

POLICY

ON PREVENTION OF CONFLICTS OF INTEREST IN PROVIDING INVESTMENT SERVICES AND ANCILLARY INVESTMENT SERVICES

Content

1. Objective	1
2. Terms and abbreviations	1
3. Basic principles of the Policy	2
4. Identification of Conflict of interest and circumstances of its occurrence	3
5. Prevention and management of Conflict of interest.....	4
6. Disclosure conflicts of interest	6
7. Revision and monitoring of the Policy.....	7
8. Related documents.....	7

1. Objective

- 1.1. The objective of this Policy is to determine and identify the key circumstances that give rise or may give rise to Conflict of interest in the course of provision of investment services and ancillary investment services, that, in turn, may constitute a hazard or harm for the interests of one or more Clients, as well as to identify actions to be performed in order to prevent or reduce to the extent possible a possible Conflict of interest and its negative consequences.

2. Terms and abbreviations

- 2.1. **Bank** – AS "PNB Banka".
- 2.2. **Bank group** – a group of related companies comprising the Bank and the Bank's subsidiaries included in the consolidation.
- 2.3. **Associated persons** – the persons connected with the Bank, and who are within the meaning of the Policy:
 - a member of the Bank's Board or the Council or another person who on behalf of the Bank by adopting important decisions creates civil obligations to the Bank,
 - the Bank's employee or another natural person involved in providing Investment services carried out by the Bank and whose performance is controlled by the Bank,
 - a natural person who is directly involved in providing outsourcing service to the Bank or an tied agent when providing Investment services,
 - a relative of the persons above – spouse, child, stepchild (spouse's children who are not children of the persons above), a person who has had common household for at least one year with one of the persons above.

Associated persons are defined in accordance with requirements of the Bank's "Procedure for identification of the persons connected with the Bank and for control over transactions closed with these persons".
- 2.4. **Client** – a person to whom the Bank provides Investment services, as defined in the Law.
- 2.5. **FI** – financial instruments, as defined in the Law.
- 2.6. **Investment services** – investment services and ancillary investment services as well as related investment actions, as defined in the Law.
- 2.7. **Personal transaction** – trade transaction with FI, performed by the Associated person, or transaction, performed on behalf of the Associated person, if any of the following criteria is in force:
 - transaction is not performed within the sphere of the Associated person's job duties or professional engagement,
 - transaction is funded by means belonging to the Associated person,

- transaction is funded by means belonging to the other person who is expressly or implicitly financially interested in the transaction's outcome that is not a fee for the transaction performance.
- 2.8. **Inside information** within the meaning of this Policy:
- information of the precise nature which has not been made public, relating, directly or indirectly, to one or more issuers of FI, or to one or more FI, and which, if it were made public, would be likely to have a significant effect on the prices of those FI or on the price of related derivative FI,
 - information of the precise nature relating to FI commodity derivatives, which has not been made public, relating, directly or indirectly, to one or more FI derivatives and which, if it were made public, would be likely to have a significant effect on the prices of those FI derivatives, and there are grounds to believe that the relevant information should be disclosed pursuant to the EU or national legislative provisions, market terms, agreements, traditions and practices of the FI commodity derivatives markets or of spot transactions markets,
 - in regard to the Bank's employees who execute the Client's orders, this is also the information provided by the Client and relating to a pending Client order, and which is of the precise nature, relating, directly or indirectly, to one or more issuers or to one or more FI and which, if it were made public, would be likely to have a significant effect on the prices of those FI or on the prices of those FI derivatives.
- 2.9. **Conflict of interest** means the situation where interests of different person's interests are contradicting to each other.
- 2.10. **Law** – Financial Instrument Market Law of the Republic of Latvia.
- 2.11. **LR** – Republic of Latvia.
- 2.12. **FCMC** – Financial and Capital Market Commission.
- 2.13. All terms that are not defined in this Policy are used within the meaning of the Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

3. Basic principles of the Policy

- 3.1. Prevention of Conflict of interest is performed by observing the following basic principles:
- 3.1.1. evaluation of the significance of danger to the Client's interests, i.e. observance of proportion between risk, benefits and costs within the framework of statutory requirements;
 - 3.1.2. setting limits for conduct of Personal transactions;
 - 3.1.3. supervision of Conflict of interest;
 - 3.1.4. demarcation between Bank's structural units that provide Investment services, and between which there may arise Conflict of interest;
 - 3.1.5. ensuring availability of the Policy for the Clients;
 - 3.1.6. up-dating of the Policy on a regular basis.
- 3.2. The Bank does not develop and offer investment research to the Clients. The Bank offers on its website to the Clients only general review of financial market and topical events.
- 3.3. Policy is a document addressing all Conflicts of interest situations in all business activities of the Bank group. In addition to cases described in this Policy, also, other circumstances that are known to the Bank in the context of the business of other companies within the Bank group that could cause Conflict of interest are taken into account and the Bank group is taking appropriate steps to identify, prevent and control such Conflicts of interest. Within the meaning of this Policy the term Bank referred to as the Bank group if from specific context does not arise otherwise.

