

EA SISTEM

d.o.o.

Company for the provision of investment services and carrying out investment activities and related ancillary services

GENERAL TERMS OF EA SYSTEMS INC FOR THE PROVISION OF INVESTMENT SERVICES

General terms of providing investment services are set and put forward by the board of directors of the EA SISTEM INC, Karlovac based on the Securities Market Act, article 77. (Official Gazette 88/2008.), Modifications and amendments of the Securities Market Act (Official Gazette 146/068) and other existing applicable subordinate regulations

Karlovac, January 2009

Gažanski trg 8/III, 47000 Karlovac Phone. 047-415-890; fax: 047-415-891
Subscribed capital in the amount of 6.000.000,00 Kn fully paid. Board of directors: Žaran i Anka Perić
Signed in the register of the Commercial court in Karlovac under number Fi – 453/1990-2
Karlovačka banka d.d.(for regular business) 2400008-1190055056,
HYPO Alpe Adria Bank(investor's account): 2500009-1301133405
www.easistem.hr
ea.sistem@ka.t-com.hr

1. BASIC PROVISIONS

In these General terms for taking, transfer and execution of the order for the purchase and selling the financial instruments the following terms have the following meaning:

General terms: General terms of EA SISTEM Inc for taking, transfer and execution of the purchase and sale of financial instruments

Order: Accepted order put in the book of orders

Investment company: EA SISTEM Inc as an investment company authorised to offer investment offers and activities and other accompanying services (hereinafter: company, client) in compliance with the Law of the capital market NN 88/08, 146/08 (hereinafter LCM)

Client: legal or natural person or legal entity which issued an Order to the investment company for the purchase or sale of the financial instruments

Financial instrument: Certain financial instrument concerning the Order

Amount: The exact number of financial instruments concerning the Order

Price: The set price for the amount of financial instruments concerning the Order

Book of orders: book of orders kept by the Investment company in compliance with LCM and accompanying subregulations, in which specific data about certain Order are written

Tarif: The decision of EA SISTEM Inc about the fees

The parties in the Order are: The client and EA SISTEM Inc as the investment company

These General terms are applicable to a business arrangement of EA SISTEM Inc as the Investment company and the client when they use the investment service of taking and transfer of the order concerning one or more financial instruments or executing the order for the account of the Client for the purchase or sale of one or more financial instruments. These General terms supplement the Contract on providing investment services concluded between the Company and the Client and are its integral component together with all its future changes.

By accepting the Order the Investment company is obliged to provide the Client with the investment service of taking and transferring the order concerning one or more financial instruments and/or executing the order for the account of the Client for the purchase and sale of one or more financial instruments, all this in compliance with the instructions given in the Order and terms given in these General terms, and the mutually agreed Contract about providing investment services and the law.

For the given service, the company has the right to charge a fee according the the Tarif.

2. THE OBLIGATORY CONTENT OF THE ORDER

The order is accepted by the investment company if written in the Book of orders.

The order has to comprise of:

1. The type of order (purchase or sale)
2. Date and time of the order execution if the Client does not want it to be executed immediately
3. Name, surname, address, identity card number, or passport number for a foreign citizen – if the Client is a natural person, in case the Client is a legal person – company, registration number, headquarters, full name of the authorised person, and the Client's residence
4. Client's categorisation in accordance with SMA
5. The Client's financial instruments account code
6. The type, code, ISIN of the financial instrument at the depository clearing company
7. The amount of the financial instruments
8. The price, in units for the bonds in HRK and 1/100 HRK, or in foreign currency for the purchase or sale of foreign financial instruments, and for the debt securities in the percentage of their nominal value
9. The expiration date of the order

3. CLIENT OBLIGATIONS

The client is, in order to fulfill the order, obliged to:

- a) For the purchase order – pay to the Investment company enough money necessary to execute its order, aggrandized by the accompanying fee and expenses and
- b) For the sale order – give at the Investment company disposal free and uncharged financial instruments which are the subject of the Order.

4. FEE

The investment company has the right to charge a fee (provision) for executing the Order in compliance with the Tarif valid at the time of issuing the Order. Tarif can be seen on the business premises of the company. The investment company will at any time, when necessary, give the Client the Tarif together with all the necessary explanations. The client, by issuing the Order confirms he is familiar with the Tarif.

The Tarif consists of the total price or the base for the calculation of the total price which the Client needs to pay concerning the financial instrument, investment or other services. The client is warned of the possibility of other expenses besides the fee which belongs to the company, and which includes taxes and some other deductions connected with the transactions of the financial instruments which were executed by the inter-mediation of the Company, and which cannot be

paid or imposed by the Client. The Client has to take care of such and other expenses and their timely payment by itself.

5. DEADLINE

The order lasts till the period indicated in the Order itself, but no longer than 60 days from the acceptance of the Order, unless the Client specifically asks for the longer period and the Investment company accepts it, unless being canceled or refused prior to that.

6. CANCELLATION AND REFUSAL OF THE ORDER

The Client can cancel the Order in part which has not been fulfilled yet at any time in a way **at which the Order can be given under condition the recall of the already issued Order can be done.**

The investment company can refuse to take the Order or to cancel already accepted Order in part which has not been fulfilled yet when the Investment company evaluates that by accepting the Order it would suffer damages or if it or its workers would be in danger of offence or criminal responsibility, or would, by fulfilling the Order damage the integrity of the market or break the rules of ethical behaviour at the financial instrument's market, and in situations when there are significant difficulties connected with normal execution of the Order. The Client will be notified about the above mentioned situations and the way the Order can be given.

7. TIME AND WAY OF GIVING THE ORDER

The order can be given to the Investment company in Croatian or English in

- a) written form (by fax, email, personal visit to the Investment company)
- b) orally (by phone)

The oral Order is given by phone to the broker in the Investment company. The proof of the oral order will be the recording of the telephone conversation with the Client. The client explicitly accepts all the mutual phone conversations between him and the Investment company to be taped and are in connection with issuing the Order for purchase or sale of the financial instruments, giving notifications, warnings, adequacy assessment and all other businesses which are in connection with investment services and are the subject of these General terms. The client is compliant and will allow for the recordings and tape-scripts of these telephone conversations to be used without any further permission as a proof of giving an order, the content of the order contract, executed assessments, warnings and notifications to the Client as well as all the other things concerning the subject of the investment services, before HANFA (Croatian agency for regulating financial services) and all the other authorized institutions and courts.

The order can be issued on a work day between 9 am and 4 pm, Croatian time.

8. THE PRICE AT WHICH THE ORDER IS EXECUTED

1. The execution of the limited order

The limited order of the Client is the order for purchase or sale of specific amount of financial instruments at the price stated in the Order or at the price which is more favorable for the client. The price at which the Investment company will execute this Order is set according to the price of the financial instrument in the Order as

- Maximum price (at purchase), or
- Minimum price (at sale)

The company is obliged to disclose accepted limited order in a way which will make it easy to be accessed by the other participants, by putting such Order on the Market system, with the possibility of execution when the market conditions allow it. In case the subject of the limited order is a simple financial instrument with which is traded in an organized fashion at the Zagreb Stock Exchange, the Company will disclose such order immediately at the Zagreb Stock Exchange market system, unless the Client did not give specific instructions to do otherwise.

