

Market Profile June 2017 Croatia



Global Securities Services

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Contents

| | |
|-------------------------------|----|
| 1. OVERVIEW | 4 |
| 2. REGULATION AND SUPERVISION | 6 |
| 3. TRADING | 7 |
| 4. CLEARING | 8 |
| 5. SETTLEMENT | 10 |
| 6. PAYMENT SYSTEM | 13 |
| 7. SECURITIES LENDING | 14 |
| 8. CORPORATE ACTIONS | 15 |
| 9. PROXY VOTING | 16 |
| 10. INCOME COLLECTION | 17 |
| 11. TAXATION | 18 |
| 12. DISCLOSURE REQUIREMENTS | 19 |
| 13. ACCOUNT MANAGEMENT | 20 |
| 14. DISCLAIMERS | 21 |

1. OVERVIEW

1.1 Geopolitical Data

| | |
|-----------------------|----------------------|
| Time Zone: | GMT + 1 |
| Daylight Saving Time: | NO |
| Currency: | Kuna (HRK) |
| Banking Holidays: | link |
| EU Membership: | YES |
| Schengen Zone: | NO |



1.2 G30 Compliance

| | |
|--|-----|
| Trade comparison by T+1 for direct market participants | YES |
| Trade comparison for indirect participants | YES |
| Central securities depository | YES |
| Trade netting system | YES |
| Delivery vs. payment | YES |
| Same day funds | YES |
| Rolling settlement T+2 | YES |
| Securities lending and borrowing | YES |
| ISIN | YES |

1.3 Country Ratings

| Rating Agency | Issuer Default Rating Foreign Currency, LT | Outlook |
|-------------------|--|---------|
| Fitch | BB | Stable |
| Moody's | Ba2 | Stable |
| Standard & Poor's | BB | Stable |

1.4 Political Overview

Croatia is a parliamentary, democratic republic and a member of the European Union since 2013.

The President, directly elected to serve a five-year term, is the head of state and the commander in chief of the Croatian armed forces. The Government, the main executive power of Croatia, is headed by the Prime Minister. The executive branch is responsible for proposing legislation and a budget, executing the laws, and guiding the foreign and internal policies. The parliament is a unicameral legislative body. Its representatives are elected for a 4-year term. Croatia has a three-tiered, independent judicial system governed by the Constitution of Croatia and national legislation.

Early general elections were held on 11 September 2016. The Government was formed in October 2016 by centre right HDZ that entered to an agreement again with the third largest block after the elections – MOST (the coalition composed of independent lists). However, just before the local government elections set for 21 May, coalition was dissolved, by dismissal of ministers from MOST quota, after disputes escalating with crisis in Agrokor, the largest domestic company. Managing through unsuccessful no confidence vote to finance minister, HDZ, after confirmed its strong position in local government elections, tried to reshuffle the government seeking for new parliamentary majority in coalition with HNS (liberals, up to now partners with left center SDP, largest opposition party). It will be confirmed during confidence vote to new ministers and bring some stability to political environment.

Ms Kolinda Grabar Kitarović, the first female president of Croatia, has an expiring mandate in 2020. Ms Grabar Kitarović was a former Deputy General Secretary of NATO with a number of positions in the HDZ and with a vast experience in Croatian diplomatic and government positions.

1.5 Economic Overview

Economic activity has advanced impressively since second half of 2014, with real GDP, adjusted for seasonality and calendar effects, rising 3.4% yoy in 1Q 2017 (growth yoy in 2015 and 2016 2.2% and 2.9% respectively), extending the expansionary streak for two and a half years. This said headline 1Q17 growth (2.5% yoy) numbers remained subdued due to the leap-year effect that deducted 0.9pp from growth. (This impact is already visible in industry production, tourism or retail sales headline numbers). The expansion in activity has been broad-based. Personal consumption has been on the rise driven by rising wages, a lower tax burden on personal income and growing employment. The second important driver of the growth are merchandise exports. The performance in 1Q is truly astonishing with exports surging by more than 20% yoy in nominal terms. Imports have risen strongly too but with tourism performance set to rise with the advents of the high season and sector set for another strong year, external contribution to GDP should be significant.

