

INFORMATION on Investment and Ancillary Services of Privredna banka Zagreb d.d.

Zagreb, January 2019

 PRIVREDNA BANKA ZAGREB

Bank of INTESA  SANPAOLO

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1. LEGAL FRAMEWORK

The Capital Market Act (Official Gazette no. 65/18 - hereinafter: "CMA") regulates the rights and obligations of capital market participants in the Republic of Croatia. The passing of the CMA was required as part of the process of harmonisation of Croatian legislation with the *acquis communautaire* in connection with the provision of investment services and the performance of investment activities in financial instruments, as well as placing, listing of and trading in financial instruments on regulated markets. The regulation of the capital market, upon entry into force of the CMA, has become fully compliant with the *acquis communautaire* and with the European standards in the area of investment services and activities. The CMA provisions are primarily aimed at providing better protection to clients of investment firms through harmonisation of the requirements that have to be met by investment firms and regulated markets when providing investment services and performing investment activities, as well as by defining the rules of business conduct of investment firms when providing investment services. Privredna banka Zagreb - joint stock company, as a credit institution authorised to provide investment and ancillary services and to perform investment activities, is required – under the CMA provisions – to provide its clients and potential clients with all the necessary information about the mentioned services and activities in order to enable all Clients and potential Clients to reasonably understand the nature and risks of such investment services as well as specific types of financial instruments that are offered to them, and to enable each of them to make appropriate investment decisions.

2. INFORMATION ON THE BANK AND ITS SERVICES

2.1. MEMBERSHIP AND AUTHORISATIONS

Privredna banka Zagreb - joint stock company, as a credit institution (hereinafter: "PBZ" or the "Bank") having its registered office in Zagreb, Radnička cesta 50, is a member of the Intesa Sanpaolo Group which has its registered office in Turin, Italy. The website of the Bank: <https://www.pbz.hr/> .

The Bank is authorised and registered for the provision of investment services and the performance of investment activities as well as for the provision of ancillary services in accordance with the authorisation granted to it by the Croatian National Bank, on the basis of the prior consent of the Croatian Financial Services Supervisory Agency (hereinafter: the "Agency"), whose registered office is located in Zagreb, Ulica Franje Račkoga 6. The website of the Agency: <https://www.hanfa.hr>.



Investment services and activities the Bank is authorised to provide i.e. to perform include:

- receipt and transmission of orders in relation to one or more financial instruments,
- execution of orders on behalf of clients,
- investment advice,
- underwriting and/or placing of financial instruments on a firm commitment basis,
- placing of financial instruments without a firm commitment basis,
- dealing on own account.

Ancillary services the Bank is authorised to provide i.e. perform include the following:

- safekeeping and administration of financial instruments for the account of clients, including custodianship and related services,
- granting credits or loans to an investor,
- advice on capital structure, business strategies and related matters, as well as advice and services relating to mergers and acquisitions of companies,
- foreign exchange services where these are connected to the provision of investment services,
- investment research and financial analysis as well as recommendations relating to transactions in financial instruments,
- services related to underwriting and/or placing of financial instruments on a firm commitment basis.

The Bank is a member of the following institutions:

- Zagreb Stock Exchange (hereinafter: the "ZSE"), having its registered office in Zagreb, Ivana Lučića 2a;
- Central Depository & Clearing Company (hereinafter: the "CDCC") having its registered office in Zagreb, Heinzelova 62a;
- and other financial institutions authorised by competent authorities, whose services the Bank uses i.e. through which it performs transactions in its own name but for the account of clients.

2.2. RELATIONS AND COMMUNICATION WITH CLIENTS

Communication between the Client and the Bank, as well as documents and other information to be received from the Bank, shall be in Croatian and, at the Client's specific request, also in English.

If the Client has requested that communication be in English, the relevant Agreement on the Provision of Services shall be executed in five copies, of which three copies shall be in Croatian and two in English. One copy in each language shall be retained by the Client, while two copies in Croatian and one copy in English shall be retained by the Bank. In the event of any discrepancy between the two language versions of the Agreement, the provisions of the Agreement in Croatian shall prevail.

The Client may, unless agreed otherwise, send all instructions, orders and notifications, as well as engage in any other form of communication with the Bank in connection with investment services or activities or ancillary services that may have been agreed or regulated by the agreement concluded between the Client and the Bank (hereinafter: the "Agreement"), to the following addresses and/or by using the following contact details:

Contact details	Type of service / activity
Corporate Banking Products Department Brokerage Office Radnička cesta 50, 10000 Zagreb Tel: +385 (0)1 489 1331 Fax: +385 (0)1 636 0771 E-mail: brokeri@pbz.hr You may also contact us in person, by coming to the premises of the Brokerage Office	<ul style="list-style-type: none">• receipt and transmission of orders in relation to one or more financial instruments• execution of orders on behalf of clients
Corporate Banking Products Department Custody Office Radnička cesta 50, 10000 Zagreb Tel: +385 (0)1 636 0769, 751, 864, 865 Fax: +385 (0)1 636 0775 E-mail: custody@pbz.hr Swift: PBZGHR2X	<ul style="list-style-type: none">• safekeeping and administration of financial instruments for the account of clients, including custodianship and related services
Corporate Banking Products Department Capital Market Office Radnička cesta 50, 10000 Zagreb Tel: +385 (0)1 63607 /62/65/02/61 Fax: +385 (0)1 636 0743 E-mail: capital.markets@pbz.hr	<ul style="list-style-type: none">• underwriting and/or placing of financial instruments on a firm commitment basis• placing of financial instruments without a firm commitment basis• services related to underwriting and/or placing of financial instruments on a firm commitment basis



Contact details	Type of service / activity
Corporate Banking Products Department M&A Advisory Office Radnička cesta 50, 10000 Zagreb Tel: +385 (0)1 636 4265, 636 0757, 636 0149 Fax: +385 (0)1 636 0743 E-mail: fas@pbz.hr	<ul style="list-style-type: none"> • advice on capital structure, business strategies and related matters, as well as advice and services relating to mergers and acquisitions of companies
Treasury & ALM Department Treasury Office Radnička cesta 50, 10000 Zagreb Tel: +385 (0)1 4891 302, 4891 303, 4891 304 Fax: +385(0)1 4610 466 E-mail: treasury@pbz.hr	<ul style="list-style-type: none"> • dealing on own account <ul style="list-style-type: none"> - trading in transferable securities - trading in money market instruments - derivatives trading
Treasury & ALM Department Customer Execution Office Radnička cesta 50, 10000 Zagreb Tel: +385 (0)1 4891 301 Fax: +385 (0)1 4610 466 E-mail: treasurysales@pbz.hr	<ul style="list-style-type: none"> • dealing on own account <ul style="list-style-type: none"> - trading in transferable securities - trading in money market instruments - derivatives trading

The Bank may, unless agreed otherwise, send and provide Clients with all certificates, notifications, reports and calls, as well as engage in all other forms of communication in connection with performed investment services or activities or ancillary services agreed between the Client and the Bank, to the address and using the numbers that have been provided by the Client to the Bank or specified in the Agreement. When engaging in any form of communication with the Client, the Bank may record or register in any other way its entire communication or only a specific instance of communication with the Client, and it is not under an obligation to warn the Client of this before the start of each particular recording or registering of such communication.

The method of communication between the Client and the Bank when giving and receiving orders or instructions is regulated by the Agreement.

For the purpose of all services specified in this document, it shall be deemed, unless agreed otherwise, that any notice and other communication exchanged between the Client and the Bank has been received on the same day if received on a business day during business hours (8:00 -16:00 h), excluding those sent by registered mail, which shall be deemed received on the day/date of their receipt or, if a sent item cannot be delivered to the recipient by a delivery service for any reason, it shall be deemed received on the day/date when a licenced postal or courier service has left the recipient a notice of arrival of the item.

Clients are required to promptly inform the Bank of any change of the address or other data which are important for the process of notification as well as for the Bank's fulfilment of obligations when providing investment and ancillary services or performing investment activities.

The Bank shall inform the Client of all the services it has provided, including the costs related to transactions and services performed on behalf of the Client, as the case may be. The scope and frequency of such reporting shall be regulated by the Agreement.

Clients may submit any complaints against the Bank related to its provision of investment and ancillary services and the performance of investment activities to the following address:

Privredna banka Zagreb - joint stock company

Corporate Support Office

Radnička cesta 50, 10000 Zagreb

Attn. Executive Director

E-mail: reklamacije.vp@pbz.hr

2.3. INVESTOR PROTECTION SCHEME

Pursuant to the provisions of the CMA, Client assets - financial instruments and funds held at the Brokerage Office and the Custody Office – are kept separate from the Bank's own assets, in segregated accounts.

The above-mentioned Client assets are not the property of the Bank, nor part of the Bank's assets or of its liquidation or bankruptcy estate, nor can they be subject to enforcement proceedings related to collection of claims against the Bank. The Bank keeps records and accounts in a way that enables it to distinguish promptly, at any time, assets held for one Client from assets held for other Clients and from the Bank's own assets.

The Bank, being bound by obligatory membership of the Investor Protection Fund (hereinafter: the "Fund") fulfils all its obligations in accordance with the CMA and accompanying regulations adopted on the basis of this Act. Through payment of contributions to the mentioned Fund, claims of the Bank's Clients - mainly retail investors – are protected in the event of bankruptcy proceedings being brought against the Bank or if the Agency establishes that the Bank is unable to meet its obligations to Clients in the sense that it is unable to repay funds and/or return financial instruments it has held, administered or managed on behalf of a Client, and there is little chance that such circumstances will change significantly in the near future.



Pursuant to the provisions of the CMA, the following claims of Clients, natural or legal persons, in connection with investment services and safekeeping and administration of financial instruments for the account of Clients, including custody and related services agreed with the Client, are covered up to the maximum amount of HRK 150,000.00 per Client:

- monetary claims in kuna and in currencies of Member States, owed by the Bank to a Client or belonging to a Client, which are held by the Bank on behalf of that Client
- financial instruments belonging to a Client of the Bank, which are held, administered or managed by the Bank on behalf of the Client.

