

# Customer Information

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## A) INFORMATION ABOUT PARTNER BANK

### PARTNER BANK Aktiengesellschaft

A-4020 Linz, Goethestraße 1a

Telephone: +43.732.69 65-0; Fax: +43.732.66 67 67;

[www.partnerbank.at](http://www.partnerbank.at); [info@partnerbank.at](mailto:info@partnerbank.at);

Commercial register of the Regional and Commercial Court in Linz,

Commercial register number 90966z;

VAT Reg. No.: ATU 37836507;

Partner Bank AG is owned by:

Foundation for Social and Economic Development  
Vaduz/Principality Liechtenstein

### Communication with the Bank

The Bank uses the German language in its communication with its clients. In general, in addition to personal meetings during business hours, clients can contact the Bank via phone, letter, fax, and email. Unless otherwise agreed, correspondence of legal relevance between the Bank and its clients (e.g., client orders, etc.) is carried out in writing (by letter or fax, however not by email).

Electronic communication (e.g., by email or Internet) between the Bank and its clients which leads or may lead to the conclusion of business transactions in financial instruments is recorded or archived. Copies of these records are available upon client request.

### Licence

The Bank is licensed by the Austrian Financial Market Authority (Finanzmarktaufsicht, FMA), Otto-Wagner-Platz 5, 1090 Vienna, to provide banking services, which authorises the Bank to conduct transactions with its clients in the securities and investment business. This licence also authorises the Bank to provide payment services to its clients.

### Competent supervisory authority and licensing authority

The FMA is the independent, autonomous, and integrated supervisory authority for the Austrian financial market and is incorporated as a public-law institution. It is responsible for supervising credit institutions, insurance companies, pension funds, employee provision funds, investment funds, securities-related service providers, publicly traded companies, and securities exchanges.

### Type of services and transactions

Partner Bank's core business is securities and related services. Clients can buy, sell or manage financial instruments through Partner Bank, or have these held in the custody of Partner Bank. Any and all details about the purchase and sale of financial instruments at Partner Bank are stipulated in the Partner Bank Securities Purchase Agreement. Any and all details about asset management at Partner Bank are stipulated in the Partner Bank Asset Management Agreement.

### Investment advisory services

Partner Bank and its cooperating financial service providers provide non-independent investment advice as defined in Articles 50 and 53 of the 2018 Securities Supervision Act (Wertpapieraufsichtsgesetz, WAG). If, in exceptional cases, the investment advice is provided independently, the financial service provider will point this out to you explicitly.

Any investment advice provided relies upon comprehensive analyses of various types of financial instruments. Our product portfolio includes a wide range of investment funds, ETFs, stocks, bonds, etc. offered by selected providers without a close relationship with the Bank. Unless agreed separately, no regular appraisal of the appropriateness of the recommended financial instruments is offered. In the scope of investment advisory services or prior to concluding an asset management agreement, the Bank records information from clients in accordance with the provisions of the WAG about their knowledge of and experience in trading in specific

types of financial instruments and services, as well as about their objectives and financial circumstances, loss-bearing capacity and risk tolerance. This information is necessary in order to provide a recommendation to our clients about the financial instruments or investment services that are best suited to them, such as an investment strategy. If the Bank does not obtain this information, neither investment advice nor asset management services may be provided.

### Non-advisory services

Within the scope of unadvised services, the Bank checks whether the investment decision made by the client actually corresponds to their knowledge and experience. If the financial instrument does not correspond to their knowledge and experience, they will be advised against it on the grounds of "inappropriateness", either by Partner Bank or the financial service provider communicating with the client.

### Reporting to the client about the investment services provided

Partner Bank provides reports to its clients in a suitable form on a durable medium about the services provided. In the case of investment advisory services, clients receive a statement in the course of the business transaction about the recommendations given, in particular how these are tailored to their specific preferences, objectives, and other characteristics. In the case of asset management services, such a statement is included in the quarterly reporting about the services provided, unless otherwise agreed.

Partner Bank's securities clients receive an investment account statement on a quarterly basis at the reporting dates 31st March, 30th June, 30th September, and 31st December. In principle, clients who use the Client Online Service have the facility to make an enquiry about the relevant information on a daily basis. This option substitutes postal delivery in the scope of reporting obligations towards the clients as described above.

Clients receive information about the costs associated with the investment services and non-core investment services provided, and, if applicable, their overall impact on the yield of invested funds prior to the conclusion of the security transaction and subsequently as a complete list.

### Partner Bank's ombudsman service for complaints

Please refer your complaint to:

Telephone: 0043.732.6965-121 or

Telephone: 0043.732.6965-407

Email: [info@partnerbank.at](mailto:info@partnerbank.at)

Fax: 0043.732 666767

Address: Goethestraße 1a, A-4020 Linz, Austria

More details about the complaints procedure at Partner Bank are available at [www.partnerbank.at](http://www.partnerbank.at).

### Third-party custodian

In order to be able to ensure maximum protection, securities held by the Bank in custody for its clients are consigned to other institutions which

specialise in safekeeping securities (known as third-party custodians). The Bank is liable to its clients for any damage caused by a third-party custodian's unlawful or culpable actions, or acts of nonfeasance. If securities are held in safe custody for a client as an business person/entrepreneur, the Bank's liability is limited to the careful diligent selection of the third-party custodian. Should a third-party custodian become insolvent in spite of the diligent selection, the Bank can demand that the third-party custodian surrender the securities transferred into its custody.

#### Collective custody

Securities held by the Bank in custody for its clients are held together with other clients' securities of the same type (known as "collective custody"). Since each client (in the case of insolvency of the Bank or third-party custodian) has the option to request that their share of securities held in collective custody be returned, this type of safekeeping of securities does not involve any particular risk for the clients.

#### Safe custody abroad

It may be necessary for the securities to be held in custody by a third-party custodian abroad, in particular also outside the European Economic Area. Consequently, they are subject to the national law of the country where they are being held. This national legislation may differ considerably from the laws applicable in the Republic of Austria and may not necessarily provide the same level of protection.

#### Deposit guarantee and investor compensation

As an Austrian bank, Partner Bank is subject, without limitation, to the provisions of the Austrian Deposit Guarantee and Investor Compensation Act ("ESAEG" and "BWG"). Partner Bank AG is a member of the Statutory Banks' and Bankers' Deposit Protection Scheme (Einlagensicherung der Banken & Bankiers Gesellschaft m.b.H.). For further information, please refer to the legal provisions set out in Article 9 et seqq. of the ESAEG, Article 37(a), 93, and 93(a) of the BWG relating to the deposit guarantee and investor compensation (and in particular, to the exceptions set out in Article 10 of the ESAEG). We can also provide this information upon request. Furthermore, it should be noted that securities accounts kept by Partner Bank are client assets. This means that the Bank does not acquire properties of the assets held for the client in the securities account. Deposit guarantee: Deposits **of natural persons** (i.e., balances on accounts entrusted to the Bank for the purpose of acquiring financial instruments) are secured up to the maximum amount of EUR 100,000.00 per depositor. In some cases (deposits covered for a limited period, Article 12 of the ESAEG), this amount is EUR 500,000.00. Deposits **of legal entity** are secured up to an amount of EUR 100,000.00. Deposits in an account that

two or more persons can operate as members of a general commercial partnership, limited commercial partnership, company constituted under civil law, or a legal entity incorporated in accordance with one of these corporate forms under the law of a Member State or a third country are combined in order to determine the maximum amount secured and are treated as a deposit of a single depositor; this applies equally to balances on accounts and other claims from securities transactions.

#### Investor compensation:

Pursuant to Austrian law, securities are to be returned to the investors by the custodian bank. Monetary claims on the grounds of investor compensation are secured up to a maximum amount of EUR 20,000.00 for both natural and legal entity. In the case of claims made **by legal entity**, there is a deductible of 10%.

