# PRODUCT INFORMATION

## SPOT SECURITIES TRANSACTIONS

### GLOBAL MARKETS DEPARTMENT OF OTP BANK PLC.

May 06, 2020

Please read this Product Information carefully before concluding a contract on spot securities transactions. For further information, please contact our staff.



These documents in English language to the person concerned shall be for information purposes only.
OTP Bank Plc shall fulfil its obligations imposed by the legal regulations or requirement of supervisory authority by the documents in Hungarian language.
In the event of any discrepancy between the English language and Hungarian language versions, the Hungarian language version shall prevail.

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# 1. Description of spot securities transactions

A spot securities transaction is an agreement made outside the regulated market (over the counter, OTC) between OTP Bank Plc. (hereinafter: the Bank) and the customer for the purchase or sale of a specific security at a specific price within 8 banking days following the trade date.

## Features

The Bank enters into spot transactions for the following securities:

- Equities traded on the Budapest Stock Exchange
- Foreign equities registered on the BÉTa market
- International equities
- HUF-denominated securities issued by the Hungarian State, credit institutions, corporates, and municipalities
- FX-denominated securities issued in Hungary and in OECD countries by sovereigns, credit institutions, corporates, and municipalities
- Bonds issued by the Bank and members of the Bank Group

## Typical customer base

- Spot-buying government securities can provide efficient assistance for customers wishing to invest their liquid cash for the short, medium or long term in securities bearing state-guaranteed yields.
- Debt securities issued by corporations and municipalities can provide a solution for customers who prefer longer-term investments, who, in exchange for higher yield expectations compared to government securities, undertake the difficulty in mobilisation and the risk in the potential insolvency of the issuer.
- Investment in equities may be of interest to customers seeking longer-term investment opportunities who, in exchange for taking a higher risk, wish to make a profit on the shares price movements of the most prominent Hungarian and foreign corporates, and their dividends.

# 2. Spot transactions of debt securities

A debt security is a financial instrument where the lender is the customer purchasing the security, and the borrower is the issuer of the security.

## General terms

- Gross price = net price + interest accrued since the last interest payment.
- The Bank will quote net buy and sell prices for debt securities; however, the customer will pay the gross price for the security when purchasing a security, and will also receive the gross price when selling a security.

## Main risks of debt securities

- Securities may be purchased either in initial public offerings, in the secondary market (e.g. on an exchange). The securities subscribed in an initial public offering will generally not be redeemed by the issuer before maturity. An investor wishing to recover his invested capital before maturity will have to find buyers in the secondary market.
- The price of a security will change during the term, and the security may only be sold before maturity at its current price, which, in the event of a yield increase, may result in a capital loss depending on the average remaining term of the security.
- The security purchase must be planned so that the amount invested does not need to be withdrawn before maturity. When an investor cannot wait until the maturity of the term and is forced to sell his securities, he will incur a loss on the investment if the net price falls. However, in the event of a significant change in the interest rate environment, even when fixed-rate securities are held to maturity it is possible that the real value of the cash flows received during the term significantly will decrease relative to the value calculated at the time of subscription.
- Additionally, securities that are not state-guaranteed also carry repayment and liquidity risks, which is why caution is warranted in the selection of the right security.

## 1. Government securities

A government security is a debt security where the lender is the customer purchasing the security, and the borrower is the Government Debt Management Agency (ÁKK) on behalf of the Hungarian State. With government securities, principal repayment and interest payments are guaranteed by the State.

### *Classes*

- Global Markets bills are government securities with a maximum maturity of one year from the date of issue, maturing in 3, 6 or 12 months:
  - → Interest bearing Global Markets bills pay interest in addition to the nominal value at the end of the term.
  - → Discount Global Markets bills can be purchased below their nominal value, and repay their nominal value at maturity.

- Government bonds are government securities with a maturity of more than one year from the date of issue. Up to maturity, government bonds pay interest semi-annually or annually, and at maturity they also pay interest on the last interest period in addition to their nominal value.

### *Features*

- Secured by a state guarantee
- Easier to sell (liquidity)
- Fixed interest rates generate reliable cash flows from the investment
- A wide range of maturities from 2 months to 15 years
- With all government securities, purchases and sales can be made at the given price for integral multiples of the standard denominations.

