APPENDIX 2

INFORMATION FOR RETAIL CLIENTS

I INFORMATION ON INVESTMENT COMPANY AND ITS SERVICES

1. Basic Data on Investment Company

Name:
Authorised bank Erste Bank a.d. Novi Sad – Broker-Dealer Department
Address:
Milutina Milankovića 11b, 11070 Novi Beograd
Business hours:
08:30 a.m.–04:30 p.m.
Telephones:
+ 381 11 220 91 79; + 381 11 220 91 81
Fax:
+381 21 489 06 31
E-mail address:
brokeri@erstebank.rs
Web address:
www.erstebank.rs
Number and date of resolution on granting permit for operation: Securities Commission Resolution number:
The Securities Commission Resolution number: **5/0-46-1860/5-12 of 27 September 2012**
Name of competent body issuing the permit: **Securities Commission of the Republic of Serbia**
Address of the authorised body issuing the permit: **Omladinskih brigada 1, Belgrade**
Date of acquiring the status of Central Registry member: **6 January 2004**
Date of acquiring the status of Belgrade Stock Exchange member: **19 May 2010**

2. Methods of communication with client, order providing and receiving, as well as of providing documents and other information by the company:

Client's communication with the Authorised Bank, as well as the receipt of documents and other data by the Authorised Bank shall be done in the Serbian language, and upon special Client's request, also in the English language.

The Bank will, in accordance with the agreement with the client, exchange the documentation relating to the executed services, activities or to ancillary services agreed between the Client and Authorised Bank to the address and/or e-mail address provided by the Client to the Authorised Bank, i.e. listed in the Agreement.

The communication method between the Client and Authorised Bank in the course of providing investment services upon the order shall be defined in the Agreement and Business Rules of the Authorised Bank. The receipt of the orders of the clients for securities trade shall be directly made by telephone, fax, or electronically if that is provided for in the agreement with the client while other documents may be exchanged, besides using the methods above, also by e-mail.

The Client shall immediately, within seven days, notify the Bank on the change of the addresses and other data relevant for notification as well as for executing the obligations of the Bank in the course of providing the investment or ancillary services or performing investment activity.

3. **Scope, frequency and periods of client notification on the services provided by the investment company:**

The Bank will notify the Client on any services provided to him, also including the costs relating to transactions and the services executed for the account of the client, on a case-by-case basis. Reporting scope and frequency are defined in the agreement with the client, i.e. the Business Rules are prescribed unless they are defined in the agreement.

4. **Brief description of methods of the protection of instruments and/or funds, general data on Investor Protection Fund:**

To protect the rights of its clients, the Authorised Bank, after obtaining the permit of the Securities Commission, shall hold the financial instruments, i.e. cash of the clients and maintain records, accounts, and correspondence regarding them in a precise and correct manner, while making reconciliation with the records and accounts of third parties holding the clients' assets, in such a manner that it may, at any moment, differ the assets of one client from the assets of other clients and the bank's assets.

The Authorised Bank will take any measures ensuring that the account of the financial instruments of the Authorised Bank with the Central Registry is maintained separately from the client financial instruments, as well as that any cash of the clients deposited with credit institution, whose part the Authorised Bank is, shall be held on the account or accounts which are different from the accounts used for holding the funds of the Authorised Bank.

In accordance with client protection, the Authorised Bank will pass and implement any necessary measures minimising the operational risk of client assets loss and decrease, i.e. the rights regarding the assets.

The Investor Protection Fund shall perform its activity for the purpose of protecting the investors whose funds or financial instruments are exposed to risk in case of bankruptcy or failure to settle the liabilities of investment service provider to the clients, when there is no outlook that the circumstances will significantly change in due time.

The investment companies, also including the AB, providing the investment services shall be the members of the Fund and they shall pay for initial contribution and calculate and pay contribution on a regular basis based on the percentage of the income from the activities and services referred to in Article 135 of the Capital Market Law

The client claims shall be insured up to the value of EUR 20,000 in RSD equivalent per client of the Fund member. The insured amount shall be applied to the total claims of the client from one Fund member, regardless of the account number and place, under the condition that such recovery shall relate to the funds in RSD and to the financial instruments.
The Fund shall pay the amount of the claims as soon as possible, but not later than three months following the date of determining the right to payment, i.e. the date of determining the claim amount.

The client of the Fund's member shall be natural person or legal entity having pecuniary claims in RSD from the Fund member based on the performance of the investment services and activities or claims based on the recovery of the financial instruments belonging to the Client, ran or managed by the Fund member for the account of the client regarding the provisions on one or several investment services and activities.