The amount of protected claims of the Bank's Client is calculated as the total amount of the Client's claims, regardless of whether the Bank keeps them in one or more accounts, on the basis of one or more agreements, or in relation to one or more investment services, in kuna and/or in the currency of a Member State, up to the amount of the legal limit on protected claims, which includes also interest accrued until the date of initiation of bankruptcy proceedings against the Bank or until the date of publication of the Agency's decision on the occurrence of an insured event.

The protected claims do not include:

- claims of the Bank's Clients which are insured under the law regulating insurance of deposits held with credit institutions, aimed at protecting depositors in the case of unavailability of deposits;
- claims of the Bank's Clients arising from a transaction with regard to which it has been established by a final court ruling that it has been connected with money laundering.

Those listed below are not to be considered Clients of the Bank, as an obligatory member of the Fund, whose claims are protected by the mentioned investor protection scheme under the CMA – regardless of the country in which their registered offices are located:

1. certain professional clients (credit institutions, investment firms, financial institutions, insurance companies, collective investment undertakings, pension fund management companies and pension funds),
2. companies that are part of the same Group as a Fund member which is unable to meet its obligations,
3. a legal or natural person holding more than 5 % of voting shares in the share capital of a Fund member which is unable to meet its obligations
4. a parent or subsidiary company of a Fund member which is unable to meet its obligations,
5. members of the management board and supervisory board or the board of directors of a Fund member which is unable to meet its obligations, if such persons hold the above-mentioned positions or are employed by the Fund member on the date when bankruptcy or liquidation proceedings are initiated against that Fund member or on the date of publication of the Agency's decision on the occurrence of an insured event or if they have held those positions during the current or previous financial year,

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6. tied agents of an investment firm that are unable to meet their obligations, and who/which act in that capacity on the date of initiation of bankruptcy or liquidation proceedings against an investment firm or on the date of publication of the Agency's decision on the occurrence of an insured event or who/which acted in that capacity during the current or previous financial year,
 7. persons responsible for carrying out audits of financial statements of a Fund member and persons responsible for preparation and archiving of accounting documents of a Fund member and preparation of financial statements,
 8. members of the management board, supervisory board or the board of directors and persons holding 5 % or more shares in a parent company or subsidiary of a Fund member and persons responsible for audits of financial statements of that company,
 9. spouses or partners and close relatives of persons referred to in items 5 through 8 of this paragraph,
 10. clients of a Fund member whose failure to fulfil obligations to that Fund member has contributed to the occurrence of an insured event.

The above-mentioned description of the investor protection scheme represents a summary of the scheme. Full information about the said scheme is provided in relevant provisions of the CMA.

2.4. SAFEGUARDING OF CLIENT ASSETS

The Bank keeps records and accounts of Clients in its books in a way that enables it to distinguish promptly, at any time, assets of one Client from assets of other Clients and from the Bank's own assets. Client assets are not the property of the Bank, nor part of the Bank's assets or of its liquidation or bankruptcy estate, nor can they be subject to enforcement proceedings related to collection of claims against the Bank. The Bank shall not use financial instruments of a Client without the Client's prior express consent.

When providing brokerage services in the domestic market, the Bank may, where appropriate, hold financial instruments of a Client by registering them with the CDCC. Financial instruments of a Client that have been registered in this way are held at the CDCC in the Client's name, which does not affect the rights of the Client arising from these financial instruments. However, the Client must keep in mind that this manner of holding financial instruments has certain limitations so that, for example, when taking part in a public offering, the Client is obliged to give the Bank an instruction to deregister financial instruments.

The Bank, acting in accordance with legal requirements and market practice, holds financial instruments that have been recorded in the CDCC depository in the custody account(s) opened at the CDCC. Unless there is a legal requirement that financial instruments have to be held in specific accounts or unless a



Client requests otherwise in writing, the Bank holds Client's financial instruments that have been registered at the CDCC, as a rule, in an omnibus custody account.

The Bank holds Client's foreign financial instruments with third parties, in segregated accounts in the records of third parties, being kept separate from financial instruments of the Bank as well as financial instruments of third parties, all in accordance with legal requirements and market practice.

When selecting a third party in whose accounts Client's financial instruments are to be held, the Bank shall, by exercising due professional care, take into account the expertise and market reputation of a third party, legal requirements or market practices related to the holding of financial instruments that could adversely affect the Client's rights and it shall at least once a year review the selection of third parties. The main criteria for selecting a third party are, inter alia, the financial strength of the third party, its reputation and the service quality. The Bank shall select third parties that are located in countries in which safekeeping of financial instruments for the account of another person is subject to special regulations and supervision, and the selected third party should be subject to the mentioned regulations and supervision, as is the case with the following renowned institutions that have long experience in the provision of custodial services, such as: Clearstream Banking Luxembourg, Deutsche Bank AG, The Bank of New York Mellon, UniCredit Bank d.d., Komercijalna banka AD Skopje, Raiffeisenbank a.d. Beograd and SKB Banka d.d. Ljubljana.

Exceptionally, the Bank may deposit Client's financial instruments with a third party in a third country in which the holding and safekeeping of financial instruments for the account of another person are not regulated *only if* one of the following conditions is met:

- the nature of a financial instrument or of the investment service connected with the mentioned instrument requires them to be deposited with a third party in the third country in which the holding and safekeeping of such financial instruments are not subject to special regulations and supervision, or
- a professional client has requested in writing that the Bank deposits the client's financial instruments with a third party in the third country in which the holding and safekeeping of such financial instruments are not subject to special regulations and supervision.

The Bank regularly, after each change, and at least once a month if no changes have occurred, *reconciles* the records and accounts in its books with the records and accounts kept by/with third parties (including the CDCC) with which Clients' assets are held. The internal audit of the Bank as well as an independent external certified auditor of the Bank regularly examine the Bank records related to Clients' assets. As prescribed by law, the independent external certified auditor of the Bank at least once a year submits to the Croatian Financial Services Supervisory Agency a report on the adequacy of measures taken by the Bank that refer to safeguarding of Clients' assets.

The Bank, as a rule, holds foreign financial instruments of small investors (i.e. retail clients) deposited with Deutsche Bank AG, Frankfurt, Germany. The contractual relationship between the Bank and Deutsche Bank AG is governed by German law. Under German law, Client's financial instruments deposited by the Bank with Deutsche bank AG are not part of the assets of Deutsche Bank AG nor of its liquidation or bankruptcy estate, nor can they be subject to enforcement proceedings related to collection of claims against Deutsche Bank AG. Deutsche bank AG shall have the right of set-off and the right of pledge in respect of Clients' financial instruments held in an omnibus custody account, which rights may be exercised only up to the amount of costs of management, administration and safekeeping of financial instruments in the account, as well as in the situation where financial instruments required for settlement have not been provided. In respect of financial instruments held in Germany, Deutsche Bank AG shall be liable to the Bank for any possible omissions of its employees and of other persons who are involved in the fulfilment of contractual obligations. In addition, Deutsche Bank AG shall be liable to the Bank for any possible omissions of Clearstream Banking AG. With regard to other foreign financial instruments, the liability of Deutsche Bank AG is limited to exercising due care when selecting a third party, as well as to the instruction given to the third party. In the event that an intermediary third party is Clearstream Banking AG, the local depository or its foreign branch, then Deutsche Bank AG shall be liable to the Bank also for any omissions of the mentioned third parties. As a rule, Deutsche Bank AG holds foreign financial instruments in omnibus custody accounts, in conformity with legal requirements and market practices.

An omnibus account is an account opened in the name of the service provider (the Bank or a third party) in which financial instruments owned by a number of different Clients of the service provider are held. If foreign financial instruments are held in an omnibus account, then the third party has no records of actual holders of financial instruments. This manner of holding assets involves certain risks, such as:

- operational risks, which are mitigated by regular reconciliations of the volume of transactions and the balances in omnibus accounts held with third parties with the volume of transactions and balances in the accounts as recorded in the books of the Bank;
- the "distance" between the issuer of a financial instrument and its actual holder – the issuer of the financial instrument is aware that the service provider is not the actual holder of that financial instrument but does not know who the actual holder is, and this may, inter alia, cause some delays in the flow of information;
- corporate actions – in case of pooled holding of assets (in omnibus accounts), if certain rights arise from holding of a specific number of financial instruments, it may happen that the allocation by actual holders will not be fully satisfactory;



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- exercising of rights that arise from financial instruments, such as the right to vote at a company's general meeting, may be rendered difficult or impossible;
 - it cannot be ruled out that the holders of financial instruments, in certain jurisdictions in which the holding of financial instruments for other persons is not fully regulated or is insufficiently regulated, may be required to prove their ownership of financial instruments, for example in the case of enforcement proceedings related to one's claims against the Bank or a third party, or in the case of liquidation or bankruptcy of the Bank or a third party, in which case disposing of financial instruments and exercising of the related rights may be temporarily suspended;
 - there is a risk that one of the Clients may fail to meet its/his/her legal obligations; for example, a Client may fail to obtain consent of / notify the competent authorities in the case of acquisition of a qualifying holding, in which case financial instruments of all Clients may be temporarily blocked and, at the same time, it may happen that Clients will not be able to exercise their voting rights that arise from a particular instrument;
 - risk of bankruptcy, insolvency or inability of a third party to meet any of the obligations set out in the Agreement and in these General Terms.

The Bank shall not calculate interest, at a deposit rate, on Clients' funds held in Cash Custody Accounts.

The Bank shall not be liable for any damage done to a Client or any other party due to the selection, acts and/or omissions of third parties that are beyond control of the Bank, where it is understood that the third party has been selected by exercising due professional care, which may lead to bankruptcy, insolvency or inability of the third party to perform any obligation set out in the Agreement and in the General Terms.

