Information regarding financial instruments and associated risks

Part 1: Introduction

This information on NLB d.d. financial instruments and the risks related to these instruments (hereinafter referred to as: ***Information****)* is intended for clients or potential clients (hereinafter collectively referred to as: ***clients***) of Nova Ljubljanska banka d.d., Ljubljana (hereinafter referred to as: ***Bank***). The purpose of this Information is not to disclose all risks and other significant aspects of the financial instrument or products described herein that may be purchased, sold or transacted by the client with or through Bank in some other way (hereinafter collectively referred to as: ***financial instruments or instruments***).[1] It is intended to give the client the information on and a warning of the risks associated with them so that the clients are reasonably able to understand the nature and risks of the services and of the specific types of investment being offered and, consequently, to take informed investment decisions. Bank hereby recommends the client to also read any investment service or transaction in financial instruments (hereinafter collectively referred to as: ***investment service****)* specific disclosures that may be included in any investment service specific documentation provided to the client or written agreement on financial instrument between the client and Bank, particularly (but not limited to) investment service agreement, the General Terms and Conditions on Financial Instruments Operations NLB d.d., Ljubljana, the Custody Services General Terms and Conditions of NLB d.d., Ljubljana (hereinafter collectively referred to as: ***general terms and conditions***) and the Client's Order Execution Policy NLB d.d.

The guidance contained in this Information does not represent neither an investment advice based on client's personal circumstances, nor a recommendation to enter into any of the services or invest in any of the products listed hereafter. In the event the client is unclear of the meaning of any of the disclosures or warnings described hereafter, The Bank recommends the client to seek independent legal or financial advice.

The Bank hereby also recommends the client to understand and clarify the nature of the document concerning certain financial instruments and/or the nature of investment service agreement the client is entering into and the extent of client's exposure to related risks prior to client's certain investment decision. Prior to any investment decisions client should also consider if the financial instrument and/or investment service is suitable for the client in light of the client's circumstances and financial position and, where necessary, client should seek appropriate independent advice.

Risk factors may appear two or more at the time and/or may compound each other resulting in an unpredictable effect on the value of any financial investment. In any of the situations described hereafter, the use of leverage (which has the effect of magnifying potential positive or negative outcomes) may increase the impact on the client of any of the risks described.

The Bank hereby warns the client that all financial instruments described herein carry a certain risk and even low risk investment strategies contain an element of uncertainty. The types of risk will depend on various matters, including how the instrument has been created, structured, or drafted. The specific risks of a particular financial instrument or service will depend upon the terms of the financial instrument or service and the particular circumstances of, and relationships between, the relevant parties involved in such instrument or service, particularly (but not limited to) clients, resident and foreign banks, investments firms, stock exchanges, depositaries and custodians.

Part 2: Types of Generic Risks

When trading with financial instruments, systematic and non-systematic risks may occur. Non-systematic risks are those related to specifics of each financial instrument, and do not have influence on the financial market in overall and are independent of moves in the financial instruments market. One of the non-systematic risks is for example credit risk. Credit risk means, that irrespective of general conditions in the financial instruments market, the issuer of the financial instrument will not be able to fulfil the obligations arising from the financial instrument. Systematic risk is the risk, related to the factors which influence the overall financial market and which consequently influence the value of the whole portfolio. Even diversified securities portfolio cannot avoid systematic risk, as the value of diversified portfolio moves approximately in the same way as the total value of all securities in financial markets. Systematic risks are, among others, liquidity risk, interest rate risk, reinvestment risk and currency risk.

[1] The term 'financial instruments' defines financial instruments referred to in the Market in Financial instruments Act (the Official Gazette or Republic of Slovenia, no. 77/18, hereinafter referred to as: ***ZTFI-1***), the term 'instruments' may define also intruments not stated in ZTFI-1, such as money depozit.

The price or value of an investment will depend on fluctuations in the financial markets outside of anyone's control. The Bank warns the client that past performance is no indicator of future performance.

The nature and extent of investment risks varies between financial markets from country to country and between financial instruments. These investment risks will vary with, among other things, the type of investment being made, including how the financial products have been created or their terms drafted, the needs and objectives of particular investors, the manner in which a particular investment is made or offered, sold or traded, the location or domicile of the issuer, the diversification or concentration in a portfolio, the complexity of the transaction and the use of leverage.