Differentiation between deposit guarantee and investor compensation: Normally, all types of deposits or assets credited to an interest-bearing and non-interest-bearing account (e.g., money on salary or savings accounts, fixed deposits, etc.) with credit institutions fall into the deposit guarantee category. Any income from securities settlement (dividends, proceeds, repayments, etc.) also falls into the deposit guarantee category if it was credited to an interest-bearing account with a credit institution. If, on the other hand, the income is credited to a non-interest bearing account, the amounts shall be subject to investor compensation.

#### Rights of lien and retention

Assets transferred to the Bank's custody are subject to the Bank's right of lien and retention for securing the receivables owed to the Bank by the client. Third-party custodians may assert the right of lien on the securities held with regard to the claims arising from the custody of the securities (in particular, custodian fees).

#### Distribution

Partner Bank cooperates with professional, independent financial service providers from the EU area that are registered with the competent supervisory authority. Financial service providers are companies that are commercially independent and not connected with the Bank. The broker is not entitled to conduct legal transactions and/or collection in the name of Partner Bank: The broker may not accept money from the client (not even for forwarding to Partner Bank). Any interpretations or statements made by the broker which differ from the contractual terms and the GTCs, as well as handwritten additions or supplements to the contractual terms are not legally effective.

## B) CLIENT CATEGORISATION

In general, all clients are categorised as private clients by Partner Bank. Therefore, all Partner Bank's private clients benefit from the maximum level of protection and diligence as set out in the Securities Supervision Act as amended. Classification as a professional client is also available

upon request and if all of the necessary prerequisites are fulfilled. For professional clients, who are better acquainted with the securities business, the Securities Supervision Act provides a lower level of protection, and this can also lead to partial loss of investor compensation rights.

## C) HANDLING CONFLICTS OF INTEREST (CONFLICTS OF INTEREST POLICY)

Conflicts of interests may arise in particular due to different fields of activity, different securities services, and cooperation with affiliated companies. They may occur in the following relationships:

- **Between the client and the investment service provider or affiliated company,**
- **Between the client and an employee,**
- **Between the clients among each other.**

The objective of identifying potential conflicts of interest is to assess to what extent, as a result of providing investment services and non-core investment services, the credit institution, its staff, or companies associated by control

- are able to achieve a financial gain or avoid a financial loss at the client's expense (financial benefit),
- have an interest in a result of a service provided for the client in the course of the transaction that does not correspond to the client's interest in the result (differing interests),
- have a financial or any other incentive to put one client's or one client group's interests above the interests of other legal entities (incentives),
- are pursuing the same business as the clients (competitive situation),
- have received or could receive a benefit from third parties relating to the service provided in excess of the usual commission or fee for this type of service (benefits).

Each credit institution is obliged to avoid any possible conflicts of interests identified, and to manage them in such a way as to ensure that clients' interests are sufficiently observed. Management measures include, inter alia, arrangements for effective prevention and control of the exchange of information, independence of the remunerations of employees in dif-

ferent areas of responsibility or from the operating results, prevention of improper influence over the employees' activities and monitoring of employees in areas particularly prone to conflicts of interests. The management and monitoring of conflicts of interests through the measures described above is carried out by a special office (Compliance Office), which must observe specific requirements on its part in respect of its independence, organisation, and conduct.

#### Activities and services at the Bank

The objective of Partner Bank and its employees is to maintain and improve upon the highest standards in all business relationships. Lawful conduct, diligence, professionalism and in particular acting in the best interest of our clients are the requirements imposed by the Bank on its employees. At the same time, legal regulations are the minimum standard. In cases where employees violate the Bank's existing rules, regulations, or directives, they face disciplinary measures.

Nevertheless, we point out that Partner Bank, for the purpose of providing our clients with the best possible service at reasonable prices, must balance the client's interests and the business activity to some extent.

#### Handling conflicts of interests at the Partner Bank

Partner Bank has established an autonomous and independent Compliance Office for managing and monitoring conflicts of interest pursuant to the 2018 Securities Supervision Act ("WAG") and Commission Delegated Regulation (EU) 2017/565 of 25 April 2016. In addition to the prevention of the misuse of insider information and market manipulation, one of the Compliance Office's core activities is to identify conflicts of interests and manage them, as well as to continuously monitor the implementation of the measures provided for at the Bank and adapt these where necessary.

Partner Bank has conducted a comprehensive analysis of the potential

conflicts of interests. Measures for monitoring specific areas or relevant persons whose interests may conflict with the interests of others or Partner Bank are constantly being implemented and at the same time, precautions aimed at preventing conflicts of interests are constantly being introduced. If a conflict of interest cannot be avoided despite Partner Bank's organisational and administrative measures, then it is Partner Bank's responsibility to resolve it in the interest of the client. This resolution may be to disclose the conflict to the client or to refrain from the possible transaction.

The Bank will resort to disclosure only if there is no other solution. In accordance with its size and organisational structure, the Bank has established confidentiality areas for the purpose of preventing the exchange of information between individuals whose activity may involve a conflict of interests. If in individual cases exchange of information between the established areas which could involve a conflict of interests is unavoi-

able, this is reported to the Compliance Officer who then introduces appropriate measures. Confidentiality areas are continuously adapted to the organisational changes within the Bank.

Staff members and financial service providers attend training sessions related thereto on a regular basis. Furthermore, internal guidelines have been adopted which govern employees' and financial service providers' proprietary trades and aim to prevent conflicts of interests between Partner Bank's clients and staff members or the financial service providers.

Conflicts of interests that have been identified but which are, however, so substantial and also customary for the economic activity that they cannot be completely prevented are reported, as are the principles according to which small gifts and invitations are assessed:

### Accepting and granting benefits and commissions

#### Disclosure of benefits in the case of non-independent investment advisory services<sup>1</sup>

As a non-independent consultant, Partner Bank AG may receive benefits from or pay benefits to third parties<sup>2</sup>, subject to the condition that the benefit

- is related to the investment service or non-core investment service, and
- is justifiable in terms of quality-improving measures for the investors.

Partner Bank offers its clients non-independent investment advisory services and access to a broad range of suitable financial instruments from third-party providers without a close relationship with the Bank. Furthermore, Partner Bank clients have access to an efficient online client service. This service for clients is also available in all sales countries of the Partner Bank, with a network of on-site financial service providers.

Accepting benefits in the case of independent investment consulting or portfolio management:

In the case of independent investment advisory services and portfolio management, any possible benefits granted by third parties are passed on to the client without exceptions. As part of the independent investment advisory services, clients have access to a wide range of financial instruments from third-party providers without a close relationship with the Bank.

#### • **Benefits paid to Partner Bank:**

##### Initial commission (one-time).

For brokerage services of investment funds or structured products to its clients, it is possible that the Partner Bank receives a commission from issuers or third parties in form of a reduction of the issuing commission. Usually, the financial service provider receives a once-only payment from that for its activities (see below).

##### Portfolio commission (ongoing):

For brokerage services of investment funds or structured products to its clients, Partner Bank sometimes receives from the issuers or third parties a pro-rata remuneration (portfolio commission). This pro-rata remuneration is calculated as a percentage of the respective value of the shares held in custody and depends on the issuer and type of the financial instrument. Partner Bank may receive a one-off benefit, which may also be in form of price discounts, from an issuer or third party for the services provided. The financial service provider may receive one-off pro-rata remuneration from that for its services. Within the scope of portfolio management, any possible benefits granted by third parties are passed on to the client without exception. Remunerations enable Partner Bank to set up and develop the infrastructure for the provision of services.

- **Benefits paid to Partner Bank's employees:** The salary system for Partner Bank's employees may also include a variable component influenced by the turnover and clients' total volume of assets under custody.

