

Citibank Zrt.
1051, Budapest
Szabadság tér 7.
Bank Center

Markets in Financial Instruments Directive (“MiFID”)

Dear Customer,

As you are probably aware, the regulations formulated in the Markets in Financial Instruments Directive (MiFID) came into effect in Europe on November 1, 2007. On November 19, 2007 the Hungarian Parliament approved the introduction of these regulations in Hungary, and on December 1, 2007 Act CXXXVIII of 2007 on ‘investment enterprises and commodity exchange services and the rules governing the activities they perform’ (“Bsztv”) came into force.

MiFID will replace the existing Investment Services Directive (ISD) and introduce new guidelines to ensure all financial service organisations perform at a uniformly high standard to protect investors and provide market transparency.

We are writing to give you some brief information about MiFID, and to tell you about the steps being taken in order to implement the new regulations (see *Appendix*). Please read the Appendix carefully, not least because you will find in it the **client classification category** that Citibank has placed you in based on the mandatory conditions stipulated in the MiFID and the Bsztv.

While MiFID is sure to bring significant changes to the European financial market, the relationship between Citibank Hungary and yourself will hardly be affected, as our bank already operates in compliance with most of the standards set forth in MiFID. The new statutory provisions represent an additional source of protection for you, and will help ensure the transparency of Citibank’s operation and processes.

If you require any further information or assistance, please contact your Personal Banker or call **CitiPhone Banking®** on **06-40-CITI24** (06-40-248424), where our personal bankers are available to help you 24 hours a day, seven days a week.

Best regards,

Citibank Zrt.

APPENDIX

What is MiFID?

In 2004 the European Commission approved the MiFID, and agreed that it should be applied throughout the European Union, as well as in the other countries that make up the European Economic Area (hereinafter: “Europe”). The European Commission and the European national financial services regulators have since then been working on the rules for implementing the directive.

MiFID revises and supersedes the EU’s previous Investment Services Directive (“ISD”). Its purpose is to expand the scope of the ISD and to further harmonize the regulations in Europe, thus introducing new, more thorough requirements that investment service companies will have to take into account, especially with regard to the pursuit of their business activities and their internal organisation.

The directive contains measures, which will change and improve the organisation and functioning of investment firms, facilitate cross border trading and thereby encourage the integration of European Union capital markets. Economists agree that this will strengthen the EU economy significantly. At the same time, it will ensure strong investor protection, with a comprehensive set of rules governing the relationship which investment firms have with their clients.

How does MiFID affect you?

Whilst Citibank already adheres to many of the new policies and procedures set out in MiFID, the new legislation is still good news for you, the investor. All investment providers will now have to conform to certain industry wide behaviour, quality and execution standards. MiFID covers a large amount of new legislation, however we have summarised a few of the key areas of the Directive for you below.

- **Suitability**
This is designed to provide you, the investor, with the confidence that we will obtain a sufficient amount of information from you that enables us to provide suitable advice for your investment portfolio(s). We now require full details in regards to your investment objectives, knowledge, experience and risk appetite before we can provide you with advice. If you do not provide us with this information you will not be protected by these regulations should you choose to proceed and we will be unable to provide you with investment advice.
- **Appropriateness**
The appropriateness legislation means we are obliged to determine whether or not you fully understand the risks involved and whether you have the appropriate amount of investment experience to invest. We will take necessary steps to assess your understanding and provide sufficient warning prior to completing any application documentation.
- **Client classification**
This requires us, as your investment provider, to classify you in accordance with the MiFID client categories. Its purpose is to ensure that clients are appropriately categorised so that

regulatory protections are focused on those classes of client that need them most. MiFID and the Bsztv require that clients be assigned to one of three categories for classification purposes: retail clients, professional clients or 'eligible counterparties'.

Citibank Hungary will treat you as a **retail client** based on the client classification rules. As a retail client you will enjoy the greatest level of protection.

- **Best Execution**

The Best Execution Policy states that we, as your investment provider, we must take all reasonable steps to obtain the best possible result for you and your needs, taking into account factors such as price, costs, speed and size, when executing your order. Our Best Execution Policy explains all the factors we will consider when looking to execute your requests.

- **Conflict of Interest**

The Conflict of Interest Policy ensures that we have taken the appropriate steps to eliminate or reduce any conflicts of interest that may exist between you, us and/or any third party. In the policy we will disclose any conflicts that we are unable to prevent.

- **Inducement**

MiFID requires us to disclose the fees, commission and benefits we receive. We will provide you with a summary in our Terms and Conditions.

How does Citibank Hungary meet the requirements of MiFID?

Although certain countries have, in the framework of the MiFID, approved almost the entire set of implementation regulations, due to delays in their respective legislative processes many European countries (including Hungary) were not in a position to apply the entire range of regulations by the original launch-of-implementation deadline of November 1, 2007. However, since the primary purpose of MiFID was to harmonize the European countries' statutory regulations pertaining to financial services, it can safely be assumed that the rules applied in the various countries in the framework of MiFID will be similar in substance.

Citibank Hungary has been preparing for the introduction of MiFID since the start of 2006. This has included implementing the following:

- (i) a thorough review of the activities that are performed by the bank, in order to establish what changes need to be made according to MiFID, relative to the requirements of the ISD, and to identify any gaps or shortfalls;
- (ii) a review of product and customer documentation, and the elaboration of new or revised regulations and guidelines;
- (iii) determining the changes that need to be made to the systems and internal processes concerned;
and
- (iv) staff training.