The risks described below could have an impact on each type of investment:

1 Liquidity Risk

The liquidity of an instrument is directly affected by the supply and demand for that instrument and also indirectly by other factors, including market disruptions (for example a disruption on the relevant exchange) or infrastructure issues, such as a lack of sophistication or disruption in the securities settlement process. Under certain trading conditions, it may be difficult or impossible to liquidate or acquire a position.[2] This may occur, for example, at times of high price volatility if the price rises or falls to such an extent that under the rules of the relevant stock exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit client's losses to intended amounts, as market conditions may make it impossible to execute such an order at the defined price. In addition, unless the contract terms define otherwise, a party may not have to accept early termination of a contract or buy back or redeem the relevant product and there may therefore be zero liquidity in the product. In other cases, early termination, realisation or redemption may result in a client receiving substantially less than the initial investment or, in some cases, nothing at all.

2 Credit Risk

Credit risk is the risk of loss caused by borrowers, bond obligors, guarantors, or counterparties failing to fulfil their obligations or the risk that the credit quality of such party deteriorates. Exposure to the credit risk of one or more reference entities is particularly relevant to any credit linked financial instrument such as commercial papers. When investing in credit linked financial instruments the potential losses, the frequency and the likelihood of such losses occurring may be substantially greater than when investing in an obligation of the reference entity itself.

3 Market Risk

The price of financial instruments varies depending on market supply and demand, investor perception and the prices of any underlying or linked investments or sector, political and economic factors that can be very unpredictable.

3.1 Foreign Markets[3]

Any foreign investment or investment with a foreign element can be subject to the risks of foreign markets,[4] which may involve different risks from those of the client's home market. In some cases, the risks will be greater. The probability of profit or loss from transactions on foreign markets or in foreign denominated contracts will be determined also by fluctuations in foreign exchange rates.

3.2 Emerging Markets

Price volatility in emerging markets can be extreme. Price discrepancies, low trading volumes, and wide pricing spreads can be common and unpredictable movements in the market. Additionally, as news about a country becomes available, the financial markets may react with dramatic price movements during a very short period. Emerging markets generally lack transparency, liquidity, efficiency, market infrastructure, legal certainty, and regulation common in more developed markets. For example, these markets might not have regulations governing market or price manipulation and insider trading or other provisions designed to all investors with the same availability of information and its use or misuse. Emerging markets may also be affected by sector, economic and political risk. For emerging markets investments it may be difficult to employ certain risk and legal uncertainty management practices, such as forward currency exchange

[2] To purchase or sell a financial instrument.
[3] The term 'market' defines money market or financial instruments capital market.
[4] Regarding domestic investors such market is the Slovene market.

contracts or other derivatives trades. The client should consider the impact of the imposition or removal of foreign exchange controls at any time, as well as potential difficulties in repatriation of assets. The client should also consider the risks associated with nationalisation or expropriation of assets, the imposition of confiscatory or punitive taxation, restrictions on investments by foreigners in an emerging market, sanctions, war, and revolution.

4 Settlement Risk and Clearing House Protection

On many exchanges, the performance of a transaction may be “guaranteed” by the exchange or a clearinghouse. However, this guarantee is usually for the exchange or clearing house member and cannot be used by the client who may, therefore, be subject to the credit and insolvency risks of the firm through whom the transaction was executed. Typically, there is no clearinghouse for off-exchange OTC instruments, which are not traded by the rules of an exchange (although unlisted transferable securities may be cleared through a clearinghouse).

Settlement risk is the risk that counterparty does not deliver the financial instrument (or its value) in accordance with the agreed terms after the other counterparty has already fulfilled its part of the agreement to deliver. Settlement risk increases where different legs of the transaction settle in different time zones or in different settlement systems where reconciliation or settlement is not possible. This risk is particularly acute in foreign exchange transactions and currency swap transactions.

5 Insolvency Risk

The insolvency or default of the firm with whom the client is dealing, or of any brokers involved with client's transaction, may lead to positions being liquidated, or closed out without client's consent. There is also insolvency risk in relation to the investment itself, for example insolvency risk of counterparty in an off-exchange derivatives transaction (where the risk relates to the derivative instrument and to any collateral or margin held by the counterparty).

6 Currency Risk

In respect of any foreign exchange transactions and transactions in derivatives and securities that are denominated in a foreign currency, a movement in exchange rates may have a favourable or an unfavourable effect on the profit or loss achieved on such transactions.