- **Commissions paid to the financial service provider:** The financial service provider receives commissions from Partner Bank for its activities. Here, the financial service provider receives a payment for the financial instruments brokered from the fee or part of the fee collected from the client by Partner Bank. In no case shall the brokerage fee exceed the issue fee stated in the securities prospectus by the issuer. Furthermore, the financial service provider may also receive for its activities pro-rata remuneration from or a part of the remuneration paid to Partner Bank by the issuers or third parties. The specific amount depends on the issuer and type of the financial instrument. In the case of specific financial instruments, one part of the fees and charges collected by the Bank (transaction fee/agio, securities fee, etc.) may be transferred to the financial service provider. For the brokered Asset Management Agreement, the brokers receive a share of the handling fee or they may be granted a part of the management fee as pro-rata

remuneration. Partner Bank charges the issue fee to the client. For issue fees, please refer to the relevant prospectus. The payment of commissions to the financial service provider enables the provider to develop an infrastructure for carrying out its services.

- **Non-cash benefits:** Partner Bank receives and grants small invitations and gifts, for example in the form of product-related training activities or benefits customary in the line of business (e.g., invitations to cultural events, business meals in the common restaurants). The amount of non-cash benefits received by the Bank depends on the respective product issuer. The granting of invitations and gifts to the financial service providers is influenced by their quality and quantity, such as total turnover, quality of the service provided, account management, level of training, and willingness to attend trainings.
- At [www.fma.gv.at](http://www.fma.gv.at), the client can find information about the market standard fees under "Investment Service Providers" > "Market standard fees." These are charged by the legal representative body of the financial service providers of the Austrian Chamber of Commerce (Wirtschaftskammer Österreich, WKÖ) and are FMA's recommended fees. In adherence to the Conflict of Interests Policy is monitored by the Compliance Officer and Internal Audit.

The summarised Conflict of Interests Policy implemented the statutory provisions of the 2018 WAG as well as of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 regarding informing clients about handling conflict of interests and describing the advantages.

<sup>1</sup>Benefits: benefits are fees, commissions (e.g., rebates) and other monetary and non-monetary benefits.

<sup>2</sup>Third parties: issuers, product providers, sales partners

## D) PARTNER BANK'S PRINCIPLES OF ORDER EXECUTION (EXECUTION POLICY)

For the purpose of protecting the interests of our clients and investors, Partner Bank provides the following information about its execution policy. This policy was prepared for the clients by Partner Bank and describes important procedures in the securities business at the Bank.

### Partner Bank's business model

The client may instruct the Bank to purchase individual securities or perform custodian activities, even though Partner Bank's business focus is on standardised asset management.

Investments at Partner Bank are typically made for private clients. At the moment, Partner Bank does not deal on the stock exchange due to a lack of direct line of connection, but instead employs internationally operating business partners (intermediaries) whose costs are charged to third parties.

### I. Priority of client instructions

1. When executing a buy or sell order for securities, Partner Bank follows client's instructions. Instructions given by the client always have priority.  
2. We expressly indicate that the client's instructions override the application of the principles stated below and that these instructions may prevent Partner Bank from achieving the best possible result for the client.

### II. Client orders

#### 1. Types of order / price limit

The orders are processed in accordance with the "market order" standard. This means that Partner Bank does not observe any price limits and that the client accepts the price obtainable on the date of 5 transaction. This means that any required capital investment / sales proceeds remain uncertain.

#### 2. Transmission of orders

In principle, orders are transmitted on the same day, assuming that they are entered into the in-house system by 10.00 AM and that order and coverage verification have been conducted.

#### 3. System failures and other events

In the case of unforeseen situations (e.g., system failures), Partner Bank may be forced to rely on types of order execution other than those specified in the Best Execution Policy. Nevertheless, Partner Bank will still attempt to achieve the best execution possible.

### III. Investment funds

Pursuant to Article 62(2) of the 2018 WAG, our Best Execution Policy does not apply to the issue and repurchase of units of investment funds, real estate investment funds, and foreign mutual funds.

### IV. Execution outside a regulated market or multilateral trading facility

If securities are not traded on a single trading platform, i.e. on MTF or OTF, the execution of an order may be carried out outside the regulated market, e.g. in over-the-counter trading. Therefore, separate consent from the client must be obtained in the form of a general agreement, which is granted expressly by signing the contract.

### V. Notice on the consolidation of client orders

Partner Bank processes client orders together only when there are no reasons to believe that the consolidation of orders will have adverse effects for the client.

### VI. Execution from the Bank's own holdings

It may happen that when trading on own account orders are executed to a certain extent in a manner other than as specified in the table under item 5). In that case, the Bank acquires financial instruments from the client as a buyer or supplies financial instruments as a seller. For this purpose, average closing prices are used or, on the given date of execution, the best possible bid or asking prices of the stock exchanges indicated below on the day on which the order is received in accordance with the in-house processing within the system in the securities trading department.

### VII. Best Execution Policy

#### 1. Principles applied to the Best Execution Policy

For the purpose of executing the transactions in the scope of asset management and executing the buying and selling orders in individual securities, the following criteria are used:

- rate/price and costs
- quality of the connection

For private clients, overall cost of the orders is the only determining criterion for selecting the best execution venue possible. These result from the rate/price of the financial instrument and all costs incurred for the client relating directly to the order execution, including the execution venue fees, clearing and settlement fees, costs for changing the place of custody, as well as other fees paid to third parties involved in the order execution.

### 2. Financial instrument categories

Partner Bank's clients can order financial instruments through Partner Bank that fall into one of the following categories and are included in Partner Bank's product offering.

- Shares and comparable interests
- Bonds and comparable debt instruments
- Exchange traded funds (ETF)
- Structured securities and leverage products
- Certificates
- Warrants

Please refer to item E) "Chance and Risk in the Securities Business" of this client information for more details about the product groups.

### 3. Scope of application

The execution policy complies with the legal requirements on the provision of the highest level of protection possible for private clients. Partner Bank also applies this execution policy for professional clients and therefore avoids the need to set up separate policies. The execution principles stated in this policy do not apply

- to specific financial instruments sold to or bought from Partner Bank directly at a fixed price (fixed-price transaction).
- to the issue and repurchase of shares in domestic investment or real estate funds and foreign mutual funds that are licensed for distribution, if this is carried out via the fund's custodian bank.

### 4. Determination of the best execution venue

Partner Bank has evaluated its execution venues on the basis of the above criteria and determines the respective execution venue for the categories indicated under item 2, as presented under item 5. Orders for subscription to issues are passed on for execution to the issuer, the issue manager or a member of the issue consortium appointed by the issuer. Executions of sales are carried out under consideration of the overall charge at the places of execution that do not necessitate any change of the depository bank. If this is not possible, then the table specified below is applied:

## 5. Determination of the execution route according to order groups

Financial instrument / security	Place of execution	Via Partner Bank's business partners
Austrian shares and comparable interests	Xetra Vienna or over-the-counter	ViTrade / RBI / Semper Constantia / / Baader Bank/ Interactive Brokers
Foreign stocks (USA and Germany)	Xetra Frankfurt / trading floor / NYSE / AMEX/ NASDAQ / NYSE ARCA	ViTrade / RBI / Baader Bank/ Interactive Brokers
Foreign stocks (Rest of Europe)	Local stock exchange	Hauck & Aufhäuser / ViTrade / RBI / Baader Bank / Interactive Brokers
Foreign stocks (Canada, Hong Kong, Japan)	Local stock exchange	Hauck & Aufhäuser / ViTrade / RBI / Baader Bank / Interactive Brokers
Exchange traded funds (ETFs)	Xetra Frankfurt	Baader Bank / ViTrade / RBI
Austrian bonds	Stock exchange or over-the-counter	Austrian major banks / ViTrade / Hauck u. Aufhäuser / RBI / Interactive Brokers
International bonds	Stock exchange or over-the-counter	Hauck & Aufhäuser / ViTrade / RBI / Interactive Brokers
Certificates, warrants	Euwax Stuttgart / Scoach / Frankfurt futures and certificate exchange / issuer (OTC)	ViTrade / RBI / Interactive Brokers / Baader Bank

Local stock exchanges are exchanges in whose economic environment the issuer's domicile and/or head office is located. In certain cases, a deviation from the specified channel may be necessary in the interest of the client (e.g. in the event of system failures or due to regulations on the minimum fragmentation or in the case of portfolios resulting from securities receipts). Orders for stock exchanges or products not listed above will be executed whenever possible. If an execution is not possible, the client will be notified thereof immediately after the situation becomes known.

