



Approved by: Management Board of Luminor Bank AS, Supervisory Council of Luminor Bank AS

Approved on: 14.02.2018.

Effective from: 15.02.2018.

Policy of Avoiding Conflicts of Interest in Providing Investment Services

1. Purpose

1.1. The Policy of Avoiding Conflicts of Interest in Providing Investment Services (the '**Policy**') sets forth the requirements and procedures intended to establish and control the circumstances related to the investment and ancillary services provided by Luminor Bank AS (the '**Bank**') as well as investment activity carried out thereby (the '**Investment Services**'), which cause or may cause conflicts of interest potentially resulting in undermining the interests of one or several clients.

1.2. 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. 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 Luminor Group that could cause conflict of interest are taken into account and the Luminor Group is taking appropriate steps to identify, prevent and control such conflicts of interest.

2. Definitions

Customer means a natural or legal person to whom the Bank provides or intends to provide Investment Services.

Employee means any employee of the Bank as well as members of the Management Board and of the Supervisory Council.

Person means any employee of the Bank's tied agent, as well as members of the Management Board and of the Supervisory Council, any other private individual whose services are used and controlled by the Bank or its tied agent, and who is involved in the process of the Bank's providing the Investment Services; a private individual who is directly involved in providing contractual services to the Bank or its tied agent to enable the Bank to provide the Investment Services; as well as other person that incurs civil liability on the Bank by taking important decisions on its behalf

Conflict of Interest means the situation where interests of different person's interests are contradicting to each other.

Investment Research means a research or other information (that is not considered as investment recommendation), which directly or indirectly Bank offers or recommends an investment strategy relating to one or several financial instruments or their issuers, including expressed opinions on the current or future value or price of such financial instruments, (offering or recommending an investment strategy relating to a specific industry or market in a way that it offers a relevant view on the financial instruments or classes of assets typical of a particular sector), which is aimed at the Bank's Clients or the general public and is defined as an Investment Research or defined with a similar definition or is otherwise presented as an objective and independent explanation of the matters indicated in the recommendation.

2.1. Other terms used herein are to be understood as they are defined by the regulations specified in 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 organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, as well as other legal acts.

3. Identification of conflicts of interest

3.1. 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 investment services.

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

3.3. 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 Banks employees or Person and the Customer;
- (iv) Person directly or indirectly related to the Bank through ties of control and Customer
- (v) The Bank employees or Person and the Bank;
- (vi) Any other companies within the Luminor Group and the Customer.

3.4. In order to identify possible Conflicts of Interest that may arise during the provision of investment services and/or ancillary investment services Bank as minimum must consider as to whether the Bank or an Employee or a Person or a person directly or indirectly related to the Bank through ties of control falls into any of the following situations:

- 3.4.1. The Bank or other persons spelled out above are likely to make a financial gain or to avoid a financial loss at the expense of the Customer;
- 3.4.2. The Bank or other persons spelled out above have an interest in the outcome of a service provided to the Customer or of a transaction carried out on behalf of the customer, which is distinct from the Customer's interest in that outcome;
- 3.4.3. The Bank or other persons spelled out above have a financial or other interest in giving priority to the interests of the Customer or Customer Group at the expense of another Customer or Customer Group;
- 3.4.4. Bank or other persons spelled out above are engaged in the same business as the Customer;
- 3.4.5. The Bank or other persons spelled out above receive or will receive from a person other than the Customer, as an incentive, a cash or non-cash benefit or services relating to the services provided to the Customer.

3.5. Situations that can rise or trigger Conflicts of Interest (it is not possible to list all actual or potential conflicts of interest, but below are listed situations in which Conflicts of Interest may arise that require particular attention):

- 3.5.1. The Bank or its Employee concludes or intends to conclude a transaction related to a financial instrument at the same time that the Customer's order is received or being executed in relation to the same financial instrument;
- 3.5.2. The Bank, Employee or Person receives financial or other incentives which influence their behavior in the way that the Customer or Customer Group gains priority over other Customers or group of Customers;
- 3.5.3. The Bank or Bank's tied agent receives cash and non-cash incentives from third parties or provides cash or non-cash incentives to a third party in relation to the service provided to the Customer;
- 3.5.4. The unit that carries out Investment Researches is related to and acts together with the unit that provides investment recommendations and other Investment Services;
- 3.5.5. The Bank provides corporate consulting services to a Customer – legal entity whose financial instruments it has acquired or intends to acquire for own account or Bank or Bank's tied agent provides investment recommendations related to these financial instruments to the Customers;
- 3.5.6. The Bank or Bank's tied agent offers investment recommendations regarding financial instruments to Customers and at the same time has any type of agreement with the issuer of the financial instruments that may restrict the Bank's or Bank's tied agent ability to formulate an objective and otherwise compliant investment recommendation;
- 3.5.7. Investment Services are provided to several Bank Customers whose interests are contradicting;
- 3.5.8. The Customer buys the Bank's financial instruments intended to manage the risks related with the Bank's crediting and financing services;
- 3.5.9. The Bank provides both investment consulting services and crediting and financing services to the same Customer;
- 3.5.10. The Bank or Bank's tied agent engages in trade in financial instruments 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 Customers entering into transactions with the Bank or Bank's tied agent. Conflict of Interest between parties involved into transaction can arise in case when:

(i) Bank enters into financial derivative transactions with the Customers (for instance, makes contracts for difference (CFD) or sells its financial instruments to the Customers). In cases like that, the interests of the Bank and of the Customer are in conflict because a transaction result for the Customer will mean an opposite result for the Bank. The bigger the share of the Bank's dealing in financial instruments at its own expense and the revenue therefrom, the higher the risk of Conflict of Interest.

(ii) The Bank determines the price of the transaction made with the Customer at its own discretion rather than on the basis of objective market data, and when the time difference between a transaction made with the Customer 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 Bank's tied agent try to avoid such mentioned activities;

3.5.11. Other situations that triggers or can trigger Conflicts of Interest.

3.6. When preparing an Investment Research, Conflicts of Interest may arise in situations when:

3.6.1. Bank's Customer tries to issue own financial instruments at the highest possible price;

- 3.6.2. Employees or Persons that are trading financial instruments and managing the Bank's own investment portfolio strive to maximize the profit of such portfolio;
- 3.6.3. The Bank acts as issuer / distributor of financial instruments;
- 3.6.4. The conclusion of an Investment research are provided at the wrong time when a person who obtains the Investment Research faster than others and can start to act before the financial instruments are affected by such information provided;
- 3.6.5. As a result of the Investment research a recommendation or a proposal to Customer is given for an investment strategy in relation to financial instruments that are managed, distributed or involved in transactions executed by the Bank or Persons who make a recommendation at the time when the recommendation or proposal is made.

4. Personal transaction

4.1. A personal transaction shall mean a trade transaction in financial instruments that is made by a Employee or Person, 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 on behalf of person mentioned below;
- (iii) Employee's or Person's spouse or partner of that person considered by national law as equivalent to a spouse, a dependent child, a stepchild or another relative who has shared the household with the Employee or Person for at least one year on the date of the personal transaction concerned;
- (iv) person in relation to whom Employee or Person has a direct or indirect material interest in the outcome of the transaction other than the fee or commission for the execution of the transaction.

4.2. Personal transactions should not imply any conflicts of interest of either professional or moral nature. Employees and Persons are prohibited from abuse of confidential or privileged information of the Bank or Customers to perform personal transactions with financial instruments, and shall perform appropriate actions in order to avoid any provisional impairment to the interests of the Customer.

4.3. The procedure for execution of personal transactions and their supervision is regulated by the Bank's relevant internal documents.

5. Avoiding conflicts of interest and managing measures

5.1. In order to prevent possible Conflicts of Interest, functions of the Employees and Persons providing investments services are segregated from other Bank's functions and these Employees and Persons are prohibited from exchanging information related with investments services provided to the Customers or with any intentions to provide such services to other Employees and Persons if such exchange of information is not necessary in order to properly provide the services and it can't harm interests of the Customer or the Bank.

5.2. The staff remuneration and motivation system is being developed in view of avoiding direct connection between the salary of Employees and 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 Conflicts of Interest. The Employee remuneration and incentive system is developed so as to prevent prioritisation of the interests of the Employees, Persons or the Bank when this can possibly undermine the interests of the Customer. Remuneration of the Employees of the Bank's unit involved in Investment Research may not be linked to a particular transaction or recommendations specified in the process of research.

5.3. The Employees and Persons may not enter into or recommend any transactions for buying or selling financial instruments which are aimed exceptionally at gaining commissions or at other financial benefit without considering the Customer's best interests. This does not mean that the Bank does not have a right to enter into transactions with Customers as a counterparty to the transactions, however when the Bank is a counterparty to a derivative Financial Instrument transaction with the Customer, additional precautions must be taken to manage Conflict of Interest situations. The key precautions follow:

- The Bank's market risk must be managed by entering into mirror transactions to the full extent of transactions made with the Customers or by employing other measures to fully hedge the risks of Customer transactions, and by entering into this kind of hedging transactions with entities outside of the Luminor Group. Only when the Bank does not have any unhedged positions will the result of a transaction made with the Customer be insignificant to the Bank and the interests of the Bank relating to the transaction made with the Customer will not be in conflict with the interests of the Customer;

- When, for the purposes of executing Customer orders, the Bank enters into transactions with the Customer at its own expense, in doing so the Bank must make sure that the underlying transaction is made on the best conditions for the Customer, meaning that the Customer will obtain the best possible result. To that end, before executing the Customer's order by entering into a transaction at its own expense, the Bank will evaluate and compare the results the Customer 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 Customer's order at each of the possible venues of execution.