The weakening of a country’s currency relative to a benchmark currency or the currency of client's portfolio will negatively affect the value of an investment denominated in that currency. Some countries have foreign exchange controls, which may include the suspension of the ability to exchange or transfer currency, or cause the devaluation of the currency. Currency hedging can decrease the exposure to any currency, but may not eliminate exposure to currency risk.

If an overdue interest rate amount or purchase price of any financial instrument is related to changes in exchange rates, any change in exchange rate can cause the reduction of the interest amount or purchase price. In some cases this may cause, that at the redemption of this instrument, the client receives less than the amount initially invested.

7 Interest Rate Risk

Interest rate risk arises from the relationship that the relative value of a financial instrument, especially a bond, changes when interest rates change. There are additional interest rate related risks in relation to floating rate instruments and fixed rate instruments, as interest income on floating rate instruments cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield of floating rate instruments at the time of purchase. If the terms and conditions of the relevant instruments predict frequent interest payment dates, investors are exposed to the reinvestment risk. That is, investors may then reinvest the interest income received only at the relevant lower interest rates, which may be lower.

Changes in market interest rates have a substantially stronger impact on the prices of zero coupon bonds than on the prices of ordinary bonds. If market interest rates increase, prices of zero coupon bonds decrease more than prices of other bonds with the same maturity and credit rating.

8 Commodities Price Changing Risk

The prices of commodities may be volatile, and, for example, may fluctuate substantially if natural disasters or catastrophes, such as hurricanes, fires, or earthquakes, affect the supply or production of such commodities. The prices of commodities may also fluctuate substantially if conflict or war affects the supply or production of such commodities. If any interest and/or redemption amount payable in respect of any product are linked to the price of a commodity, any change in the price of such commodity may result in the reduction of the amount of interest and/or redemption amount payable. The reduction in the amount payable on redemption of an investment may result, in some cases, in the client receiving less on redemption of a product than the initial investment in such product.

9 Regulatory, Legal, and Structural Risk

All investments can have exposure to regulatory, legal, or structural risk.

Profit potential of an investment can change because of the risk of regulatory or legal actions. Legal changes could even have the effect that a previously acceptable investment becomes illegal. Such risk is unpredictable and can depend on numerous political, economic, and other factors. For this reason, this risk is greater in emerging markets. In addition, in emerging markets, there is generally less strict government supervision and regulation of business and industry practices, stock exchanges and over-the-counter markets.

The type of laws and regulations with which investors are familiar may not exist in some countries, and where they do, may be subject to inconsistent or arbitrary application or interpretation, and may be changed with retroactive effect. Both the independence of judicial systems and their immunity from economic, political, or nationalistic influences remain largely untested in many countries. Judges and courts in many countries are generally inexperienced in the areas of business and corporate law. Companies are exposed to the risk that legislatures will revise established law solely in response to economic or political pressure or popular discontent. There is no guarantee that a foreign investor would obtain a satisfactory remedy in local courts in case of a breach of local laws or regulations or a dispute over ownership of assets. An investor may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in foreign courts, where these claims were filed or conceded by a judicial ruling.

In the case of many products, there will be no legal or beneficial interest in the obligations or securities of the underlying reference entity but rather an investor will have a contractual relationship with the counterparty only and its rights will therefore be limited to contractual remedies against the counterparty in accordance with the terms of the relevant product.

In all cases, the legal terms and conditions of a product may contain provisions, which could operate against client's interests. For example, they may permit early redemption or termination at any time, or they may give wide discretion to the issuer of securities to revise the terms applicable to securities. In other cases, there may be limits on the amounts resulting from the exercise of the rights arising from the financial instrument. In some cases, the exercise of rights by others, arising from the financial instruments may have an impact on client's investment.

10 Operational Risk

Operational risk, such as breakdowns or malfunctioning of essential systems and controls, including IT systems, can have influence on all financial products. Business risk could also affect shareholders of or investors in, such a business, especially the risk that the business is run incompetently or poorly. Personnel and organisational changes can severely affect such risks and, in general, operational risk may not be apparent from outside the organisation.

11 Conflicts of Interest

In the ordinary course of their respective businesses, the Bank and its related companies, and any of its or their associates, will be subject to various actual and potential conflicts of interest which may operate against client's interests, or the Bank’s client's interests may operate against another client's interests.

