KOMERCIJALNA BANKA AD BEOGRAD

INFORMATION

on investment and additional services of the Broker – Dealer Operations Department of Komercijalna banka AD Beograd (the Authorised Bank)

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1. GENERAL PROVISIONS

The Law on Capital Markets (RS Official Gazette No. 31/2011 – hereinafter referred to as: the Law) that came into effect on 17.05.2011 and the by-laws adopted in accordance with the Law regulate the rights and liabilities of the participants in the capital market of the Republic of Serbia in accordance with international rules and standards that govern the execution of investment activities and provision of investment services.

Pursuant to the operating rules and regulations, Komercijalna banka AD Beograd (hereinafter: the Bank) provides its clients with all the necessary information on investment services and activities that might be of importance for the financial effects of the investment and provides the information necessary and/or useful for making investment decisions and making an assessment of real and/or potential risks.

2. INFORMATION ABOUT THE BANK AND ITS SERVICES

2.1. Information about the Bank

According to the Decision of the Securities Commission (hereinafter: the Commission), No. 5/0-46-2006/5-1, dated 27.09.2012, the Bank is registered to provide investment services, conduct investment activities and provide additional services as part of the Financial markets and Securities Division and the Broker-Dealer Operations Department. The Bank's head office is in Belgrade, 14 Svetog Save Street. The Bank's internet site is http://www.kombank.com.

The Bank is the member of the following institutions:

- Belgrade Stock Exchange (hereinafter: the Stock Exchange), headquartered in Belgrade, 1 Omladinskih brigada Street;
- Central Securities Depository and Clearing House (hereinafter: CSDCH), headquartered in Belgrade, 3-5 Nikole Pašića Street;
- Investor Protection Fund.

Securities Commission is a regulatory body on the capital market, headquartered in Belgrade, 1 Omladinskih brigada Street, http:/www.sec.gov.rs.

2.2. Investment services and other activities

The Bank's investment services and activities involve:

- receipt and transfer of orders for sale and purchase of financial instruments,
- order execution for the account of the client,
- trading for one's one account,
- sponsorship services related to the offer and sale of financial instruments with a repurchase obligation,
- services related to the offer and sale of financial instruments without a repurchase obligation.

Apart from the services mentioned above, the Bank also provides additional services, such as:

- safekeeping and administering financial instruments for the account of clients, including the safekeeping of instruments and services related to it, such as administering financial assets and collaterals,
- approving credits and loans to investors so that they can conduct transactions in one or more financial instruments in the situation when the creditor company is involved in the transaction,
- advising companies on capital structure, business strategy, mergers and acquisition, etc.,
- FX operations services related to the provision of investment services,
- research and financial analysis in the area of investment and other forms of general recommendations about transactions where financial instruments are used,
- sponsorship services,
- investment services and activities as well as additional services related to the type of financial instrument (options, futures, swaps, interest forwards and other financial instruments in accordance with the Law), with regards to the provision of investment services and additional services.

Within investment and additional services, the Broker-Dealer Operations Department also provides the following services:

- market maker services,
- lending of financial instruments,
- representing a shareholder at the shareholders' meeting of a company.

2.3. Contact details

The client may, unless agreed otherwise, send all instructions, orders and notices as well as maintain all other forms of communication with the Broker-Dealer Operations Department regarding the investment services, activities or additional services via the following addresses and/or contacts:

Contact details

Sektor HoV i finansijskih tržišta
Odeljenje za brokersko dilerske poslove
Makedonska 29/I, 11000 Beograd
Tel. +381(11)3339031
+381(11)3339033
+381(11)3339034

Fax. +381(11)3339157
E-mail:brokeri@kombank.com

In person, on the premises of the Department or in outlets and branches authorised for broker-dealer activities

3. COMMUNICATION WITH THE CLIENT

Communication between the Broker-Dealer Department and the client, including the issue and receipt of orders, as well as the submission of documents and other information from the Broker-Dealer Operations Department is carried out in the Serbian language and may be carried out in English, at the client's explicit request.

Should the client request communication with the Bank in the English language, the Service Agreement will be executed in four copies, of which two in Serbian and two in the English language. The client and the Bank each retain one copy in each language.

Should there be differences between the two versions of the agreement, provisions of the agreement in the Serbian language shall prevail.

When establishing any form of communication with the client, the Broker-Dealer Operations Department may record or make a note of the communication in any other way. The client will be warned of recording or making a note.

The method of communication between the client and the Broker-Dealer Operations Department, when issuing and receiving orders and instructions, is regulated in the Agreement.

For all services mentioned in this document, unless otherwise agreed, notifications and other communication will be deemed received on the same day, if such notifications and other communication have been received on a working day during working hours (8:00 - 16:00h). In case the client sends a registered letter, the date the registered letter is sent will be considered the delivery date. The date of receipt will be considered the date the delivery note is signed by the person authorised for broker-dealer operations. In case registered letters are sent by the Broker-Dealer Operations Department the date the letter is sent will be considered the date of delivery and the client signature date on the delivery note will be considered the date of receipt.

