



KOMERCIJALNA BANKA AD BEOGRAD

RULES

On Execution of Orders of Broker-Dealer Department of
Komercijalna Banka AD Beograd (Authorised Bank)



Executive Board
No. 19259
Date: 10.09.2012

Pursuant to Article 31 of Komercijalna Banka AD Beograd Articles of Association (the revised text), and in accordance with the Law on Capital Market (Official Gazette No. 31/2011) and regulations of the Securities Commission, on 10.09.2012, the Executive Board of Komercijalna Banka AD Beograd adopted the following

RULES ON EXECUTION OF ORDERS OF BROKER DEALER DEPARTMENT OF KOMERCIJALNA BANKA AD BEOGRAD

I. INTRODUCTION

General Provisions

Article 1

The Rules of Execution of Orders of the Broker Dealer Department (hereinafter referred to as: the Rules), are the mechanism which ensures undertaking of all necessary activities in order to achieve the most favourable method of customer's order execution, taking into account the elements and criteria set forth further in this document.

The Broker Dealer Department shall deal with the customers' orders in accordance with the provisions of these rules, thereby committing itself to achieve the realization of orders under the best conditions always, except if the customer defined his order in a different way of his own free will.

When providing the services that involve negotiation, receipt and transfer of orders to realization, the Broker Dealer Department shall always act with due professional care and seek to protect its customer's interests adequately.

Scope of Application

Article 2

The Rules shall apply to services provided by the Broker Dealer Department when negotiating the purchase and sale of the financial instruments, or the receipt, transfer and realization of the customers' order in both regulated and non-regulated financial markets i.e. multilateral trading platforms (hereinafter referred to as: MTP), of which the Broker Dealer Department is a member, and in accordance with the provisions of the relevant regulations.

The provisions of these rules shall not apply when the customer freely expresses the will to define the execution of order according to his own instruction with regards to certain transactions. If the Broker Dealer Department receives an explicitly defined order from the customer, such order shall be executed in accordance with the order instruction, regardless of the elements and criteria concerning the conditions of the most favourable execution of order. In such situations, there is no obligation of the Broker Dealer Department to act in accordance with these Rules.

Purpose and Goal

Article 3

The goal of these Rules is to establish:

- The criteria for determining the importance of various elements in the execution of order relevant to the performance under the best conditions for the customer,

-
- Elements and criteria for determining which trading places enable the Broker Dealer Department to consistently achieve the best conditions when executing the customers' orders,
 - Types of transactions and circumstances under which the Broker Dealer Department may deviate from the operating method anticipated by these Rules, in order to achieve the conditions of the most favourable execution of transaction for the customer,
 - Measures and procedures regarding handling the customer's order,
 - Measures to monitor the effectiveness of procedures and mechanisms for the execution of the customers' orders under the best conditions.

The provisions of these Rules shall not substitute the provisions of the Agreement for Provision of Investment Services, Operating Rules of the Broker Dealer Department of Komercijalna Banka and other internal regulations and procedures of Komercijalna Banka A.D. Beograd (hereinafter referred to as: the Bank), nor the provisions of the applicable regulations governing this matter, but rather describe and supplement the legal instruments referred to above.

II. MEANING OF CERTAIN TERMS

Article 4

Certain terms used in these rules have the following meanings:

Broker Dealer Department – organisational unit of the Bank authorised to conduct broker dealer activities.

Customer – any natural or legal person to whom the Broker Dealer Department provides services related to trading with financial instruments, and classified as either small or professional customer.

Order – statement of the customer's will submitted to the Broker Dealer Department, which instructs the stated Department to buy or sell the financial instruments, on behalf of and for the account of the customer or on its own behalf and for the account of the customer.

Regulated market – single information system for trading in financial instruments, managed by the market operator that possesses the authorisation of the competent body for its activity, and allows matching of the third persons' interests and concluding agreements on sale and purchase of the financial instruments, in accordance with the pre-defined rules of operation.

Multilateral trading platform (MTP) – single information system managed by the investment company or another organizer, allowing matching the offer and demand concerning the financial instruments of several interested third parties. Matching the offer and demand unfolds in accordance with pre-defined rules and results in concluding of agreements between the parties, in accordance with the provisions of the Law on Capital Market.

Non-regulated market (OTC) – every other market of the financial instruments in which trading unfolds though contracting bilateral agreements without pre-defined rules.

III. CRITERIA AND ELEMENTS TO EXECUTE ORDERS UNDER THE BEST CONDITIONS

Elements of the Best Execution

Article 5

When executing orders, the Broker Dealer Department shall take all necessary activities to achieve the best execution of orders, taking into account the following elements relevant for the execution:

- Price,
- Costs, speed and the possibility of realization,
- Costs, speed and likelihood of settlement,
- Size and type of order,

-
- All other circumstances relevant for the execution of orders.