Part 3: Products and Investments

Purchase or disposal of a financial instrument is connected to many types of costs (including fees and commissions of the transaction). These costs may substantially decrease or even destroy the chance of potential

profit which client could have otherwise gained from the financial instruments business. In the event that additional domestic or foreign market participants, among others domestic brokers or foreign execution entities, are involved in the execution of a client's order this client has to take into consideration the fact that he/she may be charged with brokerage commissions, fees and other costs, particularly fees and commissions of the third parties. Besides being charged the costs directly related to the transaction ('direct costs'), the client has to take into consideration also all additional expenses and fees (for example custody commissions). Hereby recommends the client to obtain information on all additional expenses and fees, which are incurred by the purchase, custodianship, or sale of a financial instrument.

If the client posts collateral for the financial instrument transaction, the treatment of the collateral is subject to the type of the transaction and of the trading venue. Client's collateral may be handled differently whether instrument is traded on a regulated market where the exchange and clearing house rules are applicable or if it is traded outside a stock exchange. In the case the client's assets are not held separately from the assets of the market participant (intermediary) who operates on behalf of the client through some other market participant, this may cause the risk that the client will not be able to exercise his/her rights and warrants arising from the posted collateral or the risk that the client may loose all these rights while trading with the financial instruments. Although the trading itself might be profitable, it might not be guaranteed that all client's assets deposited with the market participant for the purpose of the collateral, will be rendered to the client.

The Bank recommends the client to collect the information on the manner of how the transaction collateral will be handled, and to obtain information on legal protection on client's assets (particularly in the cases of a market participant's insolvency or its bankruptcy). The risk of loss of such assets may be subject to the local legislation and rules.

1 Shares and Other Types of Equity Instruments

Shares are exposed to all the major risk types referred to in Part 2 above. In addition, there is a risk that there could be price volatility or problems in the company's sector. If the company is not listed or traded on an exchange, or is listed but only traded infrequently, there may also be liquidity risk, whereby shares could become very difficult sell.

1.1 Ordinary Shares

Ordinary shares usually carry a right to participate in the management of the issuer (the right to vote at the general meetings of the issuer), a right to a share in issuer's profit (a dividend) and a right to obtain a part of remaining funds in liquidation or insolvency of the issuer. The ordinary shareholder has no right to claim from the issuer the repayment of the original investment. Investment in ordinary shares is not guaranteed, and in a case of liquidation of the issuer, ordinary shareholders are amongst the last with a right to repayment of capital and any surplus funds of the issuer, which could lead to a loss of a substantial proportion, or all, of the original investment.

1.2 Preference Shares

Unlike ordinary shares, preference shares give shareholders the right to a fixed dividend, which is determined irrespective of the issuer's profitability. They therefore tend to be less risky form of investment than ordinary shares.

Preference shares do not usually give shareholders the right to vote at general meetings of the issuer, but should the issuer declare liquidation shareholders will have the priority over ordinary shareholders to any surplus funds of the issuer.

2 Depositary Receipts

Depositary Receipts (American Depositary Receipts, Global Depositary Receipts, etc.; hereinafter collectively referred to as: ***depositary receipts***) are negotiable certificates, typically issued by a bank, which represent a specific number of shares in a company, traded on a stock exchange which is local or foreign to the issuer of the receipt. The present risks relate both to the underlying share and to the bank issuing the receipt. In addition, there are important differences between the rights of holders of depositary receipts and the rights of holders of the underlying shares represented by such depositary receipts. The relevant deposit agreement for the depositary receipt determines the rights and responsibilities of the depositary (the issuer of the depositary receipt), the underlying share issuer, and holders of the depositary receipt, which may be different from the rights of holders of the underlying shares. For example, the underlying share issuer may make payments in respect of its underlying shares that are not distributed to

the holders of depositary receipts of such shares. Any such differences between the rights of holders of the depositary receipts and holders of the underlying shares of the underlying share issuer may be significant and may affect the value of the relevant instruments materially and adversely. Depositary receipts representing underlying shares in a foreign jurisdiction (in particular in an emerging market jurisdiction) also involve risks related to the securities markets in these jurisdictions.

3 Warrants

A warrant is a time-limited right to subscribe for shares, debentures, or bonds and is exercisable against the original issuer of the underlying securities. A relatively small movement in the price of the underlying security could result in a disproportionately large movement, unfavourable or favourable, in the price of the warrant. The prices of warrants can therefore be volatile.