The Investment company is obliged by the Order to act in such a way to, in case the entire order is fulfilled, the price at which the financial instruments have been obtained is:

- At purchase order – lesser or equal to the maximum price
- At sale order – greater or equal to the minimum price

2. Executing the market order

The market order of the Client is the order to buy or sell a certain number of financial instruments at the market price.

Such order is fulfilled at the market price, when the market price is the one achieved by merging the Client's offer with counter offers already existing at the market system of the relevant market, while the entire amount stated in the order is not fulfilled. If there are no more counter offers in the system that the market order could be merged with, the remaining amount is deleted. When executing the market order, the investment company will proceed in compliance with its Policy of order execution which the Client has to accept prior to it.

3. The policy of order execution of the Investment company

The entire Policy which the Investment company applies at executing the orders can be found in the attachment of these General terms as the annex A. The Client is obliged to get acquainted with the content of the Policy prior to issuing the order.

4. Stock trading suspension at Croatian stock exchange markets

The Client is warned to pay attention to Regulations concerning stock trading suspension at stock exchange markets in Croatia (Official Gazette, 114/06, 55/07).

These Regulations prescribe the stock trading suspension at the Croatian stock exchange markets in cases when the transactions by the prices which exceed the boundaries of price range are being executed. This is also applicable when unusual trading patterns can be seen. In that case, the investment company will warn the client that disclosing its order to the Stock exchange can cause trading suspension of a certain stock. If the Client, after being warned, still persists on his order, the company will disclose the order.

9. THE METHOD OF FULFILLING THE ORDER

The investment company is obliged to carry out its duties in compliance with received instructions, as a good businessman, staying within the boundaries of the Order. It is also obliged to protect the Client's interests and handle them with care. The investment company will further undertake actions necessary for the process of settlement and payment for the Client's transactions, according to the rule of SKDD (Central clearing and depository company) Inc.

The investment company is not responsible for the success in the process of settlement.

If the investment company thinks that carrying out the Order according to the instructions in it would be harmful for the Client, it is obliged to get the client's attention and seek new instructions. The investment company can back out from the instructions written in the Order only if it believes, based on all the circumstances, that the client's interests demand it and when due to the shortness of time or other reasons, it was not possible to seek client's approval.

In compliance with Article 71. of SMA, the client is warned that the Investment company will not perform the estimate if the instruments, and given or offered jobs are suitable for him and that it does not have the protection benefit according to the rules of business conduct as stated in LCM, if the Order is for the trade of shares already on the market or organised public market (or other corresponding market of the third country – the third world county markets are considered the same as the stock exchange or organised public market in Croatia if it has a permission issued by the authorities.), bonds or other form of security debt, shares in open investment funds and other simple financial instruments.

10. THE PRIORITY OF AN ORDER

When carrying out its obligations based on the Order, the investment company is obligated to follow the priorities from the Book of orders. The priority of certain Orders is determined using the order from the Book of orders, so that the Order which was accepted earlier has the advantage over the Order accepted later. In compliance with the above stated, the Investment company will disclose the orders at the certain organised market or system. The order of fulfilling the Orders (making transactions with financial instruments which are used to execute the Order) depends on the market conditions, the instructions the client gave to the investment company in the Order and the strategy which the investment company uses in order to execute the Order in the most convenient way for the Client.

11. DELIVERY OF ORDER EXECUTION TO THE THIRD PARTY

The Client explicitly allows the Investment company to allow the execution of the order to some other investment company which is licensed to perform investment services and activities, according to the laws of the county it is based in. In the case of allowing the execution of the order to the other party, the investment company is obliged to check if the alternative company has a valid license to perform investment services and activities. Further more, in compliance with the instructions of the Client, the investment company is obliged to forward to the third party the same order as previously accepted by the client.

12. ORDER LOG

The orders are put in the order log. The log of orders is carried out in the electronic form. The data kept in the log are considered a business secret. The data found in the log can be given to governmental bodies, supervisory units and courts if they are authorised for that. The data found in the order log can be given for submission to persons who perform internal or external audit and the control of the Investment company, perform book-keeping services, maintain the computer system of the Investment company or make computer software for them and other persons who can come in possession of these data when performing their functions or work for the company or in the company. All the above stated persons will be previously warned to keep confidentiality of data contained in the order log.

13. RISKS

The business of buying and selling financial instruments carries certain risks. These risks cannot be entirely counted, and are mainly comprised of unexpected changes of prices of financial instruments, the impossibility of the publisher of the financial instruments to execute responsibility he took over by those instruments, additional obligations and limitations the state imposes to the owners of the financial instruments, such as various tax duty, changes in market

liquidity of certain financial instruments, risks connected with telecommunications and other connections, availability of other stock exchange markets and other.

By issuing an order, the client confirms that he is aware of the risks involved in the financial instrument market, and that the Investment company had previously put at his disposal all the data and information he asked for, and that all his questions regarding market circumstances and financial instruments the orders involves, had been satisfactory answered. He also confirms that the Investment company delivered and explained the document called 'Financial instruments – presentation of basic characteristics and accompanied risks', which can be found in the annex of these General terms as an Annexe B

14. CLIENT REPORTING

The Investment company will, without delay, inform the Client about the execution of every Order, or part of the Order in a way mutually agreed between the parties (by mail, fax, email) to the address or the number decided by the Client, but the latest till the first working day upon the receipt of the statement from that third party. The investment company is obliged, at the Client's request, to hand him the statement from the Order log which refers to his transactions.

15. FINANCIAL INSTRUMENTS AND MONETARY MEANS OF THE CLIENT

The investment company will act following Clients' orders regarding financial instruments and/or monetary means which the company received or are at its disposal as a result of partial execution of the order or non-execution of an order. The Client and the investment company can agree that mentioned financial instruments and/or money be used to fulfill new orders. In case of any other different use of Client's financial instruments, the Investment company will prior to any action inform the Client with its policy to use financial instruments of the clients and obtain written compliance of the Client, except in the case when the claims of the Company need to be settled. The loan of the client's financial instruments is possible only with his explicit written consent.

Monetary means of the Client are kept on a special account, group type 13

The company may make clearing accounts of the Client toward the Company from any account of the Client in the Company, when such claims come from or are connected to investment services which are the subject of these General terms. The Client agrees and allows for all the monetary means and financial instruments found at the Investment company to be considered financial insurance in favor of the Investment company according to the business relationship which the Client and the Company have thanks to mutually agreed Contract on providing investor's services. Therefore the Investment company can consider them financial insurance for any damages which may occur in case the Client acts opposite to mutually agreed Contract on providing investment services.

