

APPROVED
at the meeting held by
JSC „Baltic International Bank”
Supervisory Board
on 27 July 2018
Minutes No 25-01/09/18

ADOPTED
at the meeting held by
JSC „Baltic International Bank”
Management Board
on 5 July 2018
Minutes No 01-05/48/18



Baltic International Bank

PREVENTION OF CONFLICT OF INTEREST POLICY (WITH REFERENCE TO THE PROVISION OF INVESTMENT SERVICES)

Contents

Organisational Properties of the Document	1
Definitions and Interpretation	1
General Provisions	3
Appearance of Conflict-of-Interest Situations	3
Measures for Identifying, Preventing and Managing Conflict-of-Interest Situations	4
Final Provisions	5
Responsibility and Supervision	6
Related Documents	6

1. Organisational Properties of the Document

2. Definitions and Interpretation

For the purposes of this Policy:

Bank means Joint Stock Company Baltic International Bank.

Client means any natural person, legal entity, partnership, or similar legal arrangement to which Bank provides investment services.

Investment Services means Bank's investment services (core services) listed in Article 3 (4) of the Financial Instruments Market Act of the Republic of Latvia and ancillary (non-core) services listed in Article 3 (5) of the Financial Instruments Market Act.

Bank-Related Party means any of the following:

- the Chairperson of the Supervisory Board or the Chairperson of the Management Board, a member of the Supervisory Board and of the Management Board, Management Board candidate, 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);
- tied agent's higher-level officials (the chairperson of the supervisory board or the chairperson of the management board, a member 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;
- Bank's employee or the tied agent's employee, as well as any other natural 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;
- a natural person who is directly involved in the provision of services to Bank under an outsourcing arrangement (e.g. a natural 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

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

member of the Management Board, or Bank's employee who is directly involved in the provision of services to Bank under an outsourcing arrangement)².

Relevant Persons means

- Bank-related parties;
- natural 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; parents
- 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

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

- 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;
- 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;
- 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'.*

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

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:

- that Bank-Related Party is acting outside the scope of the activities or professional duties the party carries out in that capacity;
- the trade is carried out for the account of Bank-Related Party;
- 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;
- 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.

Conflict of Interest is a situation where, in the course of carrying out Bank's professional duties, a collision of opposing or conflicting or competing interests of Bank and Client, of two or more Clients, of Bank-Related Party and Client or of Bank and Bank-Related Party occurs which in turn affects or can affect Bank's duty to act honestly, fairly and professionally in accordance with the best interests of its Clients when providing Investment Services.

Outsourcing means Bank's use, on a contractual basis, of third party (service provider) to perform a process or any other activity that would normally be undertaken by Bank.

Bank Group's Company means a company included on the list of Bank's associates and subsidiaries for financial reporting purposes.

Financial Instrument means a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. This Policy specifically addresses the financial Instruments mentioned in Article 3 (2) of the Financial Instruments Market Act.

Supervisory Board means Bank's Supervisory Board.

Management Board means Bank's Management Board.

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

3. General Provisions

- 3.1. 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.
- 3.2. 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.
- 3.3. This Policy has been formulated in accordance with the Financial Instruments Market Act of the Republic of Latvia, directly applicable EU legislation, and the Financial and Capital Market Commission's regulations.
- 3.4. This Policy becomes effective upon final approval by the Supervisory Board.