The right to subscribe for any of the financial instruments, which is granted by the warrant, is in any case time limited, causing the investment to become worthless if the client's fails to exercise this right within the pre-determined time-scale.

In the case of exercised subscription rights, the warrant holder may be required to pay to the issuer additional sums (which may be at or near the value of the underlying assets). Exercise of the warrant will give the warrant holder all the rights and risks of ownership of the underlying financial instrument.

A warrant is potentially subject to all of the major risk types described in Part 2.

The Bank hereby recommends the client not to buy a warrant unless the client is prepared to sustain a total loss of the money the client has invested including any commission or other transaction costs.

Some instruments are also called warrants but are actually options (for example, a right to acquire securities, which is trades on an organized market and that is exercisable against a party, which is not the original issuer of the securities). These instruments are described in the section describing options.

4 Money-market Instruments

Money-market instruments are, as debt instruments in general, exposed to the major risk types described in Part 2, in particular to credit and interest rate risk.

5 Debt Instruments/Bonds/Debentures

All debt instruments are potentially exposed to the major risk types described in Part 2, in particular to credit risk and interest rate risk.

Debt securities may be subject to the risk of the issuer's inability to meet principal and/or interest payments on the obligation and may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer, general market liquidity, and other economic factors. When interest rates rise, a decline in the value of debt securities can be expected. Fixed-rate transferable debt securities with longer maturities/lower coupons are usually more sensitive to interest rate changes than those with shorter maturities/higher coupons.

6 Units in Collective Investment Scheme

Collective investment scheme, excluding closed end investment schemes, is a mutual fund[5] or investment firm[6] with the objective of collective investments of the publicly collected capital and which operates on the principle of risk diversification, and the units which are re-purchased or paid off at their holder's demand directly or indirectly from this scheme assets.

Investment coupon is a security issued by the fund management company and incorporates one or more units of the mutual fund. It gives the holder the right to the value of mutual fund units to be paid out by the fund management company and the right to obtain a part of remaining liquidation funds of the mutual fund in case of its liquidation.

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[5] Mutual fund referres to an investment fund created as separated assets and divided into units, the value of which is to be paid-off from these assets upon a request of a holder, whereby such fund is managed by a fund management company.

[6] Investment firm referres to an investment fund, organized as joint-stock company established in the Republic of Slovenia, whereby the issued share capital of such joint-stock company is divided into one type transperable stocks, listed on and traded with on a regulated market.

Collective investment schemes and their underlying assets (hereinafter referred to as ***investment scheme***) are potentially exposed to all of the major risk types referred to in Part 2.

There are many different types of collective investment schemes. Generally, a collective investment scheme will involve an arrangement that enables a number of investors to 'pool' their assets, which are then professionally managed by an independent manager. Investments may typically include money-market instruments, bonds and equity securities, but depending on the type of scheme, may include also derivatives, real estate, or any other asset. The underlying assets held by the scheme might be risky and investors are advised, to check whether the scheme holds a number of different assets, thus spreading its risk.

The reduction in risk may be achieved by diversification of investments held in a collective investment scheme, and thus reducing the effect that a change in the value of any individual investment having on the overall performance of the portfolio. Despite the spread of risks, the portfolio value can nonetheless fall or rise.

The relevant fund manager or the investment adviser generally controls the valuation of a collective investment scheme (as the case may be) of the collective investment scheme. Valuations are performed in accordance with the terms and conditions of the collective investment scheme. Such valuations may be based upon the non-audited financial records of the collective investment scheme and any other related reports. Such valuations may be preliminary calculations of the net asset values of the collective investment schemes. The collective investment scheme may hold a significant number of investments that are illiquid or otherwise not actively traded and in respect of which reliable prices may be difficult to obtain. The relevant fund manager or the investment adviser may use different valuations for such investments held by the collective investment scheme. Therefore, valuations may be subject to subsequent adjustments. Uncertainties as to the valuation of the collective investment scheme assets and/or accounts may have an adverse effect on the net asset value of the relevant collective investment scheme where such judgements regarding valuations prove to be incorrect.