In case of a different explicit client instruction, we will execute the order in accordance with this explicit instruction.

You can find our current execution policy at [www.partnerbank.at](http://www.partnerbank.at).

## E) CHANCE AND RISK IN THE SECURITIES BUSINESS ACCORDING TO 2018 WAG

### Preliminary note

Below you will find a description of various investment products as well as opportunities and risks related thereto.

Risk is regarded as the non-achievement of an expected return on invested capital and/or loss of the invested capital up to and including its total loss, whereby this risk can arise from the product itself, the markets or the issuer. Since risks are not always foreseeable, the following description should not be regarded as conclusive.

Either way, investors should pay particularly close attention to any risk related to the credit rating of the issuer of a product, which always depends on the individual circumstances.

The description of the investment product is based on the most typical product characteristics. However, the specific structure of the product is always the decisive factor. Consequently, the description provided below cannot replace a thorough examination of the specific product on the part of the investor.

Indicators which lead to a purchase or sale decision are as follows:

- Fundamental company information
- Company's industry classification and market position
- Sustainable development of the company (corporate strategy, growth, balance sheet)
- Technical analysis of the stock
- Stock valuation, for instance based on the price-earnings ratio (compared to sectoral average)
- Rating/analyst classification
- Risk management

An assessment according to these indicators is not carried out based on weightings measured in advance, but rather within a flexible system that depends for instance on the market situation and positioning of the company.

### Classification of risks

The risk classification provided for each asset management product or financial instrument provides information on the sensitivity of the securities contained therein and nature of the investment risks outlined below.

## 1. General investment risks

### Foreign exchange risk

In the case of foreign currency transactions, the return or performance of the transaction depends not only on the local yield of the security in the foreign market, but also heavily on the exchange rate development of the respective foreign currency relative to the currency of the investor (e.g. euro). Changes in the exchange rate can therefore increase or reduce the income and value of the investment.

### Transfer risk

In case of transactions containing a foreign element (e.g. a foreign debtor), there is a risk, depending on the country itself, that political or foreign

exchange measures may prevent or hamper the investment from being carried out. Furthermore, there may be problems that prevent processing of an order. In the case of foreign currency transactions, this kind of measures may lead to foreign currency not being freely convertible any more.

### Sovereign risk

A sovereign risk is the country's credit risk (solvency). If the country concerned poses a political or economic risk, this can adversely affect all of the partners based in this country.

### Liquidity risk

The possibility to buy, sell, or close out an investment at any time is called marketability (= liquidity). The market is said to be liquid if an investor can trade their securities without an average sized selling order (as measured by the usual trading volume) leading to noticeable price fluctuations and the order being unable to be settled at all or only at a substantially lower price.

### Credit and issuer risk

Credit risk is generally understood as the risk of the partner's insolvency, meaning its inability to fulfil its obligations, such as dividend payment, interest payment, repayment, etc., in a timely manner or at all. Alternatively, this risk is also called debtor or issuer risk. This risk can be assessed using the so-called "ratings." A rating is a performance scale used to evaluate the creditworthiness of an issuer. Ratings are published by rating agencies, with a main focus on credit and sovereign risks. The rating scale ranges from "AAA" (best credit rating) to "D" (worst credit rating).

### Interest rate risk

The interest rate risk arises from possible future changes in the market interest rates. A rise in interest rates on the market will lower the market price of a fixed-interest bond, whereas a fall will raise the market price of the bond.

### Price risk

The risk of adverse movements in the value of individual investments is called price risk. In the case of transactions that create a legal obligation (e.g., currency futures, futures, option writing), a price risk can make a collateralisation (margin) necessary, i.e. increase the margin, which means tying up liquidity.

### Risk of total loss

Risk of total loss is the risk of an investment becoming completely worthless, for example due to its design as a time-limited right. Total loss can particularly occur when the issuer of a security is no longer able to fulfil their payment obligations (insolvency; issuer risk) due to economic or legal reasons.

### Buying securities on credit

Der Kauf von Wertpapieren auf Kredit stellt ein erhöhtes Risiko dar. Der aufgenommenen Kredit muss unabhängig vom Erfolg des Investments zurückgeführt werden. Außerdem schmälern die Kreditkosten den Ertrag.

## Guarantees

The term "guarantee" can have various meanings. On the one hand, it may mean a separate commitment by a third party different to the issuer to fulfil the issuer's obligations. On the other hand, this can also be the issuer's commitment to provide a specific service, irrespective of the development of certain indicators that would otherwise determine the amount of the issuer's liability. Guaranties may also refer to various other circumstances. Capital guaranties are usually enforceable only at maturity (repayment), which means that price fluctuations (price losses) may also occur during the term. The quality of a capital guarantee depends to a great extent on the guarantor's creditworthiness.

## Taxation issues

As regards general taxation issues relating to various investments, the Bank or financial service provider can only make non-binding statements. The impact of an investment on your personal tax liability must be evaluated together with a tax advisor.

## Risks on stock markets, especially secondary markets (e.g., Eastern Europe, Latin America, etc.)

Given the fact that there is no direct line of communication with most of the stock exchanges on secondary markets, the orders must be forwarded by telephone. As a result, errors or delays may occur.

On several secondary stock markets, limited buying and selling orders are generally not possible. Consequently, limited orders can only be placed using enquiries made by telephone with the broker on-site, which may lead to delays. In some cases, such limits cannot be executed at all.

In the case of some secondary stock markets it can be difficult to obtain current prices, which makes it harder to assess the client's current position. If a trading listing is suspended, it may no longer be possible to sell such securities at the stock exchange in question. A transfer to another stock market may also cause problems. The opening hours of some secondary stock markets may not correspond to western European standards at all. Short trading hours of only three or four hours per day can lead to bottlenecks or failure to process securities orders.

## 2. Bonds / debentures / notes

### Definition

Bonds (= debentures, notes) are securities that obligate the issuer (= debtor) to pay the interest to the holder (= creditor, buyer) on the capital invested and repay the principal amount in accordance with the bond terms. In addition to such bonds, strictly speaking, there are also debentures that significantly differ from the above characteristics and the description given below. Please refer to the description of debt securities in the "Structured products" section. In this area, it is therefore not the designation as a bond or debenture that is decisive for the product-specific risks, but rather the specific structure of the product.

Accrued interest is included in the purchase of bonds. Accrued interest corresponds to the accumulated interest to be paid to the seller by the buyer of an interest-bearing bond.

### Return

The bond yield consists of the interest due on the capital and any difference between the purchase price and the price achieved upon sale/maturity of the bond.

Consequently, the return can only be determined in advance if the bond is held until maturity. However, with a variable interest rate, the yield cannot be determined beforehand. As a comparative figure or measure for the yield, the rate of return is used (through to maturity) as calculated according to the usual international standards. Bond yields which are significantly above the generally customary level should always be questioned, as this might stem from an increased credit risk.

If the bond is sold before the regular repayment date, the achievable selling price is uncertain and the return may differ from the originally calculated return. Fees and charges should also be taken into account when calculating the return.

### Credit risk

There is always the risk that the debtor is unable to pay all or part of its obligations, e.g. in case of insolvency. The investment decision should therefore always take the debtor's creditworthiness into account. The so-called rating (credit risk assessment of the debtor published by an independent rating agency) can be used to assess the credit quality of debtors. The rating "AAA" or "Aaa" is the best credit rating (e.g., Austrian federal government bonds); the lower the rating (e.g., B or C), the greater the credit risk and probably also the interest rate (i.e. risk premium) on the security, at the expense of the increased risk of non-payment (credit risk) of the debtor. Bonds with a rating BBB or better are referred to as "investment grade" bonds.