It is the client's responsibility to immediately notify the Broker-Dealer Operations Department of a change of address and other data relevant for the notification as well as for the execution of obligations of the Broker – Dealer Operations Department when providing investment and additional services or when conducting investment activities. The Broker-Dealer Operations Department will inform the client of all the services provided, including the costs arising from transactions and services executed for the account of the client.

4. CLIENT PROTECTION

4.1. Protection of client's property

In accordance with the Law, the client's assets – financial instruments and monetary funds at the Broker-Dealer Operations Department and the Custody Operations Department – are held on special accounts, separated from the Bank's assets.

The above mentioned assets are not owned by the Bank and do not constitute its assets nor the liquidation or bankruptcy estate and may not be considered receivables from the Bank. The Bank keeps a record and maintains accounts in such a way that enables the Bank to immediately and at any given moment separate the assets held for one client from the other clients' assets and from the Bank's assets.

4.2. Investor Protection Fund

The Bank is member of the Investor Protection Fund (hereinafter: the Fund) and meets all the requirements in accordance with the Law and by-laws that govern the capital market.

Paying contributions to the Fund allows for protection of the clients' receivables (mostly small investors) in case bankruptcy proceedings are initiated against the Bank or in case the Commission ascertains that the Bank is unable to meet its due liabilities payable to clients, including the monetary funds it owes to clients and financial instruments held for the account of clients, and the circumstances are unlikely to change significantly in foreseeable future.

In accordance with the Law, receivables payable to clients – private individuals and legal entities, in the form of monetary receivables in dinars, which the Bank owes or which belong to the client and have originated from the provision of investment services and performance of investment activities, as well as claims for restitution of financial instruments belonging to the client, have been insured up to the amount of 20,000 EUR in dinar countervalue for each client.

The amount of receivables is calculated on the day the bankruptcy proceedings are initiated or on the day the Commission establishes the circumstances under which the insured incident occurred. The receivables are determined in accordance with the Commission's record and all legal and contractual provisions are taken into account, especially counterclaims.

If possible, the value of a financial instrument or the amount of money paid instead of the return on financial instrument which the Fund member is unable to pay or refund is determined by reference to the market value of the financial instrument.

Provisions of this item do not apply to funds owned by credit institutions' clients – receivables insured by the law which governs the protection of deposits in credit institutions for the purpose of protecting such persons in case the deposit becomes unavailable.

Provisions of this item do not apply to receivables claimed by Fund members' clients which arise from transactions for which the client has been effectively convicted of a crime, corporate offence or an offence related to money laundering and terrorism financing. In case there is suspicion that the client's receivables come from a transaction related to money laundering and terrorism financing, the Fund may halt all payments until a court decision is made.

The following clients of the Broker-Dealer Operations Department will not be considered Fund members whose receivables are protected by the above mentioned protection system, regardless of the country where the headquarters are located:

- Investment company;
- credit institution;
- certain professional clients (credit institutions, investment companies, other financial institutions whose business activities have been licensed or are supervised by the supervisory body, insurance companies, collective investment institutions and their management companies, pension funds and their management companies, commodity exchange dealers as well as other entities supervised by the competent body);
- the Republic, autonomous provinces and municipalities as well as other countries or national or regional bodies, NBS and other countries' central banks, international and supranational institutions such as the IMF, European Central Bank, European Investment Bank and other similar international organizations;
- legal entity or a private individual in possession of more than 5 % of voting shares or a Bank's capital which is unable to meet its liabilities, or a legal entity or a private individual in possession of 5% or more of voting shares or the capital of a company which is closely related to the Bank, as well as their family members or third parties that act for their account;
- member of the Board of Directors of the Bank that is unable to meet its liabilities, if holding that position on the day the bankruptcy proceedings are initiated against the Bank or on the day the decision of the Commission for determining the receivables is published or during the current or previous financial year, as well as their family members or third parties that act for their account;
- clients, auditors and the Bank's employees responsible for the origination of liabilities that led to financial difficulties.

Insured amount of 20,000 EUR is payable for the total receivables that a client claims from a single Fund member, regardless of the number and the place of account, on condition that such refund is related to dinar assets and financial instruments.

4.3. The Right to Protest

The client may file a written complaint against the work of the Broker-Dealer Operations Department on the occasion of providing the investment and additional services, as well as during the performance of investment activities, in the manner specified by the legal document of Komercijalna Banka AD Beograd governing the issue of resolving the clients' complaints; the Broker-Dealer Operations Department shall act according to such complaint when resolving it.

5. CONFLICT OF INTEREST MANAGEMENT

Rules on prevention of conflict of interest at the Broker-Dealer Operations Department of Komercijalna Banka AD Beograd (hereinafter: Rules on Prevention of Conflict of Interest) enable a more detailed regulation of the conflict of interest which might arise. These rules mandate the following procedure:

- identification of potential and/or existing circumstances that might constitute a conflict of interest;
- implementation of appropriate preventive measures for the purpose of preventing and eliminating the conflict of interest, as well as resolving such a conflict of interest in the circumstances where such conflict of interest cannot be eliminated by preventive measures;
- notifying the client of the cases where conflict of interest exists, so that they can make adequate decisions.

The above-listed rules show that the conflict of interest is every situation where the Bank or relevant entities are not neutral or objective towards the subject of their business activity or have professional and/or personal interests that conflict with clients' interests, which might affect the impartiality in rendering and performing investment services and activities to the detriment of the client.