Exceptionally from the previous paragraph, the client entitled to indemnification from the funds of the Investor Protection Fund shall not include, regardless of the head office state:

- company;
- credit institution;
- financial institution, the entities which, for the purpose of operation on the financial market, subject to the obligation of approval and/or supervision by competent authority, the Republic, autonomous provinces, local authorities, as well as other sovereigns or national and regional bodies, National Bank of Serbia, and central banks of other states, international and supranational institutions
- insurance company;
- collective investment institution;
- investment fund management company, investment fund, pension fund management company, and pension fund;
- supranational institutions, government and central government, as well as provincial, regional, and local authorities;
- legal entity or natural person holding more than 5% of voting shares or capital of the Fund member who is not able to meet his liabilities, i.e. 5% or more voting shares or capital of the company closely related to that fund member;
- member of management or supervisory board of the Fund member who is not able to meet its liabilities if this is the person at the above position or employed at the Fund member on the date of instigating bankruptcy procedure over the Fund member, i.e. on the date of announcing of the Commission resolution on determining claims, or the person at that position was employed during current or previous financial year;
- family members and third parties acting for the account of the persons referred to in indents 8 and 9;
- the clients, auditors, or the employed persons of the Fund member responsible for the origination of the claims or who have used certain facts regarding the Fund member resulting in the financial difficulties of the Fund member, i.e. to the aggravation of his financial situation.

5. <u>Brief description of conflict of interest management policy:</u>

Due to the nature of the activity performed by Erste Bank a.d. Novi Sad (hereinafter: Bank) as the investment company, conflicts may arise:

- Among the interests of the Bank, relevant persons (including managers and employees, agents, or group members) or the persons related to the Bank, and the obligations Erste Bank has got to its clients.
- Between the various interests of two or more Bank clients

Relevant person means: the person with holding at the Bank, person at managing position at the Bank (members of Executive Committee or Managing Board of the Bank), Bank employees, as well as any other natural person engaged by the Bank to provide services within its competence.

Conflict of interest management at the Bank is defined in <u>Conflict of Interest Management Policy</u> of Erste Bank a.d. Novi Sad, which includes:

1. all of the determined circumstances which are or which may result in the conflict of interest at the detriment of one or more clients, regarding individual service provided by Erste Bank a.d. Novi Sad as the member of Erste Bank Group or for Erste Bank a.d. Novi Sad;
2. procedures and measures which Erste Bank a.d. Novi Sad shall apply to manage the conflicts of interest which may be at the detriment of one or more clients.

The conflicts of interest which may arise in the course of providing investment and finance services, as well as related services, shall be determined when there is a chance that:

- The Bank or relevant person may acquire probable financial gain, or avoid financial loss, at the expense of the client

- • The Bank or relevant person has got interest in the outcome of the service provided to the client, or from the transaction made on behalf of the client, which differs from the client's interest in that outcome
- The Bank or relevant person has got financial or other motive to favour the interest or other client or client group in relation to the client interests
- The Bank or relevant person performs the same business activity as the client
- The Bank or relevant person receives or will receive from the client who is not the client incentive regarding the service provided to the client in the form of money, goods, or services not relating to standard commission of fee for such service

Procedures and measures for the conflict of interest management are set up to:

- prevent or preclude any person to inappropriately impact the method in which the Bank provides investment services;
- eliminate any direct relation between the remuneration of the employees and other relevant persons at the Bank who are, to a high extent, involved in one business activity and remuneration and gains achieved by other relevant persons who are, to a high extent, involved in other business activity, if the conflict of interest may arise regarding such activities;
- prevent or ensure controlled exchange of the information among the relevant persons if the information exchange could affect the interests of one or more clients;
- prevent or ensure the supervision of simultaneous or consecutive participation of the relevant persons at the Bank in various services if such participation could have adverse effect to the conflict of interest management;
- ensure separate supervision over the relevant persons at the Bank whose primary position includes business activities for the client or provision of services to the clients whose interests may be conflicted or who otherwise represent different interests which may be in conflict, also including the interests of the Bank itself

The procedures and measures for the conflict of interest management, set up in the Conflict of Interest Management Policy relate to:

- set up of independent Compliance Division
- relevant Bank organisational structure
- set up of the so-called “Chinese Walls” among the defined units of confidentiality within the Bank
- independence/integrity of the Bank relevant persons implementing the activities with potential conflict of interest
- refraining from business opportunities/resignations to position and membership of the relevant persons
- obligatory information on external business activities to the Compliance Division by all Bank employees
- special regulations relating to securities transactions of the relevant persons for own account, i.e. the so-called personal transactions
- salaries, reimbursement, and other remuneration from employment
- Erste Bank a.d. Novi Sad Gift Policy
- policy of executing client orders
- conflict of interest reporting
- maintaining Conflict of Interest Registry (“Conflict Matrix”)
- maintaining conflict of interest watch list
- disclosing of the conflicts of interest to the clients
- general rules for disclosing of the interests and conflicts of interest by recommendation provider
- conflicts of interest recording