4. Identification of Conflict of interest and circumstances of its occurrence

- 4.1. The Bank identifies the circumstances that may give rise to Conflict of interest, which may result in harm or threat to the interests of one or more Clients, and determines the actions to be taken in order to prevent Conflict of interest.
- 4.2. The Conflict of interest may arise between:
 - the Client and the Bank;
 - two or more Clients of the Bank in a situation where the Bank provides services to such Clients;
 - Associated person and the Client;
 - Associated person and the Bank;
 - any other companies within the Bank group and the Client(s).
- 4.3. In order to identify potential Conflicts of interest that may arise during the provision of Investment services Bank as minimum must consider as to whether the Bank or an Associated person falls into any of the following situations:
 - 4.3.1. The Bank or Associated persons are likely to make a financial gain or to avoid a financial loss at the expense of the Client;
 - 4.3.2. The Bank or Associated persons have an interest in the outcome of a service provided to the Client or of a transaction carried out on behalf of the Client, which is distinct from the Client's interest in that outcome;
 - 4.3.3. The Bank or Associated persons have a financial or other interest in giving priority to the interests of the Client or Client group at the expense of another Client or Client group;
 - 4.3.4. Bank or Associated persons are engaged in the same business as the Client;
 - 4.3.5. The Bank or Associated persons receive or will receive from a person other than the Client, an inducement in a cash or non-cash form or services relating to the Investment services provided to the Client.
- 4.4. Situations that can rise or trigger Conflict of interest (it is not possible to list all actual or potential Conflict of interest, but below are listed situations in which Conflict of interest may arise that require particular attention):
 - 4.4.1. The Bank or Associated person concludes or intends to conclude a transaction related to a FI at the same time that the Client's order is received or being executed in relation to the same FI;
 - 4.4.2. the Bank executes simultaneously orders of two different Clients in relation to transactions with the identical FI;
 - 4.4.3. the Bank unreasonably establishes priority in relation to the orders on execution of the identical transactions in FI of two different Clients, which have been submitted to the Bank simultaneously;
 - 4.4.4. the Bank, when executing the orders of the identical transactions in FI of two different Clients, does not observe the relevant sequence of submission of the orders;
 - 4.4.5. the Bank executes the Client's orders for purchase or sale in respect of FI distributed or owned by the Bank;
 - 4.4.6. Associated person has Inside information about the Client's transactions in FI, included planned transactions in FI;
 - 4.4.7. Associated person has Inside information about the Client's financial condition or other Inside information that may have an effect on the price of FI and which relates to Investment services;
 - 4.4.8. the Bank or Associated persons accepts or receives a financial or other type of inducement, which affects it's behavior in such a way that one or more Clients gain advantage over the other Clients;

- 4.4.9. FI from the Bank's portfolio is traded to the Client at a deliberately higher price than the market price of the identical FI;
- 4.4.10. Associated person has significant interest in cooperation with any of the Bank's competitors, providers or Clients;
- 4.4.11. Associated person gains personal advantage that the Bank would have had from provision/performance of Investment services;
- 4.4.12. the Bank uses the information at disposal of the Client about the Client's transaction in FI, while providing Investment services;
- 4.4.13. The Bank or Associated person offers investment recommendations regarding FI to Clients and at the same time enters in any type of agreement with the issuer of the FI that may restrict the Bank's or Associated person ability to formulate an objective and otherwise compliant investment recommendation;
- 4.4.14. The Bank provides both investment consulting services and crediting and financing services to the same Client;
- 4.4.15. The Bank or Associated person engages in trade in FI at its own expense. In this case, the Bank seeks to maximise return from the positions it assumes and therefore there may be a Conflict of interest between this type of business and the Clients entering into transactions with the Bank or Associated person. Conflict of interest between parties involved into transaction can arise in case when:
 - 1) Bank enters into financial derivative transactions with the Clients (for instance, enters into contracts for difference (CFD) or sells its FI to the Clients). In cases like that, the interests of the Bank and of the Client are in conflict because a transaction result for the Client will mean an opposite result for the Bank. The bigger the share of the Bank's dealing in FI at its own expense and the revenue therefrom, the higher the risk of Conflict of interest.
 - 2) The Bank determines the price of the transaction made with the Client at its own discretion rather than on the basis of objective market data, and when the time difference between a transaction made with the Client and a transaction made for hedging purposes (if any) may cause the Bank to derive additional financial gain for the price difference in time.

The Bank or Associated person try to avoid such mentioned above activities.

- 4.4.16. Other situations that triggers or can trigger Conflict of interest.