In 2017, we may see a bit slower growth, with revised forecast to 2.7% for FY 2017, and cut 2018 growth projection to 2.6%, as an effect of protracted Agrokor impact, as well as convergence to potential growth rate. Nonetheless, taking into account the leap year effect, the underlying pace of growth this year is likely to be close to or slightly above that in 2016. Beyond 2018, the outlook looks less certain with potential growth estimated at only around 1% yoy. Therefore, without strong investments and further reforms, currently on hold (education, health sector, public administration etc.), growth perspectives remain constrained. On a more positive side, we should see a pickup in investment thanks to stepped-up EU fund absorption. In 2016, EU fund disbursements amounted to 2% of GDP. This pickup accounts for most of the acceleration in investment in 2016 while expecting further acceleration in 2017.

Fiscal adjustment has been a major driver for the recent improvement in economic performance (2016 deficit cut to 0.8% of GDP from 3.4%, public debt to 84.2% from 86.7%). The decline in the deficit outperformed all expectations based on two major factors. First, the stronger growth provided a major boost to revenues, which rose more than 8% in 2016. On the other hand, expenditures were very much subdued, rising only 2.3%, mostly thanks to the automatic spending restraint under the caretaker government, which was in power most of the time. This came in addition to policies already oriented toward constraints in spending. However, we now may see a widening of the deficit, as the ongoing tax reform cuts revenues growth, while the government was planning a bit of expenditure expansion in 2017. Even so, the deficit should remain durably under 2% of GDP in medium term. These developments have now enabled Croatia to exit (Commission proposal is waiting for European Council approval now) the Excessive Deficit Procedure as it complied with all the targets (headline deficit, structural deficit adjustments and structural effort accompanied with decline in public debt ratios) set within it.

2. REGULATION AND SUPERVISION

2.1 Regulatory/Supervisory Bodies

Supervision of financial markets is carried out by the following institutions:

- **Financial Supervision Authority:**
The Croatian Financial Services Supervisory Agency (HANFA) is an independent legal entity with public authorities that supervises the operations of exchange, CSD, authorised companies, issuers, UCITS and AIF, managing companies, insurance companies and other market participants. The HANFA organises, undertakes and supervises measures to guarantee the effective operations of the financial market, orders measures to eliminate unlawfulness or irregularities, issues or suspends licenses and permits, starts initiatives for the adoption of laws and regulations and performs other tasks within its authority.
- **National Bank:**
The Croatian National Bank (CNB) is the central bank of the Republic of Croatia. It enjoys operational autonomy and independence and is accountable to the Croatian Parliament. CNB is fully owned by the state, which guarantees its obligations. It has a legal structure, but it is not entered into the register of companies.
The primary objective of CNB is to achieve and maintain price stability. The CNB oversees the financial sector and it supports the economic policy of the Republic of Croatia, acting in accordance with the principles of an open market economy and free competition.
- **Ministry of Finance:**
The Ministry of Finance, within its competence, is authorised to ensure direct implementation of laws, by enacting regulations, through administrative supervision and other administrative works. The Ministry of Finance is responsible for the preparation and implementation of the Government's fiscal policy, and along with the Croatian National Bank, is empowered to harmonise monetary and fiscal policies and their instruments. One of the most important tasks of the Ministry is the preparation of the State Budget, as well as the management of budget revenues and expenditures.

2.2 Key Market Regulations

Below you will find a list of the key market regulations. For a complete list with up to date information on the acts please refer to the GSS Website (<http://gss.unicreditgroup.eu>) or contact your local GSS Relationship Manager.

| Regulation | Main Focus |
|-------------------------|---|
| Capital Market Law | Introduced EU standards in the Croatian capital market, regulating exchange operations, the securities depository, CCP and the rights and obligations of market participants. |
| Companies Law | Defines types of companies, organisations and management structures, and the liabilities and mergers process. |
| Foreign Exchange Law | Determines dealings between residents and non-residents in foreign and local currency. |
| Takeover Law | Framework for takeover of joint-stock companies, including conditions for mandatory and voluntary takeover offers. |
| Settlement Finality Law | Introduced EU standards with regard to settlement finality and consequences of the opening of insolvency proceedings. |

2.3 Self-regulatory Organisations

On the Croatian market there are several market associations that promote and influence the Capital Market such as the Croatian Banking Association, Custody Bank's Association and Chambers of Economy.

