial instruments offers great rewards, but also great losses. With financial derivatives it is not necessary to fully pay for the full value of the underlying financial instrument, and the exchange of cash occurs in the future. It is this fact that allows the use of a high level of financial leverage, which makes investing in these instruments much riskier. This document describes some of the derivative instruments.

Risks Associated with Financial Derivatives

We describe below the risks associated with financial derivatives. In addition to these risks, any financial derivative is exposed to the risks of the individual underlying financial instrument. For example, financial derivatives with currencies as the underlying instruments bear the risk of forward transactions, and their risks are described below.

Counterparty risk - this category of credit risk occurs in derivatives of the so-called OTC market, repo transactions, transactions of loaning securities and commodities, transactions with long settlement periods and transactions of issuing loans for the purchase of securities and payment of a fee. This type of risk is affected by fluctuations in market prices (e.g. in swaps, forwards) and can be associated to cases of so-called wrong-way risk, in which exposure is increased when the credit quality of the counterparty falls. It also includes special techniques of risk reduction (netting agreements, margin).

Settlement risk is the possibility that a transaction will not be realised according to the contractual terms. Settlement risk occurs in the event of a time delay in the exchange of cash, securities or other assets. As such, settlement risk includes credit, market and liquidity risk:

- **credit risk** occurs when the counterparty neglects to deliver the security or cash after the first party has already paid or delivered the security according to the contract,
- **market risk** occurs in cases of delay in settling a transaction when trading losses may occur. During that time the market value of the subject of the transaction (i.e. the security or other asset) can change adversely for the credit institution,
- **liquidity risk** occurs in cases where the counterparty does not deliver the contractual value on the day of settlement, but later.

Commodity risk means the risk of a reduction in the fair value of commodity positions due to adverse changes in their prices. The term commodity refers to a physical product that is traded and/or can be traded on a secondary market, and which represents a separate asset, including raw materials and goods (e.g. oil, gas and electrical energy, grains, steel, etc.), but excluding gold, which is treated as a currency. Physical possession of goods is usually expensive due to the costs of transport and warehousing.

Volatility risk is defined as an adverse change in market prices of certain positions due to changes in market expectations of the future volatility of that position's price. Volatility risk, i.e. the value of an option, is measured using various indicators:

- **delta** (delta shows the change in the price of an option due to a change in the price of the underlying instrument);
- **gamma** (gamma expresses expected changes in the value of delta due to small changes in the price of the underlying instrument);
- **vega** (sensitivity to the price of an option due to changes in volatility). A change in volatility automatically results in a change in the fair value of options, and so immediately affects yields/gains.

Credit Spread Risk is the risk of losses due to adverse movements in the market prices of debt instruments with unexpected changes in credit spread (margin). Credit risk spread arises from investors' changeable appetite for risk, which influences market prices thus causing an increase or decrease in credit margin. This does not cause a change in the issuer's creditworthiness, but in the issuer's specific risk. Credit spread risk is an important factor in portfolios employing a strategy of trading in spreads or credit derivatives.

Forward Contracts and FX Swaps

Definition

FX SPOT transaction is an agreement between two parties under which one party has the obligation to buy the first currency and sell to the second currency at an exchange rate fixed on the transaction date, and another party has the obligation to sell the first currency and to buy the second currency on the settlement date. The settlement date is exclusively the date agreed when transaction is entered into, or two working days after the transaction date.

Forward contract (or FX outright) is an agreement between contracting parties under which one party has the obligation to buy the first currency and to sell the second currency at the forward rate, which is fixed on the date on which the forward agreement is entered into, and another party has an obligation to sell the first currency and to buy the second currency at the same exchange rate, with delivery of currencies on a pre-determined date in the future (expiry date).

Forward rate is the exchange rate, which does not represent a forecast of the exchange rate in the future, but is the spot rate on the transaction date, increased/decreased by the difference between the interest rates of the two quoted currencies. Settlement is executed by delivery of the agreed currencies at the pre-determined agreed exchange rates on the expiry date of the forward transaction.

FX SWAP is a currency swap comprising two legs, one being an FX spot or a forward contract, and another, which goes in the opposite direction from the first conversion, being a forward contract.

Risks Associated with Forward Contracts and FX Swaps

Trading in forward contracts is associated with the **risk of realising the agreed contract** at a price lower than the current market price. If the contracted forward exchange rate is lower than the current market exchange rate, the party with the obligation to sell the contracted amount makes a loss, while the other party makes a profit.

The risk of trading in currency swaps is subject to the **risk of negative changes** in the difference between the interest rates of the two currencies that are the subject of the currency swap. This situation occurs when the interest rate of the sold currency rises or the interest rate of the purchased currency falls, or when the difference between the interest rates of both currencies has a negative effect on the contracted currency swap.