5. Prevention and management of Conflict of interest

5.1. Limitations on Personal transactions.

5.1.1. It is prohibited for the Associated persons:

- 5.1.1.1. to conduct Personal transactions on the basis of Inside information that has become available to the Associated person while fulfilling official duties in the Bank;
- 5.1.1.2. to conduct Personal transactions using or disclosing information containing secret of the deal;
- 5.1.1.3. to conduct a Personal transaction which contradicts the existing laws and regulations of the Republic of Latvia and the Bank's regulations;
- 5.1.1.4. to recommend a third person to conduct such transaction with FI which in respect of the Associated person who has recommended the transaction may be treated as a Personal transaction (except for the event when the transaction is recommended while fulfilling official duties) and:
 - 1) conduct of such transaction is prohibited in accordance with clauses 5.1.1.1.-5.1.1.3 of the Policy;
 - 2) information about unexecuted orders of the Client, which is at disposal of the Associated person, is being used maliciously;
- 5.1.1.5. to disclose to a third person information or express an opinion if the Associated person who has disclosed the information knows or should know that, as a result of disclosure of the information, the third person will conduct or could conduct or could recommend other person

to conduct such transaction with FI, which would be qualified for the Associated person who has disclosed the information as a Personal transaction to which the prohibitions referred to in clause 5.1.1.4 (1-2) of this Policy are applied, except for the event when information is disclosed or the opinion is expressed while fulfilling official duties.

- 5.1.2. The Bank may establish that it is necessary for the Associated person to obtain permission from the Bank in order to conduct a Personal transaction.
 - 5.1.2.1. If the Bank has established that the Associated persons need the Bank's permission to conduct Personal transactions, the Bank shall keep information about issued permissions for conduct of Personal transactions and refusals to issue such permissions.
- 5.1.3. The Associated persons are obliged to inform the Bank about the performed Personal transactions, by submitting to the Bank the completed Bank's form "Report on transactions performed by the person connected with the Bank" after each Personal transaction.
- 5.1.4. Clauses 5.1.1.-5.1.3. of the Policy do not apply in the events when:
 - 5.1.4.1. Personal transaction is conducted within the framework of an individual FI management and in this connection there has not been preliminary communication between the portfolio manager and the Associated person or with other person on behalf of whom the transaction is conducted;
 - 5.1.4.2. Personal transaction is conducted with investment certificates of an investment fund and the Associated person or other person on whose behalf the transaction is conducted, is not engaged in the management of the fund.
- 5.1.5. The Bank identifies the Associated persons and supervises compliance with the requirements established by the Policy and the Law for the Associated persons.
- 5.1.6. The Bank creates and maintains the Bank's "Register of information on transactions conducted by the Persons connected with AS "PNB Banka"", in which it keep information on transactions conducted by the Associated persons based on the information provided by the respective persons or established during the supervision process.

5.2. **Avoiding Conflict of interest measures**

- 5.2.1. In order to prevent possible Conflict of interest, functions of the Associated persons providing Investments services are segregated from other Bank's functions and these Associated persons are prohibited from exchanging information related with Investments services provided to the Clients or with any intentions to provide such services to Bank's other employees and Associated persons if such exchange of information is not necessary in order to properly provide the services and it can't harm interests of the Client or the Bank.
- 5.2.2. The staff remuneration and motivation system is being developed in view of avoiding direct connection between the salary of Associated persons mostly engaged in one type of activity and the salary or income received by other related persons mostly engaged in other type of activity in case different types of activities may raise Conflict of interest. The Bank's employee remuneration and motivation system is developed so as to prevent prioritisation of the interests of the Bank's employees, Associated persons or the Bank when this can possibly undermine the interests of the Client.
- 5.2.3. The Bank's employees and Associated persons may not enter into or recommend any transactions for buying or selling FI which are aimed exceptionally at gaining commissions or other non-financial benefit without considering the Client's interests. This does not mean that the Bank does not have a right to enter into transactions with Clients as a counterparty to the transactions; however, when the Bank is a counterparty to a derivative FI transaction with the Client, additional precautions must be taken to manage situations of Conflict of interest.
- 5.2.4. The key precautions follow:
 - 1) The Bank's market risk must be managed by entering into mirror transactions to the full extent of transactions made with the Clients or by employing other measures to fully hedge the risks of Client transactions, and by entering into this kind of hedging transactions with entities outside of the Bank group. Only when the Bank does not have any unhedged positions will the result of a transaction made with the Client be

insignificant to the Bank and the interests of the Bank relating to the transaction made with the Client will not be in conflict with the interests of the Client;

- 2) When, for the purposes of executing Client orders, the Bank enters into transactions with the Client at its own expense, in doing so the Bank must make sure that the underlying transaction is made on the best conditions for the Client, meaning that the Client will obtain the best possible result. To that end, before executing the Client's order by entering into a transaction at its own expense, the Bank will evaluate and compare the results the Client would obtain upon executing the order at each of the possible venues of execution, as well as the commission for and other costs of the Bank that would be incurred in the process of executing the Client's order at each of the possible venues of execution.