## 2. Corporate and municipal bonds

A corporate or municipal bond is a debt security where the issuing corporate or municipality undertakes to repay the nominal value of the security as well as accrued interest.

### *Classes*

- The security bears fixed interest when the interest period and the interest rate are fixed at the time of issue.

- With floating-rate bonds, only the method and time of interest resets are fixed, and the amount of interest to be paid is only known in respect of the next interest payment date.

### *Features*

- Typically, corporate and municipal securities are investments that may have a higher yield prospect compared to government securities, but are also less liquid.
- The risks and consequently the yields of securities vary according to the credit rating of the issuing entities.
- Due to the risks associated with the issuing entities, these securities also carry repayment and liquidity risks.
- The secondary market of Hungarian corporate and bank bonds, especially the over-the-counter market, is characterised by liquidity shortage; therefore, the liquidity risk of such bonds is higher than that of government securities. This means that securities can only be sold before maturity at the current price, and yields earned by the investors selling before maturity may vary significantly from that earned by holding to maturity. Indeed, the bondholder may only be able to sell the bonds before maturity by incurring a significant capital loss.

## 3. Foreign debt securities

A foreign bond is defined as a bond issued by a company registered abroad, or, issued by any country, a government security that is intermediated by the Bank to customers as part of its portfolio without any restrictions.

### *Features*

- Also with foreign securities, the government bonds of a country tend to carry a lower risk compared to the securities of corporate issuers operating in the same country.
- Securities issued in foreign countries are subject to provisions deviating from Hungarian law (e.g. providing an option to issue securities with no principal guarantees), which must be taken into account in picking the right security.

# 3. Example for a spot transaction of debt securities

At 100%, the customer purchases 100 million HUF worth of Hungarian government bonds (MÁK) maturing in four years. Principal repayment on the bond is due in a single amount at maturity, but interest is paid annually at 6.00%.

The product is presented according to different yield curve scenarios:

1. There is an extreme fall in the HUF yield curve during the term.
2. There is an extreme rise in the HUF yield curve during the term.

If the customer buys a government bond and the yield curve falls, the customer could realise a capital gain when closing the transaction. Likewise, should the yield curve rise, the customer could incur a loss.

## 1. Extreme fall in the HUF yield curve

HUF rate at the beginning of the term: 6.00%
HUF rate at maturity: 0.10%

- **Example for holding the bond to maturity:**

In the event of an extreme fall in HUF rates, the 6.00% annual coupon could earn a significantly better yield than future investments of comparable risk.

- **Example for selling the bond at the end of Year 2:**

In the event of an extreme fall in HUF rates, a bond purchased at 100% may be sold by the customer at a significantly higher price, i.e. a significant capital gain may be realised.

- **Margin requirement:**

The buy order will only be executed if the amount payable for the instrument and the amount sufficient to cover the transaction costs are available on the customer’s bank account/securities account.

## 2. An extreme rise in the HUF yield curve

HUF rate at the beginning of the term: 6.00%
HUF rate at maturity: 9.90%

- **Example for holding the bond to maturity:**

In the event of an extreme rise in HUF rates, the 6.00% annual coupon could earn a significantly less favourable yield than future investments of comparable risk.

- **Example for selling the bond at the end of Year 2:**

In the event of an extreme rise in HUF rates, a bond purchased at 100% may be sold by the customer at a significantly lower price, i.e. a significant capital loss may be realised.

- **Margin requirement:**

The buy order will only be executed if the amount payable for the instrument and the amount sufficient to cover the transaction costs are available on the customer’s bank account/securities account.

**From the customer’s perspective, a transaction for the purchase of debt securities will carry the greatest risk in the event of an extreme rise in interest rates. The interest rate figures used in the example are based on a one-off, market stress induced change in the interest rate, and do not imply a maximum limit for the potential capital loss arising from the transaction.**

# 4. Spot equities transactions

Equities are securities issued when a company limited by shares is established or its capital is increased. They represent membership rights corresponding to a share of the company's capital determined by nominal value. When the general meeting approves the payment of dividends, shareholders will be eligible for dividends in proportion to their share of the company's distributable profit, determined by the nominal value of their share.