Settlement risk applies to both financial instruments and represents the possibility that the transaction will not be realised according to the contracted terms. Settlement risk occurs in cases where there is a time difference in exchanging cash, securities or other assets. Settlement risk thus involves credit, market and liquidity risk:

- **credit risk** occurs when the counterparty does not deliver the security or cash after the first party has already paid or delivered the security according to the contract,
- **market risk** occurs in cases of delay in settling a transaction when trading losses may occur. During that time the market value of the subject of the transaction (i.e. security or other asset) can change adversely for the credit institution,
- **liquidity risk** occurs in cases when the counterparty does not deliver the contractual value on the day of settlement, but later.

Risk of financial leverage for these instruments, which is described in this document below, is possible with regard to professional investors who opt for this type of trading.

Options

Definition of FX Options (FX Vanilla)

FX option is an agreement between two parties under which the party buying the option (the Buyer) has the right but not the obligation to buy the first currency and sell the second currency at an exchange rate which is fixed on the purchase date of the FX option, and the party selling the option (the Seller) has the obligation, if the option Buyer so demands, to sell the first currency and buy the second currency at that same exchange rate.

Call option is the right of the Buyer to buy a certain currency.

Put option is the right of the Buyer to sell a certain currency. Each FX option is simultaneously both a call and a put option.

The option's expiry date is the date on which the Buyer may exercise the option. The expiry date can be a pre-determined calendar day and the option may be exercised solely on that date (European option) or it can be defined as any date up to the expiry date of a pre-determined future period (American option).

Strike price is the agreed exchange rate at which the option Buyer has the right to buy or sell the currencies which are the subject of the option, and the Seller has the obligation, if the Buyer so demands, to sell or buy the currencies which are the subject of the option.

Premium is the option price which the Buyer pays to the Seller.

The value of an option depends on several factors, as follows:

- **exchange rate volatility of the agreed currency pair,**
- **strike price,**
- **the option's expiry date,**
- **FX spot rate,**
- **interest rates of both currencies,**
- **liquidity.**

Risks Associated with Trading in FX Options

Purchase of a call option is associated with a loss in value of the option if the spot rate falls below the strike price, or if the volatility of the spot rate falls. Maximum loss is limited to the amount of premium paid.

Sale of a call option is associated with the risk of the obligation to deliver an amount at a strike price which is lower than the current spot rate. The risk of meeting the obligation rises with any increase in the spot rate or increase in volatility. The potential loss for the seller of an option is unlimited.

Purchase of a put option is associated with the loss in value of the option if the spot rate rises above the strike price or if the volatility of the spot rate falls. Maximum loss is limited to the amount of premium paid.

Sale of a put option is associated with the risk of the obligation of accepting an amount at a strike price which is higher than the current spot rate. The risk of meeting obligations rises with any increase in the spot rate or increase in volatility. The potential loss for a seller of an option is unlimited.

Forward Rate Agreements (FRA)

Definition

Forward rate agreement is a contract under which the contracting parties define a fixed interest rate on their short-term loans or placements in the future. FRA buyer can buy a fixed interest rate or sell a fixed interest rate.

Fixing date is the date on which the level of the reference interest rate is established, and this is two working days before the settlement date.

The agreed notional principal amount is not exchanged, and there is no obligation of placement by either contracting party on the other, nor any lending or funding from it.

Amount due and payable is the amount which is due on the settlement date. The amount due is the factor of (a) the agreed reference amount, (b) the difference between the agreed fixed interest rate and the reference interest rate determined on the fixing date, expressed as a decimal number, (c) the day count fraction and (d) the discount factor.

Day count fraction, depending on a specific transaction, is:

- the number of days elapsed in the relevant accounting period divided by 360 ("actual number/360" or "365/360"), or
- the number of days elapsed in the relevant accounting period, calculated on the basis of a year of 360 days comprising 12 months of 30 days each, divided by 360 ("30/360" or "360/360"), or
- the number of days elapsed in the relevant accounting period, calculated on the basis of a year of 360 days comprising 12 months of 30 days each, divided by 360 according to the Eurobond Convention ("30E/360"), or
- the number of days elapsed in the relevant accounting period divided by 365 ("366/365").

Discount factor is calculated according to the following formula:
Discount factor = 1/ (1 + (reference rate * day count fraction)

Reference interest rate is determined when the transaction concluded, and EURIBOR, LIBOR or ZIBOR (depending on the currency of the transaction) are usually used as a reference rate on the Croatian market.

Risks Associated with Trading in FRAs

The risk associated with this instrument is the exchange rate risk, which arises if, on the day of fixing the reference interest rate, it is higher than the fixed interest rate, which is negative for the seller of the FRA, and if on the day of fixing the reference interest rate it is lower than the fixed interest rate, which is negative for the buyer of the FRA.

Interest Rate Swaps (IRS)

Definition

Interest rate swap is an agreement under which the contracting parties exchange an obligation at a fixed interest rate for an obligation at a variable interest rate (plain vanilla swap). The buyer of the interest rate swap pays a fixed interest rate and receives a variable interest rate (payer swap). The seller of an interest rate swap pays a variable interest rate and receives a fixed interest rate (receiver swap). The interest rate which is swapped between the two parties is calculated on a pre-determined notional principal amount – the reference amount – for a pre-determined accounting period. Mutual payments of interest are exchanged at regular intervals.