When the Broker Dealer Department executes orders according to the explicit instruction of the customer (for example, place of execution, price...), the obligation of acquiring the most favourable outcome for the customer shall be considered fulfilled.

Criteria of the Best Execution

Article 6

The Broker Dealer Department determines the priority of the above-specified elements, taking into account the following criteria:

- Characteristics of the customer, including the classification to small or professional customer,
- Characteristics of the customer's order,
- Characteristics of the financial instrument to which the order relates,
- Characteristics of the place of trading in which the order can be executed.

Realization of orders on a regulated market and MTP of which the Broker Dealer Department is a member is the best execution of orders for customers, in the view of the Department.

When the Broker Dealer Department executes order of a small customer, achievement of the best execution shall be primarily determined in relation to the total cost of transaction. Total cost of transaction includes the price of the financial instrument and all costs directly related to the execution, which include the brokerage fee, market fee, transaction clearing and settlement fee and all other fees paid to the third persons involved in realization of order. In order to additionally protect the small customers' interests, the Broker Dealer Department may consider the type of order and the likelihood of settlement, all to the effect of ensuring the most favourable execution of the transaction for a small customer.

In executing the professional customer's order, the Broker Dealer Department may additionally take into account the speed and likelihood of settlement, size and type of order, market influence, and type of the financial instrument, transparency and all other circumstances of importance for the execution of order in the specific case.

The Broker Dealer Department shall not give priority to the market in which the execution of transaction would impose an additional financial burden on the customer.

IV. PLACE OF ORDER EXECUTION

Article 7

In providing services of order execution and/or receipt and transfer on behalf and for the account of the customer, the Broker Dealer Department shall choose the place of execution that enables the execution under the most favourable conditions.

In general, the place of order for purchase / sale of the financial instruments can be:

- Regulated market,
- Multilateral trading platform (hereinafter: MTP),
- Non-regulated market (hereinafter OTC market)
- Foreign market that performs functions similar to those described above.

When it comes to foreign markets, the Broker Dealer Department shall always use the logarithmic method of trading, if available. If this trading method is not available or the customer does not wish to use it, the best places of the execution of order in given time will be presented to the customer. In such a case, the customer shall directly decide about the

place of order execution. Determination of the place of the execution is considered to be an explicitly defined order, whereby the Broker Dealer Department fulfils its obligation to achieve the most favourable outcome for the customer.

Execution of Orders on a Regulated Market

Article 8

Pursuant to these Rules, the Broker Dealer Department shall primarily execute orders of the customers on the regulated markets, or MTPs, of which it is a member, if that is the best outcome for the customer in terms of the total cost of transaction, and unless the customer explicitly requests otherwise.

If a customer issues an order for a financial instrument that is listed on only one market, the Broker Dealer Department shall execute or transfer the order in question (either directly or indirectly) to that particular market, which shall be considered as the execution of order under the most favourable conditions.

If the Broker Dealer Department receives an order for purchase/sale of financial instruments listed in two or more regulated markets or MTPs of which it is a member, the order in question shall be executed in the market which provides the most favourable total cost of transaction, unless the customer explicitly requests otherwise, and by doing so, the Broker Dealer Department shall take into account all relevant circumstances in terms of the type and size of order, such as:

- The most favourable total cost of transaction,
- Direct control over the speed of order entry and the possibility of executing the order,
- Direct insight into the speed and likelihood of settlement,
- Other circumstances related to order realization.

Execution of Order on Non-regulated Market

Article 9

The Broker Dealer Department can execute customers' order on the OTC market as well, if financial instruments are not listed on regulated markets, or if they are listed, but the customer requires realization of his order by concluding bilateral agreement on the non-regulated market (OTC).

When realizing the order in the OTC market, the Broker Dealer Department shall be guided by the principle of execution of orders under the best conditions for the customer.

Execution of Orders through Partners

Article 10

Orders for purchase and/or sale of financial instruments that are traded in markets of which the Broker Dealer Department is not a member, the Department shall receive and transfer to third subjects – partners with which it has signed cooperation agreements, and which have direct or indirect access to these markets, acting in accordance with the Rules of Execution of Orders under best conditions. In that case, orders shall be executed in accordance with the Partner's Rules of Execution of Order, which means that, in accordance with these Rules, the customer's order may be executed in other markets, i.e. MTP or OTC markets, as an order executed under most favourable conditions.

When selecting a partner, the Broker Dealer Department shall consider their qualitative approach to execution of orders, which includes:

- Compliance of the partner's operations with the provisions of the MiFID Directive, which includes the principles of order execution under best conditions,
- Number of markets the partner has access to (directly and/or indirectly) and scope of trading in these markets;
- Dynamic model of comparing execution of order elements in the real-time, under best conditions, with emphasis on: total cost of transaction, possibility of order execution, order execution speed,

-
- Reputation, financial strength and stability of the partner.

