

ADOPTED
at the meeting held by
JSC „Baltic International Bank“
Management Board
On 24 November 2016
Minutes No 01-05/47/16

APPROVED
at the meeting held by JSC „Baltic
International Bank“ Supervisory Board
On 5 December 2016
Minutes No 25-01/13/16

Prevention of Conflict of interest Policy (with reference to the provision of investment services)

1. Definitions and Interpretation

For the purposes of this Policy:

- 1.1. **Bank** means JSC “Baltic International Bank”.
- 1.2. **Client** means any private person, legal entity, partnership, or similar legal arrangement to which Bank provides investment services.
- 1.3. **Investment Services** means investment services (core services) as defined in Article 3(4) and ancillary services (non-core services) as defined in Article 3(5) of the Financial Instruments Market Act [*Finanšu instrumentu tirgus likums*] of the Republic of Latvia, including the services provided by Bank. For the purposes of this Policy, the term ‘investment services’ refers to both investment services and ancillary services.
- 1.4. **Bank-Related Party** in relation to Bank means any of the following:
 - 1.4.1. The Chairperson of the Supervisory Board or the Chairperson of the Management Board, members of the Supervisory Board and of the Management Board, tied agent¹ or other person authorised to make significant decisions on Bank’s behalf, thereby giving rise to legal obligations owed by Bank (in certain cases, Bank’s employee authorised to make such decisions on Bank’s behalf is regarded as a Bank-Related Party);
 - 1.4.2. tied agent’s higher-level officials (the chairperson of the supervisory board or the chairperson of the management board, members of the supervisory board and of the management board) or other person authorised to make significant decisions on the tied agent’s behalf, thereby giving rise to legal obligations owed by the tied agent;
 - 1.4.3. Bank’s employee or the tied agent’s employee, as well as any other private person whose services and activities are placed at the disposal and under the control of Bank and who is involved in the provision of Bank-rendered Investment Services;
 - 1.4.4. a private person who is directly involved in the provision of services to Bank under an outsourcing arrangement (e.g. a private person who provides a service to Bank under an outsourcing arrangement; legal persons that provide a service to Bank under an outsourcing arrangement; the Chairperson of the Supervisory Board or the Chairperson of the Management Board, a member of the Supervisory Board, a member of the Management Board, or Bank’s

¹ Provisions contained herein relating to tied agents and their respective employees will only apply if Bank starts using agency services while providing investment services

employee who is directly involved in the provision of services to Bank under an outsourcing arrangement²)

1.5. **Relevant Persons** means persons directly or indirectly connected with Bank-Related Party

- private persons with whom Bank-Related Party has a family relationship either through blood or by marriage: the spouse, a dependent child or stepchild and other relatives who have shared the same household as Bank-Related Party for at least one year;
- legal persons: shareholder or equity holder, and others;
- other persons whose relationship with Bank-Related Party is such that Bank-Related Party has a direct or indirect material interest in the outcome of the trade, other than a fee or commission for the execution of trade, or whose accounts can be used for executing Personal Transactions

1.6. **Controller** means a person that in fact exercises direct or indirect control over Bank. Control arises where:

- 1.6.1. a person exercises a decisive influence over the entity through shareholding (Bank's majority shareholder who retains the majority of voting rights or has the right to appoint or remove a majority of the members of Bank's Management Board or of the Supervisory Board);
- 1.6.2. a person exercises a decisive influence over the entity through a corporate group agreement*, if a control agreement (whereby the management of Bank is imputed to another entity), or profit transfer agreement (whereby Bank undertakes to transfer its profits to another entity), or control and profit transfer agreement (a 'mixed agreement') has been concluded;
- 1.6.3. any other kind of relationships similar to those described in sub-clauses 1.5.1 and 1.5.2 exist between the person and Bank.

**Comment: corporate group is a grouping of parent and subsidiary undertakings that function as a single economic entity through a common source of control. In European countries, a corporate group is called a 'concern', and the corporate law governing treatment of the group is referred to as the 'the law of the concern'.*

1.7. **Policy** means this *Prevention of Conflict of Interest Policy (with reference to the provision of investment services)*.

1.8. **Personal Transaction** means a trade in financial instruments carried out by or on behalf of Bank-Related Party, where at least one of the following criteria is met:

- 1.8.1. that Bank-Related Party is acting outside the scope of the activities or professional duties the party carries out in that capacity;
- 1.8.2. the trade is carried out for the account of Bank-Related Party;
- 1.8.3. the trade is carried out for the account of the Relevant Person (Bank-Related Party's spouse, a dependent child or stepchild or for the account of any other relative who has shared the same household as Bank-Related Party for at least one year on the date of the Personal Transaction concerned);
- 1.8.4. the trade is carried out for the account of other person whose relationship with Bank-Related Party is such that Bank-Related Party has a direct or indirect material interest in the outcome of the trade, other than a fee or commission for the execution of trade

² Provisions contained herein relating to the persons specified in sub-clause 1.4.4 will only apply if Bank starts using the respective outsourced service.