Unless the organisational or administrative principles set up by the Bank for the conflict of interest management are sufficient to, in a sufficiently convincing manner, ensure the prevention of risk of making

damage to the clients, the Bank shall clearly disclose the client the basic nature and/or sources of the conflicts of interest before entering into business relation with the client.
The disclosure includes informing the client on possible types and sources of the conflict of interest and it must include sufficient information based on which the client will be able to make decisions regarding the services within which the conflict of interest occurs.

The following are the integral part of Erste Bank a.d. Novi Sad Conflict of Interest Management Policy:

- Group Conflict of Interest Management Rulebook
- Bank Conflict of Interest Management Manual
- Compliance Guiding Principles including Rules for the Transactions of Relevant Persons for own Account
- Gift Policy
- Real Estate Compliance
- Extended Regulation for GCBI and similar Business
- “Chinese Wall Crossing” Procedure for Group Large Client Department, Small and Medium Enterprises and Large National Clients, Real Estate and Other Special Finance, and Investment Banking Department

II INFORMATION ON FINANCIAL INSTRUMENTS:

1. Financial Instrument Types

- Negotiable securities are any types of securities which may be traded on the capital market, excluding payment instrument. The negotiable securities specifically include:

  - Company shares or other securities equivalent to the company shares, which present investments in capital or in the voting rights of such corporate, as well as deposit certificates relating to the shares;

  - Bonds and other forms of securitised debt, also including deposit certificates relating to the above securities;

  - Other securities which ensure title to acquisition and the sales of such negotiable security or based on which payment may be made in cash, whose amount is determined based on the negotiable security, currency, interest rate, yield, goods, index, or other determinable values;

- Money market instruments are the financial instruments which are usually traded on the money market, such as:
  - Treasury bills,
  - Central bank bills,
  - Commercial notes,
  - Deposit certificate, excluding payment instruments.

- Collective investment institution units

- Options, futures, swaps, interest forwards, and other derivative financial instruments relating to the securities, currencies, interest rates, yield, as well as other derivative financial instruments, financial indices, or the financial measures which may be collected manually or in cash;

- Options, futures, swaps, interest forwards, and other derivative financial instruments relating to commodities, which:

  - must be settled in cash,

- may be settled in cash at the choice of one of the parties in agreement, due to the reasons which are not related to the failure to settle liabilities or agreement termination;

- Options, futures, swaps, and other derivative financial instruments relating to commodities and may be manually settled under the condition that they are traded on organised market, i.e. MTP;

- options, futures, swaps, forwards and any other derivative financial instruments relating to commodities, that can be physically settled, not otherwise mentioned in the previous paragraph of this point, and

    - not being for commercial purposes,
    - having the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls.

- Derivative financial instruments for the transfer of credit risk;

- Financial contracts for differences;

- Options, futures, swaps, forward rate agreements and any other derivative financial instruments relating to climatic variables, freight rates, inflation rates, emission allowances or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties otherwise than by reason of a default or other termination event, as well as any other derivative financial instruments relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Item which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or a MTF, are cleared and settled through recognized clearing houses or are subject to regular margin calls;

2. Types of Risks of Investment in Financial Instruments

Investments in securities and other financial instruments are always related to assuming certain risks. Basic risk types with the investments include:

Exchange Rate Change Risk (Currency Risk)
In case of investment in the financial instruments denominated in different currencies, the funds of the investor is exposed to the exchange rate change risk in relation to RSD, or other referential currency in which it measures its yield to its investment. This means that the exchange rate fluctuations may increase or decrease the investment value i.e. impact the yield.

Collection and Money Transfer Risk
Transactions with financial instruments which include the counterparties from different states also include additional risk that their realisation or collection is made difficult or completely prevented due to the introduction of restrictive political or economic measures. In case of the transactions with financial instruments in foreign currency such measures may, for example, prevent free convertibility of a currency.

Sovereign Risk
Credit risk of a state is called the sovereign risk. The sovereign risk occurs when executing transactions with certain country or in it, due to the lack of stability of economic, political, or social system. The exposure of a state to various political, economic, and other risks affects all of the participants on the markets of that state.

Liquidity Risk

Liquidity (marketability) means the possibility of the sales of a security or closing of position in a financial instrument at market price at any moment. In case of illiquid market, giving order for the sales of usual volume may result in significant price fluctuations, and it is also possible that the order may not be executed at all, or it may be executed only at significantly lower price.