Reference rate: the variable interest rate (variable parameter) payable by the seller of the interest rate swap is pegged to the reference interest rate for the relevant period. The reference interest rate is determined when entering into the transaction, and EURIBOR, LIBOR or ZIBOR (depending on the currency of the transaction) are usually used as a reference rate on the Croatian market.

Risks Associated with Interest Rate Swaps

The risk associated with this instrument is the interest rate risk, which arises if, on the day of fixing the reference interest rate, it is higher than the fixed interest rate, which is negative for the seller of the IRS, and if on the day of fixing the reference interest rate it is lower than the fixed interest rate, which is negative for the buyer of the IRS. The potential loss is unlimited and it is linked to any increase in the reference interest rate.

Futures

Definition

A future is an agreement between a stock exchange and another party on purchase of an asset, which is the subject of the agreement. The price and terms are pre-defined, and delivery is delayed. Futures are standard forward contracts and are traded on security exchanges. The subject of the agreement may include, for instance, currencies, interest rates, indices, individual shares, individual debt securities, or commodities.

Risks Associated with Futures

Trading in futures is associated with the risk of loss in the event of adverse movements in the value of the underlying asset. For example, trading in futures where the underlying instruments are currencies, exposes investors to the risks described in the forward agreements section (FX forward).

Structured Products

Definition

Structured products may be divided in two basic groups, depending on the relationship of fluctuations in the prices of the structured product and the underlying instrument, or on the degree of financial leverage:

- **investment certificates** (without financial leverage), and
- **structured products with financial leverage** – by buying structured products with leverage, the investor has the possibility to achieve the same earnings as by buying the underlying instrument but invests less money to purchase a certificate than would be necessary to buy the underlying instrument. The effects of the financial leverage increase the investor's profit, but equally their potential loss, or risk.

Certificates are financial derivatives whose value depends on movement in the value of the underlying instrument, known as the underlying. These are different aspects of investment (shares, bonds, funds, indexes, commodities, currencies, interest rates, etc.).

From the legal perspective, certificates represent debt instruments of the issuer and are held on the balance sheet as a liability, meaning that the buyers of certificates are exposed to the credit risk of the issuer, e.g. risk of bankruptcy.

Compared to classic forms of investment (i.e. buying/selling shares, bonds, agricultural products, metals), certificates have the following advantages:

- simpler form of investment in a wide range of products from the least risky (certificates with a guaranteed return of the initial investment) to high risk (so-called turbo certificates),
- depending on the type, they enable complete or partial protection of the principal without forfeiting the returns that can be achieved on the market on which the underlying instrument is traded,
- they allow retail investors to invest in financial instruments that are generally only available to institutional investors (exotic share markets, precious metals, agricultural products, oil, gas, particular sectors, etc.),
- they allow earnings on both market rises and falls,
- they have low investment costs compared to open-ended investment funds (there are no management charges),
- the issuer of certificates is obliged to maintain market liquidity via a market maker, meaning the investor can buy/sell a certificate at any moment.

Other than being exposed to the risks listed below, certificates have the following weaknesses:

- a change in the price (market value) of the underlying instrument over time has a consequent effect on the movement of the price of certificates,

- when buying certificates where the underlying instrument is an individual share, or group of shares, the buyer of the certificates does not acquire shareholder rights (the right to vote at general meetings, the right to payment of dividends),
- holding costs (certificates with leverage), and
- in the case of high-risk certificates with leverage, even small changes in the market value of the underlying instrument can cause significant changes in the value of the certificate, or the total loss of the funds invested.

Certificates can be issued with a maturity date or without a maturity date (open). Upon maturity or early redemption, settlement of certificates is achieved through payment of cash, or the delivery of the underlying instrument.

As regards investment funds with fixed investment period, restrictions may be applicable in connection to investment withdrawal at a particular desired moment.

Certificates are considered complex financial instruments because their value is derived from and dependent on fluctuations in the value of the underlying instrument. Furthermore, they are financial instruments whose characteristics and risks differ for each individual product (certificate), and the presentation of general information about the characteristics and risks of a certificate as a type of financial instrument is not available for the making of sound (informed) investment decisions. In order to make a better assessment of a certificate as a suitable form of investment, it is necessary to study the issuer’s prospectus.

Turbo certificates are more risky financial instruments compared to classic (standard) financial derivatives, because they have an inherent financial leverage. When buying a turbo certificate, investors do not pay the full price of the underlying instrument, but the difference between the execution price and market price of the underlying instrument increased by a premium representing interest on the capital deployed by the issuer over the duration of the certificate. There are two types of turbo certificates:

Turbo-long – the value of the instrument rises (falls) over-proportionately to the rise (fall) of the underlying instrument. The buyer of turbo-long certificates expects a future rise in the underlying instrument. With turbo-long certificates, a stop-loss level is placed beneath the market price of the underlying instrument.