The Bank shall assume no obligation regarding the settlement of Client's tax liabilities, tax collection or tax refund related to Client's investments. The Bank shall credit the total amount of received dividend to the Client's Cash Custody Account. Taxation of domestic and foreign legal and natural persons related to income they earn from investments in financial instruments is regulated by laws and regulations that govern the area of profit tax and income tax. Each Client should consult his/her tax advisor about the legal consequences that may arise from the ownership or disposal of financial instruments taking into consideration the applicable domestic and foreign tax regulations or international tax agreements.

2.5. UPRAVLJANJE SUKOBOM INTERESA

The Bank, pursuant to the Decision of the Management Board no. UB_8_17/7.2.1 of 25 April 2017, adopted the internal document, Policy of Managing Conflicts of Interest. The mentioned Policy provides a more detailed and extended description of the area of conflicts of interest, which is regulated by the *Bank's Code of Ethics* and the *Code of Conduct* as well as the *Dealers Manual*. Procedures are also established for:

- identifying the circumstances which generate or are likely to generate a conflict of interest that could significantly harm the interests of one or more clients,
- implementation of adequate organisational measures aimed at preventing or eliminating conflicts of interest, as well as procedures for resolving a conflict of interest in the circumstances in which preventive measures cannot eliminate a conflict of interest,
- notifying the clients in cases where a conflict of interest has been found to exist, in order to enable them to make an informed decision.

Pursuant to the above-mentioned Policy, a conflict of interest represents each situation in which the Bank and/or relevant persons are not neutral and objective with regard to the conduct of business activities, i.e. by making use of their specific position when providing investment and ancillary services and performing investment activities, they have professional and/or personal interests that run counter to the interests of clients. A conflict of interest may arise between:

- interests of the Bank (and/or a member company of the PBZ Group) and/or a relevant person (or persons closely associated with them) on one side and interests of the Bank's clients on the other,
- interests of different clients of the Bank.

The Bank shall, in principle, always consider the situations listed below as circumstances constituting conflicts of interest:

- [situations in which] the Bank and/or a relevant person might make a financial gain or avoid a loss at the expense of a client, by making use of inside information,
- [situations in which] the Bank and/or a relevant person have an interest in / or will benefit from the outcome of a deal concluded on behalf of the client or a transaction executed for the account of the client, which is different from the client's interest,,
- [situations in which] the Bank and/or relevant persons have a financial or other motive to favour the interest of one client or a group of clients and, in this way, they may harm the interests of [other] clients,

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- [situations in which] the scope of activity of the Bank and/or a relevant person is the same as the scope of activity of the client,
 - [situations in which] the Bank and/or a relevant person have received or will receive an inducement or a fee from a person other than the client concerned, for a business transaction carried out for the client, in the form of money, goods or services, which is not considered a customary fee or commission for such a transaction.

In addition, the situations listed below shall also be considered as typical situations representing conflicts of interest:

- when the Bank and/or a relevant person trade in certain financial instruments in their own name and on own account, while possessing at the same time inside information on these financial instruments,
- when the Bank or a relevant person is connected, in terms of ownership, with persons who compete with the client in the market, and/or with the client himself/herself,
- in the case of an offer of financial instruments where the Bank provides services referred to in Article 5, par. 1, item 4 and/or item 5 of the CMA (services that include a personal recommendation), when the Bank and/or a relevant person are in possession of shares or other securities equivalent to shares that constitute a stake in the capital or members' rights in the client's company, or whose issuers are PBZ Group member companies,
- when the Bank provides investment advice and/or portfolio management services and, at the same time, recommends investment in and/or invests in financial instruments issued by the Bank,
- if the Bank, while managing a portfolio, executes buy orders for several clients, a potential conflict of interest may arise with regard to the sequence, quantity and allocation of purchased financial instruments.

In order to prevent the occurrence of circumstances and situations that may give rise to a conflict of interest, the Bank has set up the following mechanisms:

- information barriers – the flow of information between employees and organisational units of the Bank is strictly regulated, so that sharing of confidential and/or inside information must be justified from a business point of view and meticulously recorded. Access to confidential, inside and other information is made possible solely to those relevant persons in organisational units who have a legitimate need for such information while performing their business and professional duties.

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- adoption of mechanisms for recording (Watch List) and carrying out a preliminary analysis of certain categories of transactions which refer to sensitive issuers;
 - maintenance of a relevant persons list and an insider list – keeping records of persons who are involved in the provision of investment / ancillary services to clients, i.e. who have access to inside information relating to listed issuers of financial instruments;
 - Code of Conduct and Code of Ethics – these documents set out measures that may be adopted for the purpose of managing conflicts-of-interest situations which may arise as a result of the existing personal interests of employees in business-related contexts;
 - Kodeks ponašanja i Etički kodeks – ovim dokumentima utvrđuju mjere koje se mogu usvojiti u svrhu upravljanja situacijama sukoba interesa koje mogu nastati kao rezultat postojećih osobnih interesa zaposlenika u kontekstima poslovnih odnosa
 - other measures aimed at identifying and managing conflicts of interest.

The Bank has also ensured the following::

- organisational units that perform different investment activities and provide investment and ancillary services are independent from one another in carrying out these activities (such as the provision of investment advice, dealing on own account, corporate finance, financial analysis);
- continuous and efficient supervision of the exchange of information among relevant persons engaged in activities that involve a potential conflict of interest through the established system of internal controls, if the exchange of information may result in damage to the interests of one or more clients;
- keeping records of personal transactions of relevant persons;
- transfer of employees to and/or from organisational units that provide investment or ancillary services (or that have regular access to price-sensitive undisclosed information related to listed issuers) is subject to prior approval of the Compliance Department;
- organisational changes that refer to units involved in the provision of investment and/or ancillary services and the related business processes are subject to prior approval of the Compliance Department;
- observing the general principle of equal treatment of all clients from the same category (retail or professional clients, eligible counterparties), relevant persons are obliged to protect



interests of all clients on equal terms, in conformity with the best business practice, and they must not misuse the clients' lack of skills or ignorance of business practice in order to derive undue benefit;

- the immediate superior of a relevant person who is in a (potential) conflict of interest has discretionary powers to exclude that particular person from participating in the transaction;
- escalation process for contingencies, in terms of taking actions and making decisions during the conduct of business in the event of detecting a potential or existing conflict of interest which involves an immediate superior;
- the Bank shall set up and implement organisational measures aimed at preventing and limiting any person's improper influence on a relevant person that provides investment services or performs investment activities;
- removal of any direct link between the income of relevant persons chiefly engaged in one business activity and the income or profit earned by other relevant persons chiefly engaged in another business activity, where a conflict of interest may arise in relation to such activities;
- periodic checking and, if necessary, revision of adequacy of the internal control system in respect of conflict-of-interest issues.

If a relevant person, during the performance of activities linked with the provisions governing investment or ancillary services and investment activities, becomes aware of the circumstances that may be considered conflicts of interest, the mentioned person is obliged to promptly notify his/her superior and the Compliance Department.

Heads of organisational units in which a conflict of interest has been identified are obliged to promptly notify the Compliance Department.

The Compliance Department shall without delay examine all relevant circumstances and decide if a conflict of interest exists. In order to appropriately manage conflict-of-interest situations, the Compliance Department shall propose adequate measures. The head of the relevant unit in which a conflict-of-interest situation has been identified shall be responsible for implementation of these measures (or his/her superior, in cases where a conflict-of-interest situation involves the unit head).

In situations where organisational and administrative measures adopted for the purpose of management of conflicts of interest do not provide, with reasonable certainty, sufficient protection against the risks that could be detrimental to the interests of clients or investors, the Bank is required to clearly inform clients about the general nature and/or sources of conflicts of interest before acting on their

behalf, in order to enable them to make an informed decision on the services provided to them, taking into account the context in which the conflict-of-interest situations arise. Also, if organisational and administrative measures have been taken to manage conflicts of interest, the Bank shall inform clients of any conflict-of-interest situation that may arise during the preparation of recommendations and the provision of placement services as well as ancillary services related to the issue or placement of financial instruments, including the organisation and setting up of underwriting and placement syndicates.

The Bank is required to disclose i.e. provide such information to clients on a durable medium, and such disclosure must contain sufficient data to enable the client to make an informed decision on all relevant circumstances related to the provision of investment or ancillary services or activities in the context in which a conflict of interest has arisen.

At the request of clients or potential clients who are classified as retail clients, the Bank shall provide more detailed information on the internal document *Policy of Managing Conflicts of Interest* on a durable medium or on its website, if appropriate conditions have been met.

2.6. INVESTMENT ADVICE SERVICE

The investment advice service is an investment service provided by the Bank in accordance with the provisions of the Capital Market Act and relevant regulations. This service means the provision of personal recommendations related to the structure of financial assets of clients who are natural persons.

All clients who are natural persons are automatically classified as retail clients (which is the client category provided with the highest level of protection).

The client himself/herself makes investment decisions that may or may not be based on personal recommendations i.e. investment advice of the Bank.

Mutual relations between the parties are regulated by an Agreement on the Provision of Investment Advice Services, in addition to which – as integral parts of the above-mentioned agreement – the General Terms for the Use of Investment Services of the Bank as well as the Schedule of Fees for Investment Services of the Bank (“Schedule of Fees”) and the Information on Investment and Ancillary Services (“Information on Investment Services”) shall apply, which are available at all branch offices of the Bank as well as on the official website of the Bank.

The investment advice service provided by the Bank includes:

- preparation and updating of the investment profile of a client, as well as making an assessment of the client’s knowledge of and experience in the capital market;



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- giving personal recommendations based on the client's profile which is prepared by taking into account the client's knowledge, previous experience, ability to bear losses, risk appetite, etc.;
 - regular updating of recommendations given, and their adjustment to the situation and trends in the capital markets;
 - periodic reporting on the balance of, yields and the structure of client's assets;
 - periodic assessment of suitability of financial instruments included in the recommendation (at least semi-annually);
 - monitoring of transactions in financial instruments and in some other products which are carried out by the client by using the Bank services through specific Bank channels (in accordance with the contractual documentation).