3. TRADING

3.1 Commonly Traded Instruments

| EQUITIES | MONEY MARKET INSTRUMENTS |
|--|---|
| <input checked="" type="checkbox"/> ordinary shares | <input type="checkbox"/> certificate of deposits |
| <input checked="" type="checkbox"/> preferred shares | <input checked="" type="checkbox"/> commercial papers |
| <input type="checkbox"/> employee shares | <input checked="" type="checkbox"/> REPO transactions |
| <input type="checkbox"/> interest bearing shares | |
| GOVERNMENT DEBT | CORPORATE DEBT |
| <input checked="" type="checkbox"/> government bonds | <input checked="" type="checkbox"/> corporate bonds |
| <input type="checkbox"/> treasury bonds | <input type="checkbox"/> mortgage bonds |
| <input checked="" type="checkbox"/> treasury bills | <input type="checkbox"/> convertible bonds |
| <input type="checkbox"/> treasury notes | <input type="checkbox"/> exchangeable bonds |
| <input checked="" type="checkbox"/> municipal bonds | |
| DERIVATIVES | OTHER INSTRUMENTS |
| <input type="checkbox"/> options | <input checked="" type="checkbox"/> exchange traded funds |
| <input type="checkbox"/> futures | <input type="checkbox"/> investment funds |
| <input type="checkbox"/> warrants | <input type="checkbox"/> eurobonds funds |
| | <input type="checkbox"/> depositary receipts |
| | <input type="checkbox"/> commodities |

3.2 Zagreb Stock Exchange – ZSE

Legal name Zagreb Stock Exchange

Website <http://www.zse.hr>

Ownership structure

| | |
|--------|---|
| 9.94% | Investco d.o.o. |
| 5.18% | Zagrebacka banka d.d./segregated account |
| 5.08% | Interkapital d.d. |
| 5.02 % | Addiko Bank d.d./segregated account |
| 4.92% | Addiko Bank d.d./segregated account |
| 4.18 % | Hrvatska postanska banka d.d./segregated account |
| 3.86% | Hrvatska postanska banka d.d./segregated account |
| 3.77% | Hrvatska postanska banka d.d./ segregated account |
| 58.05% | Others |

Trading members Investment companies, credit institutions
Following types of membership are available:
Direct membership, remote membership and membership with limited access

Traded instruments Equities, bonds, treasury bills, commercial papers, structured products

Traded method Continuous, order driven electronic trading system with automated matching of orders - OMX X-Stream electronic trading system.
It serves for matching transactions (both in the order-book and outside). The system supports all types of orders.

Settlement agent Central Depository and Clearing Company Inc. (CDCC)

| | | |
|---------------------------------------|--|---------------------|
| Clearing agent | Central Depository and Clearing Company Inc. (CDCC) | |
| Trading hours | Equity market | from 09:00 to 16:30 |
| | Bond market | from 09:00 to 16:30 |
| | Commercial papers | from 09:00 to 16:30 |
| Settlement cycle | T+2 | Equity market |
| | T+2 | Bond market |
| | T+2 | Commercial papers |
| Indices | CROBEX, CROBEX10, CROBIS, CROBIStr, CROBEXindustrija, CROBEXkonstrukt, CROBEXnutris, CROBEXplus, CROBEXtransport, CROBEXturist, CROBEXtr | |
| Number of listed instruments | 144 | Equities |
| | 35 | Bonds |
| | 0 | Other |
| Annual trading turnover | EUR 515 million | |
| Annual number of transactions | 134 thousand | |
| Domestic market capitalisation | EUR 30.99 billion | |
| Main index annual change | CROBEX 18.1% | |

3.3 OTC Trading

OTC trading is usually done with T-bills and bonds. However, it is also possible with other financial instruments on a bilateral basis. Settlement of OTC trading with dematerialised securities is performed in the CDCC system.