The following cases are considered circumstances which might lead to the conflict of interest:

- by conducting financial activities and providing other financial services, on behalf of the client as well as on and for their own behalf, the Bank and/or relevant entity may gain financial advantage or avoid loss at the expense of the client, by using insider information or passing them to third parties;
- the Bank and/or the relevant entity have an interest in the outcome of the work performed for the client or the outcome of a transaction conducted for the account of the client that differs from the interest of the client;
- the Bank and/or the relevant entity have a financial or another motive to favor the interests of another client or a group of clients, at the expense of the client's interest;
- the subject of the Bank's and/or relevant entity's business activity is the same as the client's subject of business activity;
- there is a link in terms of ownership between the Bank or the relevant entity with entities that compete against the client on the market;
- the Bank and/or the relevant entity receives or is about to receive, from an entity that is not a client, an additional compensation or incentive in the form of money, goods or services for the work performed for the client, other than what is considered a usual commission or fee for such work;
- execution of personal transactions is conducted against these Rules.

In order to prevent the circumstances and situations that might lead to a conflict of interest, the Bank applies the following measures:

- ensures that the organisational units of the Bank which conduct and provide various investment services, activities and additional services, conduct them independently of one another (for example, trading for one's own account, corporative financing, financial analysis);

- continuously develops internal control systems with the aim of monitoring the exchange of information between relevant persons involved in activities that carry the risk of conflict of interest;
- keeps the record of personal transactions of relevant persons;
- the Bank prepares and implements organisational measures aimed at preventing and limiting the inappropriate influence that might be exerted on a relevant person by any person that offers an investment service and conducts investment activities;
- imposes the obligation of applying the general principle of equal treatment of all clients from the same category (small or professional client), meaning that relevant persons must equally protect the interests of all clients in accordance with good business practice and may not abuse their incompetence and their lack of familiarity with the business practice so as to gain undue advantage for themselves or for other clients;
- maintains the record, accounts and correspondence in a manner that allows the assets of one client to be immediately separated from other clients' assets and the Bank's assets;
- undertakes measures which enable the accounts and monetary assets of the Bank and the clients to be separated;
- establishes a system for monitoring, storing, recording and updating the data on investment services which the Bank provided for and on its own behalf and which led to a conflict of interest;
- keeps a record of measures undertaken in cases of conflict of interest;
- in the process of providing and conducting investment services and activities the Broker-Dealer Operations Department exercises due care and observes the confidentiality of client data, in accordance with the regulations and the Bank's internal legal documents.

If, during the process of internal control of investment and additional services, the controller learns of the circumstances that might pose a conflict of interest, he is obliged to inform his direct superior and the Compliance Division of this, in electronic form, by sending an email to the: compliance@kombank.com. The Compliance Division is obliged to check how valid the notification is in relation to the existence of facts which constitute a specific conflict of interest and to undertake measures that fall within its competence.

If the measures undertaken are not sufficient to ensure, to a reasonable extent, that the client will not suffer damage, the competent organisational unit of the Broker-Dealer Operations Department is obliged to clearly and unequivocally notify the clients of the type and/or sources of the conflict of interest before starting the provision of investment and additional services and before conducting the investment activities. Directors of the organisational units where the conflict of interest occurred are obliged to apply tighter control of the conflict of interest which occurred and which cannot be eliminated.

6. CLIENT CLASSIFICATION

Before starting the provision of investment services, the Broker-Dealer Operations Department classifies the clients according to their knowledge, experience, skills and investment goals and acquaints the clients with the corresponding protection level that will be enabled to them, in accordance with the legal requirements and international regulations and standards for the performance of investment activity.

The legal framework defines two categories of clients:

- small clients;
- professional clients.

In terms of client protection, small clients enjoy the highest level of protection.

6.1. Small clients

Small clients are legal entities and/or private individuals that do not meet the conditions prescribed for professional clients.

6.2. Professional clients

Professional clients are clients that possess experience, knowledge and competence to individually make decisions on investments and make accurate assessment of real and potential risks. According to the Law, the following entities are considered professional clients:

1) Entities which require a licence for investment activities from a competent body and supervision by such bodies:
   - credit institutions,
   - investment companies,
   - other financial institutions whose activities have been licensed or are supervised by an appropriate supervisory body,
   - insurance companies,
     - collective investment institutions and their management companies,
     - pension funds and their management companies,
     - commodity exchange dealers and other entities whose operations are under supervision.

2) Legal entities that meet at least two of the following conditions:
   - total assets of at least EUR 20,000,000,
   - annual operating revenue of at least EUR 40,000,000,
   - equity of at least EUR 2,000,000.

3) the Republic, autonomous provinces and municipalities, as well as other countries or national or regional bodies, the National Bank of Serbia and central banks of other countries, international and supranational institutions, such as the International Monetary Fund, European Central Bank, European Investment Bank and other similar international organizations.

The Broker-Dealer Operations Department may treat other clients as professional clients at their request, after legally prescribed conditions are met, taking into considerations the assessment of their experience, knowledge and competence to independently make investment decisions and assess the risk of investment:

7. CHANGE IN CLIENT CLASSIFICATION

An authorised bank may, at the client's request:

- treat a professional client as a small client (shift to a higher level of protection),

- treat a small client as a professional client, on condition that the necessary criteria are met (waiving the higher level of protection).