### Price risk

If the bond is held until maturity, the client receives the redemption proceeds upon bond redemption as set out in the bond terms. In this context, if provided for in the terms of issue, the risk of a premature termination by the issuer must also be taken into account.

If the bond is sold prior to the maturity date, the client receives the market price. This price is determined by supply and demand and these depend on the current interest rates, among other things. For example, the price for fixed-interest bonds may fall when the interest rates rise for comparable maturities and vice versa: the bond will be worth more when the interest rates fall for comparable maturities.

A change in the issuer's creditworthiness may also affect the market price of a bond. For floating rate bonds, the price risk will be significantly higher when the yield curve is flattening out or is already flat in the case of bonds whose interest rate is adjusted to the capital market rates than in the case of bonds whose interest rate depends on the money market interest rate levels.

The degree of change in the market price of a bond in response to a change in the interest level is described by the indicator "duration." The duration depends on the remaining time to maturity of a bond. The greater the duration, the more strongly the general interest rate level will affect the market price, both in the positive and negative sense.

### Liquidity risk

The liquidity of the bonds hinges on several factors, e.g., issue volume, remaining time to maturity, exchange practices, and market situation. A bond can also be difficult or impossible to sell and must be held until redemption in such a case.

### Bond trading

Bonds are traded at a stock exchange or over-the-counter. Usually, the Bank can provide the buying and selling prices for specific bonds upon request. There is no guarantee of the bond being tradable.

For bonds which are also traded at the stock exchange, the prices generated there may differ considerably from the OTC prices. The risk of weak trading can be managed by adding a limit to the order.

## Special types of bonds

### Supplementary capital bonds

These are subordinated bonds of Austrian banks, for which interests accrue only in the event of corresponding annual surpluses (before changes in reserves). Capital repayment prior to liquidation is subject to a prorated deduction of the net losses accrued over the entire term of the supplementary capital bond.

### Subordinated capital bonds

With this type of bond, in the event of liquidation or bankruptcy of the bond debtor, the investor receives payment once all of the other bond debtors' unsubordinated liabilities have been paid in full. It is not possible to offset the claims for repayment arising from the subordinated bond against the issuer's claims.

Your client advisor will be happy to inform you about other special bond types such as bonds with warrants attached, convertible bonds, zero-coupon bonds, etc.

## 3. Shares

### Definition

Shares are defined as securities documenting an interest held in an enterprise (joint-stock company). The principal rights of the shareholders are participating in the company's profits and the right to vote in the shareholders' meeting. (exception: preferred shares)

### Return

The return on equity investments consists of dividend payments and price gains or losses and cannot be predicted with certainty. The dividends are the company's profits distributed by a resolution of the shareholders' meeting. The dividend amount is expressed either as an absolute amount per share or as a percentage of the nominal value of the stock. The return obtained from the dividend in relation to the share price is called the dividend yield. In general, it is considerably lower than the dividend indicated as a percentage of the nominal value. As a rule, a substantial part of the earnings from equity investments is generated by the performance / price development of a share (see Price risk).

### Price risk

Shares are securities traded in most cases on stock exchanges. Generally, the price is determined on a daily basis according to supply and demand. Equity investments might result in significant losses.

Generally speaking, the trading price is calculated according to the economic development of the company and the general commercial and political framework. Irrational factors, such as feelings and opinions, may influence the performance and profit of the investment as well.

### Credit risk

As a shareholder, you hold an interest in a business. In particular, should it become insolvent, your financial participation may become worthless.

### Liquidity risk

The marketability of the illiquid securities may be problematic (in particular, listings on unregulated markets, OTC trade).

If a stock is quoted on several stock exchanges, this may lead to differences in its negotiability on different international markets (e.g. quotation of an American stock in Frankfurt).

### Stock trading

Stocks are traded at a stock exchange or, occasionally, over-the-counter. If stocks are traded via the stock exchange, then the actual exchange practices (round lots, order types, valuation regulation, etc.) must be taken into account. If a share is quoted on different stock exchanges in different currencies (e.g. a US stock quoted in euros at the Frankfurt Stock Exchange) the price risk also entails an exchange rate risk. The client advisor can provide information on this.

When buying shares on a foreign exchange, attention should be paid to "third-party fees" charged by foreign exchanges which are incurred in 8 addition to the usual bank charges. The client advisor will provide information about their exact amounts.

## 4. Investment funds

### Domestic investment funds

#### General

Share certificates for Austrian investment funds ("investment certificates") are securities that document joint ownership of an investment fund. Investment funds invest the funds provided by investors in accordance with the principle of risk diversification. The three main types are bond funds, equity funds, and mixed funds that invest in both bonds and shares. Funds may invest in domestic and/or foreign securities.

Apart from securities, the range of investments of a domestic investment fund also includes money market instruments, liquid financial assets, derivative products, and investment fund units. Investment funds may invest in domestic and/or foreign securities. Furthermore, a distinction is made between a distributing fund, an accumulating fund, and a fund of funds. As opposed to a distributing fund, an accumulating fund does not distribute the profits, but reinvests them in the fund, whereas a fund of funds invests in other domestic and/or foreign funds. Guarantee funds are associated with a firm commitment of a guarantor appointed by the investment company concerning the distributions over a specific period of time, with repayment of the principal, or security performance.

#### Return

The return on investment fund certificates consists of annual payments (provided that they are distributing and not accumulating funds) and the trend in the calculated value of the certificates, and cannot be predicted with certainty. The performance depends on the investment policy set out in the fund terms and on the development of the individual assets in the fund on the market. Depending on the composition of the fund, risk information relating to bonds, share, and warrants should be observed.

#### Price and rating risks

Investment fund certificates can normally be redeemed at any time at the redemption price. In exceptional circumstances, the redemption may be temporarily suspended until the fund's assets are sold and realisation proceeds are received. The client advisor will provide information about any fees and the date on which the buying or selling order is executed. The term of an investment fund depends on the fund conditions and is usually unlimited. It must be noted that, unlike with bonds, the investment fund units usually do not normally expire and that there is no fixed redemption price as a consequence. The risk of investment fund certificates depends, as already mentioned under "Return," on the fund's investment policy and the market trends. A loss cannot be ruled out. Despite the usual option of redeeming units at any time, investment companies are investment products which are typically economically viable only over a long investment period. Much like shares, the funds can be traded at stock exchanges, as well. Prices generated on the stock exchange in question may differ from the redemption price. Please refer to the risk information for shares for further information.

#### Tax effects

Depending on the type of fund, the taxation of the income may vary.

### Foreign mutual funds

Foreign mutual funds are subject to foreign legal regulations, which may differ significantly from the provisions applicable in Austria. In particular, the supervisory law may often be less restrictive than Austria's.

Outside of Austria, there are also closed-end funds or funds established under stock corporation law whose value is determined according to supply and demand and not according to the fund's intrinsic value, comparable to the price determination process in the case of stocks.

It should be noted that distributions and earnings equivalent to distributions of the foreign mutual funds (e.g., an accumulating fund) may be subject to different tax regulations, irrespective of their legal form.

### Exchange traded funds

Exchange traded funds (ETFs) are fund units traded at a stock exchange similar to stock trading. Generally, an ETF forms a basket (e.g., a basket of stocks) reflecting the composition of an index, i.e. it tracks the index in one certificate by means of the securities contained in the index and their current weighting, which is why the ETFs are often referred to as "index stocks."

#### Return

The return depends on the performance of the underlying securities in the basket.

#### Risk

The risk depends on the underlying securities in the basket.