4. Appearance of Conflict-of-Interest Situations

- 4.1. When providing Investment Services, Bank is acting honestly, fairly and professionally in accordance with the best interests of its Clients. Conflict of Interest may arise in situations where under certain circumstances the aforesaid Bank's duty is or can be adversely affected or jeopardised.
- 4.2. When identifying 'at-risk' areas for Conflicts of Interest that may arise in the course of providing Investment Services, Bank takes into account whether Bank and/or Bank-Related Party or Controller
 - 4.2.1. is likely to make a financial gain or avoid a financial loss at the expense of Client;
 - 4.2.2. has an interest in the outcome of a service provided to Client (or of a transaction carried out on behalf of Client) which is distinct from Client's interest in that outcome;
 - 4.2.3. has (while providing Investment Services to a particular Client) a financial or other incentive to favour the interest of another Client (or group of Clients) over the interests of Client;
 - 4.2.4. carries on the same business as Client;
 - 4.2.5. receives a fee, commission or an inducement in relation to Investment Services provided to Client, in the form of monetary or non-monetary benefits or services;
 - 4.2.6. remuneration paid or additional inducements provided to Bank-Related Party are directly or indirectly linked to the quantitative criteria for providing Investment Services.
- 4.3. In the course of providing Bank's investment services to Client, Conflict of Interest can arise in the following situations:
 - 4.3.1. Bank aggregates (or 'bunches') *orders for transactions in FI* submitted by two different Clients;
 - 4.3.2. Bank aggregates Client's and Bank's own *orders for transactions in FI*;
 - 4.3.3. Bank and Client want to buy the same FI and Bank gives priority to its own Order;
 - 4.3.4. Bank offers FI to its Client in accordance with the relevant distribution agreement and is charging a distribution fee from the issuer of the FI or from any other person;
 - 4.3.5. Bank or Bank's employee receives from any other third party a fee or an inducement in relation to a service provided to Client, in the form of monetary or non-monetary benefits or services;
 - 4.3.6. Bank offers its Client to buy FI issued by Bank, Bank's shareholders or Bank Group's Company.
- 4.4. **When carrying out portfolio management (managing Client's portfolios in accordance with mandates given by Clients on a discretionary basis)**, Bank has a financial interest in the outcome of the transaction, and a Conflict of Interest may arise if:
 - 4.4.1. Client's investment portfolio includes FI owned by Bank or by Bank's shareholders or FI issued by Bank, Bank's shareholders or Bank Group's Company, or Bank has organised the issue of the FI;
 - 4.4.2. Bank purchases (and also receives as a service fee, i.e. remuneration in exchange for services performed) Client's FI or sells them to Bank or to Bank's shareholders;
 - 4.4.3. Bank executes transactions in which Bank or Bank's employees or authorised persons simultaneously represent the counterparty (the party on the other side of the transaction);
 - 4.4.4. the FI being managed FI are exchanged for those referred to in sub-clause 4.4.1 hereof;
 - 4.4.5. Bank or Bank's employee receives from a third party (a person other than Client) an inducement in relation to a service provided to Client, in the form of fee, commission, monetary or non-monetary benefit or services;
 - 4.4.6. Client's assets are involved in a Personal Transaction;
 - 4.4.7. Client's assets are used in securities financing transactions (SFTs).
- 4.5. When executing client orders for transactions involving FI, Bank acts in accordance with the best interests of Client under this Policy and satisfies the requirements of the "Client Order Execution Policy". Prior to executing a FI-based transaction that matches up with Client's interests, however, a Conflict of Interest may arise (including all of the cases referred to in cl. 4.2.1 to 4.4.7), Bank notifies Client of a potential conflict of interest in a clear and easily understandable manner, discloses the general nature and sources of the conf, and informs Client about the possibility for preventing or mitigating any effects of the Conflict of Interest.