5.4. In case the Customer's order was received in regards to transaction with financial instruments until the Customer's order is fulfilled one and the same Employee or 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 Customers must be executed in order of priority according to the receipt date and time of the customer's order, i.e. orders that were received earlier are executed first.

5.5. In case the interests of the Bank, Employee, Person and the Customer are confronted, priority must be given to the Customer's legitimate interests.

5.6. In cases where payments from third parties are executed or received in relation to Investment Services, such payments will be subject to the Bank's Policy on Incentive Payments.

5.7. To eliminate Conflicts of Interest, the following requirements must be observed in preparing Investment Research:

- 5.7.1. The Employees and Persons who participate in preparing Investment Researches and whose responsibility and commercial interests may be in conflict with Investment research addressee interests are banned from Personal dealing or trading in financial instruments covered by the Investment Research or in other related financial instruments in case these persons are aware of the likely time of publishing the Investment Research or its content which is not known publicly or not available to the Customers. The ban provided herein is applicable until the receivers of the Investment Research have a real access to the Investment Research and these is reasonable opportunity to act according to it;
- 5.7.2. The Employees and Persons who participate in preparing Investment Research and whose responsibility and commercial interests may be in conflict with Investment research addressee interests are banned from Personal dealing in financial instruments covered by the Investment Research and other related financial instruments when such dealing is contradictory to the existing recommendations, except for the cases where exceptional circumstances occur and a prior written consent is received from the Bank as established by the Bank's internal procedures regulating personal dealing with financial instruments;
- 5.7.3. The Bank, the Employees, and Persons who participate in preparing Investment Research are banned from accepting any incentives from persons who are directly interested in the subject of the Investment Research;
- 5.7.4. The Bank, the Employees and Persons who participate in preparing Investment Research are banned from giving any promises that the result of the Investment Research will be favorable to the issuer;
- 5.7.5. In case the draft Investment Research includes a recommendation or likely future price of the financial instrument, then the issuers and other persons (except the Employees and Persons who prepare the Investment Research) have no right, until the Investment Research is published, to look through the draft Investment Research in order to check the correctness of the factual data in the Investment Research or to look through the Investment research project for any other purposes.
- 5.7.6. Bank ensure independence of the Employees and Persons who prepare the Investment Research, including their segregation from other structural units and ban on taking managing positions in companies about which the Investment Research is carried out or any other participation in the activity of these companies which could harm objectiveness of the research. To that end, the Bank have only one unit that is preparing and conducting Investment Research, and which is separated from other units providing the services of the Bank. The Employees of other units of the Bank may not be executives of the Bank's unit conducting Investment Research. Bank ensures that the Employees of the Bank's unit conducting Investment Research only work with preparing Investment Research and do not have access to information about the Bank's and Persons available financial instruments that the Bank or Persons may deal in. The Employees of this unit of the Bank may not disclose any information about Investment Research to the Persons and Employees of other units of the Bank, or exchange with other units information relating to the Investment Services provided to the Customers or any intentions to provide such services, if such exchange is not required for the purposes of providing adequate services and it may not undermine the interests of the Customer and of the Bank. The Bank's unit

preparing Investment Research may request and obtain from other units of the Bank available and objective information about the market prices and conditions that may exist at any given time. The receipt of this information will be subject to the procedure outlined in the Bank's internal documents.

5.8. To eliminate Conflict of interest in financial instrument subscription and distribution services, the Bank observes the following requirements:

5.8.1. The Bank registers all potential and existing services of financial instrument subscription or distribution to be able to identify potential Conflicts of Interest as defined under the criteria set forth in this Policy. Once potential Conflicts of Interest are identified, the Bank implements measures prescribed to avoid and/or manage them.

5.8.2. In the event the measures specified in Article 5.10.1 are not efficient with respect to a particular service and the Conflict of Interest cannot be contained, the Bank must not engage in that type of financial instrument subscription or distribution service.