## Features

- In addition to the eligibility for dividends, a shareholder has the right to attend and vote at the limited company's general meeting
- A customer will purchase an equity at its current price, which will generally be different from its nominal value
- Shareholder earnings can come from two sources: the dividends paid from the limited company's profits, and equity price movements that are in favour of the shareholder.

## Main risks of equities

- In the event of unfavourable market movements, the customer could lose his entire investment; capital losses may be incurred up to the amount invested.
- The risk in an equity essentially depends on the level of risk involved in the issuing limited company's operations, i.e. the higher the risk in a limited company and its operations, the higher the risk in the equity concerned. The price of an equity and thus its volatility does not only depend on the operations of the limited company, as it may also be influenced by other factors such as the money market and macroeconomic situation of the country, industry, etc. concerned.

## Share classes

- Common share: the most general type of equity, granting shareholder's rights in proportion to nominal value.
- Preference share: grants additional rights to its holder vis-à-vis holders of common shares.
- Dividend preference share: entitles its holder to collect dividends earlier or with better terms compared to other shares.

- Voting preference share: grants its holder voting rights at a pre-determined multiple rate
- Liquidation preference share: grants its holder preference in the distribution of assets in the event of the limited company's liquidation without a legal successor.
- Preemptive: grants its holder the right of preemption in the event of the remaining shares of the limited company being transferred.
- Preference shares for the appointment of senior officials: holders of such shares are entitled to appoint and remove one or several members of the board of directors.
- Employee shares: such shares may only be issued for active and retired former employees of the company.
- Interest bearing share: its holder is entitled to interest at a pre-determined rate in addition to dividends.
- Redeemable share: grants a buy option to the limited company, or a sell option to the shareholder subject to the terms set out in the company statutes. Redeemable shares may also be granted to provide both options at the same time.

## Key concepts relating to equities

- Nominal value of a share: the sum of the nominal value of all shares is equivalent to the limited company's share capital. The nominal value of a single share may be specified as a percentage of the current amount of the share capital. The nominal value is used as the basis for the calculation of the dividends to be distributed, and of the proportion of the assets of the limited company that may be distributed to shareholder in the event of a liquidation or voluntary dissolution. The current market price of a share may be significantly different from its nominal value.
- Intrinsic value of a share: a theoretical price calculated on the basis of the limited company's profitability and risk, which would be equivalent to the price of the share in a perfectly efficient market.
- Market price of the share: the current price level at which the share may be sold or purchased in the market. In the case of equities, sell and buy rates are quoted.
- Dividends: the part of the limited company's earnings per share (EPS) that will be distributed among shareholders. In proportion to their voting rights, the shareholders can decide on the distribution of dividends and the amount to be distributed.

- Capitalisation: the total number of the company's shares multiplied by the current market price, showing the market value of the limited company as a whole.
- P/E (price to earnings) ratio: the market price divided by the earnings per share after taxes. The lower its value, the less an investor needs to pay for the earnings generated by the company. Usually it is compared to the ratio of a competitor or to the industry average.
- P/BV (price to book value): the market price divided by the book value of a share. It shows the price to be paid for a unit of the company's equity. If the ratio is below one, the company is undervalued, since its shares are worth less than the company's asset value.
- Volatility: Shows the level of fluctuations in the price of securities, i.e. the level of price risk. The higher the volatility of a share, the greater risk it carries.

# 5. Example for a spot equities transaction

Expecting the market to appreciate in response to positive news, the customer buys 5,000 MOL shares at 3,020 HUF.

The product is presented according to different stock price scenarios:
1. There will be an extreme rise in the price of MOL shares in the future.
2. There will be an extreme fall in the price of MOL shares in the future.

If the customer buys MOL shares and the share price increases, the customer may realise a capital gain when closing the transaction. At the same time, however, the customer may similarly incur a loss if the share price declines.

## 1. Extreme rise in the price of MOL shares

MOL spot price on contracting: 3,020 HUF
MOL spot price at the end of Month 1: 4,500 HUF

- **Example for the value of the position at the end of Month 1:**

On contracting, the customer purchased MOL shares for HUF 3,020 each, which – in the event of an extreme rise in the share price – he can sell at HUF 4,500 1 month after contracting.

