

ČSOB's Approach to Mitigation of Conflicts of Interest when Providing Investment Services



1. Introduction

When providing investment services, Československá obchodní banka, a. s. (hereinafter "ČSOB") acts honestly, fairly and professionally in accordance with the best interests of its clients. Protection of interests of all clients is a priority of ČSOB. With expansion of the complexity and range of the products offered to its clients in the area of investment services, and with growing number of clients to whom ČSOB offers its services, and their specific requirements, there is also a growing risk of situations whereby the interests of various individual clients, or the interests of ČSOB clients and ČSOB itself, might not be in line with one another. That is the reason why, when providing investment services, ČSOB identifies and manages conflicts of interest in accordance with the principles established by law and adopts necessary measures in order to mitigate potential negative impacts on the interests of the clients as much as possible. As ČSOB is a member of the KBC Group, it also identifies and manages conflicts of interest with regards to all foreseeable circumstances that could give rise to conflicts of interest resulting from the structure of the business group and the lines of business of its members. ČSOB's approach towards conflicts of interest is also in line with the principles applied by the KBC Group.

The principles for managing of conflicts of interest are based on directive no. 2004/39/EC, on Markets in Financial Instruments, and were implemented into Czech legislation under act no. 256/2004 Coll., Capital Market Undertaking Act, as amended, and public notice no. 303/2010 Coll., on more detailed regulations when providing investment services, as amended. In ČSOB the regulations for managing conflicts of interest are set forth primarily in the Policy on Conflicts of Interest when Providing Investment Services (hereinafter the "Policy"), which deals with specific conflicts of interest that can arise between ČSOB, its employees, clients and potential clients, in connection with the provision of investment services. The Policy lays out potential situations from which conflicts of interest could arise and measures for mitigating them so as to avoid damaging the interests of any ČSOB client.

Generally, conflicts of interest can result from situations whereby the provider of investment services or an employee thereof:

- could acquire a financial advantage or avoid a financial loss to the detriment of the client,
- has vested interest in the in the outcome of the service provided to the client that is different than the client's own interest in the outcome of the service,
- has a motive to prioritise the interest of one client before the interests of another client, for example, having a financial or other motive to prioritise the interests of a client or group of clients above the interests of another client, or
- is engaged in the same line of business as the client (i.e. the client is a competitor of the investment services provider),

ČSOB manages the abovementioned conflicts of interest so that they do not impact negatively on clients' interests.

2. ČSOB Procedures for managing conflicts of interest

In order to manage potential conflicts of interest, when developing new investment instruments and services, ČSOB assesses whether new conflicts of interest could arise through the launch of the investment product or service on the market. The same process is followed during regular revisions of the investment products and services that ČSOB is already offering. In cases where a potential conflict of interest cannot be ruled out,

ČSOB takes all adequate measures to eliminate conflicts of interest, or to minimise them, should elimination not be possible in order to minimize the adverse impact on the interests of the clients.

ČSOB uses organisational and administrative measures to prevent and manage conflicts of interest when providing investment services, those being primarily:

Policies:

- The ethical code for ČSOB employees, the aim of which is to establish and promote the company's values, which include primarily the fair conduct of employees in the interest of the clients,
- The ethical code for traders on financial markets,
- The policy on conflicts of interest when providing investment services,
- The policy on inducements when providing investment services (detailed information on ČSOB approach on inducements when providing investment services is available at www.csob.cz/mifid),
- The policy on personal transactions of employees,
- The policy on gifts and other benefits.

Rules:

- of the anti-corruption programme in the KBC Group,
- on protection and handling internal and other confidential information on clients,
- on conduct of business with customers,
- on trading on the financial markets.

Organisational and administrative measures:

- preventing the exchange of confidential information between divisions and employees of the bank undertaking activities that could be in mutual conflict of interest (the so-called "chinese walls" principle)
- preventing market manipulation and abuse of internal or other confidential information on clients,
- setting up the system of employees remuneration, so that the remuneration of an employee carrying out a specific activity does not depend directly on the remuneration or results of employees carrying out other activities, if those activities can be in mutual conflict of interest.

In case that even in spite of adopted regulation and measures, it would not be possible to reliably and sufficiently prevent the detrimental influence of a conflict of interests on the interests of a client, ČSOB will inform the client of the nature and source of the conflict of interest before providing any investment services and thus allow them to make an informed decision.

In order to prevent any uncertainty, ČSOB hereby informs its clients and potential clients of the existence of potential conflicts of interest that generally arise from the nature of bank activities and the membership of ČSOB in the KBC Group. These potential conflicts of interest, which ČSOB manages in accordance with the abovementioned principles, arise from the fact that ČSOB

- distributes investment instruments issued by ČSOB or other companies from the KBC Group, and
- arranges issues and/or distributes the instruments of issuers to whom it also provides other services of a financial nature.