The provision of personal recommendations includes the preparation of the investment profile of a client which takes into consideration::

- the level of his/her knowledge and experience in the capital market
- willingness to take risks
- ability to bear losses, and
- his/her investment objectives.

In order to be able to provide a personal recommendation, the Bank must draw up the client's profile and assess suitability of certain personal recommendations in view of the client's investment profile .

The Bank shall, at least once every 6 (six) months, carry out an assessment of suitability of the content of personal recommendations for certain client profiles, and it may - taking into account the economic situation and market trends - make some corrections to the recommendations given or to the recommended structure of clients' assets.

2.6.1. THE BASIS FOR PROVIDING INVESTMENT ADVICE SERVICES

The Bank does not provide the service of investment advice on an independent basis.

The Bank provides investment advices services on the basis of a restricted analysis of different types of financial instruments.

The provision of personal recommendations in terms of investment offers is limited primarily to these financial instruments: units in collective investment undertakings i.e. open–end investment funds with a public offering, managed by the company PBZ INVEST d.o.o. Zagreb, Ilica 5..

¹ See section entitled *Assessment of suitability*

Specifically, personal recommendations concerning investment refer to all investment funds managed by PBZ INVEST, which – at the moment when this document has been drawn up – include the following:

- PBZ START fund
- PBZ E-START fund
- PBZ D-START fund
- PBZ Short term bond fund
- PBZ Bond fund
- PBZ Conservative 10
- PBZ Flexible 30 fund
- PBZ Global fund
- PBZ Equity fund
- PBZ Dollar bond fund
- PBZ Dollar bond fund 22
- PBZ International Multi Asset fund.

In addition to the above-mentioned financial instruments, the Bank will also give personal recommendations concerning other specific financial products which are distributed on the basis of the agreements concluded with the makers of such products and/or the Bank's own products, which may include some of the following:

- life insurance
- investment insurance products
- packaged investment products
- housing savings contracts
- fixed-term deposit agreements (savings).

The Bank reserves the right to expand the scope of its recommendations also to other financial products which may not belong to the category of financial instruments and which may include some investment components.

2.6.2. INDUCEMENTS

For all the above-mentioned types of financial instruments, PBZ receives and/or reserves the right to receive a distribution fee (inducement) from the product originator (for example, for the distribution of units in open-end investment funds with a public offering, the Bank receives a distribution fee from the product originator i.e. from the company PBZ INVEST d.o.o.)

² The updated list of funds managed by the company PBZ INVEST is available on the website of the company PBZ INVEST d.o.o., Zagreb, Illica 5, at: www.pbzinvest.hr



Information on distribution fees and inducements can be found in the forms containing Key Information on each relevant group of products, in conformity with laws and regulations.

2.6.3. PREPARATION OF A CLIENT'S INVESTMENT PROFILE

The investment advice service includes preparation of a client's investment profile. Investment profiles of clients are prepared on the basis of the prescribed Bank's forms:

- questionnaire about the level of knowledge and experience
- questionnaire about the investment objectives.

The assessment of one's knowledge and experience results in grades denoting the level of knowledge, which range from 0 to 4 (0 being the lowest and 4 being the highest grade). The result of assessment of investment objectives is the investment profile of a client, which can be *conservative, moderate or aggressive*.

The assessed level of knowledge and experience, ranging from 0 to 4, has the following meanings:

- 0 – the minimum level
- 1 – low
- 2 – moderately low
- 3 – moderately high
- 4 – high

The strategy behind each particular investment profile is described below:

- Conservative (profile) – the purpose/objective is to preserve the real value of an investment. For that purpose, the intention is to take minimum risks and there is strong loss aversion;
- Moderate (profile) - the purpose/objective is to achieve moderate growth of the real value of an investment. For that purpose, the intention is to take limited risks and there is a moderate loss aversion.
- Dynamic (profile) - the purpose/objective is to achieve significant growth of the real value of an investment. For that purpose, the intention is to take substantial risks and there is a limited loss aversion.

If a client does not provide all necessary information for the purposes of completion of the questionnaire, the Bank will not be able to provide investment advice services to such client. If the client provides incorrect or misleading information in the questionnaire, the provision of the service as well as personal recommendations given within the framework of the investment advice service may be unsuitable taking into account the needs and interests of the client who provided such answers.

The initial personal recommendation regarding an investment as well as periodic recommendations regarding corrections to the portfolio/investments and the assessment of suitability of transactions are based on the level of knowledge and experience and the investment profile of the client.

2.6.4. ASSESSMENT OF SUITABILITY

The Bank shall periodically, and at least once every 6 months, make an assessment of compatibility of the structure of client's assets with the established profile of the client. In this context, the Bank shall fully take into consideration all previously gathered pieces of information on the client, his/her assets and subsequent transactions and shall provide investment advice regarding harmonisation of personal recommendations and the structure of client's assets.

The client shall receive all notifications of regular assessments of suitability on a durable medium, in accordance with the Agreement on the Provision of Investment Advice Services.

Also, the service of investment advice includes monitoring of client transactions in financial instruments and other similar products in the sense of controlling the suitability of transactions in relation to the established investment profile of the client and his/her knowledge and experience in capital market transactions.

If the Bank determines that the intended transaction is suitable to the client's investment profile, the client will be able to directly execute the said transaction.

If the Bank determines that the intended transaction is not suitable to the client's investment profile, it will warn the client of this, and:

- the client will be able to carry out the transaction subject to giving the express consent, if the transaction does not involve financial instruments/products which the Bank actively distributes (for which the Bank receives a distribution fee);
- the client *will not* be able to carry out the transaction if it involves financial instruments/products which the Bank actively distributes (for which the Bank receives a distribution fee).

Prior control of suitability will be carried out in relation to the given orders and the entire client portfolio (the balance of assets on t-1, i.e. on the previous business day) before the transactions are executed, encompassing all the Bank channels, including branch offices and the new service PBZ digital banking (internet and mobile banking), except for PBZ365@NET internet banking and mPBZ mobile banking.

Transactions of the purchase and sale of financial instruments through the brokerage service (including PBZInvestor and the telephone channel) will not be subject to prior control of suitability of the transaction.

Subsequent controls of suitability will cover the entire portfolio of clients' assets in the Bank's records, regardless of channels through which transactions have been executed.



2.6.5. CONTROLS IN THE CONTEXT OF ASSESSMENT OF SUITABILITY

Bearing in mind investment profiles and taking into consideration different criteria for each of the profiles, the Bank carries out the following controls for the purpose of assessment of suitability:

VaR or the exposure of assets to risk	Complexity of products	Required reserves and liquidity	Issuer concentration	Concentration of complex products	Period of holding assets
The amount of risk exposure of the Client's Portfolio must be less than or equal to the maximum value for the investment profile based on the Questionnaire	The level of complexity of products must match the level of the Client's knowledge and experience on the basis of the Questionnaire	The amount of Reserves in the Client's Portfolio must be consistent with (equal to or higher than) the amount specified in the Questionnaire	Concentration of financial instruments of each individual issuer in the Client's Portfolio is consistent with the upper maximum value	Concentration of complex products in the Client's Portfolio is consistent with the upper maximum value	The amount of long-term investment products in the Client's Portfolio matches the amount specified in the Questionnaire

For calculation of VaR indicator (exposure of assets to risk) the Bank uses the following parameters:

- reliability level: 99%
- time period: 90 calendar days
- prices: on a weekly basis
- historical span: 3 years
- units in collective investment undertakings – an assessment is made on the basis of volatility of net asset value (NAV).

In other words, by using the above-mentioned parameters, the Bank will project with 99% certainty a possible loss on a particular instrument (i.e. on the total portfolio of the client) over the next 90 calendar days, and such assessments are made on a weekly basis based on historical data for the past three years.

The reference currency for VaR calculations is the euro.

2.6.6. DESCRIPTION OF DOCUMENTS RELATED TO INVESTMENT ADVICE SERVICES

In order to be provided with a full description of the content of investment advice services, clients should also take into consideration the following documents:

- Agreement on the Provision of Investment Advice Services
- Form containing Key Information on distribution of UCITS funds
- KIID form for each distributed UCITS fund

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- Form containing Key Information on all other financial products
 - Form containing Key Information on investment advice service
 - General Terms for the Use of Investment Services of Privredna banka Zagreb d.d.
 - Information on Investment Services of Privredna banka Zagreb d.d.
 - Schedule of Fees for Investment Services of the Bank

2.7. INVESTMENT ADVICE SERVICE FOR LEGAL ENTITIES RELATED TO TRANSACTIONS IN OTC DERIVATIVES

The investment advice service is an investment service provided by the Bank in accordance with the provisions of the Capital Market Act and relevant regulations, as well as all relevant EU regulations that are directly applicable in all member states.

This investment advice service refers to the provision of personal recommendations relating to risks involved in, and the structure of, financial assets of clients who are legal persons when such clients intend to carry out transactions in OTC derivatives.

As part of the service, the Bank shall provide the client with recommendations that will be of help to the client in conducting OTC derivative transactions, taking into account:

- specific needs of that client and the structure of its assets
- its previous experience with financial products
- client's financial objectives and the time horizon of investment
- willingness to take risks i.e. risk appetite.

On the basis of the client's answers to questions from the Questionnaire for Assessment of Suitability (hereinafter: the Questionnaire) the Bank will get to know its client better and will determine:

- the level of the client's knowledge and experience in the field of capital market transactions and financial instruments
- the client's investment profile, which takes into consideration the financial situation and investment objectives of the client.

The investment advice service provided by the Bank includes:

- preparation and updating of the client's investment profile, as well as making an assessment of the client's knowledge of and experience in the capital market;
- giving personal recommendations with regard to OTC derivative transactions while bearing in mind the client's profile, prepared by taking into account the client's knowledge, previous experience, ability to bear losses, risk appetite, etc.



