

## **POLICY FOR PREVENTION OF CONFLICTS OF INTERESTS IN PROVISION OF INVESTMENT SERVICES AND ANCILLARY INVESTMENT SERVICES**

### **1. PURPOSE**

- 1.1. The Policy for Prevention of Conflicts of Interests in the Provision of Investment Services and Ancillary Investment Services (hereinafter referred to as the Policy) has been designed to facilitate to lay down general requirements for the establishment of the internal control system and shall be complied with by the Bank to timely identify and prevent conflicts of interests when providing financial services to customers, incl. investment services and ancillary investment services.

### **2. TERMS AND ABBREVIATIONS**

<b>Related party</b>	<ul style="list-style-type: none"> <li>a) Chairman, members of the Bank's Management Board or Supervisory Board,</li> <li>b) the Bank's employees who are involved in the provision of investment services of the Bank, or who control these operations - Head of Internal Audit Unit, Risk Director, Compliance Director, Head of Customer and Transaction Monitoring Department, Head of Compliance Control Division, employees of Treasury Division, individual employees of Accounts Division (<i>back office</i>).</li> </ul>
<b>Investment services and ancillary investment services</b>	Transactions entered into by the Bank with its investment service providers, brokerage companies or directly traded on behalf and for the Customer, whether or not the transaction is closed on behalf of the Bank or on behalf of the Customer. Services that are mentioned in the Republic of Latvia's Law on Financial Instruments Market and are provided by the Bank.
<b>Conflict of interests</b>	A situation that may arise between the Bank, including its employees, Related parties, and a Customer, as well as between Customers of the Bank when interests of those persons clash, as well as a situation when a Bank employee in performing his/her official duties has to adopt a decision in which he/she has a direct or indirect material or non-material personal interest, or has to participate in the adoption of such decisions
<b>Customer</b>	A natural person or legal entity to whom the Bank provides financial services

<b>Personal transaction</b>	<p>A commercial transaction in financial instruments which is performed by a Related party or which is performed in favour of a Related party, if at least one of the following criteria is valid:</p> <ol style="list-style-type: none"> <li>1) the transaction is not executed as part of the Related party's job or professional duties;</li> <li>2) the transaction is executed on account of the Related party;</li> <li>3) the transaction is executed on account of the Related party's Relative, who has had a shared household with the Related party for at least one year before such transaction;</li> <li>4) the transaction is executed on account of another person that is linked to the Related party in such a way that the latter has a direct or indirect material interest in the result of such transaction, which is not a transaction execution fee</li> </ol>
<b>Relative</b>	<p>A person with whom the Related party has close family links: the Relative party's spouse or partner that is equated to the spouse within the meaning of the national law;</p> <p>A dependent child or a stepchild of the Related party;</p> <p>Another relative of the Related party with whom the Related party has lived in the same household for at least one year by the time of execution of an individual transaction</p>
<b>List</b>	<p>The list of parties related to AS „Industra Bank“ within the scope of the procedure for prevention of conflicts of interests in the provision of investment services and ancillary investment services</p>
<b>Person</b>	<p>A member of the Bank's Supervisory Board, a member of the Management Board, or a person who performs basic functions</p>

Other terms used in this Policy shall be construed in accordance with the definitions given in 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, as well as with those given in the *Glossary of Terms and Abbreviations of the Bank's regulatory documents*

### 3. GENERAL PROVISIONS

- 3.1. The Bank takes measures to identify and prevent Conflicts of interest that may arise between the Bank, including the Bank's employees, and a Customer, as well as between Customers, during the provision of financial services.
- 3.2. Bank employees shall make a Customer aware of the basic principles set out in the Policy and explain to the Customer the nature of a situation of Conflict of interests and consequences thereof before an investment service is provided to the Customer.
- 3.3. The Bank ensures such an internal organizational structure that facilitates an effective management of situations of Conflicts of interest, minimizing to the utmost any possibility of a situation of conflict of interests.

- 3.4. The Bank's Supervisory Board reviews and approves the Policy and ensures its revision at least once per year, considering:
  - 3.4.1. changes in the binding legal acts;
  - 3.4.2. when analysing the compliance of the process of the internal control system for the provision of financial services, incl. Investment services, with requirements of legal acts;
  - 3.4.3. when introducing new financial services;
  - 3.4.4. when analysing the generally accepted international practices;
  - 3.4.5. and other changes.
- 3.5. The Bank establishes and maintains the List to ensure management of situations of Conflicts of interests with regard to Investment Services and Ancillary Investment Services.
- 3.6. An employee of the Treasury Division are responsible for development and updating of the Policy.
- 3.7. The Policy applies to all employees of the Bank, incl. to the Management Board and the Supervisory Board, as well as to AS "Industra Invest".
- 3.8. The Policy is available on the Bank's website at [www.industra.finance](http://www.industra.finance). The Bank informs customers of any material changes in the Policy.