5.8.3. In the process of offering financial instrument subscription or distribution services, special emphasis must be placed on preventing potential Conflicts of Interest due to the determination of a too-low financial instrument issue price or the involvement of interested parties in this process. To that end, when it comes to offering financial instrument subscription or distribution services, only the interests of the Customer issuing and/or selling the financial instruments must be observed first and foremost. Second, when it comes to offering financial consultations on financial instrument distribution prices to issuers, the Employees of the Bank and Persons who hold executive positions and provide services to the Bank's Customers investing in the underlying financial instruments may not be involved in this process and in the making of any decisions relating thereto.

5.8.4. In providing financial instrument distribution and subscription services, the Bank must provide the Customer with information of how the recommendations of the offering price and the offering time of the underlying financial instruments were formulated. The Bank must notify the Customer and it must receive written consent from Customer on any risk hedging and stabilization strategies the Bank intends to employ at the time of financial instrument subscription/distribution, including how such measures could affect the Customer's interests. At the time of financial instrument subscription/distribution, the Bank must take every reasonable step to notify the Customer of the process/development of determination of the financial instrument offering price.

5.8.5. In acting as a promoter of financial instrument issue/distribution, the Bank must separately identify its Customers to whom the Bank provides Investment Services where the Customer is involved in the financial instrument issue/distribution organized by the Bank. In offering independent investment recommendation services to such Customers, the Bank must identify and manage Conflicts of Interest appropriately in the manner stipulated herein, and must observe every requirement applied to such services.

5.8.6. In acting as a distributor for financial instruments issued by Bank or the Luminor Group and in distributing such instruments to Customers of the Bank (including deposit holders or investment funds managed by any of the Luminor Group companies), the Bank must identify and manage Conflicts of Interest appropriately in the manner stipulated herein. In certain cases when Conflicts of Interest cannot be managed appropriately, to prevent damages to the Customers, the Bank must refrain from offering such services to the Customers.

5.8.7. In organizing financial instrument issue/distribution when the financial instruments are issued by issuers who are debtors of the Bank or any of the Luminor Group companies, where the repayment of the loan or credit is to be financed with revenues from such financial instruments, the Bank must identify and manage Conflicts of Interest appropriately in the manner stipulated herein. In this case, whenever necessary and without prejudice of the Customer's interests, the Bank should notify other of its Group companies who are creditors of the issuer about the issuer's the financial situation.

5.9. Measures of managing Conflicts of Interest in the process of providing individual Investment Services are outlined in separate internal procedures of the Bank that regulate the providing of the services. 5.10. Employee or Person immediately informs respective structural unit in following cases:

5.10.1. The Employee or Person notices the circumstances which, in his opinion, may rise Conflict of Interest;
5.10.2. The Customer, Employee or Person intends to buy or sell a financial instrument that is included in the list of Conflicts of interest referred in Article 6.3

5.11. Bank by using all possible means always assess and manages Conflicts of Interest that may arise when executing orders, conducting an Investment Research, or offering financial instruments for the subscription or distribution services to different Customers.

6. Disclosing conflicts of interest

6.1. The Bank maintains effective measures for identification and prevention of Conflicts of interest and perceives disclosure of Conflicts 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 Customer's interests with due care.

6.2. If a Conflict of Interest arises and only when none of the Bank's measures to avoid Conflicts of Interest is efficient to make sure that the Customer's interests will not be breached, the Bank before rendering Investment Services must disclose the content of the Conflict of Interest to the Customer on a durable medium and against signature. In disclosing the content of the Conflict of Interest, the Customer must be clearly notified that the Bank's measures to prevent Conflicts of Interest are insufficient to make sure that the Customer'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 Conflicts of Interest, as well as the resultant risks for the Customer and actions taken to mitigate the risks. The explanations must be sufficiently detailed for the Customer to be able to make an informed decision regarding the particular Investment Service provided to him/her/it. The Investment Service can be rendered only in case the Customer clearly expresses his consent to the provision of the Investment Service amid the Conflict of Interests.

6.3. Respective structural unit must prepare and Bank's Management Board approve the list of financial instruments which cause or may cause conflict of interest in the course of providing Investment Services or entering into transactions. All Employees and Persons providing Investment Services to the Customers or entitled to dealing for Bank account must be familiarized with this list. Furthermore, the unit in charge must be separately notified on any financial instrument subscription or distribution services that the Bank is launching or intends to launch. The unit in charge gives notice of such services to the Employees and Persons providing other services to the Customers that affected or may be affected and give rise to a Conflict of Interest as a result.

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, Employee or Person shall immediately report in writing to the Bank's respective structural unit according to approved procedure of infringements reporting. At least once per year respective structural unit prepares written report of Interest of Conflict 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 and ancillary investment services resulting in an actual and/or potential conflict of interest.

7.3. The Bank evaluates and revises the Policy and the related organizational documents once a year or more often, 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 and ensuring the availability of it in places where the Bank provides investment and ancillary investment services.