Turbo-short – the value of the certificates rises (falls) over-proportionately to the fall (rise) of the underlying instrument. The buyer of a turbo-short certificate expects a fall in the underlying instrument in the future. With turbo-short certificates, a stop-loss level is placed above the market price of the underlying instrument.

Financial Leverage

In the event of a rise in the price of the underlying instrument, the built-in financial leverage leads to an over-proportionate rise in the price of a turbo-long certificate, while the price of turbo-short certificates falls over-proportionately to the price of the underlying instrument.
The leverage effect occurs due to the fact that the investor bought a turbo certificate at a price lower than the price of the underlying instrument.
The lower the price of a turbo certificate, or the greater the difference between the market price of the underlying instrument and the price of executing the certificate, the greater the effect of the financial leverage.

Leverage = (price of the underlying instrument * ratio) / price of the certificate

The main advantages of turbo-long certificates are:
- the price of a turbo-long certificate moves over-proportionately to the movement in the value of the underlying instrument,
- the investor makes a profit when the value of the underlying instrument rises.

The main disadvantages of turbo-long certificates are:
- just one transaction is sufficient for the cancellation (expiry) of a certificate, even with a minimal quantity of the underlying instrument at the stop-loss level,
- the possibility of losing the entire invested amount (in the event that the stop-loss level is equivalent to the execution price),
- in the event of adverse movements in the value of the underlying instrument, the potential loss of a turbo-long certificate is greater than the fall in value of the underlying instrument,

- costs of holding certificates reduce the residual value of turbo-long certificates (they are therefore unsuitable for long-term holdings).

Risks of Investing in Certificates

When investing in certificates there are two basic types of risk:

- **risks associated with the certificates:**
  general risk of investment, risk of the underlying instrument, exposure risk, risk associated with determining the upper limit for redemption (cap risk), conflicts of interest, risk of early maturity/redemption, effect of additional costs, trading and liquidity risk, risk of a halt in trading, risk of cessation or suspension of listing, using a loan for purposes of financial investment, risk protection transactions, inflation risk, risk of offset and settlement, risk concerning general market conditions, exchange rate risk, credit rating risk, the legal aspect of investment, nominating a trustee;
- **risks associated with the issuer:**
  market risk, credit risk of the issuer, interest rate risk, exchange rate risk, liquidity risk, political and economic risk, regulatory risk, operational risk, credit rating risk.

The above risks do not represent all the risks to which investors are exposed when investing in certificates. They are only those risks that are known to the issuer and which the issuer considers can significantly influence fluctuations in certificate prices. Since there are also further risks unknown to the issuer, and the issuer considers that these cannot significantly influence the price of the certificate, investors must be aware that by investing in certificates they are exposed to the risk of partial or complete loss of their invested assets.

All the above risks are described in more detail in the Prospectus of an issue.

Leverage Risk

Financial leverage is any method by which the investor increases their exposure either through borrowing cash or financial instruments, or by taking a position in derivatives with inbuilt financial leverage, or in some other manner.

Financial leverage is used to research the optimal relationships between one's own financing and that of a third-party. The rule of financial leverage asserts that using third-party sources of financing is worthwhile provided that by doing so a return on investment is achieved that is greater than the weighted interest rates at which interest on third-party capital is paid. The return on one's own capital is influenced by the effects of leverage and depends on the volume of third-party financing.

The leverage effect implies that by increasing third-party financing, the return on one's own capital is increased provided that the return on overall investments is greater than the interest rate on the third-party capital. This positive effect is called leverage opportunity. A reduction in the return of the total investment below the costs of using third-party capital leads to a negative effect of leverage, i.e. the increase in borrowings reduces the return on one's own capital. In this case we talk of the leverage risk. The result is an increase in interest on third-party capital or reduction in the return on the total investment. The relationship of third-party and one's own capital is called the financial leverage factor.

The main risk of financial leverage lies in the fact that the profitability of investment itself does not impact the obligation to return debts, and also the cost of such financing impacts investments by reducing achieved returns.

Raiffeisenbank Austria d.d. does not offer instruments with financial leverage to retail investors.

Disclaimer:

This information leaflet has been prepared and published by **Raiffeisenbank Austria d.d.** (the "Bank").
The purpose of this information leaflet is to inform the public, and in no way can it be regarded as an offer or invitation to buy, or advice on trading or investing in financial instruments or an opinion on the advisability or non-advisability of buying or selling any kind of financial instrument mentioned therein, and it therefore cannot be used as a substitute for the personal judgment and assessment of any reader of this leaflet. The Bank shall not be liable for any loss caused by using the information in this leaflet. Before issuing requests/orders to buy and/or sell, a potential investor should study the issue prospectus of the chosen financial instrument and familiarise themself with all the characteristics and risks of investing in the chosen financial instrument, as well as its effect on the movement in price of the chosen financial instrument. Furthermore, the Bank advises potential investors to seek advice from legal, taxation, accounting and other relevant experts.