#### **4. BASIC PRINCIPLES OF THE PREVENTION OF CONFLICTS OF INTERESTS**

- 4.1. The Bank takes all necessary and possible measures to identify and manage conflicts of interests which may arise between the Bank, including its employees, persons that are directly or indirectly related to the Bank or control the Bank, and a Customer, as well as between Customers of the Bank, during the provision of financial services:
  - 4.1.1. the Bank ensures that, when providing financial services, employees of the Bank shall apply principles of fair treatment of Customers and consider Customers' interests in the best possible manner, within the scope of their official duties and according to the Bank's customer service standards;
  - 4.1.2. the Bank shall not engage agents in the provision of financial services to its Customers;
  - 4.1.3. within the scope of financial investment services, the Bank shall neither offer nor provide to Customers' information (including any analytical documents) which would directly or indirectly propose or suggest an investment strategy in relation to one or more financial instruments or issuers of financial instruments, including any opinion about present or future value, or future price, of such instruments, and which is intended for public distribution channels or for the general public.
- 4.2. If, upon providing its Investment services and/or ancillary investment services, the Bank discloses any investment survey developed by a third party, it shall ensure that the developer of such survey is specified, no substantial changes are made in the contents of the survey, and shall provide information about the legal entity that developed the investment survey;
- 4.3. When distributing marketing announcements (opinions about present or future value or future price of such instruments, intended for public distribution channels or for the general public), the Bank shall label those as

marketing announcements and shall specify that those are not recommendations given to Customers when advising the Customers on investments in financial instruments.

## **5. IDENTIFICATION OF CONFLICTS OF INTERESTS**

- 5.1. The Bank shall make use of all available information to identify, where practicable, all possible circumstances and situations, which may cause or create a basis for a Conflict of interests in relation to certain types of financial services provided by the Bank.
- 5.2. A Conflict of interests exists in any such case when a decision of Bank's responsible employees about a financial service provided to a certain Customer has been significantly influenced by another person's interests, for example, interests of the Bank, its employee or any other of its Customers, instead of substantiated considerations about a respective transaction solely in the interests of the particular Customer.
- 5.3. Employees should avoid any situation that could give rise to a Conflict of interest between their work and their private interests or could be considered a situation that gives rise to such a Conflict of interests.
- 5.4. In the identification of circumstances causing conflicts of interests, the Bank shall, at first, consider situations in which the Bank, its employees, may:
  - 5.4.1. gain profit or prevent financial loss at the expense of a Customer;
  - 5.4.2. be interested in such result of a service provided to a Customer or of a transaction performed on behalf of a Customer, which does not correspond to interests of the Customer;
  - 5.4.3. be interested (including under influence of a financial incentive) to act in favour of another Customer or group of Customers, irrespective of
  - 5.4.4. whether the financial incentive is in the form of money, products or services, and is not a standard fee which is otherwise received by a person providing the service as a commission fee for the service;
  - 5.4.5. carry out the same professional activity as the one carried out by the Customer;
  - 5.4.6. receive a remuneration from another person for a service provided to a Customer in the form of money, products, or services, which is not a standard fee for such service;
  - 5.4.6. in case of positions overlapping, to hold a position in a company, not related to the Bank, whose activity is related to provision of financial services.
- 5.5. Conflicts of interests may arise:
  - 5.5.1. between the Bank and its Customers;
  - 5.5.2. between Customers or groups of associated Customers;
  - 5.5.3. between employees of the Bank and Customers;
  - 5.5.4. between any member of the Supervisory Board, member of the Management Board or an employee and the Bank.
- 5.6. A Conflict of interests exists when realization of interests of a member of the management structure may negatively influence interests of the Bank. A Conflict of interests between a member of the Supervisory Board, member of the Management Board, or a person who performs basic functions, and the Bank may arise in the following situations:

- 5.6.1. A Person conducts business (privately or through a company) with the Bank or its subsidiary;
- 5.6.2. a Person is simultaneously a manager or a high-level employee of any competitor of the Bank or its subsidiaries;
- 5.6.3. a Person is one of the parties to a lawsuit against the Bank or its subsidiary;
- 5.6.4. A Person or a person in a close personal relationship<sup>1</sup> with a Person who has a significant<sup>2</sup> shareholding or financial obligations in relation to the Bank/ its subsidiary / the Bank's customer(s)/ the Bank's competitor(s);
- 5.6.5. A Person has a close personal, professional and economic relationship with a member of the Management Board of the Bank or of the Bank's subsidiary, a person who performs a basic function, or a shareholder who has a significant shareholding;
- 5.6.6. A Person or a person in a close personal relationship with a Person has a significant political influence.
- 5.7. Within the scope of Investment services and ancillary investment services provided by the Bank, Conflicts of interests or potential situations of conflicts may arise mainly in the following situations:
  - 5.7.1. when selling and at the same time buying financial instruments on behalf of a Customer;
  - 5.7.2. when executing orders of a Customer and concurrently performing a transaction at one's own expense;
  - 5.7.3. concurrently executing orders of two different Customers in transactions in financial instruments;
  - 5.7.4. when performing Personal transactions;
  - 5.7.5. when providing consultations and financial services to one Customer in connection with an auction, if, simultaneously, financial services are to be provided to another Customer in relation to the same auction;
  - 5.7.6. when issuing or receiving payments or other type of benefits (for example, goods or services) in relation to services provided to a Customer ("incentives"). The Bank submits or receives such payments only in case when such a payment facilitates its ability to provide a certain service to the Customer, or is necessary for the Bank to be able to provide such service to the Customer, and which in the future, by its

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<sup>1</sup> A personal relationship means a marriage, relationship with a registered partner, non-registered cohabitation, kinship of children and parents, or other relationship between persons living in the same dwelling

<sup>2</sup> Significance depends on what value (in financial terms) that shareholding interest or liabilities constitute in relation to the Person's financial resources. Any non-preferential performing secured loans of private persons (e.g. private mortgage agreements), any other non-preferential loans up to EUR 100 000 (secured or unsecured, performing or non-performing), current holdings of stock/shares  $\leq$  1% of the amount of capital/shares of the institution, or other investments of the same value may be considered insignificant.

nature, cannot come into conflict with the Bank's obligation to act in an honest, fair and professional manner and in the Customer's best interests;

- 5.7.7. when providing consultations on Investment services;
  - 5.7.8. when offering Customers financial instruments for distribution of which the Bank has entered into a distribution agreement and receives a commission fee;
  - 5.7.9. when receiving financial incentives or other incentives that affect the actions of the Bank's employee in such a way that one Customer gains an advantage over other Customers;
  - 5.7.10. when providing both investment advisory services and lending and financing services to the same Customer.
- 5.8. Along with the development of the Internal control system, the Bank develops the procedure according to which its employees, who are involved in the provision of financial services to Customers, shall identify circumstances that cause or may cause a Conflict of interests, as well as prescribes the procedure according to which any detected or potential situations of Conflict of interests are to be documented.
- 5.9. The Bank shall regularly control and update information about those financial services, as well as situations, which have caused or may cause a Conflict of interests, that considerably threaten interests of one or more Customers.
- 5.10. The Bank prescribes the procedure for decision-making during the process of evaluation of situations of Conflicts of interests.
- 5.11. Where measures taken by the Bank for managing a situation of Conflict of interests do not guarantee prevention of risk of causing a harm to a Customer, the Bank shall explicitly disclose to the Customer the nature and/or sources of the Conflict of interests prior to commencing the provision of the financial service.

## **6. MANAGEMENT AND PREVENTION OF CONFLICTS OF INTERESTS**

- 6.1. For the purpose of managing Conflicts of interests, the Bank incorporates principles of fair business practices and employee ethics into its regulatory documents, providing therein the following main **principles**:
- 6.1.1. the Bank's business is carried out based on appropriate standards of honesty and integrity and best business practices;
  - 6.1.2. there is an established procedure according to which the Bank controls how its employees comply with the principles of ethical conduct and fair business practices in their relationships with Customers;
  - 6.1.3. there are clear principles and procedure for allocation of job responsibilities, with the purpose of preventing, to the extent possible,