Credit Risk

Credit risk is the probability that the counterparty involved in transaction (e.g. securities issues, or the person with whom the transactions on the financial markets are entered into) will not be able to settle his liabilities, either partially or fully. This is, for example, related to the payment of coupon rate, recovery of due principal, and the like.

Interest Rate Change Risk (Interest Rate Risk)

Interest rate change risk is the possibility of loss in case of changing the level of interest rates on the financial markets (e.g. the growth of required interest rates on the market may result in the fall of the price of debt securities).

Financial Instrument Price Change Risk (Market Risk)

Market risk is the possibility of the fall of price of individual financial instruments which may result in the decrease of yield of investor portfolio value loss. In case of financial instrument transactions which include a future liability (for example, futures agreements, currency forwards, and the like), unfavourable price change may result in additional financial liabilities, such as, for example, the obligation of insurance instrument additional charge.

Complete Loss Risk

This type of the risk includes the possibility that an investment fully loses its value.

Operational Risk

The Operational Risk is the risk of loss due to errors, interruption, or damages which may result from inadequate internal procedures, person's action, systems, or external events, also including the risk of legal framework change.

The Authorised Bank shall develop and apply relevant policies and procedures for operational risk measurement and management, also including the events which are not frequent, but which have got significant impact, and determine what the operational risk is comprised of in sense of those policies and procedures. The Authorised Bank shall adopt the plan in case of contingencies and business continuity plan ensuring the business continuity and the restriction of the losses in cases of significant business disturbance or interruption.

Finance of Securities Buying by Borrowing (Financial Leverage Risk)

The investment where the selection of the funds for investment obtained by borrowing includes the increased risk of losses. Namely, the profitability of an investment does not impact the obligation of debt repayment, and the costs of such finance impact the investment in such a manner that they decrease generated yield. Therefore, the finance of the investments through a form of borrowing should be cautiously dealt with.

Tax and other Regulations Change Risk

Regulations change risk is the probability that tax or other regulations in the country of investor and/or in the countries in which the investor's assets are invested are changed in such a manner to have adverse impact to the yield. Any investor should, before making decision on investment, consult his tax advisor. Regulation change risk is completely outside the Bank's scope of impact.

3. Risks Relating to the Financial Instrument which May Subject to Investment Service or Activity Provided by the AB

SHARES

Risks Relating to Investment in Shares

Shares are equity instruments, with which the buyers acquire ownership over a part of enterprise. The most important rights acquired by the share owners include the right to dividend payment and voting right at the general meeting.

Yield
The yield to the investment in shares includes the paid dividends, and the difference between buying and market price of share, and it may be foreseen in advance. Dividend is the enterprise profit distributed to shareholders. The amount of the dividend to be paid to the shareholders must be expressed in the absolute amount per share, or in the percentage of share nominal value, and it is decided upon at the general meeting. The ratio between the paid dividend and share market price is called yield dividend. The major part of the yield from investment in shares is usually generated from the change of their market price.

Market Risk

Shares of public companies are traded on the organised market. Share price is defined by the ratio of offer and demand on a daily basis. When investing in shares, it should be taken in consideration that such investments may also result in significant losses. In general, share price depends on operating results of certain joint stock company, as well as on general economic climate and political conditions. The change of share price, and, consequently, the generated yield, is impacted by many subjective factors like public opinion or investors' expectations.

Credit Risk
Shareholders have got holding in joint stock company which means that, in the event of insolvency or bankruptcy of the company, their investment may fully lose its value.

Liquidity Risk
Marketability of some shares may be restricted, especially during market crises. The shares listed at lower stock exchange quotes are, as a rule, characterised by poorer liquidity than those at higher quotes.

BONDS

Risks Relating to Investment in Bonds

Bonds are the type of debt securities binding an issuer to repay borrowed funds within certain term, and to repay certain interest to principal, in accordance with bond terms and conditions. The bonds are traded at stock exchanges or directly between market participants.

Besides classic bonds with pre-defined fixed interest and the obligation of the repayment of the whole principal at maturity, there are also other bond types, such as the bonds with variable interest, convertible bonds, zero coupon bonds, bonds with embedded warrants, etc.

Yield

Bond yield includes the interest to principal and difference between bond purchase and market price.
Consequently, yield to bond may be determined in advance only in case the bond is held to maturity. In order for the expected yield to bonds to be comparable, different standard measures of bond yield expressed as percentage per annum (e.g. yield to maturity) are used. If the level of such calculated requested yield of an individual bond is significantly lower than the required yield of other bonds with similar maturity, there are certainly reasons for that – the most common reason is significantly higher level of the credit risk of the issuer of such bond.
If the bond is sold before maturity, its price may not be determined in advance, which means that the yield may differ from the originally expected one. Also, when calculating the total yield to bond, it is necessary to take transaction costs in consideration.