7.1. Shift to a higher protection level

Shift to a higher protection level means reclassification of professional clients into the small client category.

A professional client that considers itself incapable of accurately assessing and managing risks involved in a certain investment service, may request, in writing, from the Broker-Dealer Operations Department a higher protection level for its interests for all or one specific service, type of transaction or financial instrument. In such case, the Broker-Dealer Operations Department and the client are obliged to enter into an agreement or an annex to the agreement which will specify the services, transactions and/or financial instruments with regards to which the client wishes not to be treated as a professional client.

Professional clients are obliged to notify the Broker-Dealer Operations Department, in a timely manner, of all the facts that might affect the change in the category of clients in the Department.

7.2. Waiving a higher protection level

A small client that wishes to be treated as a professional client may request, in writing, from the Broker-Dealer Operations Department a lower level of protection of its interests with regards to all or one specific service, type of transaction or a financial instrument. In such case, the Broker-Dealer Operations Department will act in accordance with the client's request, if all legally prescribed conditions are met, in accordance with the following procedure:
1) using a standard form “Request for change of small client classification” the client notifies the Broker-Dealer Operations Department of its wish to be treated as a professional client with regards to all or one specific investment service, transaction or a type of transaction or financial instrument;
2) the Broker-Dealer Operations Department warns the client, unequivocally and in writing, of protection of interest and the right to compensation from the Investor Protection Fund, which the client may lose in this process;
3) by signing the request for change in classification, the client states that they are aware of the consequences that arise from the loss of protection level.

8. FINANCIAL INSTRUMENTS

Financial instruments are:

- negotiable securities;
- money market instruments;
- collective investment institutions' units;
- derivatives.

Risks for clients investing in financial instruments

Investment risk is the most important aspect the client must consider when making a decision to buy or sell a financial instrument. In terms of quantifying the uncertainty of investment, the risk may be defined as the knowledge of a situation where, as a result of a decision, a string of results may ensue.
The probability of each of these results materializing may be known or may result from the client's own assessment, which is often the case (in this case the assessment of the investor and/or the issuer). In accordance with the Law on capital Market, the assumption is that a small client, unlike the professional investor, does not have the knowledge and experience required to assess the risk that might arise from those investment services or transactions or the type of transactions or products for which the client has been classified as small.

General risks of investing into financial instruments are as follows:

1. **Country risk** – risk caused by the risk rating of a country's economy compared with the rest of the world. These risks include:

    - **Sovereignty risk** – the risk of incapacity and/or the lack of willingness to repay the due debt of a country,
    - **Political risk –** risk of unexpected political changes and instability in the country. Sources of instability may include a change in government, regulatory bodies and/or other political subjects.
    - **Economic risk or risk of economic situation** – risk of losing the value of financial instrument due to recession of the local economy,
    - **FX risk** – risk of change in FX exchange rate. The change in exchange rate might affect the return (lower it or increase it) on investment in foreign currency,

- **Inflation risk –** risk of a decrease in the value of a financial instrument due to a general rise in prices (inflation),
- **Risk of change in law/tax regulations** – risk of a substantial change in law and/or tax regulations and/or company's operating environment in a way that has a negative effect on the profitability of investment in financial instruments and on the position of investor.
- **Risk of capital transfer** – risk of a ban on the transfer of capital out of the country.

2. **Risk of issuer** – risk caused by factors directly linked to a certain company which issues financial instruments including:

- **Credit risk –** risk of a fall in value or a total loss of value of a financial instrument due to decreased credit rating or an onset of bankruptcy procedure against the issuer.
- **Industry risk –** risk of a significant negative change in the company's operating environment that might include competition, technology, standards, etc.
- **Management risk –** risk of inefficient and destructive management structure of the company that adversely affects the company's performance.
- **Operating risk –** risk of loss arising from inadequate or wrong business processes of the economic entity, human errors or omissions and internal systems in conducting business activities as well as external events. It includes the risk of malfunction of information systems, risk of an interruption of communication links between the service provider (for example, Broker-Dealer Operations Department), CSDCH and/or the Stock Exchange and/or regulated markets, natural disasters, frauds.
- **Risk of unpaid dividends –** risk that the joint stock company will not pay out dividends, which depends on the decision of the shareholders' assembly and on the company's performance.
- **Environmental risk –** risk of adverse effect on the environment resulting from the company's operations.