- any such Conflict of interests which may cause harm to interests of Customers;
- 6.1.4. the Bank ensures allocation of functions of employees in execution of transactions on behalf of a Customer and of the Bank;
  - 6.1.5. the aforementioned principles for allocation of responsibilities shall be appropriately shown in the Bank's organizational structure, regulations of organizational units, job descriptions of employees, as well as in all authorization levels and decision-making processes, and their control mechanisms shall be included in the Bank's internal control system;
  - 6.1.6. setting of clear guidelines for the employees conduct to be followed by the Bank, heads and employees of its organizational units, when managing any situations where relationships with Customers might include offering or accepting of gifts or entertaining events (incentives).
- 6.2. The Bank determines **a set of measures for managing information flows related to financial services**, ensuring, among other things, that:
- 6.2.1. in the processes of provision of certain financial services, which are related to processing of information, the flow of information is physically separated when, in the course of execution of the financial services, there is any possibility that Customers' interests may be affected;
  - 6.2.2. the restricted access of employees to information is established and controlled;
  - 6.2.3. effective procedures are developed to prevent and control exchange of information between employees of the Bank and Related parties, whose operations involves a risk of a Conflict of interests, if such exchange of information may harm interests of one or several Customers;
  - 6.2.4. there exists separate supervision over employees of the Bank whose main responsibilities include performance of activities on behalf of Customers or provision of services to Customers, as well as to Related parties, i.e. to persons who are directly or indirectly related to the Bank or control the Bank, or who represent any other interests, including interests of the Bank, which may come into conflict with interests of the Customers;
  - 6.2.5. measures are taken, which control simultaneous or sequential involvement of the Bank's employees and Related parties in the provision of various Investment services or ancillary investment services, if such involvement may weaken appropriate management of Conflicts of interests;
  - 6.2.6. there is prevented a direct link between the remuneration or income gained by employees of the Bank and the Related parties, i.e. persons

who are directly or indirectly related to the Bank or control the Bank, evaluating whether the remuneration received by employees when executing their work responsibilities does not compromise the employee's objectivity and does not come into conflict with the generally accepted practice for the protection of Customer interests;

- 6.2.7. there are provided for specific measures which prevent or restrict inappropriate influence of third persons on the process of provision of financial services in the Bank;
- 6.3. The Bank sets **restrictions for Personal transactions of Related parties**, by prohibiting to:
  - 6.3.1. perform a Personal transaction based on internal information, which is available to the Related party as part of fulfilling his/her job or professional duties in the Bank;
  - 6.3.2. perform a Personal transaction, using or inappropriately disclosing information containing a business secret, or to perform a Personal transaction which contradicts provisions of this Policy;
  - 6.3.3. advise any third person to perform such a transaction in financial instruments which, for the person who has advised the transaction, would be classified as a Personal transaction, except for cases when a transaction is suggested along with fulfilling job or professional duties;
  - 6.3.4. disclose to third persons any information or express an opinion, if the person, who discloses the information, knows or should know, that, as a result of the information disclosure, the third person will or might carry out, or might advise any other person to carry out, such a transaction in financial instruments which, for the person who has advised the transaction, would be classified as a Personal transaction, except for cases when information is disclosed or an opinion is expressed along with fulfilling job or professional duties.
- 6.4. The Bank determines **the basic principles of mutual relationships between the Bank and its employees**:
  - 6.4.1. The Bank's employees do not engage in such transactions and/or resolving issues on behalf of the Bank, in which they or their closely related persons may have their own interests which contradict interests of the Bank or those of the Bank's Customers;
  - 6.4.2. the Bank's employees do not engage in commercial activities that may cause a conflict of private interests and interests of the Bank; in person or on behalf of third parties, without prior consent of the Bank;
  - 6.4.3. the Bank's employees do not assume work obligations in another company without prior consent of the Bank;



- 6.4.4. the Bank's employees are prohibited from gaining additional income from the Bank's transactions, unless it is provided for in the Bank's regulatory documents;
  - 6.4.5. the Bank's employees shall refuse to accept a gift in any transaction related to the Bank's work, may not accept an invitation to participate in an event, if there is a suspicion of a possible Conflict of interest or damage to the Bank's reputation;
  - 6.4.6. the Bank's employees shall act in good faith and responsibly in any talks on a possible transaction outside the Bank, not allowing advantages for personal interests of their relatives, friends, and acquaintances.
- 6.5. The Bank determines requirements for documentation of Conflicts of interests and the exchange of information:
- 6.5.1. the List shall be elaborated and maintained;
  - 6.5.2. all persons included in the List shall be made aware of the provisions of this Policy, and there shall be received a written confirmation that they have understood the provisions of this Policy and agree abide by those;
  - 6.5.3. Persons included in the List shall be informed about their obligation to notify the Bank of any Personal transactions carried out by them and about the Bank's restrictions regarding conduct of Personal transactions, and the above-mentioned persons shall confirm their awareness of such information with their signature. The Bank relies on the information provided by these persons regarding their Personal transactions, provided that it does not contradict information being at the Bank's disposal;
  - 6.5.4. up-to-date, complete and accurate information about Personal transactions carried out by Related parties is provided and documented.
- 6.6. The Bank sets up and maintains a register with information about Personal transactions carried out by persons included in the List, based on the information provided by such persons or revealed by the internal control function, compliance function, risk control function, or internal audit function.

