



Approved by: Supervisory Council of Luminor Bank AS

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## Policy for Prevention of Conflicts of Interest for Transactions in Financial Instruments

### 1. Objective

1.1. Luminor Bank AS (hereinafter – the **Bank**) over the course of its business activities provides services that may cause a conflict of interests. The objective of the Bank's Policy for Prevention of Conflicts of Interest for Transactions with Financial Instruments (hereinafter – the **Policy**) is to stipulate all necessary and possible actions in order to identify, eliminate or manage conflict of interest situations that have arisen during the provision of investment services or ancillary (non-core) investment services.

1.2. The Policy has been developed in accordance with:

- (i) the Markets in Financial Instruments Directive of European Parliament and Council No 2004/39/EK dated 21 April 2004 and implementation deeds thereof,
- (ii) the Financial Instruments Market Law, and
- (iii) Luminor Group Code of Conduct.

1.3. Activities taken by the Bank in order to identify, eliminate or manage interest conflict situations that have arisen during the provision of investment ancillary service – investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments - are set out in a separate Bank's Policy for Prevention of Interest Conflicts (for investment research).

1.4. The Policy is a supplementary document to pan-Baltic Policy for Prevention and Management of Conflicts of Interest addressing all conflicts of interest situations in all business activities of Luminor Group.

### 2. Identification of the conflict of interest

2.1. The Policy applies to the conflicts of interest whose presence may impair the interests of the Bank's existing or potential customers with regard to transactions related to investment services and/or ancillary services.

2.2. The conflict of interest is a situation when the parties to the transaction with financial instruments have contrary interests.

2.3. The conflict of interest may arise between:

- (i) The customer and the Bank;
- (ii) Two or more customers of the Bank in a situation where the Bank provides services to such customers;
- (iii) The Bank employees and the customer;
- (iv) The Bank employees and the Bank;

- (v) The Bank and any undertaking of Luminor Group and the customer.
- 2.4. In order to identify types of the conflicts of interest that may arise during the provision of investment services and/or ancillary investment services the Bank is considering situations when the Bank or the Bank-Related Person<sup>1</sup>, or a person that directly or indirectly exercises control over the Bank:
- (i) is likely to make a financial gain or avoid a financial loss at the expense of a customer;
  - (ii) has an interest in the outcome of a service provided to a customer or of a transaction carried out on behalf of a customer, which is distinct from the customer's interest in that outcome;
  - (iii) has an incentive to favor the interests of another customer or a group of customers;
  - (iv) carries out the same professional activity as the customer;
  - (v) receives or will receive from a person other than the customer an inducement in relation to a service provided to the customer, in the form of money, goods or services, other than the standard commission or fee for that service.
- 2.5. Conflicts of interest mainly can arise in the following situations:
- (i) The Bank simultaneously executes orders for transactions with financial instruments for two different clients;
  - (ii) The Bank or its employee concludes or intends to conclude a transaction with financial instrument at the same time that the Customer's order is received or being executed in relation to the same financial instrument;
  - (iii) The customers' orders related to the financial instruments issued by the Bank are in process of execution;
  - (iv) The customers' orders are in process of execution in relation to buying or selling of financial instruments that are distributed by the Bank or are owned by the Bank under the ownership right;
  - (v) The Bank or its employees receive financial or other incentives that influence their behavior in the way that the customer or the group of customers gains priority over other customers;
  - (vi) The Bank receives payments (incentives) from third parties or makes payments to a third party in relation to the service provided to the customer;
  - (vii) The Bank manages financial instruments portfolios of several customers;
  - (viii) The Bank provides both corporate consulting services and crediting services to the same customer.

### 3. Personal Transactions

- 3.1. A personal transaction shall mean a trade transaction in financial instruments that is made by a person referred to in the Bank's „Policy on Personal Account Transactions for Specific Groups of Employees” or that is made on behalf of such person, where at least one of the following criteria is met:
- (i) the transaction has been made outside the scope of the job or of the professional duties of that person;
  - (ii) the transaction has been made for the account of that person;
  - (iii) the transaction has been made for the account of the spouse, a child, a step-child (a child of the spouse that is not the child of that person) or for the account of another relative who has shared the household with the Bank-Related Person for at least one year before making the transaction;
  - (iv) the transaction has been made for the account of another person whose relationship with the Bank-Related Person is such that the relevant person has a

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<sup>1</sup> In the context of this Policy the Bank-Related Person is considered:

- chairperson or member of the executive board or of the council of the Bank, a tied agent or another person that incurs civil liability on the Bank by taking important decisions on its behalf;
- employee of the Bank or of its tied agent, as well as any other natural person who is engaged in the provision of investment services by the Bank and whose activity is controlled by the Bank;
- natural person who is directly engaged in the provision of an outsourced service to the Bank by providing investment services.

direct or indirect material interest in the outcome of the transaction other than the fee for the execution of the transaction.