The investment advice service is provided by the Bank as a centralised service, which means that the competent Bank bodies make decisions which, periodically, define the products and criteria recommended by the Bank to its clients within the framework of its investment advice service.

The Bank provides investment advice on a non-independent basis, i.e. this service includes a limited range of products created by the Bank and/or distributed by the Bank on the basis of contractual relationships with third parties.

The Bank does not provide investment advice on an ongoing basis. Also, within the framework of the provision of the investment advice service, the Bank does not provide a regular or periodic assessment of the suitability of the client's asset portfolio or of the financial instruments recommended to the client. The Bank shall provide the service of investment advice and shall carry out an assessment of suitability exclusively prior to concluding and executing transactions that involve OTC derivatives.

The Bank does not charge a fee for the provision of the investment advice service.

2.8. RECEIPT AND TRANSMISSION OF ORDERS RELATED TO UNITS IN UCITS FUNDS

This investment service refers to receipt and transmission of client orders, where the scope of the service is limited to units in open-end investment funds with a public offer (hereinafter: units in UCITS funds). The service of receipt and transmission of orders related to units in UCITS funds comprises receipt and transmission of orders in relation to units in UCITS funds that are offered by those fund management companies with which the Bank has concluded an agreement on distribution of units, on the basis of the client's request for acquisition / redemption / exchange of units in UCITS funds. In addition, this service includes any ancillary services in connection with the provision of the mentioned service.

The General Terms for the Use of Investment Services of Privredna banka Zagreb d.d. as well as the Order Execution Policy, which are available at all branch offices of the Bank and also on the official website of the Bank, shall apply to the provision of the service of receipt and transmission of orders related to units in UCITS funds.

The services provided by the Bank include:

- receipt of client requests related to acquisition / redemption / exchange of units in UCITS funds covered by the scope of this service;
- the use of the above-mentioned service at branch offices of the Bank;
- the use of the above-mentioned service also through other, direct channels of the Bank, if such services have been contracted by the client (online banking [PBZ digital banking], online banking [PBZ 365 service, mPBZ service], Com@net and mPBZcom);
- forwarding received orders, for the purpose of their execution, to the management company which is in charge of managing the investment fund to which the received order refers.

3. CLIENT CATEGORISATION

The Bank is obliged to classify its Clients – taking into account their knowledge, experience, financial standing and investment objectives - as retail or professional clients and to notify them of their categorisation. The Bank may further categorise certain professional clients as eligible counterparties, if they meet the required conditions laid down by the CMA.

3.1. RETAIL CLIENTS

The Bank shall automatically classify and treat as retail clients all natural and legal persons as well as legal entities that cannot be considered professional clients or eligible counterparties.

3.2. PROFESSIONAL CLIENTS

Clients that are considered to be professional clients

Professional clients are those Clients that possess sufficient experience, knowledge and expertise to make investment decisions on their own and to properly assess the related risks.

Entities considered to be professional clients regarding the provision of all investment and ancillary services in relation to all financial instruments are:

- entities which are required to be authorised and/or supervised by the competent regulatory body in order to operate in the financial market:
 - investment firms,
 - credit institutions,
 - other financial institutions duly authorised by the competent authority in accordance with the provisions governing their operation,
 - insurance companies,
 - collective investment undertakings and their management companies,
 - pension funds and their management companies,
 - pension insurance companies,
 - commodity dealers and commodity derivatives dealers,
 - local entities,
 - other institutional investors whose core business activity is not covered by this paragraph, which have to be authorised or supervised in order to operate in the financial market.
- legal persons that meet at least two of the following conditions in relation to the previous business year for which the last audited financial statements are available, or for which unaudited financial statements are available that are regularly submitted to the relevant supervisory bodies if an audit is not required under the currently valid regulations:



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- total assets amounting to at least HRK 150,000,000.00
 - net turnover amounting to at least HRK 300,000,000.00
 - capital amounting to at least HRK 15,000,000.00.
- national and regional governments, public bodies that manage public debt, central banks, international and supranational institutions such as the World Bank, the IMF, the ECB, the EIB and other similar international organisations,
 - other institutional investors whose main activity is investment in financial instruments and which are not subject to authorisation or supervision by the competent authority of their operation in the financial market, including entities set up for the purpose of asset securitisation.

The Bank shall automatically classify and treat the above-mentioned entities and legal persons as professional clients if they meet the conditions stipulated for the mentioned category.

Clients that may be treated as professional clients

In addition to clients that are considered to be professional clients, the Bank may treat other clients, legal and natural persons, as professional clients if they request so and provided that they meet the required criteria and procedures.

A request by a client (retail client) to be treated as a professional client may be a general request or it may refer to a specific investment service or transaction or ancillary service or type of transaction or product. Such a request must be submitted to the Bank using the prescribed form "Request to Change the Retail Client Categorisation", which shall be regarded, for client categorisation purposes, as an assessment of the client's knowledge, experience and expertise, depending on the type of transaction or service in question and the client's ability to make his/her own investment decisions as well as the client's understanding of the risks involved.

In the context of the mentioned Request, the client must meet at least two of the following criteria in order to qualify for treatment as a professional client:

- the client has carried out in the relevant capital market, on average, 10 transactions whose amount exceeds HRK 200,000.00 per transaction within each quarter over the previous four quarters,
- the size of the client's portfolio of financial instruments exceeds HRK 4,000,000.00,
- the client works or has worked in the financial sector for at least one year in a professional position which requires knowledge of the planned transactions or services.

If a retail client is to be treated as a professional client, this at the same time represents the client's waiving of the higher level of protection ensured by the rules of business conduct as well as possible loss of the level of protection and rights offered to the client by the investor protection scheme.

3.3. ELIGIBLE COUNTERPARTIES

An eligible counterparty is a subcategory of a professional client. The following entities are considered to be eligible counterparties:

- investment firms,
- credit institutions,
- insurance companies,
- open-end investment funds with a public offer and their management companies,
- pension funds and their management companies,
- other financial institutions authorised or regulated in accordance with laws and regulations of the Republic of Croatia,
- other financial institutions authorised or regulated in accordance with laws and regulations of the European Union or another Member State,
- persons whose regular activity includes dealing on own account in commodities and/or commodity derivatives, unless they are part of a Group whose core business is the provision of other investment services in conformity with the CMA or the provision of banking services in conformity with the law that regulates the establishment and operation of credit institutions,
- local companies,
- national governments, public bodies that manage public debt, and central banks,
- supranational organisations.

The Bank may provide to eligible counterparties the following investment services and it may perform for them the following investment activities:

- receipt and transmission of orders in relation to one or more financial instruments,
- execution of orders on behalf of clients,
- dealing on own account,
- ancillary services directly related to the above-mentioned transactions.

When providing investment and ancillary services and performing investment activities specified in the previous paragraph, the Bank is not obliged to comply with obligations that refer to the following:

- rules of business conduct,
- reporting to clients on the services rendered (including the costs related to transactions and services performed on behalf of a client),



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- keeping of records, which includes documents that regulate mutual rights and obligations of the client and the Bank,
 - categorisation of clients as retail or professional clients,
 - measures and procedures that allow up-to-date and correct execution of orders on behalf of a client in relation to orders placed by other clients or the Bank's commercial interests, as laid down in the Order Execution Policy,
 - accurate and prompt recording of data on the execution of orders on behalf of clients,
 - accurate and prompt allocation of orders executed on behalf of clients,
 - prompt execution of comparable orders on behalf of clients according to the time of receipt of an order by the Bank, unless the prevailing market conditions prevent the Bank from doing so or unless the interests of the client require otherwise,
 - promptly informing a client about any major difficulty related to the proper execution orders, as soon as the Bank becomes aware of any such difficulty,
 - prohibition of the misuse of information related to pending client orders (to be executed on behalf of a client) and taking all reasonable steps in order to prevent the misuse of such information by the Bank's relevant persons,
 - in cases where the Bank is responsible for supervising or arranging the settlement of an order executed on behalf of a client, it is required to take all reasonable steps to ensure that all client's financial instruments or funds received in settlement of that executed order are delivered in due time and in the correct way to the account of the appropriate client,
 - execution of orders on terms that are most favourable to the client, as laid down in the Order Execution Policy.

3.4. CHANGE OF CLIENT CATEGORISATION

The Bank may, on its own initiative or at the client's request:

- treat a client that is considered to be a professional client as a retail client,
- treat a client that may be categorised as an eligible counterparty as a professional or retail client.

The Bank may, at the client's request:

- treat a client who is considered to be a retail client as a professional client, provided that he/ she meets the required conditions.

A change of the client categorisation from a professional client to a retail client, or from an eligible counterparty to a professional or retail client, is regulated by means of the "Request to Change the Client Categorisation as a Professional Client or an Eligible Counterparty". The mentioned change of categorisation may refer to one or more investment/ancillary services or transactions, or to one or more types of products or transactions.

A change of the client categorisation from a retail client to a professional client is regulated by means of the "Request to Change the Retail Client Categorisation". The mentioned change of categorisation may refer to all investment/ancillary services or transactions, or to one or more types of products or transactions.

A change of the client categorisation from a professional client to an eligible counterparty is to be regulated in writing, following the client's initiative or the Bank's initiative.

The said change may refer solely to services and activities mentioned in item 3.3 hereof.

Professional clients are obliged to notify the Bank of any change that could affect their [current] categorisation. On the basis of the mentioned notification sent by a client, or if the Bank establishes that a client no longer fulfils the conditions required for categorisation as a professional client, the Bank is obliged to categorise and treat that client as a retail client, as well as to notify the client of such new categorisation.