If, in order to execute the order, it is necessary to engage a partner who is not required to adopt the rules of the most favourable outcome for the customer, the Broker Dealer Department cannot guarantee ensuring the best execution to the customer, pursuant to these Rules.

When selecting a partner, the Broker Dealer Department shall not give priority to those partners who would additionally burden the customer without justification, when executing the transaction

V. DEALING WITH THE CUSTOMER'S ORDER

Article 11

The Broker Dealer Department shall provide timely and correct execution of the customers' order by the time of order acceptance and shall undertake the following measures and proceedings:

- Record data on order receipt without delay,
- Accept customers' order in accordance with the proscribed documentation, unless there are circumstances that make the order inadmissible,
- Put up and execute all Customer's orders according to the time and schedule of receipt in terms of the similar orders, and to market them without delay, unless doing so is not in compliance with the Rules of Order Execution or impossible due the market conditions, or if the Customer explicitly defined the order to be executed otherwise,
- Transfer customers' orders according to the time and schedule of receipt and deliver the order to its partners in accordance with technical and operational capabilities, unless the Customer explicitly defined otherwise,
- Promptly and properly record information on introducing the order to the market or transferring the order to its partners,
- Properly and without delay record all data of order execution for the customer's account,
- Take all reasonable measures in order to ensure that all financial instruments or cash funds of the customer are timely and properly transferred to the appropriate account of the customer,
- Inform the customer on executed transaction,
- Inform the customer without delay about all potential difficulties in relation to the execution of order,
- Throughout the trading process continually, control the admissibility and validity of order in accordance with the applicable regulations and market practice.

When the Broker Dealer Department trades with financial instruments for own account, it shall fully comply with the afore-listed measures and proceedings, i.e. it shall treat the order for its own account in the same way as any other professional customer's order, abiding by the Rules on Prevention of Conflict of Interest.

The Broker Dealer Department shall not misuse the information in connection with unrealized customers' order, and shall take all reasonable steps in order to prevent misuse of such information, in accordance with the Rules on Prevention of Conflict of Interest.

VI. REQUIREMENTS RELATED TO ORDER EXECUTION

Article 12

At the customer's request, the Broker Dealer Department shall reveal the information, which proves that the customer's order has been executed in accordance with these Rules, or in accordance with explicitly defined order of the customer. Such request can be submitted to the Bank at the following address:

Komercijana Banka AD Beograd
Securities and Financial Markets Division – Broker Dealer Department
29 Makedonska St
11000 Belgrade

VII. NOTIFICATION AND APPROVAL OF CUSTOMER

Article 13

Before providing services to a new customer, the Broker Dealer Department shall present to such potential customer all contract documents for review and signature, these Rules included. By signing the contract documents, the customer is considered to be timely notified and in agreement with these Rules, in terms of execution of all transactions.

If the customer wishes to send his consent to the rules for each individual transaction executed on MTP or OTC, he undertakes to deliver the Bank such consent promptly, in writing, before the execution of order.

The Broker Dealer Department undertakes to make these Rules available on the internet page (www.kombank.com), in the branches and sub-branches authorised for broker / dealer transactions and in the premises of the Broker Dealer Department of Komercijalna Banka.

VIII. MONITORING AND EVALUATION OF THE RULES' EFFICIENCY

Article 14

The Broker Dealer Department shall continually monitor the efficiency of these Rules in relation to the quality of order execution and shall assess at least once a year whether they provide measures and procedures for execution of order under best conditions for the customer. If necessary, it shall review these Rules. The purpose of review and monitoring of the efficiency shall be to determine and correct any potential deficiencies.

Any change in the evaluation procedure applying to these rules or measures for execution of orders, the Bank shall make available on its internet address www.kombank.com – as customary method of notification, as well as in the branches and sub-branches authorised for broker/dealer transactions and in the premises of the Broker Dealer Department of the Securities and Financial Markets Division within seven days prior the day of implementation.

The amendments to the Rules shall apply as from the entry into force, and it shall be deemed that the customer accepted them by signing the contract documents and submitting the first following trading order, unless the customer informs the Bank otherwise.

IX. FINAL PROVISIONS

Article 15

The Rules of Order Execution are an integral part of the Operating Rules of the Broker Dealer Department, and shall enter into force on the date of receiving the Decision of the Securities Commission on Issuing the Investment Company Operating Licence, and shall apply seven days after the publication on the Bank's web-site www.kombank.com.

Executive Board Member

Lidija Sklopić

**Executive Board
Deputy President**

Dragan Santovac