Credit Risk

Credit risk relates to the probability that bond issuer will not be able to settle its due liabilities i.e. it occurs in case of its insolvency. Therefore, the debtor's creditworthiness must be taken in consideration when making investment decision.
Credit rating (issuer's creditworthiness assessment) passed by some of independent rating agencies provides certain guidelines relating to credit risk assessment. The highest credit rating is, for example, "AAA", and it is allocated to the bonds of financially most powerful states. The lower the issuer's credit rating is (e.g. "B" or "C"), the higher the credit risk is, but, also, the requested investor's yield to such bonds is higher due to the so-called "risk premium".

Market Risk

If bond is held to maturity, the investor is paid the price at maturity, defined by the bond conditions. It is also necessary to take in consideration the risk of "revocation", i.e. the possibility that the issuer withdraws the bond before maturity (such possibility must be known and forecast in advance in bond conditions).
If the bond is sold before maturity, the investor achieves market price formed by the ratio of offer and demand. As a rule, the prices of bonds with fixed coupon interest fall when required market interest rates to the bonds of similar maturity rise, and vice versa, the growth of the bond value may be expected in case of the fall of required interest rates to the bonds with the same maturity. Bond market price may also be impacted by issuer's credit rating change.

Liquidity Risk

Bond liquidity depends on many factors, such as the issue volume, remaining time to maturity, market rules and conditions. Some bonds are very difficult or even impossible to be sold, thus, they must be held to maturity.

DERIVATIVE FINANCIAL INSTRUMENTS

Risks Relating to Investment in Derivative Financial Instruments

Derivative financial instrument is the instrument whose value is based on the value of another underlying instrument. Instead of trading the underlying instrument, the parties in the agreement are bound to exchange money, underlying agreement which is the agreement subject matter, or another value, on a certain date or within certain term, based on the value of the underlying instrument. Various financial and non-financial instruments and volumes may be used as the underlying instruments: individual shares, stock exchange indices, stock exchange commodities, interest rate, etc. The volume of transactions of derivative financial instruments continuingly increases on the world money and capital markets, and market participants continuingly create new types of such instruments based on new and increasingly diverse underlying instruments and formulas for discharge.
Basic types of the financial instruments are futures agreements, forward agreements, options, and swaps. Derivative financial instruments are used for the purpose of protection from risk of underlying instrument price change (hedging), for speculative purposes, and for various arbitration types. It is important to emphasise that the derivative financial instruments provide an opportunity of generating high earnings, but also of high losses. Since it is mostly not necessary to pay in advance full value of the underlying instrument which is the transaction subject, but cash flow exchange is carried out in the future based on the pre-defined formula, the derivative financial instruments ensure the use of high financial leverage degree which significantly increases the risk of such investment type. In addition, besides the risk of full investment, the risk may also be even higher, i.e. theoretically even unlimited.

Risks Relating to Investment in Option, Futures, and Forward Agreements
Options are the financial derivatives under which buyer is entitled, but not bound, to buy or sell certain volume of an underlying instrument at the agreed price (strike price) on a certain date or during certain

time period. If the option may be executed only at maturity, this is European option, while American option enables holder to exercise it at any moment to maturity. In exchange for the right to exercise the option the option price (the so-called premium) is paid. There are two basic types of options: call options and put options.
Call option, in exchange for paid premium, entitles buyer to buy underlying instrument at the strike price on certain date or during certain time period.
Put option, in exchange for paid premium, entitles buyer to sell underlying instrument at the strike price on certain date or during certain time period.
Futures agreement is standardised agreement traded at stock exchange, in which buyer or seller is bound to buy or sell certain volume of the underlying instrument at certain price on certain date in the future.
Forward agreement is like the futures agreement the instrument by which the buyer or seller is bound to buy or sell certain volume of the underlying instrument at certain price on certain date in the future. Basic difference between the futures agreement and forward agreement is that the forwards are not traded at the stock exchange in standardised form, but they are entered into directly between market participants. This results in some forward agreement inherent risks.