The Bank wishes to point out and warn its Clients that categorisation as a retail client implies a higher level of protection in comparison with that provided to a professional client, which is particularly reflected in the following requirements::

- the Bank is obliged, before providing a service to a retail client for the first time, to conclude a written agreement with that client which shall regulate their mutual rights and obligations,
- the Bank is obliged, before concluding an agreement with a retail client, to inform the retail client about the terms and conditions of the agreement and provide him/her with the general information such as: the corporate name, registered office and business address of the Bank, as well as contact details necessary to enable clients to communicate effectively with the Bank; the languages in which the client may communicate with the Bank and receive documents and other information from the Bank; the methods of communication to be used between the Bank and the client for sending and receiving orders; a statement confirming that the Bank is authorised to carry out relevant activities, as well as the name and contact address of the competent authority that granted the mentioned authorisation; the scope, frequency and timing of reports sent to Clients on the services the Bank has provided to the client in accordance with provisions of the CMA; a description of the policy of managing conflicts of interest, which may be provided in the form of a summary; and similar information,
- the Bank is obliged to provide, send or distribute to clients the accurate, clear and comprehensible information – including marketing communications – in such a way that retail clients are able to receive it,



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- the Bank is obliged to provide retail clients with information about financial instruments,
 - when the Bank is authorised to hold client's financial instruments or client's funds, it is under an obligation to provide – where appropriate - retail clients with information about protection of client's financial instruments and client's funds,
 - when executing a retail client order, the Bank is obliged to determine the best possible result that may be achieved in terms of total transaction costs,
 - the Bank is obliged to provide retail clients with information on prices and costs, which in particular includes the total price to be paid by a client in connection with a financial instrument or an investment or ancillary service, including all related fees, commissions, charges and costs, as well as all taxes to be paid via an authorised company;
 - in cases where any part of the total price mentioned above must be paid in or represents an amount of foreign currency, the Bank must draw client's attention to the currency involved, together with the applicable exchange rate and costs; the Bank is [also] obliged to point out that there may be other costs, including taxes or other levies related to a transaction in the financial instrument or the investment service, which may be incurred by the client and which are not payable through the Bank nor imposed by the Bank.

Further, the Bank reserves the right to decide not to accept a retail client's Request to change the categorisation from a retail client into a professional client, whereby the client wishes to waive the higher level of protection which is ensured by the rules of business conduct and which retail clients are entitled to enjoy, unlike professional clients.

A client may, at any time, request a higher level of protection which is based on i.e. ensured by the rules of business conduct.

4. FINANCIAL INSTRUMENTS

Financial instruments are:

- transferable securities,
- money market instruments,
- units in collective investment undertakings, i.e. units in open-end investment funds,
- derivatives.

According to the CMA, financial instruments can be classified into non-complex and complex financial instruments.

Non-complex financial instruments include:

- money market instruments,
- shares admitted to trading on a regulated market or an equivalent third-country market,
- bonds or other forms of securitised debt, excluding those bonds or other forms of securitised debt that embed a derivative of different types of bonds,
- units in open-end investment funds with a public offer.

Financial instruments that do not belong to the above-mentioned categories shall be regarded as complex financial instruments, unless otherwise provided for by the CMA.

Risks faced by investors in financial instruments

The risks associated with investments in financial instruments are the most important factor that Clients must take into consideration when making a decision to purchase or sell financial instruments. From the viewpoint of quantification of uncertainty that accompanies investments, risk may be defined as the awareness of a situation in which a number of results may appear as the consequence of a certain decision. The probability of achieving each of the results may be known to or, as is often the case, it may be a matter of personal assessment of a person making the decision (in this case, an investor and/or an issuer). According to the provisions of the CMA, retail clients - unlike professional clients - cannot be presumed to possess knowledge and experience necessary for assessing the risks associated with those investment services or transactions, or the type of transactions or products, with regard to which that particular client is classified as a retail client.

General risks associated with investments in financial instruments are the following:

1. **Country risk** - the risk that depends on the rating of a national economy in the global economic environment, which includes:

- **Sovereign risk** - the risk of a lack of the ability and/or willingness [of a government] to repay a country's debt when due.
- **Political risk** - the risk of unexpected political changes or instability in a country.

The source of instability may be a change of Government, regulatory bodies and/or other political bodies/factors.

- **Economic risk** - the risk of loss of value of a financial instrument due to recession of the local economy.
- **Exchange rate risk** - the risk of changes in foreign exchange rates, which can affect (decrease or increase) the return on investments in foreign currency.



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- **Inflation risk** - the risk of a fall in the value of a financial instrument due to a rise in the general level of prices.
 - **Regulatory risk/Legislative risk** - the risk of a major change in laws and regulations and/or tax regulations and/or the [legal] framework within which a company operates, in a way that will have a negative impact on the profitability of investments in financial instruments and the position of an investor.
 - **Capital transfer risk** - risk that the prohibition of capital outflows, i.e. outbound capital transfers, may be imposed.

2. **Issuer risk** - the risk that depends on the factors directly connected with a particular company that issues financial instruments, which includes:

- **Credit risk** - the risk of a fall in or complete loss of the value of a financial instrument due to deteriorated creditworthiness or a deteriorated credit rating of the issuer, or a bankruptcy proceeding being initiated against the issuer.
- **Industry risk** - the risk of a major negative change in the environment in which a company operates in respect of competition, technology, standards, etc.
- **Management risk** - the risk of an inefficient and destructive management structure in a company that could adversely affect its performance.
- **Operational risk** - the risk of loss stemming from inadequate or failed business processes of a business entity, human negligence or errors and internal systems while performing business activities, and external events. It includes the risk of IT system breakdown, the risk of failure of communication links between the service provider (for example, the Bank), the CDCC and/or the stock exchange and/or the regulated markets; [the risk of] natural disasters, fraud.
- **Risk of non-payment of dividend** - the risk that a joint stock company will not pay out a dividend, which depends on the decision made at the company's general meeting as well as on the company's performance.
- **Environmental risk** - the risk of a negative impact on the environment as a result of business activities of a company.

3. **Financial instrument risk** - the risk that depends on the features of a particular financial instrument, which includes:

- **Liquidity risk** - the risk of inability to purchase or sell a financial instrument in the secondary capital market quickly enough and without a significant loss of value, because of the reduced attractiveness of the instrument or as a result of market inefficiency.

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- **Market risk** - the risk of a change (an increase or decrease) in the value of a financial instrument due to daily changes of its market price.
 - **Market psychology risk** - the risk of a change in the value of a financial instrument due to speculative activities of large investors, i.e. large corporate actions on the stock exchange.
 - **Interest rate risk** - the risk of a decrease in the value of a financial instrument due to changes of market interest rates in relation to the interest rate/yield on the concerned instrument.
 - **Counterparty risk** - the risk faced by a contracting party/entity that the other party/entity will not be able to meet its contractual obligations. This type of risk is sometimes also called "bankruptcy risk".
 - **Settlement risk** - the risk that the settlement of a transaction involving a financial instrument may be hindered or altogether prevented, i.e. that a counterparty will fail to deliver the concerned instrument or will fail to meet its payment obligation arising out of the transaction.
 - **Reinvestment risk** - the risk that future cash receipts from a financial instrument will be (re)invested at a lower yield or at a lower interest rate than the one which the instrument itself bears.
 - **Timing risk** - the risk of missing favourable movements of the price of a financial instrument due to the wrong timing of the purchase or sale of a financial instrument.
 - **Financial leverage risk** - the risk of financing the purchase of financial instruments through a loan. Regardless of the type of asset being financed through borrowing, such investment contains a higher risk of losses. Namely, the profitability of an investment does not affect the obligation of debt repayment; it can even increase debt in certain cases. On the other hand, the costs of such financing directly affect the yield earned from an investment by decreasing it.

Risks faced by issuers of financial instrument

The risks faced by the issuers of financial instruments are the most important factor that clients must take into consideration when making a decision about the use of the underwriting service and/or the service of placement of financial instruments on a firm commitment basis or without a firm commitment basis.

- **Exchange rate risk** - the risk of a rise or fall in the value of obligations that arise from the financial instrument issued in a foreign currency, expressed in the local currency.
- **Interest rate risk** - the risk of a rise or fall in market yields/interest rates in relation to the yield/interest rate paid by the issuer on issued financial instruments (the so called cost of funds).
- **Reputation risk** - the risk an adverse impact of an event or a company's activity on the company's reputation (for example: failure of a new issue of financial instruments, inability to pay interest and/or principal of a financial instrument, non-compliance with regulatory obligations related to reporting to shareholders and the public).



In addition to the above-mentioned risks, clients should also pay attention to the risks described later in this brochure.

Diversification has, over time, proved to be a method of successful balancing of investment risk and the generated yield. Diversified investments represent investments in different types of financial products, with different risk levels and therefore different rates of return (interest rates). Personal assets (investments, savings) which are diversified (dispersed, combined) so as to include deposits, savings deposits in building societies, life insurance, investment fund units and shares, help reduce the total investment risk because one type of investment at a particular time may generate satisfactory yields, while another type of investment may fail to do so. Naturally, diversification of investments does not guarantee full safety, it only reduces the total investment risk.

For further information about investment strategies, clients are kindly requested to contact their investment advisors.

4.1. TRANSFERABLE SECURITIES

Transferable securities are types of securities that are negotiable in the capital market, such as shares or other securities equivalent to shares which represent a stake in the capital or members' rights in a company, as well as depositary receipts [issued for shares held on deposit], bonds and other forms of securitised debt, including depositary receipts for other securities held on deposit, as well as any other securities that give the right to buy or sell such transferable securities, or on the basis of which cash payments can be made where the relevant amounts are determined by reference to transferable securities, currencies, interest rates or yields, commodities, indices, or other measures.

4.1.1. SHARES

Shares are equity securities issued by a joint stock company. They represent a portion of a company's equity capital and express the holder's status as a member of that company and the related rights and obligations. Shares may take the form of bearer shares or registered shares. Shares do not have a maturity date.