4. CLEARING

4.1 Central Depository and Clearing Company - CDCC

| | |
|----------------------------|--|
| Legal name | Central Depository and Clearing Company |
| Website | http://www.skdd.hr |
| Ownership structure | <p>45.28 % Financial agency (FINA)</p> <p>40.85 % Republic of Croatia</p> <p>13.87 % Other market participants</p> |
| Clearing members | <p>Investment companies, credit institutions</p> <p>Following types of membership are available:</p> <p>Direct membership</p> |
| Scope of services | <p>Central Depository and Clearing Company is a sole agency on the market responsible for securities clearing and depository services.</p> <p>Currently, the CDCC can be considered CCP for trades settling in a contractual settlement method.</p> <p>SKDD-CCP Smart Clear Inc. was incorporated in 2013 with the purpose of creating a central counterparty assuming the responsibilities for clearing of transactions with financial instruments executed on exchange.</p> <p>The scope of its business activities has been defined in line with the European Market Infrastructure Regulation (EMIR). As part of the licensing procedure to provide CCP services and following the Conclusion from Croatian Financial Services Supervisory Agency (HANFA), SKDD-CCP must submit complete documentation to HANFA during September 2017. Within 30 working days of receipt of the application, HANFA shall assess whether the application is complete. Within six months of the submission of a complete application, HANFA shall inform the applicant CCP in writing, with a fully reasoned explanation, whether authorisation has been granted or refused. Consequently, go-live date will depend on timelines and activities undertaken by HANFA.</p> |
| Risk model | <p>In a contractual settlement, the original trade is replaced through "novation", by which CDCC is inserted between the counterparties and thus CDCC becomes counterparty to all transactions. CDCC guarantees the settlement on a net basis for both securities and cash. In the event of a member's failure to fulfil its obligations, CDCC will initiate a buy-in process, for a market participant with a short security position or a sell-out process for a market participant with a debit cash balance respectively.</p> <p>CDCC will continue to guarantee the settlement in Croatia exclusively with the participants' assets from the Guarantee fund until the contractual settlement method is available, while SKDD-CCP Smart Clear Inc. will guarantee that with its own capital.</p> |

5. SETTLEMENT

5.1 Central Depository and Clearing Company - CDCC

| | |
|----------------------------|--|
| Legal name | Central Depository and Clearing Company |
| 17f-7 eligibility | YES |
| Website | http://www.skdd.hr |
| Ownership structure | <p>45.28% Financial agency (FINA)</p> <p>40.85% Republic of Croatia</p> <p>13.87% Other market participants</p> |
| Scope of services | <p>The CDCC is performing the following activities:</p> <ul style="list-style-type: none"> ● Operating the central depository of dematerialised securities; ● Operating the central register of financial instruments; ● Operating the clearing and settlement system of transactions executed on or outside a regulated market or an MTF; ● Services related to corporate actions of the issuers of dematerialised securities; ● Safekeeping of securities related to the takeover of joint stock companies; ● Activities related to payments and other returns from dematerialised securities; ● Determination of a unique identification mark of a dematerialised security; ● Activities of the operator of the Investors Protection Fund; ● Other activities related to transactions with dematerialised securities or other financial instruments. |
| Accounts held | <p>With the CDCC a custodian can open three types of safekeeping custody accounts:</p> <ul style="list-style-type: none"> ● An omnibus account: If securities are held on an omnibus account the identity of the person(s) for whose account securities are held, is known only to the custodian. Omnibus accounts can be opened for more clients or for another custodian bank; ● Account in the name (segregated): Identity of the investor for whose account securities are safe-kept on account in the name is uniquely determined. An investor can open only one account in the name with the same custodian bank. The owner of assets on account in the name is the investor for whose account custodian is safekeeping the assets; ● A numbered account: The identity of the person holding assets on a numbered account is known only to the custodian. <p>The client can select which type of account a custodian will open with the CDCC.</p> |
| Eligible instruments | All dematerialised securities issued in the Republic of Croatia. |
| Level of dematerialisation | Fully dematerialised |

Stock Exchange Settlement

All Stock Exchange trades data is automatically inserted into the CDCC system at the end of every trading day. Settlement in the CDCC system will occur on T+2.

The CDCC provides three types of settlement: Contractual Settlement, Trade for Trade Settlement and Substitution Settlement.

Contractual Settlement is the default clearing and settlement method for all stock exchange trades meeting the following criteria:

- The trade settles against payment;
- The total amount of the trade is lower than HRK 10 million;
- The trade is matched in the CDCC system by the end of SD-1;
- Equity recorded on at least 100 accounts in CDCC or has a minimum 10% publicly traded shares;
- Any debt security recorded on at least 20 accounts in CDCC or has a minimum of HRK 15 million nominal value;
- Any stock or debt security traded during the last 66 working days and complies with other prescribed trading requirements.

The list of securities meeting the above mentioned requirements is available on the official CDCC webpage every working day before 8:45 CET.

On SD-1 at the latest, a client sends settlement instructions to the local custodian. When trade pre-matching is done, both parties authorise trade ID in the CDCC.

On SD, local custodian initiates payment to the CDCC by 11:00 CET. A client has to provide funds by 9:30 CET in favour of its cash account (due to a discrepancy in market deadlines, it can be required that clients provide funds on SD-1). In case of securities sell, securities have to be available on the custodian's CDCC securities account on SD by 8:30 CET.

