



KOMERCIJALNA BANKA AD BEOGRAD

RULES

On prevention of conflict of interest in the Broker Dealer Operations
Department of Komercijalna banka AD Beograd (Authorized Bank)



Pursuant to Article 31 of the Statute of Komercijalna banka AD Beograd (revised text), and in compliance with the Law on Capital Market (Official Gazette no. 31/2011) and by-laws of the Securities Commission, the Executive Board of Komercijalna banka AD Beograd on September 10th 2012 passes the

**RULES
ON PREVENTION OF CONFLICT OF INTEREST IN THE BROKER DEALER OPERATIONS DEPARTMENT OF
KOMERCIJALNA BANKA AD BEOGRAD**

I GENERAL PROVISIONS

Article 1

The Rules on prevention of conflict of interest in the Broker Dealer Operations Department of Komercijalna banka AD Beograd (hereinafter: Rules), regulate the following:

- Basic operating principles in performing investment activity;
- Circumstances that represent or may lead to conflict of interest, including the circumstances arising from business operations of the banking group members;
- Procedures and measures implemented to manage the conflict of interest, which can be detrimental to one or more clients;
- Measures aimed at informing the relevant persons on mandatory conduct in the procedure of managing the conflict of interest;
- Execution and prohibition of execution of personal transactions;
- Internal control in providing and performing investment services and activities.

The provisions of these Rules do not supersede the provisions of the Code of Conduct and Professional Ethics of Komercijalna banka, (hereinafter: Code of Ethics), nor the provisions of the law and the by-laws which govern the area of conflict of interest, but instead they describe and supplement them with the concepts and principles related to providing the investment services and performing the investment activity of the Broker Dealer Operations Department of Komercijalna banka AD Beograd.

II DEFINITION OF TERMS

Article 2

In terms of this document, specific terms have the following meaning:

Client – legal or natural person to whom the Bank provides investment, and/or ancillary service;

Investment company – the company which professionally performs one or more investment activities (organizational unit of the Bank in charge of performing broker dealer operations);

Relevant persons:

- Members of the Bank's managing bodies;
- Persons with ownership stake in the Bank (min. 15 biggest shareholders whose data are published on the website of the CSD);
- The employees of the Bank who are included in providing and performing investment and ancillary services and activities for the clients;

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- Persons who in the course of their work, professional and other tasks have access to inside information and all the persons who know or should know that such information is inside information the use of which and its disclosure is prohibited by the law;
 - Members of the family of the stated persons (spouses, descendants, relatives up to third degree of kinship, adoptive parents, foster parent, protégé and their descendants, as well as all the other persons who lived with such persons in the same household for at least a year before the day the transaction has been performed);
 - Any other private individual who is hired by the investment company to provide services within the company's scope of competence and practice.

Inside information – information on specific facts which have not been made public and which relate, directly or indirectly to financial instruments or their issuers and which, if published, could have a significant impact on price of financial instruments or on price of derivative financial instruments.

Financial instruments – transferable securities, money-market instruments, units in collective investment undertakings, options, futures, swaps, forward rate agreements, pursuant to Article 2 of the Law on the Capital Market.

Personal transaction – transaction with financial instrument performed by the relevant person or is performed in the name and/or for the account of the relevant person (abridged definition);

Broker Dealer Operations Department – organizational unit of the Bank which performs investment and other activities;

Compliance – Compliance Division which conducts independent control function of identification and monitoring of compliance risk which comprises the risk of sanctions imposed by the regulatory authority and the risk of financial losses, as well as the reputational risk.

III BASIC OPERATING PRINCIPLES

Article 3

Considering the need for constant improvement of business conduct and professional ethics, strengthening of security and accountability principles, the employees in the Broker Dealer Operations Department are obliged to perform their jobs in a manner based on the following principles:

Expertise and diligence

- When providing and performing investment services and activities, the employees are obliged to bear in mind, at all times, the interest of clients and to protect such interests.

Legitimacy and responsibility

- The employees are obliged to provide the client with complete and clear information that includes the warning about the risks related to performing operations with financial instruments and to inform the client, before providing a service, about possible types and sources of conflict of interest.

Equality

- All clients are treated in the same manner, without a possibility of using privileged position over other clients.

Secrecy and confidentiality of data

- The obligation of keeping confidential data includes the prohibition of using, transferring and/or disclosing inside information to persons who have no need of knowing such information.

Protection of personal data

- Client's personal data are used exclusively within the scope of activities, in line with the law and the internal legal documents governing this area.