3. **Risk of financial instrument –** risk caused by the characteristics of a certain financial instrument, including:

- **Liquidity risk –** risk of insufficiently quick purchase or sale of a financial instrument on secondary capital market with no significant loss of value due to decreased attractiveness of the instrument or the inefficiency of the market.
- **Market risk** – risk of change in value (rise or decrease) of a financial instrument due to daily changes in its market prices.
- **Market psychology risk** – risk of a change in value of a financial instrument due to speculative activities of large investors or large corporate shares on the stock exchange.
- **Risk of change in interest rate** – risk of decreased value of financial instrument due to a change in the level of interest rate in the market so that it differs from the interest rate/return on the instrument.
- **Counterparty risk** – risk undergone by one party in the agreement/entity that the counterparty/entity will not be able to meet its contractual obligations. This type of risk is sometimes referred to as bankruptcy risk.
- **Settlement risk** – risk that settling the transaction with a financial instrument will be hindered or entirely impossible i.e. that the counterparty will not deliver the financial instrument or that the counterparty will not meet its financial obligation arising from the transaction.
- **Reinvestment risk** – risk that future financial revenue from an individual financial instrument will be invested at a return or interest rate lower than the one borne by the financial instrument itself.
- **Timing risk –** risk of missing the favourable changes in the price of financial instrument due to a wrongly selected moment of purchase or sale of financial instrument.
- **Financial leverage risk** – risk of financing the purchase of financial instrument with a loan. Irrespective of the type of assets against which the source of investment was borrowed, the investment contains in itself an increased risk of loss. Namely, the investment profitability itself does not affect the obligation to repay the debt, but may even increase in a certain number of cases. On the other hand, cost of such financing directly results in decreased return on investment.

Risks for the issuers of financial instruments

Risks for issuers of financial instruments are the most important circumstances the client needs to pay attention to when making a decision to use the execution service or sell financial instruments with or without the obligation to repurchase.

- **FX risk –** risk of a rise or fall in value of liabilities arising from a financial instrument issued in foreign currency and expressed in local currency.
- **Risk of change in interest rate –** risk of a rise or fall in market return/interest rate in comparison to the return/interest rate the issuer pays for issued financial instruments (the so called cost of financing).
- **Reputational risk** – risk of unfavourable effect of a certain event or activity of the company on company's reputation (for example, failure of the new issue of a financial instrument, inability to pay out interest and/or principal of a financial instrument, failure to meet the legal requirements regarding reporting to shareholders and the public).

Apart from the above-mentioned risks, clients should also pay attention to the risks described in continuation of this document.

Over time, diversification proved to be a method of achieving a successful balance between the investment risk and realised return. Diversified investment is an investment in various types of financial products which carry varying risk and therefore result in varying rates of return (interest).
Personal assets (investments, savings), that have been diversified (combined) into deposits, life insurance, investment funds, bonds and shares help decrease the total investment risk as one type of investment may achieve satisfactory return at one moment while another may not. Diversification of investment certainly does not guarantee complete safety of investment. It only lowers the total risk of investment.

8.1. NEGOTIABLE SECURITIES

Negotiable securities are all types of securities that may be traded at the capital market, excluding payment instruments:

- shares of companies or other securities equivalent to company shares which represent a share in capital or in voting rights of that legal entity, as well as deposit certificates related to shares;
- bonds and other forms of securitized debt, including deposit certificates related to such securities;
- other securities that grant the right to acquire and sell negotiable securities or securities against which a cash payment can be made and whose amount is determined through a negotiable security, currency, interest rate, return, commodity, index or other definable values.

Negotiable securities of a company headquartered in the Republic that have been issued or offered on the territory of the Republic are issued or offered as dematerialized financial instruments.

8.1.1. Shares

Shares are dematerialized equity securities issued by a joint–stock company. A joint-stock company is a company whose fixed capital is divided into shares owned by one or more shareholders and have no maturity.
Shares may be:

- ordinary and
- preference.

Within each type of shares, shares that grant the same rights form a single class of shares. All ordinary shares always form a single class of shares. Issued shares may come with or without a nominal value.

If a company issues shares with nominal value, all shares of the same class must have the same nominal value.

An ordinary share is a share that grants its holder the following rights:
- right to participate and vote at the general meeting, with one share always granting the right to one vote;
- right to dividend;
- right to participate in the distribution of liquidation surplus or bankruptcy estate in accordance with the law that regulates bankruptcy;
- right of first refusal of ordinary shares and other financial instruments from new issues that can be exchanged for ordinary shares;
- other rights in accordance with this law and the statute of the joint-stock company.

Ordinary shares cannot be converted into preference shares or other financial instruments.

Preference share is a share that grants a holder one or several privileged rights set out in the statute and the decision on issue:
- right to dividend in a predetermined amount or as a percentage of its nominal value whose payment takes priority over ordinary shareholders;
- right for unpaid dividend to cumulate and be paid before dividends are paid to ordinary shareholders (cumulative preference share);
- right to participate in ordinary shareholders' dividend, in all cases where dividends are paid to ordinary shareholders or after certain conditions are met (participating preference share);
- preferential right to payment from liquidation surplus or bankruptcy estate that grants priority over ordinary shareholders;
- right to convert such shares into ordinary shares or into another class of preference shares (convertible preference shares);
- right to sell these shares to a joint-stock company at a predetermined price or under other conditions.