The fund manager or the investment adviser may use (among others) strategies such as short-selling, leverage, securities lending and borrowing, investment in sub-investment grade or illiquid investments, uncovered options transactions, options and futures transactions and foreign exchange transactions and the use of concentrated portfolios, each of which could, in certain circumstances, magnify adverse market developments and losses. Collective investment schemes may make investments in markets that are volatile and/or illiquid and it may be difficult or costly for positions to be opened or liquidated. The performance of each collective investment scheme and any collective investment scheme component, in which it may invest, is dependent on the performance of the collective investment scheme managers in selecting collective investment scheme components and the management of the relevant component in respect of the collective investment scheme components.

In addition, the opportunity to realise an investment in a collective investment scheme is often limited in accordance with the terms and conditions applicable to the scheme. There may be no secondary market in the collective investment scheme and therefore an investment in such a scheme may be (highly) illiquid.

7 Derivatives, Including Options, Futures, Swaps, Forward Rate Agreements, Derivative Instruments for the Transfer of Credit Risk and Financial Contracts for Differences

The risks described below may arise in connection to all types of derivatives without regard to being either listed instrument (such as certificates) or the transaction being executed on a regulated market or OTC.

Derivative is an instrument, the value of which derives from an underlying instrument. Instead of trading with or exchanging the underlying instrument itself, an agreement is entered into with the aim to exchange the money, assets, or some other value based on the underlying instrument, at the determined future date. To acquire a derivative a premium might be paid.

There may be a financial leverage when investing in derivatives, therefore a small initial investment may lead to a vast loss (that may be even larger than the original investment) or a great profit. Even a smaller change in price of the underlying instrument can cause major movement of the value of the derivative. Individual derivatives are connected also to the requirement to provide margin, which causes for the client to cover the eventual losses with cash, otherwise the Bank may unilaterally cancel the transaction or liquidate the position at the risk of the client. Financial leverage and the requirement to provide for margin additionally enlarge all the risks the investor is normally exposed to when investing in such instruments.

There are many types of derivatives, but options, futures and swaps are the most common. The client

investing in derivatives often assumes a high level of risk, therefore these investments should be made carefully, particularly for the inexperienced clients, or clients not ready to expose themselves to higher level of risks or clients with limited amount of capital to invest.

If the transaction with a derivative is particularly extensive or the market is illiquid (as it is the case with many derivatives), it may be impossible to perform a transaction or liquidate the position at the advantageous price.

Exchange traded derivatives are subject to the risk of exchange trading generally, including the requirement to provide margin. Off-exchange derivatives may be transferable securities or OTC contracts. Although these forms of derivatives may be traded differently, transferable securities may be subject to credit risk of the issuer, and OTC contract subject to credit risk of the counterparty and are also subject to special contractual terms (like any contract). With a bilateral contract the counterparty may not be bound to liquidate this position, so it may happen the investor will not be able to terminate such loss-making contract. Characteristics of the off-exchange derivative transactions are negotiated individually. As the terms of the transactions are not standardised and no centralised pricing source exists (as it does for on-exchange derivatives), these transactions may be harder to value. Different formulas and financial assumptions may result in different values, and different financial organisations may quote different prices for the same transaction. In addition, the off-exchange derivative value may vary with time, whereat it may be affected by many factors, including remaining time until maturity, the market price, price volatility, and prevailing interest rates.

Derivative instruments may be used for the speculating or as a hedge for other investments or management of economic risks. The Bank hereby advises the client to obtain information on the terms and conditions of the specific derivatives and associated obligations (such as client being obligated to make or take delivery of the underlying instrument and, in respect of options, expiration dates, and restrictions on the time for exercise). In some cases an exchange or a clearinghouse may change or modify the terms of unexercised contracts (including the exercise price of and option) to reflect for changes of the underlying instruments.

The derivative pricing and pricing of the underlying instruments may be different. For example, the futures contract underlying the option might be subject to price limits while the option is not. If the price of an underlying instrument is not given, it may be difficult to determine the fair value of the derivative instrument.

The information given below in relation to different types of derivative instruments does not only apply to these derivatives but is also applicable to derivatives generally. All derivatives are potentially subject to major types of risks described in part 2, especially market risk, credit risk and any specific sector risks connected with the underlying asset.

7.1 Futures, Forwards, Synthetic forward contracts and Forward Rate Agreements

Futures, forwards, synthetic forward contracts and forward rate agreements (all classified as derivatives) contain the obligation to make, or to take, delivery of the underlying instrument, or to settle such instrument with cash at a future date. Leverage is often present when trading with futures, forwards and synthetic forward contracts. Forward and future transactions may also incorporate contingent liability, such as a requirement for providing a margin.