In terms of the rights they give their holders, shares can be classified as ordinary or preference:

- ordinary shares are shares that give their holders:
 - voting rights at a shareholders' meeting,
 - the right to be paid a dividend,
 - the right to be paid a remainder of the liquidation or bankruptcy estate of a company.
- preference shares are shares that give their holders certain preferential rights, such as the right to a fixed dividend (expressed as a fixed amount or a fixed percentage of the nominal value of

the share), priority in dividend payout, priority to receive payment of any remainder of the liquidation or bankruptcy estate, and other rights laid down by law and the company's Articles of Association. A preference share may be cumulative or participating.

- cumulative preference shares give their holders, in accordance with the decision on the issue of shares, the right to be paid accumulated unpaid dividends before payment of dividends to ordinary shareholders.
- participating preference shares give their holders, in accordance with the decision on the issue of shares, the right to be paid, on top of a fixed dividend, also a [portion of] dividend that belongs to ordinary shareholders.

Shares in a joint stock company may be issued as par-value shares or no-par-value shares. Par value shares have a specific nominal or face value stated in proportion to the nominal share capital of a joint stock company. The par value of a share is not an indicator of its actual market value. The actual value of a share is determined by supply and demand in the capital market, and a share is worth the amount that someone is willing to pay for it at the moment of its sale.

Risks associated with investments in shares

The degree of risk taken when investing in shares depends on the rights that shares give their holders and the quality (creditworthiness) of the issuer, as well as on the general situation in the capital market.

On top of all general risks that have been mentioned above, the risks that are specifically associated with shares include the following:

- **Credit risk** - in the event of bankruptcy or liquidation of a company, ordinary shareholders will be paid last when remaining assets are distributed (only after all other creditors have been settled out of the bankruptcy estate). Consequently, the value of shares in that company may fall sharply or shares may completely lose their value, which could result in a complete loss of the investment for an investor.
- **Market risk** - the price or market value of a share, which is determined on a stock exchange on the basis of supply and demand, may fluctuate considerably, especially in the short term, given that it may be affected by a number of local and international factors, such as business results of a company, expectations regarding future performance of the company, and general economic and political conditions. The market value of a share is not determined once and for all; it is subject to change and is constantly redefined.
- **Liquidity risk** - in principle, shares are traded on organised markets (stock exchanges) and their prices are determined on the basis of supply and demand. If the supply and/or demand for a particular share have decreased sharply or have vanished (which, as a rule, may occur



during market disruptions, crises, etc.), the marketability of such shares will also decrease at a fast rate even without a significant loss of value, while in extreme cases, shares may become non-tradable. In general, shares included in the lower-level quotation list on a stock exchange are less liquid than shares included in the quotation list of a higher level.

- **Risk of non-payment of dividend** - the risk that a joint stock company will not pay out a dividend, which depends on the decision made at the company's general meeting as well as on the company's performance.

The higher the potential return on an investment, the higher the risk taken by an investor. The occurrence of one and/or several risks mentioned above may cause significant losses to be incurred by investors, including a complete loss of an investment.

4.1.2. BONDS

Bonds are long-term debt securities issued by governments, local government bodies, banks and companies in order to finance long-term investments. By issuing bonds, the issuer undertakes to pay their owner, i.e. the bondholder, an amount of money (interest and principal) in accordance with the conditions under which the bond was issued.

Bonds can be classified according to their numerous features, and in most cases they are classified in the following ways:

- according to the issuer
 - government bonds - issued by a national government/state, i.e. the ministry of finance or the state treasury
 - municipal bonds - issued by local government units
 - corporate bonds – issued by companies
- according to the interest rate:
 - zero coupon bonds (non-interest bearing bonds)
 - fixed rate bonds – bonds that have a fixed interest rate from their issue to maturity
 - floating rate bonds - bonds whose interest rate fluctuates i.e. is adjusted to the market interest rate at predetermined intervals (on a monthly, quarterly, semi-annual or annual basis)
- according to the repayment of principal:
 - bullet bonds - the issuer repays the principal in one tranche, at maturity
 - amortising bonds.

Bonds can also be issued in different currencies, can have different maturity periods (usually 3 to 10 years), can be secured or unsecured (backed by a guarantee), which makes them very flexible financing instrument, from the viewpoint of an issuer. Bonds are usually traded on organised markets, but can also be traded directly between market participants (the so called over-the-counter (OTC) trading).

Risks of investing in bonds

Risks associated with bonds include:

- **Credit risk** - the probability that a bond issuer will be unable to settle its obligations under the issued bonds, when due. This risk materialises in the event of the issuer's insolvency i.e. bankruptcy. For this reason, it is important for an investor to assess creditworthiness [check the credit rating] of an issuer and adjust his/her yield expectations accordingly. In general, the lower the credit rating of an issuer, the higher the demanded yield, and vice versa. Consequently, bonds with the highest rating i.e. the most secure bonds (that have the lowest yields) are - as a rule - government bonds, followed by municipal and corporate bonds.
- **Interest rate risk** - the probability that market interest rates will change in relation to the interest rate on a bond. The changes in market interest rates are inversely proportional to changes in bond prices. For example, when the market interest rate increases and is higher than the bond interest rate, the bond price will decrease, and vice versa. The greater and the more persistent the difference between bond interest rates and market rates, the stronger the impact on bond prices. This risk is most prominent in the case of zero coupon bonds, somewhat less prominent in the case of fixed rate bonds, and is the lowest in the case of floating rate bonds. Bonds with longer maturities are generally more exposed to interest rate risk than bonds with shorter maturities.
- **Exchange rate risk** - the probability that the value of bonds denominated in one currency or of bonds with a currency clause, expressed in another currency, will fall due to a change in the exchange rate for these two currencies. For example, the kuna equivalent of an investment in bonds in EUR with a currency clause will drop if the EUR/HRK exchange rate drops (i.e. if the kuna appreciates) and vice versa.
- **Market risk** - the risk of a decrease in the market value (price) of a bond due to regular periodic movements in supply and demand in the capital market. Supply and demand, and consequently bond prices, may be affected by, for example, a change in the issuer's credit rating, changes in interest rates, the probability of early redemption of bonds by the issuer, etc.
- **Liquidity risk** - the probability that an investor will not be able to purchase or sell a bond

quickly and/or without any major loss in value. Liquidity of bonds depends on the issuer, the size (total amount) of the issue, the term to maturity, the diversity and number of bondholders, general market conditions, and similar. Given that supply and demand determine the bond's liquidity, there is no guarantee that an investor will be able to purchase or sell a bond at a desired moment.

4.2. MONEY MARKET INSTRUMENTS

Money market instruments are short-term debt instruments traded in the money market, having maturities of up to 364 days.

Money market instruments [in Croatia] include:

- **(MF) Treasury bills** - financial instruments issued by the Ministry of Finance of the Republic of Croatia, with maturities of 91, 182 and 364 days, in denominations of HRK 100,000 or EUR 1000, if the issue is denominated in EUR. They are purchased at auctions announced/held by the Ministry of Finance. At primary auctions, Treasury bills are issued/sold at a discount and they are later traded in the secondary market.
- **Croatian National Bank bills (CNB bills)** - transferable financial instruments with a typical 35-day maturity. This type of instruments is issued by treasuries (ministries of finance), state agencies or central banks. In the Republic of Croatia, they are issued by the Croatian National Bank. CNB bills are debt instruments used for liquidity maintenance. They are considered to be "risk free" i.e. secure instruments which generate moderate income.
- **Commercial papers** - transferable financial instruments issued by companies (issuers) as registered securities, in the book-entry form. They allow the issuer to satisfy its short-term needs for financing, where a company – depending on the situation in the market – will issue commercial paper tranches that will be within the limits of the accepted programme. A commercial paper is usually an unsecured financial instrument. A commercial paper issue programme is a programme for financing short-term needs of a company, allowing it to issue commercial paper tranches of different maturities, with different due dates and up to a maximum total amount stipulated in the programme. Commercial papers are issued by companies that have different credit ratings, hence they are not as secure as (MF) Treasury bills or CNB bills.
- **Certificates of deposit** - transferable financial instruments used by banks to obtain short-term funds. Banks "sell" certificates of deposit by issuing large-denomination CDs or issue them on the basis of deposits. Certificates of deposit are not traded in the Republic of Croatia.

Payment instruments are not considered to be money market instruments i.e. transferable securities.

Risks of investing in money market instruments

Investors in money market instruments are exposed to all general risks associated with investments in financial instruments. Nevertheless, they should pay particular attention to assessment of the following risks:

- **Credit risk** - the probability that the issuer of a money market instrument will be unable to settle its obligations under the instrument, when due. This probability will become higher as the credit rating of the issuer deteriorates/ becomes lower. The higher the credit risk, the higher the risk premium, and consequently the yield expected by the investor.
- **Liquidity risk** - in principle, there are no organised secondary markets for money market instruments. Hence, such instruments are chiefly held to maturity. If an investor wishes to sell a money market instrument, there is no guarantee that he/she will be able to do so quickly and without any major loss in value.
- **Exchange rate risk** - the probability that the value of a financial instrument denominated in one currency or an instrument with a currency clause, expressed in another currency, will fall due to a change in the exchange rate for these two currencies. For example, the kuna equivalent of an investment in a commercial paper in EUR with a currency clause will drop if the EUR/HRK exchange rate drops (i.e. if the kuna appreciates) and vice versa.

4.3. UNITS IN OPEN-END INVESTMENT FUNDS WITH A PUBLIC OFFER

An open-end investment fund with a public offering represents a separate pool of assets that has no legal personality, established by an investment fund management company upon obtaining the Agency's approval i.e. authorisation, for the purpose of raising money through a public offering of units in the fund, where the raised funds are invested in accordance with the provisions of the Investment Funds Act. The fund's assets are divided into an unlimited number of units. Holders of units in the mentioned fund, apart from being entitled to receive a proportionate share of the fund's profit, may demand redemption of their units at any time and may thus exit the fund.