## 5. Real estate funds

### General

Austrian real estate funds are investment funds owned by an investment trust that holds and manages the investment fund on behalf of the shareholders. The unit certificates document an investment held in this investment fund under the law of obligations. Real estate funds invest the funds received from its unit-holders according to the risk diversification principle, in particular in land, buildings, shares in real estate companies and similar property holdings, as well as in its own construction projects; they also hold liquid financial assets (liquidity investments), such as securities and bank deposits. The liquid investments serve to secure the real estate fund's outstanding payment obligations (for example, due to the purchase of properties) and redemption of unit certificates.

#### Return

From the unit-holder's point of view, the total return on real estate fund certificates is made up of the annual distributions (provided that the funds distribute dividends instead of reinvesting them) and the price trend of the calculated share value. The amount of return cannot be determined in advance. The performance of a real estate fund depends on the investment policy set out in the fund terms, the market trend, individual properties held in the fund, and other individual assets in the fund (securities, bank deposits). The historic performance of a real estate fund is not indicative of its future performance. Real estate funds are primarily exposed to the risk of reduced return due to vacancies in the buildings. In the case of the fund's own construction projects, there may be problems with initial rental. Subsequently, vacancies may have a negative impact on the real estate fund's value and lead to reduced dividend distribution. Investing in real estate funds may also lead to a partial loss of the invested capital.

In addition to bank holdings, real estate funds invest liquid assets in other forms of investment, especially in interest-bearing securities. These parts of the fund's assets are subject to special risks pertaining to the selected form of investment. When real estate funds invest in foreign projects outside the euro area, the shareholders are also exposed to currency risks, since the market value and the return from such foreign property are converted to euros when calculating the issue or redemption price of the unit certificates.

#### Price and rating risks

Unit certificates can normally be redeemed at any time at the redemption price. As regards real estate funds, it should be noted that redemption of units may be subject to restrictions. In exceptional circumstances, the redemption may be temporarily postponed until the property fund's assets have been sold and realisation proceeds have been received. In particular, the fund regulations may stipulate that, following the restitution of a large number of unit certificates, redemption may be postponed for up to two years. In such a case, disbursement of the redemption price by the fund will not be possible during this period. Real estate funds are typically classified as long-term investment products.

## 6. Warrants

### Definition

Subscription warrants are non-interest-bearing and non-dividend-bearing securities which entitle the holder to buy (call warrants) or sell (put warrants) a specific underlying asset (e.g. shares) at a specific date or within a specific period at a predetermined price (exercise price).

### Return

The owner of a call-warrant has fixed the purchase price of the underlying asset. Income can be obtained if the market price of the underlying asset exceeds the stipulated exercise price to be paid by the investor, whereby the warrant purchase price is deducted. The option holder may then buy the underlying asset at the strike price and immediately resell it at the market price.

Usually, the increase in the underlying asset's price is reflected in a comparatively strong rise in the option's price (leverage effect), meaning that most investors achieve a return by selling the subscription warrant. The same applies mutatis mutandis to the put-warrants; they usually rise in value if the price of the underlying asset decreases.

The return on investment in the subscription warrants cannot be predic-

ted with certainty.

The maximum loss is limited to the amount of the invested capital.

#### Price risk

The risk of investing in warrants lies in the development of the underlying asset value until the expiry of the warrant, which may not correspond with what the clients had in mind at the moment of making their purchase decision. In the worst case, the entire capital invested may be lost.

Other factors also affect the price of the warrant. The most important are:

Volatility of the underlying asset (a measure of the fluctuation margin anticipated at the time of purchase and, simultaneously, the most important parameter for determining the appropriateness of the warrant price). High volatility generally implies a higher price for the warrant.

Remaining time to maturity (the longer the maturity of a warrant, the higher the price).

A decrease in volatility or approaching maturity date may cause the warrant price to remain unchanged or to drop, even though the expectations related to the performance of the underlying security are met.

The purchase of warrants which are close to expiry is generally advised against. Purchasing options with high volatility increases the price of the investment and is therefore highly speculative.

#### Liquidity risk

Warrants are generally issued only in smaller quantities. This results in a higher liquidity risk. This can cause particularly high price spikes in the case of some subscription warrants.

#### Warrant trading

Warrants are traded to a large extent over-the-counter. There is usually a spread between the buying and selling price. This spread is paid for by the client.

When trading warrants at the stock exchange, attention should be paid to the very low liquidity in most cases.

#### Optionsscheinbedingungen

Subscription warrants are not standardised. Therefore, it is extremely important to be thoroughly informed about the exact configuration, and in particular:

Exercise type: Is the warrant exercisable at any time (American option) or only at expiry (European option)?

Subscription ratio: How many subscription warrants are needed to obtain the underlying asset?

Exercise: Delivery of the underlying asset or cash settlement? Expiry: When does the option right expire? It should be noted that the Bank does not exercise a warrant unless specifically instructed to do so.

Last trading day:

This day is often slightly earlier than the expiry date, meaning that it cannot be assumed that the warrant can indeed be sold up to the expiry date.

### 7. Structured products

"Structured investment vehicles" are investment instruments whose income and/or capital repayments are, in most cases, not fixed, but rather dependent on specific future events or developments. Moreover, these investment vehicles can be structured in such a way so that when predetermined targets are reached, the product can be called in early by the issuer or this may even occur automatically.

This section will cover the individual product types. Generic terms are used to refer to these types of products. However, these are not used uniformly on the market. Due to the many possibilities of linking, combining and disbursement of such instruments, a wide variety of forms have emerged; their names may not always be consistent with the form in question. For that reason, it is always necessary to examine the specific product conditions. The client advisor will be happy to provide information about the various structures of these instruments.

#### Risks

- 1) When the terms provide for payments of interest and/or dividends, such payments may depend on future events or developments (indexes, baskets, individual stocks, certain prices, commodities, precious metals, etc.) and may therefore be reduced or even eliminated in the future.
- 2) Repayments of principal may depend on future events or developments (indexes, baskets, individual stocks, certain prices, commodities, precious metals, etc.) and may therefore be reduced or even eliminated in the future.
- 3) With respect to payments of interest and/or dividends and repay-

ments of capital, it is necessary to take into account interest rate risks, foreign exchange risks, corporate risks, risks particular to the sector, sovereign risks, and credit risks (and possibly a lack of secured creditor rights and a lack of claim for separation and recovery of assets not belonging to the bankrupt estate), as well as tax risks.

- 4) The risks defined in paragraphs 1) to 3) may lead to strong price fluctuations (price losses) during the term of the instrument, regardless of the interest, earnings, or capital guarantees, and may make it difficult or even impossible to sell the instrument before it reaches maturity.

#### Cash or share bonds (reverse convertible bonds)

These bonds consist of three components, whose risk is borne by the bond purchaser:

The investor purchases a bond (the bond component) whose interest rate includes an option writer premium. Therefore, this structure results in a higher interest rate compared to a similar bond with the same maturity. The bond may be redeemed either in cash or in shares, depending on the price trend of the underlying stock (stock component).

Hence, the bond purchaser is the writer of a put option (option component), who sells the right to transfer shares to it to a third party, and in so doing, the bond purchaser agrees to accept the consequences if the share price changes in a direction that is contrary to its interests. The bond purchaser also bears the risk of the price trend and receives a premium for this, which essentially depends on the volatility of the underlying share. If the bond is not held until maturity, that risk is compounded by interest rate risk. A change in interest rates will affect the bond price and thus the bond's net yield relative to its maturity. The risk information provided in the "Credit risk," "Interest rate risk," "Price risk (Shares)" sections should also be observed.

#### Interest spread securities products (Constant maturity swaps)

These products, which are structured like debt securities, initially feature a fixed coupon. After the fixed-interest phase, the products are converted to a variable interest rate. The coupon, which is generally annual, depends on the current interest situation (e.g., interest curve). In addition, such products may involve a target interest rate: i.e. if a predetermined target interest rate is achieved, the product will be called in early.