7.2 Options

Buying an option gives the investor a right, but not an obligation, to buy (call option) or sell (put option) a certain quantity of the underlying instrument from the issuer of the option at a predefined or determined date and at a specified strike price.

Buying and option is less risky than selling one because the maximum loss at call option is limited to the premium, increased for the commissions and transaction costs. Some options markets operate on a margined basis where the buyers do not pay the whole premium at the time of purchase of the option. In such case, the investor may receive a margin call to the amount of the premium of the option. If the investor does not post the margin, the position may be closed or liquidated in the same way as a futures position. When a client is writing an option, the concerning risk is much greater than when buying an option. If the client wishes to maintain the position, he/she may be liable to cover the margin and suffer heavy loss, exceeding the option premium. By writing an option the client accepts a legal obligation to buy or sell the underlying instrument under the condition that the option holder exercises the option right in time, regardless to how much the market price of the underlying instrument has moved away from the exercise

price.

If the client already owns the underlying instrument, which the client has contracted to sell (covered call option), the risk is lower. If the client does not own such the underlying instrument (uncovered call option), the risk may be unlimited. A call option is ‘in-the-money’ when the strike price is lower than the market price of the underlying instrument. It is possible for the seller of in-the-money option to also loose money if the value received by exercising the option fails to exceed the costs of entering into the option transaction (the premium and any other costs and expenses).

In some cases the instruments, giving an option to purchase or sell of the underlying instrument to a third person (who is not the issuer of the underlying instrument), are called ‘warrants’. Warrants are traded on-exchange or off-exchange and involve risks similar to those of options.

There are more types of options (regarding the time of exercise of the option), among others, American-style option (exercise at any time prior to expiration date), European-style option (exercise only on the expiration date) and Bermuda-style option (exercise only possible on anticipated dates prior to and on expiration date). Buying European-style and Bermuda-style options can involve additional market risk because strike price may be higher/lower than the market price (e.g. in-the-money) most of the time, but not on the day or days when the investor has the right of exercising the option. In the event the client is a potential option writer, the type of option influences the schedule of potential client’s obligations, which should be taken into consideration. As a European-style writer, the client can anticipate the schedule of all obligations concerning payment or delivery of the underlying instrument. If the option contract is not cancelled prior to the the maturity of the contract, exercise of the option is not possible prior to the option expiration date. As a writer of an American style option, the client must be prepared to fulfil the obligations under the option contract any time prior to the expiration date.

7.3 Contracts for Differences

Certain derivatives are termed as contracts for differences. These may be options or futures on the exchange index, currency, or interest rate swaps. Unlike futures and transactions with options, contracts for differences can only be settled in cash. Investing in these contracts brings about the same risks as an investment in a future or an option. Transactions with contracts for differences may also carry a contingent liability.

7.4 Investment Certificates

By investing in investment certificates the investor is exposed to the price movement of the underlying instruments (shares, indexes, bonds…), whereby the investors are exposed not only to the risks concerning the underlying instruments but also to the risks concerning the issuer of the investment certificate. Investments certificates issuers are mostly big investment banks, which are market making these instruments on regulated markets (exchanges). Holders of the investment certificates do not have any rights (such as the right to dividend) arising from the underlying instruments. Certificate holders are entitled to certain payments under the predefined conditions set out in the prospectuses.

There are more types of certificates, such as index certificates, turbo certificates, principal protected certificates and others, which are differentiated also by the level of risk the investor is exposed to.

7.5 Swaps

A swap contract is a derivative instrument, where the counterparties exchange two different set of cash flow streams (at FX swaps counterparties also agree upon a reverse cash flow streams at a future date of FX swap expiry). The cash flows are calculated on the value of the underlying instrument (the most common are FX swaps, IRSs, the underlying instrument can also be and index, commodity or other).

A swap contract can be combined with an option, which is called swaption. Swaptions are transactions that give the buyer the right, against the payment of a premium, to enter in pre-agreed swap contract before certain or on a certain maturity date. Interest rate ‘caps’, ‘floors’ and ‘collars’ enable the investor, against payment or receipt of a premium, to expose himself/herself on, or protect himself/herself against volatility in the value or level of an underlying instrument.

Off-exchange derivative trading (including swaps) strongly exposes the investor to the so-called ‘counterparty risk’, e.g. the risk of counterparty’s inability to perform his/her obligations concerning the underlying financial instrument contract.