Securities and/or cash are credited to the custodian's account with the CDCC on SD by 13:00 CET at the latest.

In Trade for Trade Settlement each trade is cleared and settled individually, directly between the original counterparties of the trade. The CDCC system has the batch process every half-hour, from 8:00 to 16:00 CET which allows for transactions fulfilling settlement conditions (both securities and cash are simultaneously available) to be settled in a real time.

Trade for Trade Settlement may be both against and free of payment.

The CDCC acts as an intermediary in the exchange of securities for cash on settlement date, but does not guarantee the settlement. In the event that the selling broker fails to deliver securities on the settlement date, the CDCC will not pay the funds received from the buying broker.

OTC Settlement

OTC Settlement with dematerialised securities is performed through the CDCC system. Market participants, members of the CDCC, will enter OTC transaction in the CDCC and trade will settle in an agreed settlement method (Contractual Settlement, Trade for Trade Settlement). The settlement may be both against and free of payment.

A client needs to send instructions to the local custodian, for Contractual Settlement on SD-1 at the latest, and the trade will settle in line with agreed settlement method.

Treasury bills and bonds are usually traded OTC through local banks and settled in the CDCC.

OTC transaction reporting is obligatory for resident investors until the end of trading day when the OTC transaction was executed or by the beginning of the next trading day if OTC transaction was executed after the closure of ZSE's trading session.

| | |
|------------------------------|---|
| Settlement Protection | <p>The Guarantee Fund provides protection to investors for securities that are in the CDCC and meet the Contractual Settlement criteria.</p> <p>In Contractual Settlement, the original trade is replaced through "novation", by way of which the CDCC is 'inserted' between the counterparties and thus the CDCC becomes counterparty to all transactions. CDCC guarantees the trade settlement on a net basis for both securities and cash.</p> <p>Members of CDCC's Contractual Settlement System are required to contribute to the Guarantee Fund.</p> |
| Investor Protection | <p>The Investor Protection Fund has been introduced to achieve protection of clients' claims for Fund Members, when a Fund Member is not able to pay and/or repay the client in case of:</p> <ul style="list-style-type: none">● Bankruptcy proceedings initiated against the Fund Member, or;● HANFA determinates that a Fund Member is unable to meet its obligations towards its clients and there are no prospects that it will be able to do so in the near future. <p>Clients' claims will be covered up to a maximum of HRK 150,000.00 per client of a Fund Member. Credit institutions, investment firms, financial institutions, insurance undertakings, etc. are not considered clients in relation to the Investor Protection Fund.</p> |
| Identified Risk | None |

6. PAYMENT SYSTEM

6.1 General Information

Two interbank payment systems exist on the market: the Croatian Large Value Payments System (CLVPS), for the execution of interbank payment systems and settlement in banks' accounts in a real time and on a gross principle; and the National Clearing System, for the execution of low value payments, or mass payments, and settlement on a net multilateral principle.

The CLVPS is a payment system for the settlement of funds transfer orders in a real time on a gross basis, where the settlement in the participants' accounts during a CLVPS settlement day is affected individually (order by order) at the time of receiving the order concerned. The CLVPS operates as an RTGS (Real Time Gross Settlement System). The CLVPS participants are banks and the Croatian National Bank, as well as the CDCC as a special participant.

Additionally, starting as of 6 June 2016 the Euro-NCS has been introduced as a system that will execute the clearing of interbank payment SEPA credit transfer transactions in euro. The Financial Agency (FINA), in accordance with the National SEPA Migration Plan, is responsible for the implementation, the setting up and operational management of the Euro-NCS payment infrastructure. In Euro-NCS banks would have clearing accounts in euro, and the system would process interbank euro payments of SEPA credit transfers which are fully aligned with the requirements of Regulation (EU) No. 260/2012.

The CNB will have a role in enabling the interoperability of the new payment infrastructure with other payment systems in the SEPA area as a direct participant in the European payment system from another member state. Also, for the purpose of managing euro accounts of banks, the CNB established the payment system TARGET2-HR national component in which national euro payment transactions and cross-border euro payment transactions will be settled (the settlement of final net positions of banks in Euro-NCS). The TARGET2 is a payment system for the settlement of payment transactions in euro in real time on a gross basis. The TARGET2-HR national component started production operations on 1 February 2016. The planning and structuring of the national process of migration, setting up and operational management of the TARGET2-HR national component are the responsibility of the CNB.