5. Measures for Identifying, Preventing and Managing Conflict-of-Interest Situations

- 5.1. Bank takes all required measures to identify the circumstances that give rise or may give rise to a Conflict of Interest, that significantly compromise or are detrimental to the interests of one or more Clients in respect of certain types of Investment Services provided by Bank or by any third party on Bank's behalf.
- 5.2. When choosing or setting out measures aimed at preventing Conflicts of Interest, Bank ensures that the measures are commensurate with Bank's size and scope of operations (professional activities) and the materiality of the risk of damage to the interests of Clients. Bank establishes the framework for the prevention of Conflicts of Interest and adopts the prevention measures to ensure:
 - 5.2.1. the requisite degree of independence, i.e. to ensure that the person engaged in business activities involving a Conflict of Interest and the persons engaged in the oversight and governance of Conflicts of Interest or making the decisions with respect to the settling the Conflict of Interest are not subordinate to each other as far as possible;
 - 5.2.2. that the persons engaged in business activities involving a Conflict of Interest are prevented from exercising inappropriate influence over the persons engaged in the oversight and governance of Conflict of Interest or the persons making the decisions with respect to the settling the Conflict of Interest and taking steps and making decisions concerning the persons engaged in business activities involving a Conflict of Interest.
- 5.3. Bank has in place procedures to control and prevent the exchange of information between Bank-Related Parties engaged in activities involving a risk of a Conflict of Interest where the exchange of that information may harm the interest of one or more Clients.
- 5.4. Bank ensures separate supervision of 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, including those of Bank.
- 5.5. Bank ensures the removal of any direct link between the remuneration of Bank-Related Parties principally engaged in the provision of Investment Services and the remuneration of, or revenues generated by, different Bank-Related Parties engaged in another activity, where a Conflict of Interest may arise in relation to the activities taken in the course of providing Investment Services.
- 5.6. Bank establishes its employee remuneration, incentive and assessment structures (the remuneration policy) to ensure that the structures do not impair Bank's duty to act in accordance with the best interests of Client when providing Investment Services. The remuneration paid to the employees, professional objectives and other employment-specific aspects are not formulated in a manner that could motivate Bank-Related Parties to recommend a certain FI to retail client (or to recommend Client to carry out a transaction involving a certain FI when providing asset management service to the Client) if a transaction involving any other FI can be carried out at that point in time and of that transaction better matches up with Client's interests.
- 5.7. In accordance with its internal regulatory and guidance documents, Bank takes all necessary measures to prevent or limit any third party from exercising inappropriate influence over the provision of Investment Services.
- 5.8. Bank continuously controls and/or prevents the simultaneous or sequential involvement of Bank-Related Parties in the provision of different Investment Services where such involvement may impair the proper management of Conflicts of Interest.
- 5.9. Whenever Bank is planning to distribute the FI issued by Bank or Bank Group's Company to Bank's Clients, Bank's investors or alternative investment funds managed by Bank Group's Company, Bank determines whether it is necessary to refrain from executing the transaction if the relevant Conflict of Interest cannot be managed so that any adverse effect on the investors is prevented.
- 5.10. Bank ensures that its organisational structure is designed to reduce potential Conflict-of-Interest situations at all times.
- 5.11. To prevent Conflict-of-Interest situations, Bank:
 - 5.11.1. notifies Bank-Related Parties of any limits imposed on Personal Transactions;
 - 5.11.2. supervises and monitors Personal Transactions carried out by Bank-Related Parties;
 - 5.11.3. notifies Bank's employees, who are involved in the provision of Investment Services, of information-sharing limitations;
 - 5.11.4. 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;
 - 5.11.5. prohibits Bank-Related Parties from carrying out transactions;

- 5.11.6. 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;
- 5.11.7. 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.
- 5.12. In relation to the provision of Investment Services to Client, Bank does not pay and does not receive from third parties, except for Client to whom a particular Investment Service is provided, or from the persons acting on the Client's behalf, any service fees (commission) or other fees and does not pay and does not receive any other non-monetary benefits, except for:
- 5.12.1. the standard commission of fee for the respective Investment Service (such as custody fees charged for financial instruments, settlement and exchange fees, regulatory levies or legal fees) and which in essence do not impair Bank's duty to act honestly, fairly and professionally in accordance with the best interests of Client when providing Investment Service to the Client;
- 5.12.2. relevant fees charged in the course of providing Investment Services (for example, brokerage services or ancillary services, i.e. when the respective inducement (namely, a fee, commission or non-monetary benefit) is paid or received with the aim of enhancing the quality of the relevant service provided to Client and the fee, commission or non-monetary benefit does not impair compliance with Bank's duty to act honestly, fairly and professionally in accordance with the best interests of Client when providing Investment Services. A fee, commission, or non-monetary benefit has an adverse effect if the provision of the relevant service to the Client is biased or distorted as a result of the fee, commission or non-monetary benefit;
- 5.12.3. non-monetary benefits: when providing asset management service (for example, portfolio management service), Bank has the right to pay and to receive minor non-monetary benefits if the benefits are considered to be designed to enhance the quality of the relevant service provided to Client and if the benefits meet the criteria set in Article 133¹⁷ (5) or (6) of the Financial Instruments Market Act;
- 5.12.4. fees, commissions and benefits received by Bank when providing asset management service (portfolio management service), if the fees, commissions or benefits in full and as soon as possible after the receipt thereof are delivered to those Clients in relation to whose assets under management the fees, commissions or benefits have been received. The fees and benefits mentioned in this clause are shared among in accordance with the "Client Order Execution Policy (transactions in financial instruments)".
- 5.13. In relation to any fee, commission or benefit (as mentioned in cl. 5.12 hereof) paid or received, Bank clearly discloses (prior to the provision of Investment Service to Client,) Bank explicitly discloses the existence, nature and amount of the fee, commission or non-monetary benefit (inducement) or, where the amount cannot be ascertained, its method of calculation. Where applicable, Bank also informs Client on mechanisms for paying a fee or commission or transferring or receiving an inducement. Bank provides the aforesaid information comprehensive, accurate and understandable manner.
- 5.14. Bank has in place the "Prevention of Conflicts of Interest Procedure (with reference to the provision of investment services)". The respective employee is obligated to report any actual, potential or apparent Conflict of Interest involving Bank-Related Parties and to act in the manner prescribed by the Procedure in order to avoid or mitigate the Conflict of Interest.