Pre-tax result of the transaction:
(4,500 – 3,020) * 5,000 = HUF 7,400,000

- **Margin requirement:**

The buy order will only be executed if the amount payable for the instrument and the amount sufficient to cover the transaction costs are available on the customer's bank account/securities account.

## 2. Extreme fall in the price of MOL shares

MOL spot price on contracting: 3,020 HUF
MOL spot price in the middle of Month 1: HUF 1,900

- **Example for the value of the position in the middle of Month 1:**

On contracting, the customer purchased MOL shares for HUF 3,020 each, which – in the event of an extreme fall in the share price – he can sell at HUF 1,900 half a month after contracting.

Pre-tax result of the transaction:
(1,900 – 3,020) * 5,000 = HUF –5,600,000

- **Margin requirement:**

The buy order will only be executed if the amount payable for the instrument and the amount sufficient to cover the transaction costs are available on the customer's bank account/securities account.

**From the customer's perspective, a spot order for the purchase of securities will carry the greatest risk in the event of an extreme fall in the price. The exchange rate figures used in the example are based on a one-off, market stress induced change in the exchange rate, and do not imply a maximum limit for the potential capital loss arising from the transaction.**

# 6. Summary of the advantages and disadvantages of spot securities

## Main advantages of the transaction

- In the event of favourable market developments, under the terms of the spot securities customers can benefit from favourable changes in the price of the security.
- Through the Bank the customer gains access to numerous securities worldwide.

## Main risks of the transaction

- In the event of unfavourable market movements, the customer could lose his entire investment; capital losses may be incurred up to the amount invested.
- Security purchases are typically a form of investment for the long-term. When an investor is forced to close a position earlier than the time horizon envisaged, the market value of the investment may be significantly reduced compared to the value calculated at the time of contracting.

# 7. Miscellaneous information

## Prerequisites for access to spot securities transactions

- Agreeing to the Sales Terms and Conditions of OTP Bank Plc.'s Global Markets Department, concluding the attached Global Markets Framework Agreement with the Bank and signing any other required documents
- Concluding agreements for payment accounts and securities accounts denominated in the settlement currency of the transaction
- Posting collateral as specified by the Bank
- Providing all data required for obtaining preliminary information pursuant to Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (hereinafter: Act on Investment Firms), and filling out the fitness/compliance test prescribed by the Act on Investment Firms

## Guarantees linked to spot securities transactions

Coverage available under the National Deposit Insurance Fund (OBA) is not applicable to OTC spot securities transactions, but the Investor Protection Fund (BEVA) coverage applies to assets registered in the investor's name, acquired by OTP Bank Plc. in order to carry out the transactions.

## Fees and charges related to spot securities transactions

The Bank's quotation pertaining to spot securities transactions includes all direct fees and charges. It does not include any indirect costs related to obtaining and holding the financial instrument or to the conclusion, maintenance and performance of the contract (e.g. fee, commission, tax, account management).

## Tax implications of spot securities transactions

OTP Bank Plc. makes the tax payments prescribed by prevailing regulations for the payment agent, which may involve liabilities of various degrees, depending on the taxation law status of the beneficiary (e.g. tax residency) and the legal title of income earning. In performing its tax payment obligations as a payment agent, OTP Bank Plc. issues a voucher on the payment and, as required by law, calculates, deducts, pays and issues a tax return on the tax liability on the payment, and fulfils its reporting obligation with respect to the payment toward the tax authority. Please note that adequate information regarding the tax treatment or the tax implications may only be provided in consideration of the individual circumstances of each customer and may be subject to change in the future.

## Miscellaneous information

For further general information please refer to OTP Bank Plc. Uniform Prior Information, the Sales Terms and Conditions of the Board of Directors of the Global Markets Department of OTP Bank Plc. and the announcements attached thereto, the sample of the Global Markets Framework Agreement and the List of Conditions, the Investment Services Division Business Regulations, the Information for Clients on MiFID, the General Information on Short Selling, the EMIR Announcement and any other notices referenced therein as well as Annexes thereto, all of which are accessible at the Bank's website at http://www.otpbank.hu or are available upon request at the branches of OTP Bank Plc.