Avoiding the conflict of interest

- The employees and other relevant persons are obliged to avoid the conflict of interest and to promptly notify their immediate superior or the Compliance Division on the existence of the same.

Responsibility and transparency in personal transactions with financial instruments

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- Relevant persons must perform any possible personal transactions with financial instruments in compliance with the Law, these Rules and other internal legal documents of the Bank, and/or in such a manner as to avoid any conflict of interest which could be detrimental to clients and their interests.

Cooperative relations with the competent authorities

- The Broker Dealer Operations Department and the relevant persons are obliged to cooperate with the Securities Commission (hereinafter: Commission) and other competent authorities, which includes making such information, documentation and data available to such authorities as required by them within their legal powers.

IV CIRCUMSTANCES REPRESENTING THE CONFLICT OF INTEREST

The concept of conflict of interest

Article 4

The conflict of interest represents any situation in which the Bank or the relevant persons are not neutral and objective with respect to business activity or they have professional and/or personal interests that conflict the interests of clients, which can affect the impartiality in providing and performing investment services and activities to client's detriment. The conflict of interest may arise between:

- Interest of the Bank and/or relevant person, and/or the persons directly or indirectly related to them through control on one side and the interest of the client on the other;
- Diverging interests of the clients of the Broker Dealer Operations Department.

The existing forms of conflict of interest

Article 5

When identifying the conflict of interest, the relevant circumstance is deemed to be a situation in which:

- The Bank and/or the relevant person can realize financial benefit/gain or avoid the loss to the detriment of the client, by using inside information or by disclosing it to third party;
- The Bank and/or the relevant person have an interest in the outcome of the work done for the client or the transaction performed for the account of the client and which differ from the client's interest;
- The Bank and/or the relevant person have a financial or other motive for favoring the interests of another client or group of clients, to the detriment of the client's interests;
- The business operations of the Bank and/or of the relevant person are the same as those of the client;
- There is ownership connection between the Bank or the relevant person with the persons who are in market competition with the client;
- The Bank and/or the relevant person receive or shall receive from the person other than the Client the ancillary fee or the incentive in form of money, goods or services for the job performed for the Client, whereby it is not the usual commission or fee for such job;
- Execution of personal transactions contrary to these Rules;

V MEASURES AND ACTIONS FOR PREVENTION OF CONFLICT OF INTEREST

Organizational structure

Article 6

The Bank's internal organizational structure provides for:

- Proper performance and separation of specific operations with financial instruments;
- Definition of work process, separation of duties and division of responsibilities of the employees executing the orders for the account of clients ;
- Segregation of duties, authorities and responsibilities of the employees in a manner which prevents the conflict of interest;
- Adequate knowledge and possession of information about all the procedures being applied;

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- Procedure of implementation of the internal control;
 - Adequate manner of safekeeping and archiving the business documentation and data.

Technical conditions

Article 7

Investment services and activities are performed within the separate organizational units of the Bank.

Notwithstanding, it is allowed to carry out within the same organizational unit the offer and sale of financial instruments on and without a firm commitment basis (agent and underwriter);

Execution of dealer orders can be performed within the organizational unit dealing with the execution of orders for the account of the client, in the following cases:

- If the decision on dealer trading is not reached within such organizational unit;
- If the dealer trading is not a dominant investment service, and/or in case when the income arising from such service is less than 20% of total income.

Protection of client's assets

Article 8

For the protection of rights of its clients, the Authorized Bank with particular care:

- Keep records, accounts and correspondence in such a manner which enables it to promptly, at any given moment distinguish the assets of one client from the assets of other clients and Bank's assets;
- Undertakes the measures which allow for separation of account and cash assets of the Bank and the client with CSD.

The Broker Dealer Operations Department cannot:

- Pledge or alienate financial instruments owned by the client, without his prior written authorization;
- Execute clients' orders in a manner which is not in compliance with the Law and by-laws governing this area;
- Encourage clients to frequently perform transactions exclusively for the purpose of collecting the commission.

Sequence of execution of orders

Article 9

All the orders for purchase and sale are entered in the Book of orders by chronological order of receipt. The order/sequence of execution of orders is determined by the time of order reception, in compliance with the Rulebook on execution of orders and the Operating Rules of the Broker Dealer Operations Department if it is the most favorable option for the client.

The Book of orders is kept in such a manner which disables subsequent amendments to entered data.

Protection of business secret and personal data

Article 10

In providing and performing investment services and activities, the Broker Dealer Operations Department acts with due diligence and observes the confidentiality of gathered information about the clients.