Option Buying and Selling
In case of buying call or put option, the right to buying or selling the underlying instrument or, in some cases, the right to receive certain amount of funds which equals the difference between the strike and market price of the underlying instrument at the moment of option exercising, is bought. In the event of the underlying instrument price movement in the direction contrary to option buyer's expectations, the option loses its value, i.e. it may fully lose its value at maturity. Accordingly, maximum potential loss of option buyer equals paid option premium. Complete loss of option value at maturity occurs with call option if the market price of the underlying financial instrument is lower than the option strike price, and with put option if the market price of the underlying instrument is higher than the option strike price.
In case of the sales of call or put option, the seller is bound to deliver or buy the underlying instrument at the strike price at any moment to maturity (if this is the American option) or at maturity (in case of the European option) if the option buyer decides to exercise the right from the option.
In the event of the underlying instrument market price rise, the call option seller may be in the situation that the underlying instrument must be delivered at the moment when its market price is significantly above the strike price. If the underlying instrument price falls, the put option seller may be in the situation that he must buy the underlying instrument at the price significantly higher than the market price. The difference between the underlying instrument market price and strike price is the potential loss of the option seller, thus, it may not be forecast in advance, and in some cases the theoretical loss may even be unlimited.

Futures Agreement Buying and Selling
Futures agreement is the standardised agreement traded at stock exchange under which the buyer or seller is bound to buy or sell certain volume of the underlying instrument at certain price on certain date in the future. The difference between the strike and market price represents possible loss. In the event of obligatory buying of the underlying instrument, total amount of the funds necessary for its buying must be available at maturity. In the event of assuming the obligation for the delivery of the underlying instrument which is not owned by the entity having such obligation ("non-covered short position"), the instrument needs to be bought on the market at maturity, meaning that the potential risk may not be forecast in advance, and the loss may theoretically be unlimited.

Credit Risk, Liquidity Risk, and Option Collection Risk
Options may be traded at stock exchanges, their conditions are standardised, and the execution risk is assumed by the stock exchange, or it is directly assumed among individual market participants (the so-called over-the-counter or OTC market). OTC options do not have standardised conditions, those are rather the products adjusted to the requirements of individual investors. This is the actual reason why, before the decision on buying or selling, it is necessary to collect and study in detail any information on option conditions (option type, exercise, maturity, etc.). Credit risk for OTC option buyer results from the

possibility of the failure to settle the counterparty liabilities. As a rule, the OTC options are not traded on the organised (secondary) markets. As a result, there is also no guarantee that they will be marketable at any moment.

Due to FX restrictions and other measures which may hamper free money movement in some states, the possibility of executing the agreed transactions from option agreements may be questionable. Option value (price) depends on the strike price, underlying instrument yield and volatility, remaining term to the option maturity, interest rate level, and market situation. The worst case scenario may be that the option becomes worthless, thus the option buyer may fully lose invested capital (i.e. the cost paid for the option). In the event of the underlying instrument price movement in the direction unfavourable for the option seller, potential loss for him may be unlimited.

Payment in Cash

If the delivery or buying of an underlying instrument is not possible (e.g. in case of options on indices or futures on indices), there is the obligation of payment – if market expectations have failed to be met – of cash amount equal to the difference between option strike price or futures agreement strike price and the underlying instrument market value at the moment of exercising option or futures agreement. The difference is the potential loss, which may not be forecast in advance, thus it, theoretically, may be unlimited. Account should also be taken that it is necessary to ensure sufficient liquid funds to be able to execute the transaction.

Initial Margin and Margin Call

The sales of non-covered options or buying or selling of the futures agreements requires the use of collateral, most often cash or underlying instrument. After initial margin payment, in case of unfavourable movement of the underlying instrument market price, the initial margin needs to be increased, i.e. margin call occurs. In case of failure to meet the margin call, open positions are automatically closed, and the payments made until that moment are used for loss cover.

Collateral margins to maintain open positions may require significant funds from the investors in the derivative financial instruments.

Position Closing

Option and futures positions may also be closed before maturity, however, this possibility depends on market conditions. In case of non-satisfactory movements on the market, such transactions may be executed only at non-favourable prices which results in loss.

Other Risks of Option and Futures Agreements

The options mean the rights as well as the obligations, while the futures agreements mean only obligations, with standardised maturity and execution date. Transactions with the derivative financial instruments, which include both options and futures agreements also include additional risks, especially:

the options which are not executed or closed before maturity expire and consequently lose their value,

if the margin call is not made in time, there is position loss, and the funds paid up to that time are used to cover the liabilities, unfavourable movements on foreign currency markets may impact the increase of the risk with the trade of the futures agreements and options denominated in different currencies.

Credit Risk, Liquidity Risk, and Forward Agreement Execution Risk

Contrary to the futures agreements, which are traded with at stock exchange, the forward agreements are entered into directly between market participants. This means that the counterparty of the buyer or seller from the forward agreement is not the stock exchange, but the participant, which significantly increases the risk i.e. the risk that the counterparty will not be able to settle its liabilities. Besides, the system of initial margin including margin call is, as a rule, not used for the forward agreements, thus, the loss of one party in the agreement until the agreement maturity may significantly rise additionally increasing credit risk.