Information for Investors

on Regulatory Provisions Governing

Client Categorisation,

Investor Protection and

Conflict of Interest Management

TABLE OF CONTENTS

1. Capital Market Act / MiFID

The term MiFID is the abbreviation for the directive titled Markets in Financial Instruments Directive, Directive 2014/65/EU including any and all further changes and amendments thereto (hereinafter: MiFID), which is implemented in our Capital Market Act. It is applicable for all member states of the European Economic Area.

The Capital Market Act (hereinafter: CMA) came into force on 27 July 2018 and was published in the Official Gazette of the Republic of Croatia, No. 65/18. It regulates the capital market, defines financial instruments, trading venues, and with respect to the previous legal framework, it raised the standards for extending investment services, which consequently also reflects in higher requirements with regard to investment companies providing such services. Higher protection was implemented for the retail investor as well as the Investor compensation scheme.

MiFID includes a number of rules that can be grouped in the following 4 sections:

1. **Markets**
    - Regulated market
    - Multilateral trading facility
    - Systematic internaliser
2. **Investment Firms**
    - Authorization
    - Service and activities
    - Organization
    - Conflict of interest
3. **Investor Protection**
    - Conduct of business obligations
    - Best execution
4. **Regulators**
    - Powers
    - Cooperation between regulators

One of the principal objectives of the MiFID is to harmonize investor protection in whole Europe. The level of investor protection afforded to a client is directly related to the level of dependence on an investment firm and self-reliance. For instance, if a client's knowledge and experience in the financial field is limited and the client asks the investment firm to advise him or to make an investment decision on their behalf, the client will receive the highest degree of protection.

2. Financial Instruments

The term financial instruments refers to a number of different types of instruments. Transferable financial instruments include, for instance, shares and bonds. Money market instruments refer to treasury and commercial bills, for instance. Units of collective investment undertakings are units in various types of funds. Derivatives are financial instruments derive their value from the value of the underlying instrument. Derivatives include options, futures, swaps, financial contract for differences, and other.

Financial instruments are categorized in four groups:

- **Transferable financial instruments**
- **Money market instruments**
- **Units in collective investment undertakings**
- **Derivatives**

The table below shows an overview of the financial instrument groups, including the categorisation of whether these are intended to professional or retail investors, and taking into consideration the set target market, as well as especially taking into consideration the categorization of a client as a retail investor, professional investor or eligible counterparty:

Financial Instrument	Investor Type
Shares	retail investor
Debt Securities	retail investor
Money Market Instruments	retail investor
Investment Funds	retail investor
Financial Derivatives	professional
Forward Contracts and FX Swaps	professional
Options	professional
FRAs	professional
IRS	professional
Futures	professional
Structured Securities	retail investor

3. Types of Markets

Trading venues connect supply and demand regarding financial instruments. In Croatia, we differentiate between the stock exchange market as the regulated market and the multilateral trading facility.
The regulated market (the stock exchange) is a multilateral system connecting supply and demand regarding financial instruments, and it is licensed for work by the HANFA.
The multilateral trading facility is a multilateral system connecting supply and demand regarding financial instruments, and it can be managed by an investment company or a stock exchange market, pursuant to the HANFA license. Although similar to the stock exchange, the system is characterised with lower transparency and heightened investment risk in comparison to the regulated market.
Currently operating in Croatia, pursuant to the HANFA license, there is only the Zagreb Stock Exchange, who are also the operator of the regulated market and of the multilateral trading facility. The Stock Exchange is obligated to execute transactions adhering to the principles of protecting the public interest and capital market stability, which means that it must provide the following for all the market participants:

- efficiency
- up-to-dateness
- impartiality
- equality.

If you are considering investments in the European Union markets or other world markets, we recommend that you study the trading venues, financial instruments and trading rules in such markets.

4. Client Categorisation

Prior to provision of an investment service or activity referred to in Article 5 of the CMA to any new or existing client the Bank has a duty to categorize a client as a retail investor, professional investor or eligible counterparty. Client categorisation is conducted based on data collected by the Bank from clients when establishing a business relationship, information made available by clients to the Bank or publicly available information.

Professional investor is a Client who possesses sufficient experience, knowledge and professional expertise to make own investment decisions independently and to properly assess the risks involved.

The following entities shall be regarded as professional investors in relation to all Financial instruments:

1. Entities which are required to be authorized and/or regulated by the competent regulatory authority to operate in the financial market:
   - investment firm,
   - credit institution,
   - other financial institution authorized by the competent authority or governing their operations in accordance with the special provisions ,
   - insurance undertaking,
   - collective investment scheme and management company of such scheme,
   - pension funds and management company of such funds,
   - pension insurance undertaking,
   - commodity and commodity derivatives dealer,
   - local business entity, and
   - other institutional investor whose main activity is not covered by indents 1 to 9 of this paragraph, and who are required to be authorized or regulated to operate in the financial market.

2. Legal entities which, in relation to the previous financial year, meet at least two of the following requirements:

   - assets total no less than HRK 150,000,000,
   - net turnover amounting to no less than HRK 300,000,000,
   - own funds amounting to no less than HRK 15,000,000.