# 8. Notices and disclaimers

**1.** This product information is complete with the following documents of OTP Bank Plc. as inseparable annexes hereto:

- Preliminary Announcement on certain Global Markets services rendered by at the Global Markets Department of OTP Bank Plc.; individual product information materials and any documents attached thereto along with all referenced business terms and notices;
- Uniform Prior Information;
- Information for Clients on MiFID;
- General Information on Short Selling;
- Sales Terms and Conditions of OTP Bank Plc.'s Global Markets Department, documents attached thereto along with all referenced notices, Global Markets Framework Agreement along with any other relevant and required documents;
- Investment Services Division Business Regulations along with any other business terms and notices referenced therein, as well as annexes thereto;
- General Business Terms and Conditions of OTP Bank Plc. and documents attached thereto along with all referenced notices;
- Prospectuses, base prospectuses, notices, as well as regular and extraordinary announcements published by the issuer or the broker in relation to individual financial instruments.

Please read all of the above documents and any other notices referenced or indicated therein in order to ensure that you can make informed decisions, in full awareness of all information pertaining to the transactions presented in this Product Information. Moreover, before making an informed decision about the use of the investment or the service, please be advised to carefully consider the subject and risk of your investment, the associated fees and charges and the possibility of potential losses, and to obtain information regarding the tax regulations pertaining to the product or the investment. Prices of financial instruments and securities are subject to change. Spot trades are transacted at the current exchange rate, which may involve a capital loss.

**2.** The publication of this Product Information and its transfer to customers do not constitute an offer, investment advise, tender notice, investment consulting, investment or financial analysis, solicitation for the purchase of any financial instrument, or any other kind of advice on legal, tax, or accounting issues, and the data provided herein are provided for informational purposes, intended solely as the provision of advance information to OTP Bank Plc.'s current and future customers as required by law. The contents of this information document are limited to general information and knowledge and as such, it disregards the unique or specific needs of individual customers and their willingness and ability to take risk; therefore, in case of any questions, please contact our staff or refer to your bank consultant before making an investment decision. Should you require investment advice from OTP Bank Plc. prior to making your decision, please contact our staff with a view to concluding an investment counselling agreement and making the necessary statements (particularly a suitability test).

**3.** Each investment carries certain risks that can affect the outcome of the investment decision, and investors may not necessarily realise their expected investment goal or recover their cost of the investment; accordingly, some or all of the invested capital may be lost, and may also incur additional payment obligations.

**4.** Before entering into a contract for the execution of the transaction contained in this Product Information, OTP Bank Plc. will provide detailed information in respect of the transactions regarding their risks, market position, volatility and any limitations that may apply to market entry, changes in prices, as well as any other information relating to the transactions contained herein.

**5.** All data and information contained herein are based on estimates and no reliable conclusions may be made concerning prospective future yields, changes or performance in reliance hereon. All charts and calculations are intended to be examples, presenting potential future situations. No information contained herein may be perceived as demonstrations of particular transactions even if client is involved in transactions identical or similar to those contained herein. No estimates may be made based on the data contained herein concerning either the current or the future level of interest rates, or expected interest rate developments. The data contained herein do not constitute information on the changes or performance of particular financial instruments, whether past or future. Any risks associated with the specific, individual decisions made in reliance on the contents of this Product Information shall be borne solely by the investor, and OTP Bank Plc. shall not be held liable either for the success of the investment decisions or the achievement of the goals set by the investor.

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**10.** The business terms, announcements, lists of conditions and product descriptions containing the detailed terms, conditions and fees of the products and services are available at our branches, at the Customer Desk while using OTP Bank Plc.'s Global Markets services, and on the Bank's website at www.otpbank.hu.

**11.** The Bank reserves the right to change the terms contained herein. The contents of this document are subject to change without notice. Please monitor any changes that may be made to this document.

**12.** OTP Bank Plc. (company registration number: 01-10-041-585; registered seat: H-1051 Budapest, Nádor utca 16; supervisory authority: Magyar Nemzeti Bank – H-1013 Budapest, Krisztina krt. 39; HFSA license numbers: III/41.003-22/2002 and E-III/456/2008). 