6.2 Limitations, Deadlines, Cut-off times

Payment transactions through the CLVPS are settled across the banks' settlement accounts managed by the CNB. The CNB lays down operating rules and procedures and sets standards to be complied with by the participants.

CLVPS operating hours are from 7:30 CET to 18:00 CET. Regular operations is conducted from 7:30 CET to 17:30 CET.

The NCS is a payment system for the clearing of funds transfer orders between its participants based on a multilateral net principle. The multilateral net clearing of funds transfer orders implies a continuous clearing of funds transfer orders submitted for clearing by participants during an NCS clearing day. The NCS participants are banks, the Croatian National Bank and third parties. Indirect NCS participants are banks or other financial institutions which, pursuant to special regulations enacted by the CNB, perform the settlement of interbank payment transactions via another bank.

NCS (daily cycle) opens at 6:00 CET and closes at 16:00 CET.

7. SECURITIES LENDING

7.1 Securities Lending

Stock lending/borrowing is introduced through the CDCC as a centralised service on the market from 1 January 2012, but it is still not practiced on the market.

The Capital Market Law determines that any client has to give their consent in writing as a general consent for a certain type of transactions involving use of their financial instruments or special consent for a specific use of their financial instruments.

7.2 Short Selling

Short selling is not forbidden. ZSE Rules determine that short selling is possible for securities accepted in the CDCC securities lending system.

8. CORPORATE ACTIONS

8.1 Common Corporate Action Events

| MANDATORY EVENTS | VOLUNTARY EVENTS |
|--|--|
| <input type="checkbox"/> bonus issue | <input checked="" type="checkbox"/> dividend option |
| <input checked="" type="checkbox"/> cash | <input checked="" type="checkbox"/> dividend |
| <input type="checkbox"/> early | <input checked="" type="checkbox"/> exchange |
| <input checked="" type="checkbox"/> interest payment | <input checked="" type="checkbox"/> priority issue |
| <input checked="" type="checkbox"/> maturity | <input type="checkbox"/> repurchase offer |
| <input checked="" type="checkbox"/> maturity (final) | <input checked="" type="checkbox"/> reverse stock split |
| <input checked="" type="checkbox"/> merger | <input checked="" type="checkbox"/> Shareholders meeting |
| <input checked="" type="checkbox"/> pari-passu | <input checked="" type="checkbox"/> spin-off |
| <input checked="" type="checkbox"/> partial redemption | <input checked="" type="checkbox"/> stock split |
| <input type="checkbox"/> rights issue | |
| <input checked="" type="checkbox"/> stock dividend | |
| <input checked="" type="checkbox"/> tender offer | |

8.2 Dating Conventions

Securities holders' entitlements are based on settled position on record date. A general rule regarding the time frames for the ex, record or pay date does not exist on the market.

Income collection:

Ex-date is always fixed as one working days before the record date. Dividend entitlement is based on settled position on the record date defined by the issuer, but pursuant to the Companies Law, 30 days following the AGM's approval at the latest. Dividend payment has to be executed 60 days following the approval at the AGM at the latest. For T-bills record date and ex-date are set one day prior to the payment date. Payment is on actual basis.

Proxy voting:

Record-date is, by law, set 21 days prior to the general meeting date or in line with the Articles of the Association and company status. Issuers usually require shareholders to declare their participation in the AGM six days prior to the meeting.

Tender offers:

Tender offer itself lasts for 28 days. Record date is set as the last day of tender offer period. Ex-date is fixed as one working day before the record date. The offeror, by law, has 14 days to execute the payment, following the conclusion of tender offer period.

8.3 Sources of C/A Information

HANFA website registrar (officially appointed mechanism for the central storage of regulated information) as the official source of corporate action information on Croatian market, as well as websites of Zagreb Stock Exchange, Narodne Novine (the Official Gazette of the Republic of Croatia), CDCC, companies' bulletins (if available), press and other media are used for capture of corporate action information. Standard practice is to contact the issuer directly for the confirmation of details of announced corporate action.

The issuers of listed securities are obliged to inform, immediately and without delay, HANFA who acts as the officially appointed mechanism for the central storage of regulated information, regulated market (Zagreb Stock Exchange) and mass media about corporate event in progress. The issuers of securities listed on the ZSE Prime Market are obliged to deliver to the ZSE and post on its website a calendar of corporate actions for the entire year, including a dividend payment date, as well as any change in the calendar as soon as it occurs.