3. National and regional governments, public bodies that manage public debt, central banks, international and supranational institutions such as the World Bank, the International Monetary Fund, the European Central bank, the European Investment Bank and other similar international organizations.

4. Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitization of assets or other funding transactions.

All the other Bank's clients which are subject to the categorisation requirement under the CMA are considered retail investors. The Bank shall automatically classify and treat as retail investors all private individuals and legal entities which cannot be considered professional investors.

Clients categorized as retail investors are entitled to additional advice and information from the Bank, especially in relation to data concerning financial instruments, fees and related costs.

Clients classified as professional investors or eligible counterparties can be treated as retail investors at their own request.

Clients categorized as retail investors may be treated as professionals at request, provided that the Bank's assessment of the Client's knowledge, experience and professional expertise gives reasonable assurance that the Client is capable of making its own investment decisions and understanding the risk involved.

In order for clients to be classified as professional investors at request, they have to be certain that they are capable of making their own investment decisions and assessing the risks involved and that they will not require a higher level of protection. Clients who request to be professional investors waive the benefit of protection afforded to retail investors.

Retail investors can be categorized as professional investors at request when at least two of the following three requirements are fulfilled:

- the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 in each quarter over the previous 12 months,
- the size of the client’s financial instrument portfolio exceeds HRK 4,000,000,
- 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 portfolio of financial instruments from this article implies also cash assets and financial instruments.

Professional investors can be classified as eligible counterparties subject to fulfilment of relevant requirements for categorization as eligible counterparties.
The Bank may provide to eligible counterparties investment services that only consist of reception and transmission of orders in respect of one or more financial instruments, execution of orders on behalf of a client and trading on own account without the need to perform obligations that it has in respect of other clients under the CMA.

Pursuant to the provisions of the CMA, eligible counterparties are:

1. investment firms,
2. credit institutions,
3. insurance companies,
4. UCITSs and their management companies,
5. pension funds and management companies of pension funds,
6. other financial institutions authorised or regulated under the special regulations, or whose operations are regulated under the European Union legislation,
7. National governments and public bodies managing public debt and central banks,
8. supranational organisations.

Investment Advice

When the Client receives investment advice, they are placing a higher degree of reliance on the Bank than they would in other circumstances such as in the case of simple non-advised transactions. Therefore, the CMA requires a process called the Suitability test, where the Bank asks certain questions to reach an understanding of the types of investments that would be suitable for the Client.

If the Bank does not, or cannot, obtain the necessary information to assess suitability, then it cannot make a personal recommendation. If the Client provides only limited information to the Bank, this will affect the nature and scope of services which the Bank will be allowed to provide to the Client.

As part of the Suitability test, the Bank will assess the following:

- Investment objectives
  This can include questions about the length of time the Client wants to hold the investment, their risk appetite and profile, whether the Client plans to invest for income or growth, keep the capital safe and avoid any risk or accept a high level of risk
- Financial situation
  Information regarding the Client's financial situation may be obtained through questions about matters such as the source and extent of regular income, assets, real estate property, any debts the Client has and other financial commitments.
- Knowledge and experience
  Questions regarding the Client's knowledge and experience related to the investment service envisaged can include the types of services and products the Client is familiar with; the nature, volume and frequency of their previous transactions; and the level of education, profession or former profession.

Trading in Financial Instruments Without Investment Advice

When the Client is not receiving investment advice from the Bank (or not relying on the Bank to manage the Client's investments), the Client will generally be expected to take a greater degree of responsibility for their decisions. Where the Client wants the Bank simply to follow their instructions to buy or sell an investment, a different set of protections apply. These protections are referred to as the Appropriateness Test.

The test aims to protect those who may not understand or be aware of the implications and level of risk involved in a transaction, particularly where the products are 'complex'.

Examples of 'non-complex' financial products are:

- Shares quoted on a regulated market

- Money market instruments
- Many types of bonds
- Units in particular investment funds

Examples of ‘complex’ financial products are:

- Options, futures, swaps and other derivatives
- Financial contracts for differences
- Convertible bonds
- Warrants

As part of the Appropriateness test, in the course of performing financial instrument transactions, the Bank assesses whether the Client has adequate knowledge and experience to understand risks involved in connection with the type of product or service offered or demanded in order to assess whether the investment service or product envisaged is appropriate for the Client. In the case of a professional client, the Bank may assume that the client has the necessary knowledge and experience related to products or services in respect of which the client is regarded as a professional. If the Bank concludes that the Client has the necessary knowledge and experience to understand the risks involved, then the Bank may simply go ahead with the transaction. If the Bank concludes that the client does not have the necessary knowledge and experience, or that they have not supplied enough information to enable the Bank to gain a complete insight, then the Client will receive a warning from the Bank saying that either the Bank does not regard the proposed transaction as appropriate or that the information is not sufficient to enable the Bank to determine appropriateness. If the Client insists on going ahead with the transaction, the Client must accept the risk.