#### Return

The investor usually obtains a higher coupon in the fixed-interest phase than with conventional bonds on the market. In the variable-interest phase, investors have the opportunity of achieving higher coupons than from fixed-interest bonds.

#### Risk

Price fluctuations may occur before maturity, which may prove significant depending on the interest rate trend.

#### Guarantee certificates

When guarantee certificates reach maturity, they pay out the initial nominal value or a certain percentage thereof, regardless of the performance of the underlying security ("minimum redemption").

#### Return

The maximum return obtainable from the performance of the underlying asset may be limited by a maximum redemption price as set out in the certificate terms or other restrictions on participation in the performance of the underlying asset. The investor is not entitled to dividends and other payments from the underlying asset.

#### Risk

The value of the certificate may fall below the minimum redemption before maturity. At maturity, the value will usually be equal to the minimum redemption price. The minimum amount redemption price depends, however, on the issuer's creditworthiness.

#### Discount certificates

In the case of discount certificates, the investor receives the underlying security (e.g. the underlying stock or index) at a discount of the current price (safety buffer), but, in exchange, their interest in the growth of the underlying security is limited to a certain ceiling (cap or reference price). At the end of the maturity period, the issuer has the right to choose to either repay the certificate at the cap, or to deliver the shares, i.e. to provide a cash settlement corresponding to the index value, if an index is used as underlying asset.

#### Return

The difference between the discounted buying rate for the underlying asset and the ceiling determined by the cap represents possible income.

#### Risk

In the event of rapidly falling prices for the underlying security, the shares are delivered at the maturity date. (The equivalent value of the delivered shares will be lower than the purchase price at that time.) Since allocation of shares is possible, the risk information for shares must be taken into account.



### **Bonus certificates**

Bonus certificates are debt securities that, subject to certain requirements, pay out at maturity a bonus or appreciated price of an underlying security (individual shares or indexes) in addition to the nominal value. Bonus certificates have a fixed maturity. The certificate terms typically stipulate the payment of cash or delivery of the underlying security at maturity. The type and price of redemption at maturity depend on the underlying security's performance. Three levels are set for a bonus certificate: a starting level, a barrier underneath the starting level, and a bonus level above the starting level. If the underlying security falls down to the barrier or below, the bonus is forfeited and the certificate will be redeemed at the price of the underlying security. Otherwise, the minimum redemption price results from the bonus level. When the certificate reaches maturity, the bonus is paid out along with the amount initially paid for the nominal value of the certificate.

#### **Return**

With a bonus certificate, the investor acquires a claim against the issuer for payment of an amount determined by the performance of the underlying security. The return depends on the performance of the underlying asset.

#### **Risk**

The risk depends on the underlying certificate. If the issuer goes bankrupt, the investor has no secured creditor rights or claim for separation and recovery of assets not belonging to the bankrupt estate with respect to the underlying security.

### **Index-linked certificates**

Index-linked certificates are debt instruments (usually publicly quoted) that offer the investor the possibility of acquiring an interest in a certain index without having to own the securities contained in the index. The underlying index is generally replicated on a 1:1 basis; changes in the index in question are taken into account.

#### **Return**

With an index-linked certificate, the investor acquires a monetary claim against the issuer for payment of an amount that depends on the level of the underlying index. The return depends on the performance of the underlying index.

#### **Risk**

The risk depends on the securities underlying the index. If the issuer goes bankrupt, the investor has no secured creditor rights or claim for separation and recovery of assets not belonging to the bankrupt estate with respect to the underlying securities.

### **Basket certificates**

Basket certificates are debt instruments that offer investors the opportunity to acquire an interest in the performance of a certain securities basket without buying the individual securities included in it. The composition of the underlying basket is up to the issuer. The securities included in the basket can be weighted equally or unequally. The composition may be adjusted on specified dates (e.g., annually).

### **Knock-out certificates (turbo-certificates)**

The term "knock-out certificate" means a certificate that documents the right to buy or sell a certain underlying security at a certain price if the underlying security fails to reach the specified price threshold (i.e. the knock-out threshold) before maturity. Once the threshold is reached, the investment expires early and most of it will generally be lost. Depending on the price trend of the underlying asset, a distinction is made between knock-out long certificates, which bank on rising markets, and knock-out short certificates, designed specifically for falling markets. In addition to normal knock-out certificates, "leveraged" knock-out certificates are also issued, usually under the name "turbo-certificates" (or "leveraged certificates").

Due to the leverage (turbo), the value of the turbo-certificate responds to the price movement of the relevant underlying instrument more strongly in terms of percentage and may rise, but also fall, more sharply. Therefore, higher profits can be gained with smaller investments, but the risk of loss is also greater.

#### **Return**

The return can be obtained from a positive difference between the acquisition price or market price and the exercise price (making it possible to buy the underlying security at the lower exercise price or to sell it at the higher exercise price).

#### **Risk**

If the knock-out threshold is reached before maturity, either the certificate expires and becomes worthless or an estimated residual value is paid out (the product is "knocked out"). In the case of some issuers, it suffices to knock out the certificate if the price reaches the knock-out level during the trading day (intraday). The closer the current market price is quoted to the exercise price, the stronger the leverage effect. At the same time, there is a higher risk that the knock-out level will be undercut and either the certificate becomes worthless or the identified residual amount is paid out.

### **Spread certificates**

Spread certificates offer the investors the possibility of sharing disproportionately in the performance of the underlying asset in expectation of a share price or index varying within a certain price range (spread) defined by a starting point and a stopping point.

#### **Return**

Income can be gained from the disproportionate participation in the price development of the underlying asset.

#### **Risk**

If the closing price identified at the valuation date is below the starting point, the certificate only replicates the price development of the underlying asset. If the price falls below the stopping point, the investor receives a fixed maximum amount repayable at the end of the term, without being able to participate in any price increase.

### **Twin-win certificates**

The holders of twin-win certificates receive a repayment amount at maturity depending on the performance of the underlying instrument. The certificates contain a barrier. If (as a general rule) the price does not reach or falls below the barrier of the twin-win certificate before it matures, the investor shares in the absolute performance of the underlying instrument starting from the base price set by the issuer; this 1:1 means that even price losses of the underlying instrument may translate into gains on the certificates. If the price reaches or falls below the barrier of the twin-win certificate before maturity, the certificate will be redeemed at a price at least equal to the current price trend of the underlying instrument. The issuer may also stipulate that disproportionate sharing in the performance of the underlying instrument is possible above the base price. The maximum redemption price can, however, be limited.

#### **Return**

If the price does not reach the barrier, the investor may also profit from the negative performance of the underlying instrument, since they share in the absolute performance; price losses in the underlying instrument may therefore translate into gains. The certificate may respond more or less strongly to the price fluctuations of the underlying instrument depending on various influencing factors (e.g., volatility of the underlying instrument, remaining time to maturity, distance of the underlying instrument from the barrier).

#### **Risk**

Twin-win certificates are risky investment instruments. In the event of unfavourable changes in the price of the securities underlying the twin-win certificate, all or much of the invested capital may be lost.

### **Express certificates**

An express certificate lets the investor share in the performance of the underlying instrument with the option of early redemption. If on one of the determination dates the underlying instrument satisfies the trigger criterion specified by the issuer, the certificate expires early and will be automatically redeemed by the issuer at the redemption price applicable on the determination date in question. If the underlying instrument does not satisfy the specified trigger criterion even on the final determination date, the certificate will be redeemed at the closing price of the security underlying the certificate established at maturity/on the final determination date. In this case, if the issuer set a barrier at the start of the issue of the certificate and the price of the underlying instrument neither reaches nor breaks through the barrier during the observation period, the certificate will be redeemed at a price at least equal to the minimum redemption price defined by the issuer.