Risk of investment into shares

The level of risk involved in investment into shares depends on the rights that the shares grant the holder as well as the issuer's financial standing and general conditions on the capital market.
Except for the already mentioned general risks, the following risks are particularly related to shares:

- **Credit risk –** in case of bankruptcy and liquidation of a joint-stock company, the owners of ordinary shares will be ranked last in order for settlement from the remaining assets (only after claims from all other creditors have been settled from the bankruptcy estate). Consequently, the value of this company's shares may decrease considerably or they may become worthless which may result in a total loss of investment for the investor.
- **Market risk –** price of share or market value of a share that is formed on a stock exchange depending on supply and demand may fluctuate considerably, especially in the short run, as this price may be affected by a string of factors both at home and abroad, such as business results of the company, expectations for future business as well as general economic and political conditions.
- **Liquidity risk –** as a rule, shares are traded in organized markets (stock exchanges) and their price is formed according to supply and demand. If the supply and/or demand for a certain share decreases considerably or is completely gone (as a rule, this happens during disturbances in the market, crises, etc.) the marketability of such

shares also decreases fast enough and without a considerable loss of value. However, in extreme cases shares may become totally unmarketable. Generally, shares involved in lower levels of stock exchange quotation are less liquid than shares involved in higher levels.

- **Risk of unpaid dividend** – risk that a joint-stock company may not pay out dividends, depending on the decision of the Shareholders' General Assembly and on the business performance of the company.

The higher the potential return on investment, the greater the risk the client is exposed to. One should bear in mind that the occurrence of one and/or several of the afore-mentioned risks may cause great loss for the client and even result in a complete loss of investment.

8.1.2. Bonds

Bonds are long-term negotiable and dematerialized financial instruments issued by governments, municipalities, banks and companies in order to finance long-term investments. By issuing bonds, the issuer undertakes an obligation to pay to the owner, the bondholder, a certain amount of money (interest and principal) in a manner and in accordance with the conditions under which the bond was issued.
Bonds may be divided according to their numerous characteristics. The most common division is:

- **according to the issuer**:
  - government – government (finance ministry of treasury) is the issuer,
  - municipal – a unit of local self-government is the issuer,
  - corporate – a company is the issuer.

- **according to interest rate**:
  - bonds without payment of interest (coupon)
  - bonds with fixed interest rate (coupon),
  - bonds with variable interest rate (coupon).

- **according to the repayment of principal**:
- bonds with a one-off payment of matured principal – the issuer pays out the principal upon maturity,
- bonds with depreciated repayment of principal.

Bonds may be issued in various currencies (in accordance with the applicable regulations); they may have different maturity; may be guaranteed (for example by a surety) or unguaranteed, which all makes them quite an adaptable financing instrument for the issuer.

Risks of investing in bonds

- **Credit risk -** is the possibility that the bond issuer will be unable to settle their due liabilities arising from the bond issued. This risk occurs in case of insolvency i.e. in case of issuer's bankruptcy. Therefore, the investor must assess the financial standing of the issuer and adjust their return expectations accordingly. Generally, the worse the financial standing of the issuer, the higher the demanded return and vice versa. Therefore, as a rule, the bonds of the highest grade, and naturally the highest safety (but with the lowest return) are the government bonds followed by municipal and corporate ones.
- **Risk of change in interest rate** – the probability of a change in market interest rate so that it differs from the bond interest rate. Changes in market interest rates are in inverse proportion to the changes in bond price. For example, if market interest rate increases more than the bond interest rate, the bond price will decrease and vice versa. The longer and greater the deviation of the bond interest rate from market interest rate, the greater the effect on the bond price. This risk is most noticeable with bonds without interest payment (coupon), somewhat less noticeable with fixed interest rate bonds and the

least noticeable with variable interest rate bonds. Longer maturity bonds will suffer greater exposure to the risk of a change in interest rate than short maturity bonds.

- **Exchange risk** – the probability that the value of bonds denominated in one currency or with a currency clause, but expressed in another currency will decrease due to a change in the exchange rate of these currencies. For example, the dinar countervalue of investment in euro bonds with currency clause will decrease if the EUR/RSD exchange rate decreases and vice versa.
- **Market risk** – risk of a decrease in market value (price) of bond due to unusual periodic trends in supply and demand on the capital market. What might affect the supply and demand as well as the price of bonds are, for example, the change in the issuer's credit rating, change in interest rate, probability of an early repurchase of bond by the issuer, etc.
- **Liquidity risk** – is the probability that the investor will be able to buy or sell the bond quickly and/or without significant loss of value. The liquidity of the bond depends on the issuer, total volume of issue, remaining maturity, diversity and number of bondholders, general conditions on the market, etc. Given that liquidity is dependent on supply and demand, there are no guarantees that the investor will be able to buy or sell a bond at a desired moment.

8.2. MONEY MARKET INSTRUMENTS

Money market instruments are financial instruments (short-term debt instruments) that are usually traded on the money market, such as T-bills, commercial notes and corporate commercial papers and deposit certificates, excluding payment instruments, whose maturity is less than a year.