Pursuant to regulations and Bank's legal documents, business and/or banking secret includes:

- Data on client, balance and turnover on the accounts;
- Data on investment services and activities provided and performed for the client;
- Other data and facts within providing investment and ancillary services for the client.

Notifying the client on conflict of interest

Article 11

In cases when the provisions of these Rules are not sufficient to ensure, to the reasonable extent, the prevention of the conflict of interest with the risk for client, the Broker Dealer Operations Department is obliged to notify the client on type and source of conflict of interest, before the execution of that particular activity, and/or before execution of transaction for and on his behalf.

The notification mentioned in the previous paragraph must contain sufficient information on the basis of which the client shall be able to make a decision related to the service within which the conflict of interest occurs.

In the event the client evaluates that the possibility of occurrence of conflict of interest is likely and that it can harm his financial interest, he can, at any moment, abandon the business cooperation, pursuant to the agreement.

The Broker Dealer Operations Department is obliged to establish the mechanism which will obligate all the relevant persons to promptly report personal transactions, through the appropriate notification on Bank's website.

Prohibition of executing personal transactions

Article 12

The Broker Dealer Operations Department is obliged, on the basis of credible data on the identity of the relevant person, to prohibit to such person to conclude personal transactions:

- If that includes the misuse or disclosure of inside information and/or other confidential information referring to the client or transactions with the client or for the account of the client;
- If concluding such transaction is in conflict or shall likely get in conflict with the Bank's liabilities.

The Authorized Bank is obliged, based on the credible data on the identity of the relevant person, to prohibit such person to:

- Advise or persuade another person to conclude transactions with financial instruments in a manner which is contrary to the authority of such person and to the agreement on provision of services;
- Disclose to another person any information or opinions, except for those within the regular authority or the agreement, if the relevant person knows, or should know, that such conduct will affect that other person in terms of concluding the transaction or in terms of persuading the third party to conclude such transaction.

Measures for implementation of the said prohibitions include regular informing the relevant persons through the Compliance Division in the course of procedure of notification and updating the list or persons who are in possession of inside information.

Article 13

When the Bank prepares and/or drafts the investment research and analysis which is intended to or is likely to be delivered to the Bank's clients or the public, the Bank must ensure the implementation of the following measures:

- Financial analysts and other relevant persons must not get involved in personal transactions nor trade in financial instruments which the investment research relates to, nor any other related financial instrument, once they learn about the probable choice of time of publishing/referral or about the content of that investment research, which has not been made public or has not been made available to the clients. Likewise, in such cases they must not engage in trading in the name and/or for the account of any other person, including the Bank. The exception to this prohibition is issuance of unsolicited/self-initiative Client's order or issuance of order in the capacity of market maker.
- In the circumstances not contained in the previous item, the financial analysts and other relevant persons included in preparation of investment research must not undertake personal transactions with financial

instrument which the investment research relates to or with the financial instrument related thereto, contrary to the current recommendations.

Internal control

Article 14

For the purpose of efficient identification and prevention of occurrence of conflict of interest, the Authorized Bank undertakes measures and actions that include the following:

- Monitoring the efficiency of procedures for execution of orders and timely identification and elimination of shortcomings;
- Regular evaluation whether, when executing the order, the best results are achieved for the client;
- Adequate briefing of the Bank's employees on their rights and limitations in the procedure of executing personal transactions;
- Keeping records on personal transactions with financial instruments of the relevant persons, based on available data and information ;
- Monitoring, administering, safekeeping and updating the information about investment and ancillary services which may represent the conflict of interest;
- Timely conveying the information to the client on type and source of the conflict of interest, before performing any activity by the Bank in his name.

Article 15

If, in course of internal control procedure related to investment and ancillary services, the Internal controller of the Broker Dealer Operations Department learns about circumstances that may represent the conflict of interest, or he deems such possibility likely, he is obliged to inform about this, by electronic means, his immediate superior and the Compliance Division to e-mail address: compliance@kombank.com, which is obliged to verify the justification of the subject report with regard to existence of facts which generate a specific conflict of interest and to undertake measures that fall under the scope of its authority.

Registry of conflicts of interest is managed and updated by the Compliance Division and all the data entered in the Registry represent the business secret.

VI FINAL PROVISIONS

Article 16

The Rules on prevention of conflict of interest form an integral part of the Operating Rules of the Broker Dealer Operations Department and shall come into force as of the date of receipt of the Securities Commission's Decision on granting the license for performing the activities of the investment company and shall be applicable seven days upon publishing on Bank's website www.kombank.com.

Member of the Executive Board

Lidija Sklopić

**Deputy
President of the Executive Board**

Dragan Santovac