

APPENDIX 1

RULEBOOK ON CLIENT CATEGORISATION

1. CLIENT CATEGORISATION

1.1. Authorised Bank (AB) will, before service provision, classify the clients into certain category, in accordance with Law on Capital Market and acts of Securities Commission. This categorisation will be implemented by the AB based on the information available regarding client's:

1. investment goals;
2. knowledge and experience;
3. financial position.

1.2. The AB will, through permanent medium (in hardcopy, electronically) notify each client on:

1. client category he is classified in;
2. level of interest protection to be provided to him;
3. possibility to require the classification in other client category, as well as on any changes of the protection level resulting from such decision.

2. CLIENT CATEGORIES

The AB may classify its clients into the category of:

- professional clients
- retail clients

2.1. Professional Client

Professional client means a client who possesses the experience, knowledge and expertise to make his own investment decisions and properly assess the risks that he incurs meeting requirements set by Law.

The professional client, regarding any investment services and activities and financial instruments, shall include:

- 1) entities which are required to be authorized and/or regulated by the competent regulatory authority to operate in the financial market such as:
 - a) credit institutions
 - b) investment firms
 - c) other financial institutions whose operations are authorized or supervised by the competent supervisory authority
 - d) insurance companies

- e) collective investment companies and their management companies
 - f) pension funds and management companies of such funds
 - g) commodity derivatives dealers
 - h) as well as other entities supervised by the competent authority
- 2) legal persons meeting at least two of the following requirements:
- a) total assets amounting to minimum 20,000,000 euro;
 - b) annual net income amounting to at least 40,000,000 euro;
 - c) own funds amounting to minimum 2,000,000 euro;
- 3) Republic, autonomous provinces and local self-government units as well as other states or national and regional bodies, the National Bank of Serbia and central banks of other states, international and supranational institutions such as the International Monetary Fund, the European Central Bank, the European Investment Bank as well as other similar international organizations.

2.2. Retail Client

All clients, legal entities and private individuals, who, according to the Law and Commission acts, as well as based on their investment goals, knowledge and experience, financial position, do not belong to the category of the professional clients shall be classified as the retail clients.

3. CLIENT INTEREST PROTECTION LEVEL

3.1. Professional Client Protection

As a rule, level of the professional client protection is lower in relation to the level of the protection provided to the retail clients.

When providing services to a professional client, investment company may deem that the client:

- 1) has got sufficient knowledge and experience in the area of investment in certain types of financial instruments or services, and/or knowledge and experience necessary to understand the risks related to transaction of its portfolio management, and/or services, transactions, types of transactions or instruments for which he is classified as the professional client;
- 2) may, within investment advisory provided by the investment company, financially sustain any investment risks in accordance with its investment objectives.

The professional client shall not be entitled to indemnity from the funds of Investor Protection Fund.

3.2. Retail Client Protection

Retail clients shall enjoy higher protection, because they do not have sufficient knowledge and experience on investment in financial instruments and risks related to such investments, therefore, the AB will, before entering into agreement, inform on and present the retail clients:

- 1) services provided by the AB, defined under the Law, acts of the Securities Commission, and AB Rules of Business

- 2) financial instruments, their nature, and risk types related to certain financial instrument;
- 3) protection of financial instruments and cash of the clients in case when the AB holds the financial instruments and cash for the account of the client;
- 4) charges and fees of the AB, market operator, Securities Commission, Central Registry, third parties in Serbia and abroad (the information in detail is included in the Information for Retail Clients set up on the Bank's web site)

Retail client is entitled to indemnification from the funds of the Investor Protection Fund in case of bankruptcy of the credit institution (the AB is part of) up to the amount of EUR 20,000 in RSD equivalent. The indemnification shall include the following claims:

- 1) monetary claims in dinars owed by a Fund Member to a client or belonging to a client, and which are held on behalf of the client in connection with investment services referred to in Article 134, Para. 1 of the Law
- 2) claims for restitution of financial instruments belonging to a client of a Fund Member and held by him, administered or managed on behalf of the client in connection with investment services and activities referred to in Article 134, Para. 1 of the Law;

4. CATEGORY CHANGE

Before providing the service, the AB will notify the client, based on the information on that entity available to the AB, that he is classified into certain category and possibility to request category change and, in accordance with that, to ensure relevant protection level.

4.1. Category Change of the Client Classified as Professional Client

The AB will, upon the client's request, ensure a treatment involving a higher level of protection or a treatment provided to other clients that are not professional clients.

The AB will, prior to service provision, on the basis of the information available to the AB, inform him that he is deemed to be a professional client and will be treated as such.

The AB will inform the professional client that it can request a variation of the terms of the agreement in order to secure, on its request, a higher level of protection of its interests whereas it is the responsibility of the client, considered to be a professional client, to ask for a higher level of protection when it deems it is unable to properly assess or manage the risks involved.

Higher level of interest protection must be provided when the professional client enters into agreement in writing with the investment company specifying that it does not want to be treated as the professional client, and such agreement must clearly define whether it relates to one or several services and/or transactions or one or several types of the financial instruments and/or transactions.

4.2 Category Change of the Client Classified as Retail Client

The AB may treat also other clients as professional clients at their own request and when assesses that such a client has got sufficient experience, knowledge, and expertise, so that, in light of the nature of the transactions or services envisaged, the client is capable of making its own investment decisions and understanding the risks involved.

The clients treated as the retail clients may, upon personal request, waive the benefits of a higher level of protection provided by their status in compliance with the following procedure:

- 1) the client notifies the investment company in writing that it wishes to be treated as a professional client, either generally or in respect of a particular investment service or transaction, or type of transaction or financial instrument;
- 2) the AB will unambiguously and in writing warn the client on the protection of interests and rights to be compensated from the Investor Protection Fund they may lose;
- 3) the professional client shall, in a separate document from the agreement, state that he is aware of the consequences of losing such level of protection.

Before deciding to accept any request for waiver of the protection, the AB will take all reasonable steps to ensure that the client requesting to be treated as a professional client meets the relevant requirements. The assessment should evaluate whether the professional client meets at least two of the following criteria prescribed for the qualified investors:

- 1) he has carried out transactions on financial market at an average frequency of, at least, 10 per quarter over the previous year exceeding the value of EUR 50,000 in each quarter;
- 2) the size of the investor's securities portfolio exceeds EUR 500,000 in dinar equivalent;
- 3) the client works or has worked for at least one year in the financial sector in a professional position which requires knowledge of securities investment

4.3. The clients shall, in a timely manner, notify the AB on any fact, which could affect their current categorization.

4.4. When it determines that the client no longer fulfils the initial condition, which made the client eligible for a professional treatment, the AB will take appropriate actions to change the client category

5. TRANSITIONAL AND CLOSING PROVISIONS

This Rulebook shall be an integral part of the Authorised Bank's Rules of Business. It shall come into force after obtaining prior consent from the Securities Commission of the Republic of Serbia to the Authorised Bank's Rules of Business, and it shall be effective seven days following the date of announcing on the Authorised Bank's Internet page. ERSTE BANK AD NOVI SAD

Executive Committee

Slavko Carić

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