- 3.2. Personal transactions should not imply any conflicts of interest of either professional or moral nature. The Bank employees and other persons in the context of personal transactions are explicitly prohibited from abuse of confidential or privileged information of the Bank or the Bank's customers, and shall perform appropriate actions in order to avoid any provisional impairment to the interests of the Bank's customers.
- 3.3. The procedure for execution of personal transactions and their supervision is regulated by the Bank's relevant internal documents.

#### **4. Measures for Prevention of Conflicts of Interest**

##### **4.1. Acceptance, transmission and execution of orders related with the financial instruments on behalf of the customers:**

- (i) Orders are normally initiated by the customer by contacting the Bank and requesting for a transaction with financial instrument. Orders are registered with the respective trading system applying first-in, first-out method. With regard to some financial instruments, the Bank is trading on its own account. In other situations the Bank will transmit the order to other market participants for execution.
- (ii) The Bank's employee (broker) after receipt of the customer's order must abide by the prevailing legislation and trade regulations effective in the respective venue. This implies, inter alia, that the broker must seek to avoid conflicts of interest by ensuring that clients' interests are given priority over the interests of the Bank, and that individual clients are not wrongfully favored at the expense of other clients.
- (iii) The Bank's employee (broker) is prohibited from acceptance of the customers' orders or recommendations on their submission to generate personal inducement.
- (iv) The customers' orders are executed in compliance with the Order Execution Policy (for transactions with financial instruments) that stipulates the procedure for selection of the order execution venue. The Order Execution Policy (for transactions with financial instruments) helps to achieve the best possible result to the customers, where executing the orders on behalf of the customer.

##### **4.2. Trading in financial instruments on behalf of the Bank:**

- (i) Through trading in individual financial instruments, the Bank can assume the role of counterparty in transactions with clients. This could typically be the case in quoting markets (e.g. the derivatives or bonds/securities markets) where the Bank quotes prices and assumes risk if the customer trades at the quoted price.
- (ii) The Bank gets involved in trade on own behalf within the framework of investment service provision and market-making activities with other financial institutions. The conflict of interest may arise in case the customer submits to the Bank an order concerning financial instruments the Bank is using when trading on its own behalf.
- (iii) In order to avoid conflicts of interest in such situations the Bank has stipulated that:
  - The Bank's employees involved in provision of investment services are prohibited from exchange of information with regard to investment services that are or will be provided to the customers with other Bank's employees, unless such exchange of information is required to duly comply with the customer's order;
  - One and the same Bank's employee (broker) is prohibited from entering into transaction on the Bank's behalf and at its expense, at the same time performing the transaction on behalf of the customer, if the customer's order is placed in the same financial instrument.

##### **4.3. Investment portfolio management:**

Investment portfolio management is ensured by a separate structural unit of the Bank – Wealth Management unit. This structural unit is not involved in making decisions on the Bank's trades on its own behalf. In order to prevent any potential conflicts of interest, remuneration of aforementioned Unit employees is not related with the sales of particular products or profitability of the customers' investment portfolios.

4.4. Provision of consultations on investments in financial instruments (investment advice):

Provision of consultations on investments in financial instruments (investment advice) is ensured by the Bank's employees who have appropriate education and experience and are competent in the sphere of investment services. These employees are not involved in making decisions on the Bank's trades on its own behalf. In order to prevent any potential conflicts of interest, remuneration of the authorized employees is not related with the conclusion of transactions in the result of consultations.

4.5. Holding and administration of financial instruments:

The Bank offers financial instruments' custody and administration services. Financial instruments are booked on financial instruments accounts on behalf of the customer. According to the Financial Instruments Market Law the financial instruments are held separately from the Bank's own investments in financial instruments.