The swap market has grown in recent years and has therefore become more liquid. Many banks and other

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investment firms operate as principals and as agents and use standardised swap documentation. Nevertheless, there is no guarantee that a liquid secondary market will exist at any specified future time for any particular swap contract.

8 Combined Instruments/Baskets

All combined financial instruments, such as bonds with attached warrant, structured deposit linked to currency pair or structured deposit linked to precious metals are exposed to the risks of all the financial instruments, of which they are combined. Such combined instruments may often contain greater risks than those of their components (negative effects of particular component risks may occur separately or jointly), although some combined instruments may contain certain risk mitigation features, such as principal protected instruments. Structured deposits linked to currency pair or linked to precious metals may cause that the investor to receive at the maturity of the instrument to receive less than the initially invested (except in the case of principal protected instruments), although maximum loss is limited to the amount of initial investment..

The value of basket of products, such as shares, indexes etc. can be influenced by the quantity and quality of reference instruments included in such basket. Value of the basket will be generally more affected by the changes of an individual reference instrument if the basket contains less reference instruments or a greater proportion of an individual reference instrument. In addition, if the reference instruments are concentrated in certain industry, the value of the basket will be more dependent on economic, financial, and other factors, which affect that industry, than if the basket contains reference instruments from more different industries.

Part 4: Information about Safekeeping of Client Financial Instruments and Client Funds

The Bank holds client financial instruments and client funds acquired while providing investment services and/or ancillary services on behalf and for the account of clients in accordance with ZTFI-1, and whereby the Bank operates as a principal or as an agent (hereinafter referred collectively as: ***safekeeping of client financial instruments and client funds*****)**.

When providing brokerage and/or safekeeping of financial instruments and/or portfolio management and/or custody services the Bank holds client financial instruments and funds in accordance with corresponding investments service agreement (brokerage agreement, safekeeping agreement, portfolio management agreement, and custody agreement) and the Bank's internal acts and provisions. All client's rights concerning client financial instruments and funds the client acquires in the process of utilising the investment services, such as the right of disposal of financial instruments that are the subject of a purchase transaction, and the right to dispose of funds that are the subject of a sale transaction, or the right to dispose of unutilized advance payment (client provided the Bank with) and the right to retrieve assets, submitted to the Bank for the purpose of asset management and the right to realised gains upon portfolio management services, are determined in detail in the above mentioned contracts.

The Bank opens a special account with the Bank of Slovenia for the purpose of acceptation of payments and execution of settlement payments arising out of client transactions, and for the purpose of safekeeping of client money funds on behalf of clients. The Bank keeps records on any and all client money accounts. The Bank is not authorized to accept payments arising out of its own transactions and to settle payments arising out of its own transactions from such money account. The Bank holds proprietary financial instruments separately identifiable from financial instruments of the client. The Bank holds clients' non-materialised securities on client account opened with a central depositary. The Bank is not authorized to transfer clients' financial instruments into its own account, except if such action has a valid legal basis. The Bank cannot hold its proprietary financial instruments on the account of a client held by the Bank. The Bank holds client trading accounts, portfolio management accounts, and client custody accounts on behalf of clients and keeps records on balances and trades concluded with financial instruments and funds held on such accounts.

In the event client's financial instruments are registered in a central depository, the Bank manages such financial instruments in accordance with respective central depository rules. In the event, central depository rules make feasible a client's account holding and management, the Bank expressly notifies the client about such possibility and provides the client with all referring information in compliance with ZTFI-1. If a member of such central depository requests to open and manage a client account if the client requests his/her financial instruments to be held on his/her account in central depository. In the event the Bank is not a member of such central depository it has to assure, on behalf of and for the account of the client, another central depository member to open and manage client account on which client's financial instruments are

registered to. In the event the Bank holds client's financial instruments on behalf of the client and on its own account opened with a central depository or other intermediate depository, needs to establish and manage a subdepository of these financial instruments (hereinafter referred to as: ***sub-depository***), whereby it assures to the client all the rights referring to disposal of such registered financial instruments in compliance with ZTFI-1, custody agreement, portfolio management agreement, sub-depository rules and other internal acts of the Bank. The client, on whose behalf certain type of financial instruments is registered into subdepository, may claim delivery of these financial instruments at any time, and in accordance with ZTFI-1.