8.4 Local C/A Specifics

N/A

9. PROXY VOTING

9.1 General Characteristics

Shareholders application for participation at the AGM has to be submitted six days prior to the AGM at the latest, if a shorter deadline is not determined by the company's Articles of Association. Shareholders eligibility to participate in a meeting is based on settled position as of the record date, which is determined by the company.

9.2 Announcement

According to the Companies Law, every issuer must publish an announcement of a general meeting at least 30 days before its occurrence.

9.3 Voting Process

For executing proxy voting only instruction is required from the client.

The client is informed about forthcoming Annual General Meeting immediately via SWIFT including all relevant dates and cut-off times for sending proxy voting instructions.

Securities are not blocked prior to the AGM. Voting on a partial holding is possible. Re-registration is not required.

In most cases, issuers require the Attendance Notice and Power of Attorney issued by the custodian bank. If there would be any specific requirements from the issuer, the client would be informed immediately. Attendance notice and POA usually have to be submitted to the company six days prior to the AGM at the latest, if a shorter deadline is not determined.

10. INCOME COLLECTION

10.1 Dividend payments

After a decision on dividend payment has been adopted and confirmed at the AGM, the company has to pay out dividends within the next 60 days. For each dividend payment, a tax ID number (OIB) has to be provided.

| | |
|---------------------------|--|
| Announcements | Companies announce dividend payment dates via ZSE, HANFA, CDCC and other media. |
| Dating Conventions | The general rule regarding timeframes for the ex, record or payment dates does not exist on the market. The issuer of securities determines the record date and payment date. |
| Payment Execution | <p>The payment date varies between companies, but it has to occur 60 days from the AGM at the latest.</p> <p>The issuing company can use the CDCC as a paying agent or it can pay out dividends directly to shareholders.</p> <p>In both cases, dividends are paid via electronic transfer on the local custodian's cash account and with the same value date transferred on behalf of the client's cash account with local custodian. Payment is executed on an actual basis.</p> |

10.2 Interest & Maturity Payments

Most bonds issued on the market have semi-annual interest payments. For government bonds CDCC is a default paying agent. The issuer of corporate bonds can use the CDCC as a paying agent or it can pay out interest directly to the bondholders' cash accounts.

| | |
|---------------------------|--|
| Announcements | All information about fixed income and money market instruments including payment dates within the instrument lifecycle are provided in the issuing prospectus. This information is also available within the CDCC system. |
| Dating Conventions | <p>For bonds record date is usually one day prior to the payment date and ex-date is one day prior to the record date.</p> <p>For T-bills record date and ex-date are one day prior to the payment date.</p> |
| Payment Execution | <p>Interest & maturity payments are calculated on ISMA 99 normal (actual/actual) basis and are mostly paid semi-annually.</p> <p>Interest and maturity funds are paid by electronic transfer on the local custodian's cash account and with the same value date transferred on behalf of the client's cash account with local custodian. Payment is executed on an actual basis.</p> |

11. TAXATION

11.1 Withholding Tax

Withholding tax on dividends is payable for non-resident legal entities/individuals and resident individuals.

Dividend payment can be executed only when a tax ID number (OIB) is provided. Also, other relevant information has to be available (CDCC account number, type of investor, investor's address and residency, gross dividend) that would be provided to the tax authorities and the paying agent/issuer upon their request.

Withholding tax on interest is payable for resident and non-resident individuals and non-resident legal entities.

Interests on bonds are tax exempt, regardless of the issuer or type of the bond.

| Tax Rates | Type of Income | Tax Rate |
|-----------|---|----------|
| | Dividend | 12% |
| | Interest on bonds | 0% |
| | Other interest – individuals (both resident and non-resident) | 12% |
| | Other interest – non-resident legal entities | 15% |

Relief at Source Apart from a tax ID number (OIB), "Application for tax relief or tax refund for dividends under the agreement for the avoidance of double taxation" form has to be submitted prior to each dividend payment.

Tax Reliefs Tax relief is possible in accordance with DTT provisions.

11.2 Capital Gains Tax

Capital gains tax payable for resident and non-resident individuals has been in force as of 1 January 2016.

Tax Rates 12%

Relief at Source N/A

Tax Reliefs N/A

11.3 Stamp Duty

No Stamp Duty is applicable.

Tax Rates N/A

Tax Reliefs N/A

11.4 Other Taxes

No other taxes are applicable for non-resident investors.

11.5 Tax Reclamation Process

A tax refund is possible within a period of three years after a tax payment has been made using the form "Application for tax relief or tax refund for dividends under the agreement for the avoidance of double taxation".