Main documents of each investment fund that each investor should read prior to investing in fund's units, which define characteristics of a particular fund - including its investment limits i.e. risks associated with instruments in which funds collected from investors are invested, are the prospectus and the fund's rules.

Taking into account their characteristics, there are different types of open-end investment funds with a public offer, i.e. they may be:

- **Equity funds** - a type of investment fund that invests primarily in equities of various companies. Due to the volatile nature of shares, such investments carry higher risk, but may also generate higher yields.



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- **Money market funds** - a type of investment fund that invests primarily in money market instruments that carry minimum risk (deposits, Treasury bills, CNB bills, commercial papers).
 - **Bond funds** - a type of investment fund that invests primarily in bonds of various issuers. Yields generated by bond funds tend to be stable, and the risk is lower because bonds are considered to be a safe investment.
 - **Balanced funds** - a type of open-end funds that invest in various types of financial assets based on the ratios prescribed in the fund's prospectus and the fund's rules. In most cases, the ratio of investment in shares to investment in bonds is balanced i.e. they are roughly equal. This type of fund attracts investors who are looking for a higher yield offered by shares, combined with stability and safety offered by bonds.
 - **Index fund** - an investment fund that literally replicates the composition of an index or just invests in a number of shares included in an index. This is a passive investment strategy.

Risks of investing in open-end investment funds with a public offer

Apart from general risks, the most important risks associated with this type of investment include:

- **Credit risk** - the probability that the issuer of a financial instrument that is included in the fund's assets or the person with whom the investment company, acting in its own name but for the account of the fund, concludes deals in financial markets, may default in full or in part on its obligations, which would adversely affect the funds' liquidity and the asset value.
- **Currency risk** - the assets of a fund may be invested in financial instruments denominated in different currencies (for example, kuna, euro, US dollar, Swiss franc, Japanese yen), which means that this part of assets is exposed to the risk of fluctuations of the exchange rate of a particular currency in relation to the accounting currency in which the yield is measured. There is a risk of depreciation (fall) or appreciation (rise) of the exchange rate of the involved currencies, which may lead to a rise or fall in the value of units in a fund.
- **Interest rate risk** - the probability that the yield to maturity of purchased debt securities will increase, i.e. that at the moment when a debt security should be cashed in, the yield will be higher than at the time of purchase, which may result in a loss.
- **Market risk** - the assets of a fund which are invested in financial instruments traded in financial markets are exposed to daily price fluctuations, which is reflected in a rise or fall in the value of assets, i.e. net asset value.
- **Liquidity risk** - the probability that a fund will encounter difficulties in obtaining funds needed for settlement of its obligations related to redemption of units or financial instruments,

because of its inability to sell financial assets at a price nearly equal to the fair value of those assets or when trying to sell the desired quantity of an instrument at a specific moment.

- **Regulatory risk/Legislative risk** - the risk of a major change in laws and regulations and/or tax regulations that may have a negative impact on the profitability of investments in financial instruments and the position of an investor. This risk is particularly important when investing in foreign investment funds, whose legal treatment, especially tax treatment, may be very different from that of domestic investment funds, which may significantly affect the profitability of an investment.

4.4. DERIVATIVES

Derivatives, which are considered to be complex financial instruments, include:

- options, futures, swaps, forward rate agreements and any other derivative instruments relating to securities, currencies, interest rates or yields, and other derivative instruments, financial indices or financial measures which may be settled physically or in cash,
- options, futures, swaps, forward rate agreements and any other derivative instruments relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (for reasons other than default or other reasons for agreement termination),
- options, futures, swaps and any other derivative instruments relating to commodities that can be physically settled provided that they are traded on a regulated market and/or a multilateral trading facility and/or an organised trading facility,
- options, futures, swaps, forwards and any other derivative instruments relating to commodities that can be physically settled, not mentioned in the paragraph above and not having a commercial purpose, which have the characteristics of other derivative financial instruments, taking into account whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls,
- derivative instruments for the transfer of credit risk,
- financial contracts for differences,
- options, futures, swaps, forward rate agreements and any other derivative instruments relating to climatic variables, freight rates, emission allowance units or inflation rates or other official economic statistical data, which must be settled in cash or may be settled in cash at the option of one of the parties (for reasons other than default or other reasons for agreement termination), as well as any other derivative instruments relating to assets, rights, obligations,

indices and measures which are not mentioned in this paragraph and which have the characteristics of other derivative financial instruments, taking into account whether, inter alia, they are traded on a regulated market and/or a multilateral trading facility and/or an organised trading facility, and whether they are cleared and settled through recognised clearing houses or are subject to regular margin calls.

Risks of investing in derivatives

Apart from general risks, the most important risks associated with this type of investment include:

- **Position risk (type of market risk)** - the risk of loss due to a change (a rise or fall) in the price of a financial instrument, i.e. in the case of a derived instrument, due to a change in the price of the relevant variable:
- **general position risk** - the risk of loss due to a change in the price of a financial instrument caused by a change in interest rates or major changes in the capital market, regardless of any specific characteristic of that financial instrument,
- **specific position risk** - the risk of loss due to a change in the price of a financial instrument caused by facts/circumstances related to its issuer, i.e. in the case of a derivative instrument, caused by the circumstances related to the issuer of the underlying instrument.
- **Settlement risk which includes also counterparty risk** - the risk of loss due to failure of the other party to a transaction to meet its obligations.
- **Exchange rate risk** - the risk of loss arising from changes in the exchange rate for relevant currencies.
- **Commodity risk** - the risk of loss arising from changes in commodity prices.
- **Credit risk** - the risk of loss arising from failure to meet a financial obligation.
- **Liquidity risk** - the risk of loss arising from the present or anticipated inability of an investment company to meet its financial obligations when due.

5. ASSESSMENT OF APPROPRIATENESS

When providing investment services (excluding the service of investment advice), the Bank is obliged to prepare, on the basis of data provided by a client, a profile regarding the knowledge and experience of such a (potential) client – a **retail client** - in the field of investments (taking into consideration the nature of the client, the type and scope of services, the type and complexity of products or transactions and

the risks involved, for the purpose of assessing whether the product or the investment service offered to, or demanded by the client, is appropriate for the client.

In the case of a (potential) Client – a **professional client** or an **eligible counterparty** - the Bank may reasonably assume that such a client has the necessary knowledge and experience in order to be able to assess the risks associated with those particular investment services or transactions or the types of transactions or products in respect of which the client is classified as a professional client.

The above-mentioned profile of a (potential) client – a **retail client** must include the following data:

- general information about a (potential) client,
- the type of services, transactions and financial instruments with which the (potential) Client is familiar,
- the nature, volume and frequency of the (potential) Client's transactions in financial instruments, and the period during which they have been carried out,
- qualifications and the current occupation of the (potential) Client,
- the type of product or investment service which is offered to the (potential) Client by the Bank or is requested from the Bank by the (potential) Client himself/herself.

The profile is prepared by using the prescribed Bank's form - Questionnaire for Assessment of the Appropriateness [i.e. Suitability] of an Investment Service, which is made available to each client or a potential client when concluding agreements on the provision of mentioned services and activities.

If the Bank, on the basis of data obtained from a (potential) client, concludes that a certain product or service is not appropriate for the client, i.e. if the Bank – because of not being provided with the necessary information - is unable to determine whether a certain product or service is appropriate for the (potential) client, the Bank shall warn the client of this. In the latter case, when the Bank is unable to determine whether a product or service is appropriate for the (potential) Client, it is possible that the mentioned product or service may not be appropriate for him/her and that the client may be exposed to risks in respect of which he/she does not have necessary knowledge and experience, or in respect of which he/she does not have knowledge and experience sufficient to properly assess and/or control such risks so as to minimize their consequences. If the client, nevertheless, still wishes to use an investment service at his/her own risk, he/she is required to sign the Statement regarding his/her intention to use investment services at his/her own Risk, which is a part of the Questionnaire for Assessment of the Appropriateness of an Investment Service.

The Bank may provide investment services that consist solely of receipt and transmission and/or execution of orders on behalf of Clients, with or without ancillary services, without being required to collect the data or make the above-mentioned assessment, if all the following conditions have been met:



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- the services refer to:
 - shares admitted to trading on a regulated market or an equivalent third country market, or
 - money market instruments, or
 - bonds or other forms of securitised debt, excluding those bonds or securitised debt with an embedded derivative, or
 - units in open-end investment funds with a public offering, or
 - other non-complex financial instruments,
 - the service is provided at the initiative of the (potential) client,
 - the (potential) client has been clearly informed that, in the provision of the mentioned services, the Bank is not required to assess whether the instruments or services are appropriate for the client and that therefore the client does not enjoy the protection in accordance with the applicable rules of business conduct.

It shall be considered that a service has not been provided at the client's initiative when the client's request for being provided with a service is the result of a personalised communication sent by or on behalf of the Bank to that particular client, which contains an invitation or is intended to influence the client in respect of a specific financial instrument or a specific transaction.

It shall be considered that a service has been provided at the client's initiative despite the fact that the client's demand to be provided with a service may be based on any type of communication containing a promotional message or an offer of financial instruments, which is, by its nature, general and addressed to the public, a larger group or category of (potential) clients.

6. ORDER EXECUTION VENUES

Information on order execution venues is provided in the Order Execution Policy, which is inter alia available on the Bank's web site (www.pbz.hr) as well as at branch offices of the Bank. For additional information on order execution venues, clients should contact the Brokerage Department.

7. COSTS AND CHARGES

Information on costs and related charges is provided in the Schedule of Fees for each of financial services and activities provided and performed by the Bank, which is available to each client or potential client when concluding an agreement for the provision of these services and activities. For information on other fees costs and related charges not specified herein, clients should contact the relevant organisational unit of the Bank whose contact details are specified in this document.

This document shall from time to time be subject to amendments.

An updated version of the document is available on the Bank's website: www.pbz.hr

 PRIVREDNA BANKA ZAGREB