4.6. Granting of loans:

- (i) The Bank grants loans to retail and corporate customers. As the result of the above-mentioned activity the Bank may obtain the information about its customers that is not publicly accessible. The conflict of interest in such situations may arise in case sensitive customer's information is disclosed to unauthorized persons.
- (ii) The Bank has introduced several measures to restrict the flow of information between lending division and other Bank's structural units:
  - lending transactions and financial instruments transactions are arranged by separate organizational structures and executed by different units;
  - employees of Financial Markets Department are not members of the Bank's Credit Committees;
  - employees in charge of lending are not involved in discussions and setting of limits for the Bank's own investments in financial instruments.
- (iii) Should the Bank offer loans in relation to financial instruments transactions such products shall be developed and maintained by the Bank's Product development unit, which acts independently from Financial Market Department.

4.7. Inducements and Endowments:

- (i) The Bank employees involved in provision of investment services are explicitly prohibited from taking or giving valuable presents, if such endowment might affect the decision taken by the employee or appropriate performance of one's duties. The Bank employees are explicitly prohibited from taking or giving presents to private individuals or companies related to them either at the present moment or in the future by business relations on behalf of the Bank unless in such case one can doubtlessly prove inexistence of the conflict of interest.
- (ii) Any gifts accepted by the Bank employee must be reasonable, and their acceptance should not cause any conflicts of interests. The above provision shall be complied with also in cases where the direct recipient of the gift is the Bank employee's spouse, child, step-child or other relative who has shared household with the employee for at least one year.

## 5. Management of Conflicts of Interests

If the conflict of interests cannot be avoided the Bank shall apply the following management measures for conflicts of interests:

- (i) disclosure of information to the customer;
- (ii) information barriers;
- (iii) refusal to provide service.

5.1. Disclosure of information to the customer

- (i) Prior to the provision of the investment service and/or ancillary investment service the Bank shall inform the customer about the nature and reason of the conflict of interest. Such information shall be revealed to the customer immediately (upon the customer's request - also in writing) and shall be thorough enough to enable the customer to make decision on the specific investment service and/or ancillary service the conflict of interest is related to.
- (ii) The Bank offers to its customer's particular investment products of the companies related with the Bank that are subject to inducement. Purpose of such inducement is to increase the quality of the respective service as provided to the customers and it does not affect the Bank's duty to ensure the best result to the Bank's customer when providing investment services. The Bank informs about such inducement on its website as well as includes notification on such inducement in certain transaction orders. By virtue of the customer's request the Bank provides detailed information on received payments in relation to investments made by the customer.

5.2. Information barriers

The Bank may manage the conflict of interests through development and implementation of information barriers ("*Chinese wall*") in order to restrict exchange of information among various departments/employees within the Bank. If regardless of the established information barriers and other measures existing or potential conflict of interest is identified, and such conflict might imperil the interests of one or several customers the Bank documents the procedure for solving such a conflict. The documentation includes a brief description of activities the existing or potential conflict of interests has ensued from and a description of actions to resolve this conflict.

5.3. Refusal to provide service

If the conflict of interest cannot be avoided or prevented, the Bank shall be entitled to refuse provision of the respective service. In addition to general guidelines described in standard procedures particular Bank's structural units may adopt more thorough guidelines to manage the potential conflicts of interest.

**6. Obligation to Report about Conflict of Interest**

- 6.1. All the Bank's employees are obliged to report immediately on any situation where the conflict of interest has arisen or may arise to the head of their structural unit.
- 6.2. The obligation to report on any established situation where the conflict of interest has arisen or may arise is also binding to the customers.

**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 shall immediately report in writing to the Bank's Management Board and Internal Audit.
- 7.2. The Bank shall maintain and regularly update the information on provided investment services and ancillary investment services resulting in an actual and/or potential conflict of interest.

- 7.3. The Bank revises the Policy and the related organizational documents once a year or reacting to any material circumstances that affect the Bank's ability to provide investment and/or ancillary investment services without any conflicts of interest.
- 7.4. The Bank informs the customers on all material amendments to the Policy by publishing the updated version of the Policy on the Bank's website: [www.luminor.lv](http://www.luminor.lv) and ensuring the availability of it in places where the Bank provides investment and ancillary investment services.