- **Government (Treasury) bills** – financial instruments issued by the Ministry of finance of the Republic of Serbia with maturity of up to one year. These are bought at auctions called by the Ministry of Finance of the Republic of Serbia – Treasury Administration. In the primary auction they are sold at a discount and are later traded in secondary market.
- **Commercial notes –** negotiable financial instruments with maturity of up to one year, They are issued by ministries of finance, government agencies or central banks. In Serbia, commercial notes are issued by the National Bank of Serbia. They are considered a risk-free instrument. Safety and lower return are its main characteristics.
- **Corporate commercial papers –** negotiable financial instruments issued by companies (the issuer), to a name, in dematerialized form. It allows for the settlement of company's short-term needs, so that the issuer, depending on market situation, issues tranches of papers within the limits of established program. Commercial papers are usually an unguaranteed (uninsured) financial instrument. Corporate commercial paper issuing program is a program of financing short-term needs of a company which allows the company to issue tranches of commercial papers of different maturity, due date and denomination, up to the maximum amount set by the program. Commercial papers are issued by companies of varying financial standing which makes commercial papers a less secure instrument in comparison with treasury bills and commercial notes.
- **Deposit certificates –** a negotiable financial instrument used by banks to acquire short-term financial funds. Banks "sell" deposit certificates by issuing them in large amounts or issuing them against deposits.

Risks of investment in money market instruments

A client investing in money market instruments is exposed to all general risks of investing in financial instruments. However, special attention should be given to the assessment of the following risks:

- **Credit risk –** probability that the issuer of the money market instrument may not be capable of meeting their due liabilities arising from the instrument. The lower/worse the credit rating of the issuer, the higher the probability. The higher the credit risk, the greater the risk premium and consequently the return on financial instrument the investor is expecting.
- **Liquidity risk –** as a rule, there are no organised (regulated) secondary markets for money market instruments so they are usually held to maturity. If the investor wishes to sell such an instrument, there are no guarantees that it can be done quickly and without suffering a significant loss of value.

- **FX exchange risk –** probability that the value of financial instrument denominated in one currency or with a currency clause, but expressed in a different currency will decrease as a result of a change in the exchange rate of those currencies. For example, the dinar countervalue of investment in corporate commercial paper in EUR with a currency clause will decrease if EUR/RSD exchange rate decreases and vice versa.

8.3. UNITS OF COLLECTIVE INVESTMENT INSTITUTIONS

A mutual fund is a collective investment institution that does not have the capacity of a legal entity and functions on a principle of collecting financial funds through the issue of investment units and purchase of investment units at the request of the fund members as well as investing the collected financial funds in different types of assets, in accordance with the Law on Investment Funds. Investment fund management company organizes a mutual fund on the basis of decision passed by the Securities Commission which grants the license for the set-up of a mutual fund. Except for the right to a proportionate share of the fund's profit, the stakeholders (holders of investment units) of the fund have the right to demand at any moment a repurchase (payment) of an investment unit and in doing so leave the fund.
Before purchasing the investment units of the mutual investment fund, each investor should acquaint themselves with the key documents that define the characteristics of a certain fund, including the investment limits and the risk of instruments into which the collected funds are invested. A prospectus is one such document.
Depending on the characteristics, there are many different types of mutual investment funds, such as:

- **Equity fund –** a type of investment fund where at least 75% of collected financial assets are invested in shares issued by:

- joint-stock companies headquartered in the Republic of Serbia, traded in organised markets,
- joint-stock companies headquartered in EU and OECD countries and neighboring countries, traded in the organised market in the Republic,
- joint-stock companies headquartered in EU, OECD countries and in neighboring countries, traded in organised markets in those countries.

- **Income fund –** type of fund where at least 75% of assets are invested in mortgage bonds issued on the territory of the Republic and debentures issued by:

- National Bank of Serbia, in accordance with the law which governs the organisation and competence of the National Bank of Serbia
- the Republic, units of territorial autonomy and municipalities in the Republic and other legal entities with the Republic's guarantee, in accordance with the law which governs public debt,
- international financial institutions,
- EU, OECD member countries, neighboring countries and municipalities of those countries, traded in organised markets of those countries,
- legal entities headquartered in the Republic, traded in organised market,
- legal entities headquartered in EU and OECD countries, neighboring countries, traded in organised markets in those countries.

- **Balanced fund** – type of fund where at least 85% of assets are invested in equities and debentures into which an equity fund and an income fund may invest, according to the law. Investment into debentures and cash deposits may not be less than 35% nor more than 65% of the value of the fund's assets.
- **Capital preservation fund –** type of fund where at least 75% of assets are invested in:

- short-term debentures issued by: NBS in accordance with the law that regulates the organisation and competence of the National Bank of Serbia; the Republic, units of territorial autonomy and municipalities in the Republic, in accordance with the law that governs the public debt; legal entities headquartered in the Republic, traded in organised market in the Republic;
- cash deposits in banks headquartered in the Republic and founded in accordance with the law that regulates the operations of banks and other financial organizations and cash deposits in banks in EU and OECD member countries.