11.6 Double Taxation Treaties

Due to the amount of data, for the most up to date DTTs please refer to our website: <http://gss.unicreditgroup.eu>

DTTs are listed in the /DOCUMENTS section.

12. DISCLOSURE REQUIREMENTS

12.1 Obligations for Issuers

- An issuer of securities which is admitted to trading on an organised market is obligated to publish annual, semi-annual and quarterly financial reports.
- Upon receiving a disclosure reporting notification, the issuer is obligated to publish the received information within three trading days.
- The issuer is obligated to publish information about changes in the number of shares or voting rights at the end of the month in which the changes have occurred.
- The issuer that acquires or disposes their own shares has to announce to the public number of its own shares within four trading days from the acquisition or disposal.
- Furthermore, the public has to be informed by the issuer of every change in the rights deriving from the shares, including the change in rights from derivatives that give the right to buy underlying shares.
- An issuer of debt securities is obligated to ensure that all information necessary for securities holders to fulfil their rights is publically announced especially related to conditions of debt and interest rate.

12.2 Obligations for Investors

Disclosure reporting is an obligation for an investor which, directly or indirectly, acquires, exceeds or falls below the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% of the voting rights in a certain issue. The disclosure report has to be submitted to the regulator (HANFA) and the issuer of the shares within four trading days:

- From the day the investor has found out or could have found out about the acquiring, releasing or possibility of exercising the voting rights, or
- From the day the investor has found out about the issuer's public announcement of changes in the number of issued shares or changes in the number of voting rights.

It is considered that the investor has found out or could have found out about the acquiring, releasing or possibility of exercising the voting rights at the latest within two trading days from the day of transaction.

Special permits are required for acquiring shares (10%) of local credit institutions, insurance companies, investment companies, stock exchange and central depository and clearing company.

An investor (resident or non-resident) is obliged to publish a takeover offer when acquiring directly or indirectly, by himself or acting in concert, voting shares of the company, which together with the shares the investor already possesses, exceeds a threshold of 25% of total voting shares.

12.3 Violation Consequences

Failure to comply with the disclosure reporting requirements in the market may lead to penalties (fines) and suspension of voting rights for securities whose acquisition resulted in disclosure reporting obligation.

A person, who acquires a qualifying holding contrary to the law, will not be able to exercise voting rights attached to the shares or holdings acquired in that manner. Moreover, in case the shares of credit institutions, investment companies, stock exchange or CDCC are acquired without the regulators' approval, the regulator will order that the shares or holdings so acquired are sold.

Failure to comply with the takeover obligations in the market will lead to penalties (fines).

13. ACCOUNT MANAGEMENT

13.1 Common Account Structures

Commonly used account structures would be to open as many accounts in custodian bank's books as required (segregated or omnibus, proprietary or client). With the CDCC the most commonly used is the custody omnibus account.

Note that for dividend payments local tax ID (OIB) number and identification details are required for securities safekept on an omnibus account at the CDCC level.

When shares of a local credit institution, central depository and clearing company and stock exchange are held in a custody accounts, it should be a segregated account at the CDCC level.

Segregated Accounts

In custodian's books each client can open as many accounts as required to segregate assets. The CDCC assets can be safekept in an omnibus account, an account in the name (segregated) or numbered account.

If opening a custody account in the name with the CDCC, the owner of assets is the investor for whose account custodian is safekeeping the assets. Identity of the investor for whose account securities are safekept on account in the name is uniquely determined. Tax ID number (OIB) is required in order to open account in the name at the CDCC level. An investor can open only one account in the name with the same custodian bank.

Nominee / Omnibus Accounts

Omnibus accounts can be opened in custodian's books and with the CDCC.

In accordance with CDCC rules, omnibus custody accounts can be opened for more clients or for another custodian bank. If securities are held on an omnibus account, the identity of person(s) for whose account securities are held is known only to the custodian.

13.2 KYC/AML Requirements

Croatia has established laws and regulations designed to prevent money laundering and terrorist financing. This is primarily known as the Anti Money Laundering and Terrorist Financing Law and its subordinate acts. Zagrebacka banka is applying Know Your Client policy, Client Identification Guidelines and Client Eligibility Guidelines. When establishing a relationship with a client, the Bank undertakes a detailed background check on a client. This process is not only related to establish the true identity of the client, but also to find out all the other necessary details such as authorised personnel, nature of client's business, beneficial owners and the expected scope of activity.

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