#### **Return**

Express certificates enable early realisation of the positive performance of the underlying instruments. Even if the specified trigger criterion is not satisfied, there may be a payout of the minimum redemption price, if the barrier has not been reached or broken through. The certificate may respond more or less strongly to the price fluctuations of the underlying instrument depending on various influencing factors (e.g., volatility of the underlying instrument, remaining time to maturity, distance of the underlying instrument from the barrier).

#### **Risk**

Express certificates enable early realisation of the positive performance of the underlying instruments. In the event of unfavourable changes in the price of the securities underlying the express certificate, all or much of the invested capital may be lost.

## **8. Hedge funds**

(Hedge funds, funds of hedge funds, hedge funds index certificates and other products with hedging strategies as basic investment)

### **General**

Hedge funds are funds that are not subject to any or only limited restrictions regarding the investment principles. By utilising all investment vehicles, they aim to multiply their capital by alternative and sometimes non-transparent investment strategies.

### Examples of investment strategies:

#### Long/Short:

Undervalued securities are purchased and, at the same time, overvalued securities are sold short.

#### Event-Driven:

An attempt is made to exploit specific corporate results such as mergers, acquisitions, reorganisations, or insolvencies.

#### Global Macro:

An attempt is made to identify and exploit inefficiencies in the markets through macroeconomic analysis of the most important developments in economy and politics. Funds of hedge funds are funds investing in individual hedge funds. Hedge fund index certificates are debt securities whose performance and earnings performance depend on the average development of several hedge funds that are pooled into an index to form a calculation basis. The investor benefits from the greater risk spreading resulting from funds of hedge funds and hedge funds index certificates.

### Income and risk components

Hedge funds offer an opportunity for very high returns, but the risk of losing the invested capital is correspondingly high. The price trend of the hedge fund products is especially affected by the opportunity and risk-generating factors specified below:

Hedge funds trends tend to be independent from international stock and bond market trends; depending on the hedge fund strategy, the general market trend may either be exaggerated or result in a pronounced trend in the opposite direction. Hedge fund trends are particularly influenced by their market share.

Due to their components, hedge fund assets may be highly volatile, which means that the share prices may be subject to significant upward and downward fluctuations within short periods of time. In extreme cases, unsecured hedge fund products may lead to a total loss. Concentrating on just one strategy or only a few exacerbates the risk. That risk may be reduced through diversification in the case of hedge funds of funds or hedge fund index certificates. The manager of the fund of funds selects the individual funds and their composition in keeping with the fund's desired risk/return profile or according to a system of distribution among various countries and sectors determined by an index committee.

It is impossible for the underlying hedge funds to be transparent at all times to the fund of fund management / index committee.

### Liquidity risk

Since hedge funds require complex strategies and are difficult to manage, it takes longer to determine the price of a hedge fund product than with traditional funds.

Hedge fund products are therefore less liquid than traditional funds. The prices are generally determined on a monthly rather than daily basis, so that shares can frequently be redeemed only once a month. To be able to redeem the shares at that time, the investor must give an irrevocable declaration of intent to return their shares well in advance of the redemption date. The share price may change significantly between the time of the declaration of intent to return the shares and the time of redemption, but the investor does not have the right to such price changes since their declaration of intent is irrevocable. The specific terms of redemption depend on the individual product. The limited liquidity of the individual funds and instruments may therefore decrease the negotiability of a hedge fund product.

## 9. Money market instruments

### Definition

Money market instruments include documented money market investments and borrowings, such as certificates of deposit (CDs), cash deposit certificates, global note facilities, commercial papers, as well as all notes with a maturity of up to five years for the repayment of principal and fixed interest rates for up to one year. Money market transactions also include true repurchase transactions and agreements.

### Income and risk components

The income and risk components of the money market instruments largely correspond to those of the "bonds/ debentures / notes". Distinctive features apply to the liquidity risk.

### Liquidity risk

There is typically no regulated secondary market for money market instruments. Consequently, it cannot be guaranteed that the instruments can be sold readily. Liquidity risk becomes of secondary importance if the issuer guarantees payment of the invested capital at any time and is sufficiently creditworthy to do so.

### Money market instruments – in simple terms

#### Certificates of deposit

Money market securities with terms of usually 30 to 360 days that are issued by banks.

### Public notes

Money market securities issued by banks, generally with a maturity up to 5 years.

### Commercial papers

Money market securities, short-term notes issued by major corporations, generally with a maturity of 5 to 270 days.

### Global note facility

A variation of a commercial paper facility that permits the issue of the commercial papers in the USA and in European markets simultaneously.

### Notes

Short-term capital market instruments, generally with a maturity of 1 to 5 years

## 10. Profit-participation rights / profit-participation certificates / participating bonds

### Definition

In general, profit-participation rights are property rights granted under company law by a company, usually a joint-stock company, to a non-shareholder, e.g., sharing in the company's profits. Securities documenting a profit-participation right are called profit-participation certificates or participating bonds. These terms are generally used interchangeably. Since there is no legal definition of the term "profit-participating right," the terms and conditions for profit-sharing rights are relatively freely defined and should therefore be examined in particular detail. Both the profit-sharing and repayment, but also the maturity and termination rights can be stipulated differently for various profit-sharing rights. Given that these are creditors' rights and not shareholder rights, the certificate holders may only be granted property rights, and under no circumstances management rights or rights of co-determination.

### Return

The return on profit-participation rights depends mainly on the underlying terms and conditions. These may provide for payouts with a fixed or variable percentage of the nominal value or may stipulate that a minimum profit must be achieved prior to the distribution. The annual distribution amounts may be defined in advance depending on the conditions of participation, or be decided upon on an annual basis. The agreed repayment date also affects the return. A distinction should be made as to whether the profit-participation right is redeemed at the issue amount or whether the performance of the company is taken into account at the time of redemption, meaning that the certificate holder participates in both increases in value and losses of the company. Finally, the return depends on the fact whether the profit-participation certificates are traded. In such a case, the return may also be subject to price fluctuations.

### Credit risk

Since the company granting the profit-participation rights is becoming the certificate holder's debtor, there is a risk, like with any other debt obligation, that the debtor is unable to meet its payment obligations, e.g., due to insolvency, rendering the investment temporarily or permanently worthless.

### Price risk

If participation certificates are traded, they are subject to pricing according to supply and demand and also to the corresponding price rises and losses.

### Liquidity risk

Low trading volumes for certain profit-participation certificates may make them difficult or even impossible to sell.

### Trading in participation certificates

If provided for in the terms and conditions, profit-participation certificates and participating bonds can be traded on a stock exchange or over the counter.

## 11. Bail-in financial instruments

A 'bail-in' occurs when the Bank's creditors (i.e. investors in its debt instruments) participate in its losses in the event of restructuring or winding-up due to impending insolvency. A winding-up authority may apply winding-up tools to the affected bank only when statutory requirements are complied with.

In its capacity as interest holder or creditor, the bank's client may be involved in this process if they own financial instruments issued by the affected bank (e.g., shares, bonds, or certificates), or, in its capacity as the bank's contract partner, has receivables against the bank (e.g., unconsolidated statements under a master agreement for financial futures transactions).

Exceptions to this are client's deposits covered by deposit protection (up to EUR 100,000), secured receivables, e.g., public-sector debentures or covered debt securities, liabilities from trust relationships and client assets or client funds, to which the right to separation of the collateral from the estate and right to separate satisfaction in or from disposal of the collateral apply.

The following winding-up tools may affect the Bank's clients when used:

- Bail-ins
- Spin-offs
- Bridge institutions
- Sale of business

**Risks of bank winding-up:**

**Counterparty/credit risk**

The winding-up authority may make modifications to the basic conditions of the affected securities. These changes may apply to the maturity date, for example.

**Liquidity risk**

In a bail-in procedure, the securities of the affected bank may be subject to value fluctuations and therefore unsellable or only sellable at a low price.

**Cluster/concentration risk**

The more securities of the affected bank an investor has in its portfolio, the greater the risk. This may also lead to total loss.