One of the most frequently used types of the forward agreements includes currency forward agreements. Due to FX restrictions and other measures which may hamper free money movement in some states, the possibility of executing agreed forward transactions may be questionable.

Risks Relating to Investment in Swaps
Swap agreements are the derived financial instruments used by two parties in agreement to agree on the swap of one cash flow with another. Cash flows, which are not swapped in practice, are often calculated based on notional principal amount. Besides basic swap types, such as currency and interest swap, there are many other combinations, such as swaptions (the option with the right to agree swap), etc. Swaps are often used to protect certain risks, for example, interest rate change risks.

Currency Swaps
Currency swap is the exchange of two currencies within certain time period. Difference in interest rate between two currencies is reflected in the premium/discount of forward rate used for the exchange of the currencies in the future. The delivery and receipt of the currencies subject to the swap are performed on the same date.

Yield
Yield (profit / loss) in case of the currency swap results from the change of interest rate differential between the agreed currencies during the swap, and it is realised executing opposite transaction before the currency swap maturity.

Credit Risk
Credit risk relating to the currency swap transactions is the possibility of default, due to insolvency, of one of the parties involved in the currency swap.

Execution Risk
Due to FX restrictions and other measures which may hamper free money movement in some states, possibility of executing agreed transactions from the currency swap may be questionable.

Interest Rate Swaps
The exchange of interests between two parties at different interest rates applied to the notional principal amount is agreed in the interest rate swaps. Most often, one party pays fixed interest to another party which pays variable interest, both payments are denominated in the same currency and they relate to the same principal amount. Therefore, only the amounts of the interest, excluding principal transfer, are actually exchanged.

Yield
The buyer of the interest rate swap, who pays fixed interest rate generates profit in case of the increase of market interest rates. The interest rate swap seller, who receives fixed interest rate, generates profit in case of the fall of market interest rates. Yield to the interest rate swap may not be determined in advance, and it depends on the changes of market interest rates.

Interest Rate Change Risk
Interest rate change risk results from uncertainty of the future movements of market interest rates. The buyer (seller) of the interest rate swap generates loss in case of fall (rise) of the market interest rate.

Credit Risk
Credit risk for the buyer of the interest rate swap is the possibility of counterparty default.

Special Interest Rate Swap Characteristics
The interest rate swaps do not have standardised conditions, those are rather the products adjusted to the requirements of the parties participating in the swap. Therefore, it is necessary to collect and study complete information and conditions of the interest rate swap, especially those relating to the principal amount, maturity, and agreed interest rates.

Risks Relating to Investment in Warrants

Warrants are the securities entitling holder to call warrant or put warrant of certain underlying security (e.g. share) at pre-defined price (strike price). The warrants are usually traded at stock exchange, but also over-the-counter.
The warrants are issued at standardised conditions, because of which it is necessary to collect complete information on all of the conditions relating to individual warrant, especially on:
- method of execution: whether warrant may be executed at any moment (the so-called American option) or only at maturity (European option)
- ratio of subscriptions: how many warrants are necessary to get the unit of underlying security
- execution: payment in cash or underlying security
- maturity: at which moment does the right from option mature

Yield
The buyer of call warrant "ensures" buying price of the underlying security for himself. In addition, he will earn in case the market price of the security exceeds warrant strike price. Of course, the price at which the warrant has been bought should be deducted from earning. "Warrant" holder may realise his right of buying underlying security below market price and, at the same moment, sell the security at current market price. Since, as a rule, in case of the increase of the price of underlying security, the warrant value increases, instead of realising his right of buying, the warrant holder may realise his earning selling the warrant on the market. The same logic, but in opposite direction, may be applied to the put warrants: their value increases in case when the value of the underlying security falls.
The yield which may be generated with warrant transactions may not be determined in advance. In case of unfavourable movement of the underlying security price and failure to realise the rights from the warrant, it is possible to fully lose the investment value.

Market Risk
Apart from the price of the underlying security, the price of the warrant is also impacted by other factors, among which, the most important include:
- underlying security price volatility
- remaining time to warrant maturity
Because of that the warrant price may remain unchanged or even fall also in case that the price of the underlying security moves in accordance with the investor's expectations. Buying of the warrants close to maturity or those which are related to a highly volatile security is, in general, considered highly speculative, as well as the buying of the warrant with high level of financial leverage.

Liquidity Risk
Warrants are usually issued in limited number, which increases the liquidity risk. For this reason, individual warrants may subject to rather sudden price changes.