The company is a member of the Investor compensation fund

The Investor compensation fund (hereinafter: Fund) is a separate subject introduced to the Croatian capital market based on provisions set in Act of capital market (Official Gazette 88/08, 146/08, 74/09, hereinafter CMA). Its purpose is the protect the investor's claims, not all but only those which are members of the Fund. The claims refer to the ones the Fund itself us not capable of paying and/or return to its client. The Fund is run by the Central Depository and clearing company Inc. (hereinafter: The provider and/or SKDD). Investor is a client, a member of the Fund whose claims are protected and it is basically about every physical or legal person whose means, in compliance with provisions of CMA, a Fund member keeps, administrates an manages for its client, all this in connection with the service every member has contracted with its client.

The claims of the investor are protected when the member of the Fund is not capable of paying back and/or return funds to its clients, in these two cases:

1. when the Fund member is undergoing insolvency proceeding
2. if HANFA determines that the member is not capable of fulfilling the financial obligation toward its Clients, in a way not to be able to fulfill the monetary obligation and/or return financial instruments he kept for the Client's account, administrated or managed them, and it is not obvious that these circumstances will change in any foreseeable future.

The Fund ensures the following client's claims:

1. monetary claims in HRK and currencies of the EU member states - here we are dealing with monetary claims which a Fund member owes to its client or which belong to the client, and which that Fund member keeps for the client concerning the investment services which he has contracted with him,
2. financial instruments which belong to a client of a Fund member – here we are dealing with financial instruments which the Fund member keeps, administrates or manages with it for its client's account, concerning the investment services he has contracted with the clients.

However, it is important to say this as well:

1. keeping the means understands disposition of client's financial and monetary means.
2. administrating the means understands the service of storage and administration of financial instruments for the client's account, including business custody and connecting services (such as managing monetary means, or insurance instruments)
3. the administration of means understands managing the portfolio account as well
4. the positions which are registered at the securities account with the member of the Fund (the participant member of SKDD) are not considered to be keeping, administrating or managing the financial instruments and are not protected by the Fund.

The claims of the investor are secured up to the most of 150 000 HRK by client of Fund member. All protected claims up to that amount will be paid in full.

The secured amount includes interest rates up to the day of insolvency proceeding over the Fund member or the day of HANFA statement release stating the onset of the case.

For detailed information about the work of the Investor compensation fund contact Central Depository and clearing company Inc. – www.skdd.hr

16. MEMBERSHIP

The Investment company is a member of the Zagreb Stock Exchange Inc, Central Depository and clearing company Inc. and the Investor compensation Fund.

17. TRADING AT FOREIGN STOCK EXCHANGE

The investment company offers the services of international trade of financial instruments through the third party, or business network of the Hypo Group (hereinafter: Global broker), in a way that it checks the principal's order, respectively, forwards all concerning the Article 11. of these General Terms and Policies for executing the order to the Global broker.

Every purchase or sale order of the foreign financial instruments can be refused by the Investment company, in case the Investment company evaluates it is not capable of executing the order for whatever reason. The Client authorises the Investment company to appoint the Global broker to execute its order for purchase or sale of foreign financial instruments.

The Client is warned that trading which includes foreign financial instruments can be connected with additional risks and expenses, namely: currency exchange risk, the risk of executing the order via the mediator or the deputy, the political risk of the country where the order is being done, tax risk, respectively tax deductions for keeping foreign financial instruments, the inflation influence, inability to issue an order or execution of the Order due to the state holidays and similar.

The procedure of settlement as well as its deadlines at the foreign trade markets are subject to law, stock exchange rules as well as the organised markets and local clearing company, respectively depositories in which the transaction had been made. The investment company is not responsible for the possible damages experienced by the Client which occurs due to work or errors of domestic register of the financial instruments, the Custody society, Global broker, stock exchange, respectively organised market, multilateral system, market operators and others. By issuing the order for the execution of the same at the foreign markets of the financial instruments, the Client confirms that he is aware of all the previously stated additional risks, and that he accepts them.

The currency conversion is done according to the Hypo Alpe Adria exchange rate at the day of the payment/payout.

The purchase and sale of securities at the foreign stock exchanges is done following the 'Law on foreign exchange operations.' (hereinafter: the Law) which is under jurisdiction of the Croatian National Bank.

The basic provisions of the Law are:

1. business activities between residents and non-residents in foreign currencies and HRK
2. business activities between residents in foreign currencies
3. one-sided transfer of the assets from the Republic of Croatia and in the Republic of Croatia which do not have the signs of business activities between residents and non-residents.

In this respect, the Law states that the authorised companies are those companies which have the permission to work issued by HANFA, and do business with securities according to the provisions of the Capital Market Act.

The authorised companies can, based on law provisions, perform transaction including securities and derivatives at the foreign market.

Securities are considered to be all the securities according to the Capital Market Act

- (1) Securities, traded at the capital market, in the legal sense, are stocks, bonds and other debt securities issued with the payment date longer than one year.
- (2) Securities, traded at the money market, in the legal sense, are short –term securities issued with the payment date up to one year, such as treasury notes, treasury bills, deposit certificates and bank acceptance, and long term debt securities whose remaining payment date is within one year.

The society performs capital business in a way to buy and sell securities at the capital markets worldwide.

Jobs with securities include:

1. issuing, listing and sale of domestic securities abroad
2. issuing, listing and sale of international securities in the Republic of Croatia
3. residential investments in securities abroad
4. non-residential investments in securities in the Republic of Croatia

Payment and collection in foreign means of payment between residents and between residents and non-residents in the Republic of Croatia are permitted in cases provided by laws or the Croatian National Bank decision.

When buying and selling securities – the transfer of the cover for buying foreign securities, respectively, the transfer of paid amount of the sold foreign securities, between investor's account and the one of authorised company.

Jobs with derivative financial instruments

- (1) the provisions of the Law are applicable to the jobs with derivative financial instruments, and which are referred to jobs which are the base for jobs with derivative financial instruments.
- (2) Croatian National Bank can prescribe conditions for performing jobs with derivative financial instruments abroad.
- (3) Provision of point 2. of the article does not apply to the banks, investment companies, investment funds, insurance companies, pension funds and other financial institutions whose business activities are regulated by laws.

Residential investment in securities abroad

Jobs with securities are performed according to the regulations which shape the securities market.

- (1) Residents who have a status of a legal entity list, pay, buy and sell securities abroad through the authorised company or through the participants at the foreign stock exchange and organised public market.
- (2) Residents, natural persons, and entrepreneurs, individuals, list, pay, buy and sell securities abroad only through an authorised company.
- (3) Residents not stated in point 5. can buy abroad securities which are issued by the members of OECD and international financial institution as well as domestic securities. For other securities which residents from the article above can buy, Croatian National Bank can set a rating and the issuing country as well as the market and organised public market at which they are listed.
- (4) Ways and terms of business activity from point 1., 2. and 3. are regulated by the Croatian National Bank.
- (5) Banks, investment funds, insurance companies, pension funds and other financial institutions whose business activities are regulated by special laws can buy securities abroad according to that law.