1.9. **Conflict of Interest** is a situation where a person's personal or private interests, while carrying out professional duties, interfere in any way with the performance of official duties and responsibilities; Conflict of Interest can arise in cases where the persons involved have opposing and competing professional interests.

FCMC is the abbreviation for the Financial and Capital Market Commission, the Government of Latvia's unified public financial services regulator.

2. General Provisions

- 2.1. The purpose of preventing Conflicts of Interest is to prevent potential losses that can be incurred by Client and / or Bank because of a conflict of two opposing interests.
- 2.2. This Policy sets forth the measures as may be necessary and appropriate in order to identify, prevent or manage arising Conflict-of-Interest situations while providing Investment Services.
- 2.3. This Policy has been formulated in accordance with the Financial Instruments Market Act of the Republic of Latvia and the FCMC's regulations.
- 2.4. This Policy becomes effective upon final approval by Bank's Supervisory Board (Supervisory Board).
- 2.5. This Policy supersedes the "Conflict of Interest Prevention Policy" approved by the Supervisory Board on 25 June 2012 (Minutes No 25-1/18/12).

3. Appearance of Conflict-of-Interest Situations

- 3.1. To identify different types of conflict-of-interest situations which may arise while providing Investment Services, Bank evaluates any situation in which Bank and /or Bank-Related Party or Controller:
 - 3.1.1. could probably make a financial gain or avoid a financial loss at Client's expense;
 - 3.1.2. is actually interested in rendering services to Client or executing transactions on Client's behalf that may be contrary to Client's best interests;
 - 3.1.3. is actually interested in acting in the interests of any other Client or a group of clients, while providing services to any particular Client;
 - 3.1.4. carries on the same professional business as Client;
 - 3.1.5. receives or will receive compensation (in the form of money, commodity or services) from a third person for providing Investment Services to Client where such compensation is not commensurate with the market price or standard price charged for the service provided.
- 3.2. A Conflict of Interest can mainly arise in the following situations in which Bank provides Investment Services.

A Conflict of Interest can arise in the course of **providing brokerage services to Client** when:

- 3.2.1. Bank aggregates (or 'bunches') *orders for transactions in financial instruments* of two different Clients;
- 3.2.2. Bank aggregates Client's *orders for transactions in financial instruments* with own orders of Bank;

3.2.3. Bank and Client want to buy the same financial instrument, and Bank gives priority to its own order;

3.2.4. Bank offers its Client financial instruments in accordance with the relevant distribution agreement and is charging a distribution fee, or where Bank's employee receives an inducement in relation to a service provided to Client, in the form of money, commodity or services, other than the standard commission or fee for that service;

3.2.5. Bank offers its Client to purchase financial instruments issued by Bank or Bank's shareholders.

When managing Client's financial instruments in accordance with mandates given by Client on a discretionary basis (portfolio management service), Bank has a financial interest in concluding the transaction. A Conflict of Interest can arise if:

3.2.6. Client's investment portfolio comprises financial instruments owned by Bank or by Bank's shareholders or issued by Bank or by Bank's shareholders;

3.2.7. Bank purchases (and also receives, as a remuneration in exchange for services performed) Client's financial instruments or sells them to Bank or to Bank's shareholders;

3.2.8. Bank executes a transaction in which Bank or Bank's employees or Bank's authorized persons simultaneously act as a counterparty to the transaction;

3.2.9. the securities being managed are exchanged for those referred to in sub-clause 3.2.6 above.

3.3. When executing Clients' *orders for transactions in financial instruments*, Bank acts in Client's best interests of the Client in accordance with this Policy and complies with the requirements of Client Order Execution Policy. Before undertaking a transaction in a financial instrument which meets Client's interests and which however is at risk of causing a Conflict of Interest (also, in all cases mentioned in sub-clauses 3.2.1 to 3.2.9), Bank notifies Client of a potential Conflict of Interest in a clear and easily understandable manner and discloses the general nature and sources of the conflict and possibilities of avoiding or mitigating any effects of the Conflict of Interest.

4. Measures Designed to Identify, Prevent and Manage Conflict-of-Interest Situations

4.1. Bank takes all reasonable steps to identify (with reference to the specific Investment Services provided by Bank or by a third party on Bank's behalf) the circumstances which have triggered or can trigger a Conflict of Interest, which in turn can significantly harm the interests of one or more Clients.

4.2. Bank ensures that the measures taken to prevent a Conflict of Interest are appropriate to the scale of Bank's business and professional activities and to the materiality of the risk of damage to Client's interests.

4.3. To prevent potential Conflicts of Interest, Bank ensures that the exchange of information between Bank-Related Parties engaged in activities involving a risk of Conflict of Interest is prohibited and is controlled if the exchange of that information could harm the interests of one or more Clients.