III PROTECTION OF CLIENT FINANCIAL INSTRUMENTS AND CASH

1. Client Cash

Client cash paid for the purpose of buying and selling financial instruments may be held on client account with the AB opened and maintained as a specific escrow account in accordance with the regulations on payments or on the account of any commercial bank which is the Central registry member.
Any client cash deposited with the AB is held on the account or accounts which are different from the accounts used for holding cash of the AB

The funds on the client pecuniary account may not be included in the assets of company in liquidation or bankruptcy of investment company or credit institution whose part the Authorised Bank is, or use them for the payment of the investment company or credit institution liabilities.

The funds from the client pecuniary account:

- are used only for the payment of liabilities regarding the services performed for the client;
- are not used for the payment of liabilities of other client;
- are not used for the payment of liabilities of investment company.

In the event of investment in the financial instruments abroad, if the AB deposits the client money with a bank abroad, it shall, when selecting the bank where the client funds will be deposited, take into account the same conditions as in the course of the selection of foreign financial instrument custody bank.

2. Client Financial Instruments

Investment services of order receipt and transfer, i.e. order execution, shall be executed by the AB without holding the financial instruments subject of the order. The financial instruments bought on the organised market in the Republic of Serbia are deposited with Central Securities Depository and Clearing House which, in accordance with the provisions of the Capital Market Law and Securities Central Registry, executes the clearing and settlement of the transactions executed on the organised market in the Republic of Serbia, and maintains the accounts of dematerialised securities on which client's bought financial instruments are held.

The AB's account of financial instruments with the Central Registry is maintained separately from the financial instruments of its clients

The AB shall use the financial instruments from client accounts only based on client order, and it must not:

- deposit or dispose of the financial instruments owned by the client without his prior authorisation in writing;
- use the financial instruments of the client for the payment of its liabilities, as well as of the liabilities of other clients.

Client financial instruments may not be included in the assets of company in liquidation or bankruptcy, or be used to pay the Authorised Bank's liabilities.

In case of investment in the financial instruments abroad, the financial instruments are maintained on omnibus account with international custodian. When selecting the international custodian on whose accounts the financial instruments of its clients will be held, the AB shall take into account the expertise and market reputation of the custodian, that the custodian is subject to the regulations which, in that state, govern the custody of the financial instruments for the account of other person, and periodically reviews the selection of the custodian and agreed arrangements for holding and custody the client financial instruments.

Exceptionally, the AB may deposit the client financial instruments with the custodian in the country where the holding and custody of the financial instruments for the account of other person are not specifically regulated only if the nature of the financial instrument or investment service relating to the above instrument requires the custody with the custodian in that state and if professional client requires in writing the depositing of its financial instruments with the custodian in that state.

When depositing the assets with foreign custodian, the AB takes into account that the financial instruments and cash are held in the manner ensuring that they are separated from the assets of the foreign custodian or AB, that they are not included in their liquidation or bankruptcy assets, or that they may be the subject of execution regarding the collection of claims to the international custodian or AB.

The AB will take due care that the client's assets with third party are deposited as stated above, but it may not assume liability if such protection level may not be achieved taking in consideration legal conditions and market practice, and, in such case, it will warn the client of the resulting risks, and the client will assume the risks of holding the financial instruments and funds on the market which does not ensure sufficient protection if he agrees in writing about the assets depositing under such conditions.

The risk which may result from holding of the financial instruments on the omnibus account shall be decreased by the AB by updating the records of clients' assets, payments, and turnover under pecuniary account, turnover and balance under the accounts of financial instruments, on a regular basis. Also, within its organisation, the AB shall apply the internal control measures to avoid the risk of inadequate administration, improper record keeping, and misuse or negligence in the operation.

IV DATA ON CHARGES AND FEES

Any data on the charges and fees of any of the services and activities provided and performed by the Authorised Bank are listed in Rulebook on Tariffs of Authorised Bank (herein Rulebook on Tariffs).

Any client or potential client is presented the above Rulebook on Tariffs when agreeing the above services and activities, and it is available and presented on the Authorised Bank's web page.

The Rulebook on Tariffs:
- determines total cost the client shall pay regarding the financial instrument or service, including any related commissions, fees, and other charges, as well as any payments through the investment company;
- determines the basis for the calculation of price, in cases when the total cost may not be stated;
- notify the clients that there is possibility of charging other costs, including taxes or other payments, relating to the financial instrument transaction or service, which may arise for the client, but which are not payable through the investment company or not imposed by the investment company;

Method of charge and fee payment shall be determined in the agreement entered into with the client, and it may be in cash or cashless (through the client's account), after the execution of the agreed service or in advance.

The currency of payment for the services rendered in Serbia is RSD, and in case the service of the financial instrument buying and selling abroad is rendered, the service of international custodian and related charges shall be paid in the currency which is legal tender in the country of the custodian's registered office