5.2.5. In case the Client's order was received in regards to transaction with FI until the Client's order is executed one and the same Associated person has no right to enter into a transaction on the behalf of the Bank and on Bank's account and/or at the same time personally for own account. Orders received from different Clients must be executed in order of priority according to the receipt date and time of the order, i.e. orders that were received earlier are executed first.

5.2.6. In case the interests of the Bank, Associated person and the Client are confronted priority must be given to the Client's legitimate interests.

5.3. The Bank's employees or Associated person must inform immediately the direct superior about all situations, when Conflict of interest arises or may arise, and the required information should be sent in electronic format to e-mail address: compliance@pnbbanka.eu.

5.4. "Gift Acceptance Policy" governs conduct of the Bank's employees in respect of gift acceptance as well as in respect of any financial and/or non-financial benefits received from or provided to the third parties rendering Investment services. Bank's "Policy on standards of professional ethics and conduct and management of conflict of interest" governs conduct of the Bank's employees in case of Conflict of interest provided other Bank's services.

5.5. Reporting on transactions that arouse suspicion that these transactions are performed using Inside information or with the purpose of market abuse.

5.5.1. The Bank in accordance with the requirements of the Regulation No.596/2014 identifies the cases and reports about actual or potential violations, which is unlawful use of Inside information and market abuse.

5.5.2. The reporting procedure is governed by the FCMC's regulations No.139 "Regulations on procedure for submission of information regarding actual or potential violations of Regulation No.596/2014". The Bank's reporting procedure to the FCMC is established in the Bank's "Procedure for Monitoring and Reporting on Transactions in Financial Instruments".

6. Disclosure conflicts of interest

6.1. The Bank maintains effective measures for identification and prevention of Conflict of interest and perceives disclosure of Conflict of interest related information as last resort and only if no Bank's internal Conflict of interest prevention measures are sufficient to ensure the protection of the Client's interests with due care.

6.2. If a Conflict of interest arises and only when none of the Bank's measures to avoid Conflict of interest is efficient to make sure that the Client's interests will not be breached, the Bank before rendering Investment services must disclose the content of the Conflict of interest to the Client on a durable medium. In disclosing the content of the Conflict of interest, the Client must be clearly notified that the Bank's measures to prevent Conflict of interest are insufficient to make sure that the Client's interests will not be breached. Furthermore, a description of the

particular arising Conflict of interest must be presented, stating the general nature and sources of Conflict of interest, as well as the resultant risks for the Client and actions taken to mitigate the risks. The explanations must be sufficiently detailed for the Client to be able to make an informed decision regarding the particular Investment service provided to him. The Investment service can be rendered only in case the Client clearly expresses his consent to the provision of the Investment service amid the Conflict of interests.

7. Revision and monitoring of the Policy

- 7.1. Upon establishment of any infringements of the procedures stipulated in the Policy the respective structural unit or Associated person shall immediately report in writing to the Bank's Compliance unit according to approved procedure of infringements reporting. At least once per year Compliance unit prepares written report of Conflict of interest that arisen in the Bank during observation period and such report is presented to Bank's Management Board.
- 7.2. The Bank shall maintain and regularly update the information on provided Investment services resulting in an actual and/or potential conflict of interest.
- 7.3. The Bank evaluates and revises the Policy and the related documents once a year or more often reacting to any material circumstances that affect the Bank's ability to provide Investment services without any Conflict of interest.
- 7.4. The Bank informs the Clients on all material amendments to the Policy by publishing the updated version of the Policy on the Bank's website: www.pnbbanka.eu and ensuring the availability of it in places where the Bank provides Investment services or it may be issued in hard copy to the Client at Client's request, or sent to the Client's e-mail.

8. Related documents

- 8.1. Financial Instrument Market Law of the Republic of Latvia.
- 8.2. Bank's "Policy on Standards of Professional Conduct and Ethics Standards, Management of Conflict of Interests".
- 8.3. Bank's "Gift Acceptance Policy".
- 8.4. Bank's "Code of Ethics".
- 8.5. Bank's "Procedure for identification of the persons connected with the Bank and for control over transactions closed with these persons".
- 8.6. Bank's "Procedure for Monitoring and Reporting on Transactions in Financial Instruments".
- 8.7. Bank's form "Report on transactions performed by the person connected with the Bank" (MX/29/01545).
- 8.8. Bank's form "Register of information on transactions conducted by the persons connected with AS "PNB Banka"" (MX/29/01544).
- 8.9. Bank's form "Questionnaire for the persons connected with AS "PNB Banka" (MX/29/00665).

* * *