## **7. ALLOCATION OF DUTIES AND RESPONSIBILITY IN THE MANAGEMENT AND PREVENTION OF SITUATIONS OF CONFLICT OF INTERESTS**

- 7.1. The Bank's Supervisory Board monitors how the Bank's Management Board ensures prevention and management of situations of conflict of interests, and fulfils the following functions:
- 7.1.1. determines the allocation of duties among members of the Supervisory Board and the procedure for information exchange between the

- Supervisory Board and the Management Board in issues related to the prevention and management of situations of conflict of interests;
- 7.1.2. determines the duties of the Management Board members regarding the prevention of situations of conflict of interests and the procedure for evaluation of results of their management;
  - 7.1.3. supervises the prevention and management of situations of conflict of interests in the Bank, incl. approves and, at least once per year, revises the Policy, and evaluates the effectiveness of the management of situations of conflict of interests;
  - 7.1.4. supervises the periodic improvement of the management of situations of Conflict of interests in line with changes in the Bank's activity.
- 7.2. **The Bank's Management Board** ensures and is responsible for the identification, prevention and management of situations of conflict of interests in the Bank, maintaining and improving the necessary organizational structure and regulations thereof, by fulfilling the following functions:
- 7.2.1. ensures the implementation of principles of the policy for prevention of Conflicts of interests in the provision of investment services and ancillary investment services, adopted by the Supervisory Board, in the practical activity of the Bank's organizational units;
  - 7.2.2. approves procedures for the identification, control and management of situations of conflict of interests in the provision of investment services and ancillary investment services, and ensures their regular updating;
  - 7.2.3. ensures appropriate qualifications and sufficient experience of employees of the Bank's organizational units in issues of identification, control and management of situations of conflict of interests in the provision of investment services and ancillary investment services;
  - 7.2.4. evaluates results of the management of situations of Conflict of interests in the provision of investment services and ancillary investment services in the Bank, based on information provided by heads of the organizational units;
  - 7.2.5. submits, at least once a year, a report to the Supervisory Board on the results of management of situations of conflict of interests in the provision of investment services and ancillary investment services for the previous calendar year, including therein information that allows the Supervisory Board to evaluate the effectiveness of management of situations of conflict of interests in the provision of investment services and ancillary investment services and, if necessary, suggests changes to improve the effectiveness, taking into consideration changes in the Bank's activity.

- 7.3. **The employees, who provide Investment services to Customers**, fulfil the following functions in the identification, prevention and management of situations of Conflict of interests:
- 7.3.1. comply with provisions of this Policy and provisions of the procedure for management of situations of Conflict of interests in the provision of investment services and ancillary investment services, approved by the Management Board, and propose reasonably necessary changes in those;
  - 7.3.2. provide to the executive managers of the Bank and/or managers of a respective organizational unit an up-to-date information about identified or potentially possible situations of conflict of interests, in accordance with the procedure established in the Procedures;
  - 7.3.3. register all existing and potential services for purchase and distribution of financial instruments in order to be able to timely identify potential Conflicts of interests, in accordance with the criteria set out in this Policy;
  - 7.3.4. store, summarize and regularly update information about such types of Investment services and ancillary investment services that have caused or may cause a conflict of interests, which seriously endangers interests of one or several Customers, and submit this information to the executive management;
  - 7.3.5. disclose to a Customer information regarding the situation of Conflict of interests in the provision of investment services and ancillary investment services, in accordance with the procedure established by the Bank;
  - 7.3.6. take part in training organized by the Bank for employees or in events arranged in informational purposes for Customers.
- 7.4. **The Internal Audit Unit**, in accordance with the work plan approved by the Supervisory Board, performs independent control over the management of situations of Conflict of interests in the provision of investment services and ancillary services.
- 7.5. **The Compliance Control Division** ensures assessment of the management of situations of Conflict of interests, by performing control of the compliance of transactions related to the provision of Investment services and ancillary investment services.