Trading in ‘Non-Complex’ Financial Products on an Execution-Only Basis

The Appropriateness test does not apply in the case of some kinds of 'non-advised' transactions with non-complex financial instruments. This service can be described as Execution-only.

If the order/instruction relates to:

a. investment services that only consist of execution and/or the reception and transmission of client orders with or without ancillary services relating to shares admitted to trading on a regulated market or in an equivalent third-country market, money market instruments, bonds or other forms of securitised debt (excluding those bonds or securitised debt that embed a derivative), units of open-end investment funds with public offering and other non-complex financial instruments ;
b. and the respective services are provided at the initiative of the Client, in the provision of these service the Bank is not required to assess the suitability of the instrument or service provided or offered and therefore the Client does not benefit from the corresponding protection of the relevant conduct of business rules.

To the effect of providing its clients with the highest level of protection possible, the Bank does not contract transactions by the principle of transaction execution only, but at least by the principle of trading without advice.

5. Investor Compensation Scheme

For investor protection purposes, the relevant legal provisions regulate the establishment and management of an investor compensation fund (hereinafter: Fund), determination of the insured event and disbursement of protected claims. The purpose of the Fund is the protection of investor claims which the Fund member is not able to disburse and/or return to the Client in case of the occurrence of the insured event. The Fund's operator is the Central Depository and Clearing Company d.d.. The Central Depository and Clearing Company d.d. manages the Fund, conducts all actions in the name and for the account of the Fund, and represents it in all operations before the government, court, administrative and other bodies, for the purposes of exertion of its rights.

The Bank's membership in the Fund protects the claims of Bank Clients in cases where:

1. bankruptcy proceedings have been initiated over the Bank,

or

2. the Croatian Financial Services Supervisory Agency (HANFA) determines that the Bank is unable to perform its obligations to Clients by being unable to repay money owed and/or return the Financial instruments held, administered and managed by the Bank on behalf of the Client, and that there are no prospects that such circumstances will change significantly in the near future.

In accordance with the provisions of the applicable Act, the following claims of Clients in respect of the agreed brokerage or custody services, amounting up to HRK 150,000.00 per Bank's Client, shall be secured:

1. Monetary claims in HRK and currencies of Member States, owed by the Bank to the Client or belonging to the Client, which are held by the Bank for the respective Client,

2. Financial instruments belonging to the Bank's Client, which are held, administrated or managed by the Bank on behalf of the Client.

The amount of secured claims of the Client shall be calculated as the total amount of the Client's claims, regardless of whether the Bank keeps them in one or more accounts, on one or several contractual bases or in relation to one or several investment services, in the kuna and/or in the currency of a Member State, up to the secured amount referred to applicable legal provisions. This amount shall include interest until the date of initiating bankruptcy proceedings over the Bank or date of publication of the HANFA's decision on the occurrence of an insured event.

Secured claims of the Client shall not include:

1. Funds of clients of credit institutions – claims 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,

2. Claims of the Bank's clients arising out of transactions in connection with which a criminal conviction has been obtained for money laundering.

The compensation procedure in case of occurrence of an insured event is as follows:

1. After the HANFA has adopted a decision on the occurrence of an insured event, the Operator initiates the procedure for compensation of clients of the Fund member and publishes the respective information in two daily newspapers distributed in the whole or prevailing territory of Republic of Croatia and on the Operator's web page.

2. The Operator shall also send notification of the occurrence of the insured event, invitation to file a compensation claim and the form of the claim, to all Bank Clients which are known to the Operator.

3. In the compensation claim the Client shall provide to the Operator the most important data and information required to determine the right to payment of protected claims. The Client shall send the completed compensation claim form to the Operator by post exclusively. The claims have to be filed no later than five months from the date on which the Agency publishes the decision on the occurrence of an insured event in the Official Gazette of the Republic of Croatia.

4. The Operator shall determine the amount of secured claims of the Bank's Clients by taking into account all legal and contractual provisions in respect of each claim, and any counterclaim that may be filed in particular, with the balance as of the date of initiating bankruptcy proceedings or publishing the HANFA's decision on the occurrence of the insured event.

5. Within thirty days from the publication date of the HANFA's decision, the Operator shall determine the amount of the secured claim entitlement of the Bank Clients.

6. The determined amounts of secured claims shall be paid to the account specified in the compensation claim without delay, no later than 90 days from the date of establishing the entitlement to secured claims, or the date of determining the amount of secured. Exceptionally, the term can be extended for another 90 days, pursuant to a special decision of the HANFA.