Issuing, listing and sale of foreign securities in the Republic of Croatia

Issuing, listing and sale of foreign securities at the capital market in the Republic of Croatia are allowed only if it is in compliance with acts regulating business activities concerning securities in the Republic of Croatia. .

The finance minister can issue conditions for issuing, listing and sale of all the foreign securities at the capital market in the Republic of Croatia.

Payment and transactions based on the capital business

- (1) Payment and transfer based on the capital business are free if the business was concluded and registered in compliance with the Law and if all the tax payments, arising from the business had been made in the Republic of Croatia. Extremely, the article 20., line 2 of

the Foreign exchange operations act is applicable to transfer profit abroad, which non-resident made by direct investment.

- (2) Bank is not allowed to carry out the order for the payment abroad based on profit payout from the direct investment and based on the payout of the remaining liquidation or insolvency mass if such payment would be contradictory to point 1.

The reporting obligation

Residents are obliged to, in accordance with the provisions of the Law and other regulations, report to the Croatian National Bank all the activities done abroad. The authorised companies, Central depository and clearing company Inc, banks, notary public and custom authorities are obliged to report to the Croatian National Bank of all the business activities of the third parties concluded with parties abroad, which they find about through its regular business activity, in compliance with the provisions of the Law and other regulations.

Supervisory book

The residents are obligated to keep the supervisory book about the payment and collection in operations concerning the current and capital transactions abroad, regardless if they need to put down data from the supervisory book in some other documents and lists they are obliged to keep according to other regulations.

Reporting about operations with securities

Authorised company and custody bank have to inform Croatian National Bank about all the operations of the residents concerning securities abroad and about all the operations of non-residents with securities in the Republic of Croatia.

Residential issuers of debt securities are obligated to inform the Croatian National Bank about the issuing and sale of these securities abroad.

18. DESCRIPTION OF RULES OF BEHAVIOR IN ORDER TO PREVENT THE CONFLICT OF INTEREST AND COMPLAINTS ON THE WORK OF THE INVESTMENT COMPANY

The investment company issued Regulations about preventing the conflict of interest which regulates the circumstances that present or can lead to possible conflict of interest, all at the expense of the client. It also points the procedures and measures which the Company, as an investment company undertakes in order to prevent the conflict of interest, the existence of which can be harmful to the clients.

Following situations may represent a particular conflict of interest:

1. Investment company and / or relevant persons could achieve financial gain or avoid a loss to the detriment of the client

2. Investment company and / or relevant persons have an interest or benefit from the outcomes of work undertaken for a client or transactions made on behalf of the client, which is different from the client's interests;
3. Investment company and / or relevant person has a financial or other motive for the facilitation interests of another client or group of clients to the detriment of the client's interests;
4. Business subject of the contractor or relevant person is the same as the item of business clients;
5. Investment company and / or relevant person receives or will receive from a person who is the client an extra boost on the work performed for the client, in terms of money, goods, services, and the like, and what is not the usual commission or fee for this work

"Relevant person" in relation to the Company is : a person who has privileged information who is employed by the Company, the Company's board of members, persons with proprietary interests in the company, employees of the Company, and any other individuals whose services are made available to the Company, all persons involved in investment services and activities that the Company provides and performs, people who are directly involved in providing services to the Company pursuant to an agreement on separation of business processes with the aim of offering and providing investment services and activities, people in blood relations to the above mentioned persons such as:

- relevant person's spouse or any person who, under national law is as equivalent to spouses,
- dependent child or stepson of the relevant person and any other relative of the relevant person, who had lived in the same household with a relative person for at least one year from the date of personal transactions.

In order to prevent conflicts of interest we have identified situations which may incur in the performance of investment services and have established measures that are considered adequate to prevent conflicts of interest. Investment company has formed an internal policy and work procedures that apply when carrying out transactions with financial instruments, which were made respecting the laws and all laws adopted thereunder. Policies and work procedures and organizational structure of the Investment Company prevent the occurrence of conflict of interest especially for the purpose of existence: barrier of Information. the so-called Chinese walls

Organizational unit which performs tasks that are subject to these General Conditions is structurally, organizationally and in accounting sense separate from other organizational units of the Company and within the organizational units which carry out transactions with financial instruments there are departments from which the unit has also separated thus disabling circulation of privileged information between different departments or units

Furthermore, in accordance with the existing organizational structure of the company all the other organizational units are organizationally mutually separated.

Informing the client about the conflict of interest

In cases where the rules of procedure prescribed by the Regulations on the prevention of conflicts of interest and the policies and procedures of the Investment Company are not sufficient to reasonably ensure the prevention of occurrence of conflicts of interest, investment company as an authorized company will notify the customer about the type and source of conflict of interest before doing business. In cases where Investment Company deems that it is not possible to prevent conflicts of interest, it may refuse to accept the order.

In the event that the Client estimates that the possibility of conflict of interest is possible and it can be detrimental to his financial interests, he may, at any time give up the cooperation with the Company, in accordance with the contract-based relationship.

Complaints to the work of the Investment Company

Client Investment Company may make complaints to the work in writing to the address of the EA Sistem Inc / Investment Company, Gažanski trg 8/III, Karlovac. Investment Company will strive to process complaints received within seven days from receipt thereof.

19. CONTACT INFORMATION FOR THE INVESTMENT COMPANY:

EA SISTEM d.o.o.
Gažanski trg 8/III
47 000 Karlovac
Tel: 047/415-890 E-mail: ea.sistem@ka.t-com.hr
FaX: 047/415-891
Web stranica: www.easistem.hr

The account for the advance payment: 2500009-1301133405

Description of payment: advance for stock purchase

Model:12

Call number: Your JMBG (identification number) or OIB up to 2010.

Investment Company reserves the unilateral right to change contact information which will inform the client by putting notices on its website www.easistem.hr

20. ENTRY INTO FORCE

These General terms come into force on June 30, 2009. On the effective date of the General Conditions shall cease to apply general conditions of orders to buy or sell securities from 2007

21. EMPHASIS, CHANGE OF THE TERMS

These Terms are displayed in public in the premises of the Investment Company and on the website www.easistem.hr
Investment Company may at any time unilaterally amend these General Terms. All changes will be posted on the EA Sistem www.easistem.hr Inc.

Appendix A

POLICY OF EXECUTING THE ORDER

EA SISTEM Inc. (The "Company") Investment Company is authorized to provide, inter alia, the following investment services:

1. receipt and transmission of orders in relation to one or more financial instruments
2. to execute orders on behalf of clients
3. portfolio management
4. custody jobs and related services

This policy is an overview of measures and actions which enable the Bank timely and correct handling of customer orders to buy or sell financial instruments.