8.4. DERIVATIVES

Derivatives, which are considered complex financial instruments, include:

- options, futures, swaps, interest forwards and other derivatives, currencies, interest rates, return as well as other derivatives, financial indexes or measures that can be settled physically or in money;
- options, futures, swaps, interest forwards and other derivatives that refer to commodity and which:
  - must be settled in money,
  - may be settled in money, at one contractual party's descretion, for reasons unrelated to the default on obligations or termination of agreement;
- options, futures, swaps and other derivatives related to commodity and which can be settled physically, on condition that they are traded in a regulated market or multilateral trading facility (MTF);
- options, futures, swaps, forwards and other derivatives related to commodity which can be settled physically but are not included among the afore-mentioned derivatives, and:
  - have no commercial purpose,
  - possess features of derivatives, depending on whether, among other things, clearance and netting are done in recognized clearing houses or whether or not they are subject to regular requests for additional payment;
- credit risk transfer derivatives;
- financial contracts for differences;
- options, futures, swaps, interest forwards and other derivatives related to climatic variables, transport costs, inflation rate, issuing quotas or other official, economic and statistical data, that are settled in money or may be settled in money at the discretion of one of the contracting parties for reasons unrelated to the default on obligations or termination of agreement as well as other derivatives related to assets, rights, obligations, indexes and measures unmentioned in this item, but having the features of other derivatives depending on whether, among other things, they are traded in regulated market or through MTF, whether clearance and netting are done in recognized clearing houses or whether or not they are subject to regular requests for additional payment.

Risk of investing into derivatives

Apart from general risks, the most important investment risks are:

- **Positional risk (type of market risk)** – risk of loss due to a change in prices (increase or decrease) of financial instrument or in case of financial instrument which derived from a change in price of the underlying variable:
  - **general positional risk** – risk of loss from a change in the price of financial instrument due to a change in the level of interest rate or due to significant changes in capital market, regardless of any specific feature of that financial instrument,
  - **specific positional risk** – risk of loss from a change in the price of financial instrument due to the facts related to the issuer of the instrument or, in case of derived financial instrument, due to the facts related to the issuer of the original financial instrument.
- **Netting risk** – includes counterparty risk – risk of loss due to the counterparty's failure to meet their obligations.
- **FX exchange risk –** risk of loss due to the change in the exchange rate of currencies.
- **Commodity risk –** risk loss due to a change in the price of goods.
- **Credit risk –** risk of loss due to failure to meet a financial obligation.
- **Liquidity risk –** risk of loss due to the existing or anticipated inability of the investment company to meet its financial obligations by due date.

9. SUITABILITY ASSESSMENT

When rendering investment services, the Broker-Dealer Operations Department is obliged to make a profile about the potential client's knowledge and experience (a small client in the area of investment), on the basis of data the client submits, taking into account the nature of the client, the type and volume of services and the complexity of the product or transaction, in order to asses whether the product or investment service offered to the client or demanded by the client is suitable.

In the case of a potential professional client, the Broker-Dealer Operations Department may assume that this client has the knowledge and experience needed to assess the risks involved with the investment services and transactions for which this client has been classified as a professional investor.

The afore-mentioned profile of a (potential) client's knowledge and experience – small client, must contain the following data:

- key data on a (potential) client,
- type of service, transaction and financial instrument known to a (potential) client,
- type, value and frequency of transactions of a (potential) client and the period of their execution,
- title and current occupation of a (potential) client,
- specific type of product or investment service offered to a (potential) client by the Broker-Dealer Operations or Department or requested by the (potential) client himself.

The profile is made according to standardised form of the Broker-Dealer Operations Department, an Investment Service Suitability Questionnaire, available to each client or potential client when agreeing these services and activities.
In case the Broker-Dealer Operations Department considers a certain product or service not to be suitable for a (potential) client, on the basis of data collected from (potential) client, or if, due to the lack of required data, the Department is unable to determine whether a product or service is suitable for a (potential) client, the client will be warned of potential exposure to risks that go beyond the limits of the client's knowledge and experience. Should the client still wish to use the investment service at their own responsibility, they will be obliged to sign a *Statement of Intention* to use an investment service at their own responsibility. The Statement is contained in the Investment Service Suitability Questionnaire.
Investment services that involve only receipt and transfer and/or execution of orders for the account of client, with or without additional services, may be rendered without collecting data or making the afore-mentioned assessment, if all of the following conditions are met:

- Service has been rendered at the client's request;
- Service refers to:
    - shares involved in trade on regulated market, MTF or an equivalent market of third countries,
    - money market instrument, bonds and other forms of securitized debt, excluding bonds and instruments of securities debt which contain the derivative,
    - units of institutions of collective investment,
    - other similar financial instruments.
- The client has been clearly warned that the Bank is not responsible to assess the suitability of the financial instrument or service provided or offered and that therefore, the client is not protected in accordance with the Commission's Rulebook on Investment Company's Conduct when using investment and other services.

10. ORDER EXECUTION POINTS

Information on order execution points is contained within the internal legal document – Rules of order execution at the Broker-Dealer Operations Department of Komercijalna banka AD Beograd which can be found on the Bank's internet website (www. kombank.com), at the Broker-Dealer Operations Department and in the Bank's outlets which are authorised for such activities. For additional information on the order execution points, the Broker-Dealer Operations Department should be contacted.

11. COST AND FEES

All data about the costs and fees are contained in the Broker-Dealer Operations Department's Rulebook on Tariff of Fees for each financial service and activity the Broker-Dealer Operations Department offers and this Rulebook is available to each client or potential client when agreeing these services and activities. For all other fees, costs and related expenses not mentioned herein, the relevant organizational unit of the Broker-Dealer Operations Department refered to in this document should be contacted.

Note: This document is subject to occasional amendments/supplements. An updated version of the document is available at the Bank's internet website http://www.kombank.com.

KOMERCIJALNA BANKA AD
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