4.4. Bank maintains the separate supervision over Bank-Related Parties whose principal functions involve carrying out activities on behalf of, or providing services to, Clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of Bank.

4.5. Bank ensures the removal of any direct link between the remuneration of Bank-Related Parties principally engaged in one activity and the remuneration of, or revenues generated by, different

Bank-Related Parties principally engaged in another activity, where a Conflict of Interest may arise in relation to those activities.

- 4.6. According to its internal compliance documents, Bank takes measures to prevent or limit any person from exercising inappropriate influence over the way in which the person carries out Investment Services.
- 4.7. Bank takes measures to control and/or prevent the simultaneous or sequential involvement of Bank-Related Parties in separate Investment Services where such involvement may impair the proper management of Conflicts of Interest.
- 4.8. Bank ensures that its organisational structure is designed to reduce potential Conflict of Interest at all times.
- 4.9. To prevent Conflict-of-Interest situations, Bank:
 - 4.9.1. notifies Bank-Related Parties of any limits imposed on Personal Transactions;
 - 4.9.2. supervises and monitors Personal Transactions carried out by Bank-Related Parties;
 - 4.9.3. notifies Bank's employees, who are involved in the provision of Investment Services, of information-sharing limitations;
 - 4.9.4. prohibits Bank-Related Parties from carrying out transactions based on inside information obtained by Bank-Related Parties and other Bank's employees while performing the duties of the job (professional duties) or inside information otherwise obtained in connection with Bank;
 - 4.9.5. prohibits Bank-Related Parties from carrying out transactions based on misuse or improper disclosure of confidential transaction-related information;
 - 4.9.6. prohibits Bank-Related Parties from recommending any third party to carry out a transaction which, in respect of Bank-Related Party who has recommended the transaction, gives rise to a Conflict of Interest or a Conflict-of-Interest situation;
 - 4.9.7. prohibits Bank-Related Parties from disclosing to a third party information or from expressing their opinion if the disclosing party (a person who has disclosed the information) knows or ought to know that, as a result of such disclosure, the third party will perform, might perform or might recommend any other person to perform a transaction which gives rise to a Conflict of Interest or a Conflict-of-Interest situation in respect of the disclosing party.
- 4.10. Bank has the *Prevention of Conflict of Interest Procedure (with reference to the provision of investment services)* in place. When encountering or identifying a Conflict-of-Interest situation, Bank-Related Parties must promptly report any actual, potential or apparent Conflict of Interest to Bank and are required to act in the manner prescribed by the Procedure in order to avoid or mitigate any effects of the Conflicts of Interest.

5. Final Provisions

- 5.1. This Policy serves as a benchmark for the formulation and approval of Bank's *Prevention of Conflict of Interest Procedure (with reference to the provision of investment services)*. The Procedure provides guidance on the prevention of Conflict-of-Interest situations.
- 5.2. While rendering Investment Services to its Clients, Bank treats all clients equally, honestly and fairly in accordance with their best interests, and ensures compliance with Bank's Code of Ethics.

- 5.3. Where organisational or administrative arrangements (set up by Bank in accordance with the Financial Instruments Market Act specifically to manage Conflicts of Interest) prove insufficient to ensure, with reasonable confidence, that the risk of harm to Clients' interests is prevented, Bank clearly discloses the general nature or sources of Conflicts of Interest to Client.
- 5.4. Bank keeps and regularly updates a record of the kinds of Investment Services provided by Bank itself or provided Bank's behalf in which a Conflict of Interest entailing a material risk of damage to the interests of one or more Clients has arisen or, in the case of an ongoing activity, may arise.
- 5.5. Bank reviews the Policy on a regular basis, at least once every year. Any and all amendments and supplements to the Policy are posted to Bank's website www.bib.eu. The most recent version takes effect from the date it is approved by the Supervisory Board, unless another effective date is specified by Bank.

6. Responsibility and Supervision

- 6.1. The Supervisory Board approves this Policy.
- 6.2. The Management Board is responsible for establishing the framework for preventing Conflicts of Interest. The Management Board supervises adherence to the Policy.
- 6.3. The Heads and employees of Bank's divisions and departments are responsible for ensuring compliance with this Policy.
- 6.4. According to the *Prevention of Conflict of Interest Procedure (with reference to the provision of investment services)*, Bank-Related Parties must furnish the Compliance Department with complete and timely information about Personal Transactions carried out by Bank-Related Parties and by Relevant Persons.
- 6.5. The Asset Management and Brokerage Services Department must regularly revise and update the Policy in accordance with the *document update schedule* approved by the Management Board (but not less frequently than once a year, or as needed) to bring the Policy in line with the changes in Bank's internal regulatory documents, external legal instruments (applicable laws and regulations), or changes in Bank's organizational structure.
- 6.6. The Management Board has the overall responsibility for supervising the adherence to this Policy.