6. Final Provisions

- 6.1. Bank formulates and approves the "Prevention of Conflicts of Interest Procedure (with reference to the provision of investment services)" which prescribes robust measures for preventing Conflicts of Interest.
- 6.2. When providing Investment Services to Client, Bank upholds the principles of acting honestly, fairly and professionally with respect to all of Bank's Clients and ensures Bank-wide adherence to "JSC „Baltic International Bank" Corporate Code of Ethics".
- 6.3. If the organisational or administrative arrangements maintained and operated by Bank in accordance with the requirements of the Financial Instruments Market Act with a view to managing Conflicts of Interest **are not sufficient**, to ensure, with reasonable confidence, that risks of damage to the interests of Bank's Clients will be prevented, Bank must clearly disclose the following to Client before providing Investment Service to the Client: (a) the general nature and sources of Conflicts of Interest, or both; (b) the steps taken to mitigate those risks. The disclosure provided by Bank to Client in accordance with this clause must:

- 6.3.1. clearly state that the organisational and administrative arrangements established by Bank to prevent or manage that conflict are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the Client will be prevented;
- 6.3.2. include specific description of the Conflict of Interest that arises in the provision of the respective Investment Service, taking into account the nature of the Client to which the information is being disclosed;
- 6.3.3. explain the nature the reasons of the Conflict of Interest and the risks to the Client that arise as a result of the Conflicts of Interest; disclose the steps taken to mitigate those risks.
- 6.4. Bank discloses the information mentioned in cl. 6.3 hereof in such a manner and to such an extent that enable Client to make an informed decision with respect to the Investment Service in the context of which the Conflict of Interest arises.
- 6.5. Bank keeps and regularly updates the information on the kinds of Investment Services which Bank has provided or continues to provide, or which have been provided or are provided on Bank’s behalf and which have given rise or may give rise to a Conflict of Interest entailing a material risk of damage to the interests of one or more Clients. At least once every calendar year the Management Board obtains the report covering the Investment Services mentioned herein and the Conflicts of Interest actually triggered by the Investment Services or potential Conflicts of Interest.
- 6.6. The Supervisory Board regularly, at least once every year, revises this Policy. When revising the Policy, the Supervisory Board analyses the cases when Bank has incurred (under this Policy) the obligation to disclose to Client the information (as mentioned in this Policy) about the existence of a Conflict of Interest or potential exposure to the risk of Conflict of Interest. The Supervisory Board is guided by the principle that the existence of such cases points to possible incompleteness of the Policy in the respective aspect.
- 6.7. All amendments and additions to the Policy are posted on 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.

7. Responsibility and Supervision

- 7.1. The Supervisory Board approves this Policy.
- 7.2. The Management Board is responsible for establishing the framework for preventing Conflicts of Interest. The Management Board supervises adherence to the Policy.
- 7.3. The Heads and employees of Bank’s divisions and departments are responsible for ensuring compliance with this Policy
- 7.4. In accordance with the “Prevention of Conflicts of Interest Procedure (with reference to the provision of investment services) Bank-Related Parties are responsible for furnishing the Compliance Department with timely and complete information concerning Personal Transactions conducted by Bank-Related Parties and by Relevant Persons.
- 7.5. The Compliance 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.

Related Documents

Related Documents:

- „JSC „Baltic International Bank” Corporate Code of Ethics”;
- Prevention of Conflicts of Interest Procedure (with reference to the provision of investment services).

This Policy has been drawn up with reference to the:

- Credit Institutions Act [*Kredītiestāžu likums*] of the Republic of Latvia;
- Commercial Act [*Komerclikums*] of the Republic of Latvia;
- Financial Instruments Market Act [*Finanšu instrumentu tirgus likums*] of the Republic of Latvia.