1) THE MEANING OF CERTAIN TERMS

Warrant - a statement of intent addressed to the Client Investment Company to act for him (in his own name and on behalf of the Client) to buy or sell financial instruments.

The accepted order is the contract between the client and the Investment Company which is obliged to take actions in order to execute the Agreement on the purchase or sale of financial instruments in accordance with an order for the Client and to Client's account and the Client agrees to pay a fee.

Simple financial instruments including equities, money market instruments, bonds, shares in open-end investment funds and other instruments in accordance with Art. 71st Capital Market Act.

2) PRIORITY ORDER

When carrying out its obligations arising from the register of accepted orders, the Company is obliged to comply with orders comparable to the order of priority from the register. Priority is determined by the order of comparable order of acceptance, so that a warrant which had earlier been accepted has a priority before an order accepted later. The order of fulfillment the orders (the conclusion of transactions with financial instruments that are used to execute orders) depends on market conditions, the instructions given by the client company in order, the type of client, type of financial instrument, and policy execution the Company uses, shall apply to an order to be carried out in the manner most convenient for client.

3) EXECUTION OF LIMITED WARRANT OF THE CLIENT

Limited Client order is an order to buy or sell a specific amount of financial instruments in a particular market at the price specified in the order or the price that is affordable for the client.

The Company is obligated to publish accepted limited account without delay, in a manner easily accessible to other participants, exposure to such orders on the trading system market, with the ability to run when the appearance of market conditions occur.

In the event that the subject of a limited warrant is a simple financial instrument that is traded on the Zagreb Stock Exchange, the Company will incur such an order without delay at the Zagreb Stock Exchange trading system, unless the client has not explicitly given different instructions. In the event that the subject of a limited warrant is a simple financial instrument that is traded on foreign markets, the Company will forward such an order without delay to the execution of the Global broker, all in accordance with the General Conditions of the Company to receive, transmit and execute orders to buy or sell instruments.

The client is explicitly warned that the Company in performing above described order and will not apply a policy of best execution of the order, which follows further in the text. The reason for this is because limited order is executed pursuant to explicit instructions of the Client and therefore, the obligation to achieve the best outcome for the client is considered fulfilled.

4) PERFORMANCE OF MARKET ORDER OF THE CLIENT

Client market order is an order to buy or sell a specific amount of financial instruments at market price. Such an order is executed at the market price, where the market price is the one that is achieved through a merger with the opposite clients with offers that already exist in the trading system of the relevant market until the entire amount specified in the warrant is executed. If the system no longer has opposing bids, which a market order could connect, the remaining amount would be deleted. In executing this order the provisions of paragraph 5 shall apply - The best execution of orders.

5) THE BEST EXECUTION OF ORDERS

The Company is obligated to take all reasonable steps to achieve the best outcome for the client thus taking into account the elements which are important for the execution:

- client classification
- the price of financial instruments
- cost, speed and likelihood of execution
- cost, speed and the likelihood of settlement
- the size and type of orders as well as all other circumstances relevant to the execution

'Categorisation of clients'

According to the Capital Market Act (Official Gazette 88/08, 146/08) EA SISTEM Inc classifies its customers into the following categories of investors depending on their knowledge, experience, financial situation and investment objectives:

- 1) **small investors** (legal and natural persons who do not meet the requirements of Art. 61st or art. 63.st.3. Act)
- 2) **professional investors** (legal entities that meet the requirements of Art. 61 of the Law)
 - a) professional investor - Qualified Principal (entities listed in Art. 73 of the Law),
 - b) a professional investor (legal entities of Art. 61.st.2.toč. 2 of the Law)

Professional investor is considered to be the client with sufficient experience, knowledge and expertise to independently make decisions on investments and proper assessment of risk connected, so the Company does not bind itself to apply this policy to the Professional client orders (Art. 72nd CMA)

A small investor is entitled to a greater degree of protection than the professional investors, so the Company will ask for information in providing services for financial instruments that are not considered to be simple, the information will be about his knowledge and experience in the field of investments, and all this in order to assess whether the investment product or service is suitable for the client.

'Price'

The obligation to achieve the best price depends on several factors, among others on trading system and the type of rules that govern the financial instruments traded on. If a continuous trading is applied on the trade system, the price will be the result of regular confrontation of supply and demand in which all participants can simultaneously make offers to purchase or sell securities, and trade leads system constantly compares them, and when possible, links in the transactions. Certain financial instruments, especially the less liquid ones, may be traded in a special trade regime which aims to establish the prices more realistically and more representative of a particular security in the trading day. The final price does not equal to the highest purchasing or minimum selling price, and it depends on the quantity of offers.

'Costs, speed and likelihood of execution'

The cost of order execution is defined as fees paid by Client Investment Company, and other fees associated with enforcement, such as market fees, settlement agent fees, fees to another company if the order is transferred to the execution of the third person. During the commitment to achieve the best outcome for the Client, the Company will primarily take into account other fees associated with the execution. Fees vary depending on the places of execution, the type of financial instruments and trading segment.

Speed of execution depends on market conditions, so that the Company in this regard determines speed at the time interval between the acceptance of orders and its transmission to the relevant place of execution. The Company is committed to exhibiting in the shortest possible time, unless the customer does not order the Company otherwise.

The probability of execution is related to the liquidity of certain financial instruments.

'Cost, speed and likelihood of settlement'

The Company has, in order to achieve the best result for the client, ensured proper membership in SKDD Inc (Central clearing and depository company) for transactions entered to the Zagreb Stock Exchange. For the overseas trading the company has provided its customers with custody service, and the Company as the custody company will carry out the settlement transactions, together with its client manager who is a member of several internationally recognized and reputable agents for settlement and who will ensure the settlement of transactions be executed in accordance with the agreed rules of settlement in the developed markets. Taking into account all the above elements, the Company determines the optimum outcome for the client in comparison with the total transaction costs, which include the price of financial instruments and costs directly associated with the execution of the warrant.

Considering the above-mentioned policy of best execution, the company sets the following places of executions:

The financial instrument:	Region	The place of the execution	The way of executing the order
Shares	Croatia	Zagreb Stock exchange	Direct membership
	Austria	Vienna Stock exchange	Hypo group broker
	Germany	Xetra – Frankfurt SE*	Hypo group broker
	EU	Frankfurt SE (if there is Liquid listing, otherwise domestic market	Hypo group broker
	Serbia	Belgrade Stock Exchange	Hypo group broker
	Montenegro	Podgorica SE	Hypo group broker
	Bosna i Hercegovina	Sarajevo SE	Hypo group broker
	Bosna i Hercegovina	Banja Luka SE	Hypo group broker
	Macedonia	Skopje SE	Local corresponding broker
	Other world markets	Frankfurt SE (if there is Liquid listing, otherwise domestic market	Local corresponding broker

*SE – stock exchange – the market of the financial instruments (stock exchange)

The financial instrument:	Region	The place of the execution	The way of executing the order
bonds	Croatia	Zagreb Stock exchange	Direct membership
	Austria		Hypo group broker
	Germany	OTC*/Bloomberg	Hypo group broker
	EU	System/partner/publishedr	Hypo group broker
	Other world markets		
Funds and ETF	Croatia	Zagreb Stock Exchange/ fund management companies	Hypo group broker
	Austria	OTC	Hypo group broker
	Germany	OTC	Hypo group broker
	EU	OTC	Local corresponding broker
	Other world markets	OTC	Local corresponding broker

OTC – over the counter - The counter financial instrument of trade; executing out of the market

The Company does not guarantee that order will always be executed on the above markets. If a financial instrument ceases to be traded with in a specific location or there is a temporary trading suspension, the Company will undertake necessary steps to ensure the best interests of the Client order, find the replacement market and notify the Client. If the replacement market is not available and the order can not be forwarded or executed, the Company will upon receiving the notice from a third party, the same forward to the customer and cancel the order due to the impossibility of enforcement. The Company is not liable to the Client for any damages that may occur from the same order described above if not executed. If the client assesses the place of execution differently than the company and wishes to execute orders on that site other than the above in the table, then the Company shall deliver clear instructions about the place of his execution order and **thus the Company is unable to obtain the best result for Client in accordance with its policy of executing**

6) FOLLOWING THE ORDERS

The Company reserves the right of association of one Customer Order to another Customer Order, or to its own account only in the event when it is not likely for joined orders and transactions to be detrimental to the interests of any client whose orders are joined. In order to achieve the correct allocation, the Company will join orders only where it is possible, and can achieve the same price. If orders are partially executed, the allocation of transactions will be made on accepted orders, taking into account the time of acceptance of orders when the order adopted first will take precedence.

In the event that the Company assigns its own order to one or more accepted Customer's orders or more accepted client orders, and partially executes this account, the Company will allocate the relevant transactions in a manner that the client has the advantage over his own investment firm orders.

Appendix B

FINANCIAL INSTRUMENTS - PRESENTATION OF BASIC PROPERTIES AND ASSOCIATED RISK

In this document we give you a review of the basic instruments in the capital market, the overview of their basic properties, and investment risks that accompany them. All risks that may arise when investing in financial instruments unfortunately can not be fully count, so we mention the most important and most frequent ones, all this for you to recognize what investment would be the most acceptable for you.

Please read this document carefully and in case of ambiguity or doubt consult with your broker or investment advisor who will be happy to answer all your questions.

The main motive of investment is earnings. The golden rule of investment states that the potential return from any investment is directly linked to the degree of risk. In general, the higher the potential return, the greater the degree of risk. By investing in different types of financial instruments you will reduce the overall risk of your portfolio (the principle of diversification of risk). It is necessary to become familiar with all the risks that accompany such a venture before any investment in financial instruments is done.

It is assumed that everyone who invests in the capital markets is aware of the risks associated with investing their own assets, as well as the consequences arising therefrom. The Company is not authorized to give tax advice to investment, because each client is responsible for the proper fulfillment of their own tax liabilities associated with investing its assets. Generally speaking, the investment risk on the capital market is likely or possible to bring the unsatisfactory or negative income.

BONDS

(basic characteristics and risks)

A bond is a long-term financial instrument with maturity term of over one year and by buying bonds the investor becomes a creditor of the issuing bonds. Bonds are issued to the particular coupon rate (nominal interest rate) which is mainly determined by the general market conditions during the primary issue.

The main features of the bonds

1. Face value - the amount of money you will get from a bond at the time of maturity of bonds.
2. The nominal (coupon) interest rate - the rate at which interest is calculated and paid
3. Maturity date - the date on which bond issuers must pay to the principal owners of bonds .

The bond price

The bond price is expressed as a percentage of the nominal amount on which the bond is. It depends primarily on the ability of the issuer to settle its obligations under the interest and principal, and on supply and demand. However, one of the general factors affecting bond prices are the prevailing market interest rates. Bond prices in the secondary market are quoted as the "clean price" (clean price), which means that it does not include accrued interest. The price which includes the accrued interest is called a total or invoice price (dirty price).

Coupon bond

Coupon and nominal yields is a determined interest rate that the issuer agrees to pay to the owner of the bonds.

Current yield

Investment decisions are not made solely on the basis of the nominal yield (nominal interest rate) bonds, but also based on the price at which bonds are traded at a given time. It is an indicator that tells what the market rate of interest on the bonds is, or how the rate of return on the amount invested in bonds will be. This yield takes into account changes in bond prices which is gained so that the annual interest income is divided by market value of bonds. Since the amount of annual interest paid during the term of the bonds is always the same, the current output varies depending on market price.

If market interest rates rise, prices of existing bonds fall because the old bonds are worth less than just issued bonds with higher coupon rate. At the fall of interest rates in market, the opposite happen: the price of existing bonds rises and are worth more than new bonds with lower nominal interest rates. Therefore, prices and bond yields are inversely proportional to the size: if the market price falls, the liquid yield increases and vice versa-current yield falls when the market price rises.

The yield to maturity

If an investor buys bonds on the secondary market (eg, through a broker on the Zagreb Stock Exchange), and decides to keep it to its maturity, he will, with the interest make profit (in case of purchase at a price lower than the nominal, ie. Discount bonds) or loss (in case of purchase at a price higher than the nominal, ie. premium bonds).

What type of investors' suit bonds as a form of investment?

Bonds are a convenient form of investment for investors with a low propensity to risk and to reduce the overall risk diversification of the portfolio. Specifically, bonds, unlike stocks, give their owners a fixed income - interest.

The risks of investing in bonds:

Bonds are in terms of underwriting a safer form of investment than stocks, but on the other hand carry significantly lower yields. Potential buyers of bonds should carefully consider information specified in the prospectus issue before investing.

1. Market risk (risk of changes in interest rates and the market price which depends on supply and demand for the bonds)

2 Interest rate risk (longer the time to the maturity, more exposed to interest rate risk bonds are, the risk of interest rate changes)

3 Credit risk (risk that the issuer of the bonds will not be able to meet its obligations, ie, paying interest and principal paid)

4 The risk of market liquidity (maturity mismatch and currency can lead to inability to perform the obligations of the issuer)

5 Foreign currency risk (if the bonds are denominated in foreign currency then the exchange rate can have a significant impact on bond yields)

6 Political and legal risk (political risk depends on the political relations of Croatia with neighbors and the world, the EU integration process and relations between the legislative and judicial branches. The risk is also considered the risk of the legislative framework and regulations changes)

7 Force Majeure (includes events that have a negative impact on the business of the issuer. These adverse events are: war, terrorist activity, climate and natural phenomena, etc.)

MONEY MARKET INSTRUMENTS

(Basic characteristics and risks)

Money Market stands for a short-term money market and debt instruments market that bear interest yield and have a maturity of one year. They exist for the transfer of funds of individuals, corporations and government units with short-term surplus funds, economic entities with short-term needs for funds. The short-term securities at the money market are cashiers or treasury statements, commercial statements and certificates of deposit. Money market instruments have been traded for more than long-term securities, and these are more liquid instruments. Short-term securities record smaller price changes, which makes them safer to invest. Companies and companies actively use money market instruments to achieve the interest income on temporary surplus funds.

Price

The market price of money market instruments depends on the interest it carries, on the economic development of the issuer as well as movements in interest rates. For example, if the interest rate for comparable maturities increases, the price of the instrument will fall, and conversely, price instruments will grow if the interest rate for comparable maturities falls.

Yield

The money market instruments yield is to a large extent similar to the yield from investments in bonds, which was previously described in detail.

What type of investor is suited with money market instruments as a form of investment?

Investment in money market instruments is characterized by very low risk and are therefore the appropriate form of investment for investors with a low propensity to risk and for the reduction of the overall risk at the diversification of the portfolio.

The risks of investing in money market instruments:

Short-term strategy of investment in securities and other instruments of money market exposes investors primarily to the market and credit risk.

1. **Market risk** or price risk of financial instruments implies the possibility of loss of capital due to price changes in securities markets. Prices may fluctuate even when factors such as interest payments, competitive position or other factors of financial risk, have not changed.
2. **Liquidity risk** is reflected mainly in the difficulties in selling if the market does not receive or does not offer the appropriate features, price or quality of the financial instrument which is especially pronounced in the primary, ie the emission market.
3. **Credit risk** is the likelihood that the issuer of a financial instrument will not, in whole or in part settle its obligations.
4. **Force majeure** events that have a negative impact on the business of the issuer. These adverse events are: war, terrorist activity, climate and natural phenomena, etc.

SHARES

(basic properties and risks)

Characteristics

Stocks are proprietary, transferable financial instruments with variable income. They have no pre-determined maturity and return on investment amount. The shares are issued by companies Inc, and they are a part of stock company capital. By purchasing the shares, you will become co-owner of the company whose shares are purchased. This means that you have a proportional share of the property ownership the company possesses. Co-ownership in the company gives you the right to govern and the right to participate proportionally in the profits of the Company.

There are two types of shares: ordinary and preference.

Regular (ordinary) shares entitle their holders to manage and the right to participate in the part of profits (dividends).

Preferred shares have the characteristics of the ordinary shares and bonds. Generally they have priority over the regular dividend payment, priority payment in bankruptcy, but have no right of a vote in the assembly, which means that they have no right to decide on issues of equity management company.

Price

One of the most important features of stock is its marketability. The market price of shares is the result of supply and demand in the capital market. If the demand for certain stocks is higher and the lower the bid, then the stock price will rise, and vice versa, when weakening demand and strengthening the offering of shares, the value of the shares falls.

Return on investment

Potential return on investment in stocks is directly related to the degree of risk. In general, the higher the potential return, the greater the degree of risk of investment. The advantages of investment in shares show the most when a company you co-own is making positive results.. Then the benefit of shareholders is expressed by the increasing share value and / or dividends.

The Company generally retains part of the profit that invests in a new property, with the expectation of higher profit in subsequent financial years. The second part of the profit can be used to make a payment to the accounts of its shareholders – Dividends, but this is not a legal obligation of a company.

If your stock market price rises, then your refund will represent the difference between the market and purchase price.

Stocks represent financial instruments which contain certain rights of a holder

- dividends
- vote at the shareholders's assembly
- right of the first buy
- right to be informed
- the part in the liquidation process

The risks of investing in the stocks

The purchase and sale of shares assumes taking the significant risk. Unsatisfactory or negative yield may occur under the conditions caused by following general risks:

- 1 the risk of reduction in the value of financial instruments due to global and / or regional recessions
2. exchange rate risk and currency risk
3. risks depend on the rating change in the country, either as: - the risk of default of payment of debt a country - political risk, including the risk of unexpected regulatory changes affecting the capital market and the position of the investors
4. the risk of the reduction in the value of financial instruments due to a general rise in prices (inflation risk)
- 5 the risk of inability to sell a financial instrument due to a declining demand or inefficiencies in the market (liquidity risk)
- 6 the risk of reduction in share value due to falling credit rating of the issuer (issuer risk)
- 7 the risk of reduction or complete loss of share value because of bankruptcy proceedings against the issuers (the risk of bankruptcy)

- 8 the risk that the value of stocks due to speculative activities of major investors and major corporate actions on the market (market risk psychology)
- 9 the risk and / or introduction of new regulatory restrictions or obligations the owners of the shares by the government and the competent authorities (the risk that the tax rules)
- 10 the risk of failure of the IT systems and / or the risk of interruption of communication links between banks, central depository and / or clearing houses, organised public markets, MTP and systemic internalizatora (technical risk)
- 11 settlement risk due to failure to meet the obligations of one of the parties to the transaction
- 12 the risk of falling values of stocks from routine periodic movements in market prices (volatility risk)
- 13 the risk of non-payment of dividends of financial instruments

UNITS IN THE SUBJECT FOR JOINT VENTURES

(basic characteristics and risks)

Subject to joint venture marks those entities who have received approval from the Agency for Supervision of Financial Services in accordance with the laws regulating the conditions for the establishment of funds and management companies. So in simple terms, these are funds that are managed by management companies.

Shares in investment funds

Investment funds are financial institutions or institutional investors, raising funds of their investors and then investing them in short-term and long-term investments, and in various financial instruments.

According to the method of raising funds we distinguish

- **open-end funds** - investment and disbursement of funds is possible at any time
- **closed investment funds** – issue and sell shares in the relatively short and limited period of time at an appropriate price offered; the number of shares is exactly defined (as opposed to open), does not repurchase shares, and shares are traded on stock exchanges

Shares in investment funds provide owners with co-ownership rights in the investment fund. Investment funds invest in different types of property, subject to the conditions set forth in the prospectus and its Articles at the time of the issue. One of the main principles of investment funds when investing is the principle of diversification of risk, so that the funds of shareholders are invested in different securities and different types of financial instruments depending on the degree of investment risk of the each investment fund.

Return on Investment

Return on investment in investment funds can not be accurately predicted in advance. It consists of movement of share value - NAV (**N**et **A**sset **V**alue). NAV is the value of total fund assets

divided by the number of shares, or stocks. Only the movement of share value depends on several factors, among the most significant factors are:

1. Investment policy of the fund (listed in the statute and fund prospectus)
2. Market value of certain assets in the fund.

When investing in Investment funds, each investor is investing its resources in the kind of funds with regard to the type of risk he is willing to bear. It follows that different assets invested in equity funds have different risks, bearing in mind different risk types of funds and their investment policies.

The risks of investing in units in subject for collective investment

1. Price risk - the entire assets of the Fund is divided into equal parts - shares. Each share is in fact a proportional part of the total assets of open-end investment fund. The value varies depends on changes in the exchange rate of securities which are in the portfolio of open-end investment fund. Share value is calculated so that the share of net assets of the fund is divided by the total number of shares in circulation on the same day. Shares in the open funds may be sold at purchase price determined on the day of sale. In exceptional circumstances, the purchase can be suspended until the property is sold out from the fund and the compensation for that sale is received.

2. The risk of investing in the funds depends on price movements in the capital markets (the movement of assets in which the fund invested its assets), as well as the capital markets themselves and the fund's investment policy.

3. Liquidity risk - occurs when an investment fund is unable to redeemed shares in the fund in a regular period because it is not able to monetize their assets without major negative consequences.

4. Currency risk (currency exchange risk) - the risk of fund assets value change in relation to the billing currency due to the negative currency exchange rate movements of the financial instruments denominated in various currencies

5. Operational risk - refers to the irregularities that may arise in the business of the Company managing and thus create investor's lack of confidence in funds

6. Political risk - political events may have a negative impact on the movement of capital markets and reduce the value of the fund's assets. Political risk is the systemic risk and the company management can not protect itself from it.

7. The risk of change in the law - a change of tax, investment and other regulations could adversely affect the profitability of investments in funds

Which type of investors suits to invest in units subjects to joint ventures?

This kind of investment is suitable to investors who want to provide diversification of their portfolio, who don't have necessary knowledge or time for daily monitoring of the capital market, but still want to be its actors, and who want to ensure the liquidity of their assets. Risk and return on investment is somewhat lower than with direct investment in equities. Be sure to study the investment strategy of the investment fund prior to investment.

DERIVATIVES

(basic characteristics and risks)

Derivative financial products (or shortened derivatives) are complex financial instruments derived from basic simple financial products (for the most part described above).

At the derivatives, basic assets (underlying asset) never change hands, the only agreed thing is the exchange of cash flows and then the difference in price is compensated, compensating credit risk or in some other way the advantages and disadvantages of the basic product from which the derivative is derived are compensated. They are used mostly for opposite purposes- for speculative investors or risk prone investors to speculate on the market or as the instrument of asset protection for very conservative investors

Derivatives are generally divided by type of basic products (underlying asset-a) from which they derive. Thus, we distinguish between:

a) Credit derivatives

- **Credit Default Swap** - buying and selling the risk of an issuer for a particular premium
- **Total Return Swap** - purchase and sale of all the risks and the influx of a claim for a certain premium and counter premium
- **Credit Spread Option** - right to buy or sell any securities if the spread in relation to agreed criteria changes for more than a pre-agreed amount.

b) foreign exchange derivatives

- **Forward** (forward sale and purchase of foreign currency) is the fixing of exchange rates with a maturity of more than two working days (the determination of the exchange rate today, and for a certain day in the future). Fixing the exchange rate allows customers to fix an exchange rate a specific day in the future when the transactions for which the client protects itself, actually executes
- **Option** represents the right of the forward purchase or sale of a specific currency at a specific date in the future. In case when the market rate is more favorable to the client, the client needn't execute the option, which is a big advantage of these kinds of derivatives.

c) derivatives of financial instruments

- **Forward** (forward sale and purchase of financial instruments) - the contract of sale of a financial instrument at a particular price in the future at certain price
- **Put (Call) Options** - the right, but not the obligation, to sell (purchase) financial instruments in the future by a certain price.

d) Interest rate derivatives

- **Forward Rate Agreement** - fixing the interest rate on a specific term starting in the future
- **Interest Rate Swaps** - replacement of cash flows from fixed (variable) credit for cash flows from variable (fixed) obligations
- **Interest Rate Caps or Interest Rate Floors** – the option if interest rates rise (fall) above (below) certain values that the issuer will have to pay the holder the difference.

Derivatives can be used to mitigate the economic losses arising from changes in the value of base assets. This activity is known as **hedging**. Alternatively, investors can use derivatives to increase profit if the value of the asset base moves in a direction that was expected. This activity is known as **speculation**.

Hedging occurs when an individual or institution buy assets (commodities, bonds with coupons, shares which carry a dividend, etc.) and sell them via future contracts. Thus, an individual or institution sell the property they own in the future according to the fee defined in the futures contract. This enables individuals and institutions to ensure or to minimize the risk that future sales prices will vary unexpectedly from the current market assessments of the future value of the property. Derivatives can be used for the risk acquisitions, as opposed to protecting against the risk (hedging).

Individuals or institutions buy products in order to speculate on the value of the asset base, in a way to buy property in the future at low prices thanks to the derivatives they own, while the market price is high, or sell property in the future at high prices while the market price is low.

The risks of investing in derivatives

Risks associated with derivatives are not new, they are basically the same as those we described in simple financial instruments:

Market risk - at the derivatives - Options, futures, swap the main cause of market risk is the market risk of the underlying assets (undelying asset-a).

Liquidity risk – at the derivatives, as well as other financial instruments under the liquidity risk assumes the possibility of significant losses due to the impossibility of taking a cash position or elimination of some position at a fair price.

Credit risk - the risk of counterparty bankruptcy. This risk is important because it raises the question of what will happen with the products issued if the issuer fails. Investors in structured products are exposed to the same risk as are investors in bonds. Attention should be paid to the issuer's credit rating.

Settlement risk - the possibility that one party shall pay, while the other side does not fulfill its obligation

Risk of models - the most famous model to calculate the fair price option is the *Black-Scholes-Merton* model. The models calculate the fair price of an option, but if the models are not well placed, there is the risk of calculating the wrong price. The models are good, as far as quality of their inputs is good, i.e. the assumptions regarding the company's asset sensitivity to changes in risk factors, the correlation between risk factors and the probability of occurrence of an event.

Regulatory risk - different structural products may fall under the jurisdiction of the various institutions.

Other Risks – Other risks are the risks of non-financial nature. These risks are political risks, tax risks, accounting risks and legal risks, which are directly or indirectly related to the political climate in the country

The base assets of an appropriate financial instrument includes **the risk of the opposing party and unexpected outcomes**, resulting in **major losses or acquisition of a value**.

The use of derivatives can result in huge losses due to use of leverage, or borrowing. Derivatives allow investors a great return on small movements of prices of basic assets. However, investors could have a large (infinite) losses if the price of the property goes significantly in the other direction.

What type of investors should invest in derivatives?

Investment in derivatives as a financial instrument represents a high risk investment for small and inexperienced investors. Although investment in derivatives carries the possibility of higher returns, the speculation in derivatives often carries many risks, and requires experience and market knowledge, particularly for small investors. Therefore the Company, prior to accepting orders for the purchase or sale of certain types of derivative financial instruments, the small investor, shall determine whether such an investor has the necessary knowledge and give its assessment of whether this instrument is suitable or not for the investor.