The Bank's Client whose claims are protected is any private individual and legal person whose funds are held, administered or managed by the Bank on behalf of the Client, excluding, however, the following:

1. Credit institutions,
2. Investment firms,
3. Financial institutions,
4. Insurance undertakings,
5. Collective investment undertakings,
6. Pension fund management companies and pension funds,
7. Companies which make up the group with the Fund Member which is unable to perform its obligations,
8. Legal or natural person holding more than 5% of voting shares in the capital of the Fund Member which is unable to perform its obligations,
9. Parent or subsidiary undertaking of the Fund Member which is unable to perform its obligations,
10. Management board and supervisory board members, and members of the board of administration, of the Fund Member which is unable to meet its obligations if these persons occupy abovementioned positions or are employed by a Fund Member on the date on which bankruptcy or liquidation proceedings are initiated over the Fund Member or on the date of publication of the Agency's decision on the occurrence of the insured event, or if these persons occupied these positions or were employed during the current or previous financial year,
11. 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 ruling 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 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,
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 a Fund Member, and persons responsible for the audit of financial reports of this company,
14. Marital or extramarital partners and close relatives up to the second degree in the direct line and second degree in the collateral line of persons referred to in items 10 to 13 of this paragraph or their spouses,
15. Clients of a Fund Member who have contributed to the covered case by non-fulfilling their obligations towards a Fund Member.

The above description of the investor compensation system is a brief overview. Full information about the system is provided in relevant provisions of the Capital Market Act, and Rules and Ordinances of the Fund Operator, which are available on www.skdd.hr.

6. Conflict of Interest

In keeping with the legal regulations and the Ordinance on Organizational Requirements for Providing Investment Services and Conducting Investment Activities and Ancillary Services the Bank shall take any measures and actions required to identify and manage any conflict of interest that may occur between the Bank as an investment company and/or relevant persons on one side and the Client on the other side, the existence of which may harm the Client's interests.

When identifying conflict of interest, the Bank shall consider the following circumstances as a source of conflict of interest at all times:

1. the Bank and/or a relevant person may realize financial gain or avoid financial loss at the expense of the Client,

2. the Bank and/or a relevant person have interest in or benefit from the outcome of a service extended to the Client, or from a transaction executed for the account of the Client, and which are different from the interests of the Client (in the mentioned outcome),

3. the Bank and/or a relevant person have financial or some other motive for favouring the interests of another Client or group of Clients at the expense of the Client's interest,

4. the Bank and/or a relevant person perform the same business as the Client,

5. the Bank and/or a relevant person receive or will receive from a person who is not the Client additional inducement with regard to the service extended to the Client, in the form of money, goods or services, and which do not represent the usual commission or fee for the particular service.

In the course of identifying conflict of interest, the Bank may consider the following situations as a source of the conflict of interest:

1. the Bank simultaneously performs services acting in various capacities, for instance, lending services and services related to securities underwriting,

2. the Bank buys financial instruments from the Client, and sells financial instruments to the Client, in its own name and for its own account,

3. the Bank or a relevant person trades in a financial instrument in its own name and for its own account, with inside information in respect of the traded financial instrument being available to them at the same time,

4. the Bank provides services to issuers whose financial instruments it transacts for the Client's account or provides advice regarding these financial instruments to the Client.

Client complaints, which are related to the conflict of interest in respect of the provision of investment services shall be referred to the Compliance Office.

Procedures and measures for management of conflict of interest:

1. Gifts and benefits for employees: employees in all business areas are prohibited from receiving and accepting gifts and other inducements. Exceptions are permitted only if provided for in the Bank's bylaws.

2. Actions subject to approval: for certain procedures the employees have an obligation to obtain prior written approval of the responsible Board Member or the Compliance Office.

3. Independence: Individuals who are involved in multiple activities associated with a potential impermissible conflict of interest have a duty to undertake such activities after making independent decisions appropriate to the Bank's size and activities and the risk of harm to the interests of Clients.

4. Compensation: Compensation given to certain employees must not have any direct connection to the compensation paid to other employees or the earnings of other employees if there is an impermissible conflict of interest between the activities of the individuals involved.

5. Undue influence, simultaneous or sequential provision of services by one individual: the purpose of distribution of business within the Bank is to prevent individuals from exerting undue influence on the manner in which other individuals perform securities activities and ancillary services and to prevent employees from performing such activities and services simultaneously and directly in sequence or from becoming involved in such activities or services in a manner likely to cause conflict of interest.

6. Restricted list: a list of employees who are prohibited from trading in certain financial instruments in a certain time period and this list is part of the Conflict-Watch List.

7. Areas of confidentiality /Chinese walls: The Bank has defined the areas of confidentiality within its organizational structure. Certain information (especially information which has not been made public and the disclosure of which could have an effect on the price of the Financial Instruments – hereinafter: inside information) is not permitted to be transmitted across areas without the knowledge of the head of the respective area of confidentiality and the size and contents of the transmitted information must be limited to what is absolutely necessary.

8. Employee transactions: when performing their official duties, the Bank's employees may be exposed to potential conflict of interest or inside information, so they have an obligation to comply with special rules governing the performance of employee transactions.

At request, further details of the Conflict of Interest Policy will be delivered to the Client.

Sources:

New Capital Market brochure, available on the HANFA website

The Client's Guide to MiFID, available on the HANFA website

The Capital Market, available on the HANFA website

Disclaimer: