

Approach of CSOB to managing of Conflicts of Interest when offering Investment Services

With the increase in breadth and complexity of products of Československá obchodní banka, a. s. (hereinafter referred to as “CSOB”) offered to clients in the area of investment services, there is an increase in the risk of situations occurring, when CSOB and its clients may mutually find themselves in conflicts of interest, or where the interests of individual clients or groups of clients may come into mutual conflict. When providing investment services CSOB identifies and manages conflicts of interest between itself and its clients or between its clients mutually in accordance with the principles set out in legislation.

Generally, conflicts of interest can arise e.g. in such situations, when a provider of investment services or its employee:

- Can acquire financial gain or avoid financial loss at the expense of a client,
- Has an interest in the results of a service offered to a client, which is different to a client’s interest in the result of such service,
- Is motivated to place the interests of a client before the interests of another client, e.g. is financially or otherwise motivated to give preferential treatment to one client or a group of clients prior to another client,
- Is engaged in the same business as a client (i.e. a client is a competitor to a provider of investment services),
- Accepts an incentive from a third party in relation to a service provided to a client in a different form than a standard commission or fee.

The aforementioned conflicts of interest must not negatively affect the interests of clients.

CSOB offers its services in good faith, fairly and professionally in accordance with the best interests of its clients. Clients’ interests are always placed before the interests of CSOB and its employees.

Being a member of a group of businesses (KBC Group), CSOB identifies and manages conflicts of interest likewise with respect to all predictable circumstances, which can initiate conflicts of interest resulting from the structure of the group of businesses and the subject of enterprise of its members. Approach of CSOB to conflicts of interest is also in accordance with the principles applied by KBC Group.

In order to avoid negative impacts on clients’ interests CSOB applies appropriate organizational and administrative measures for preventing and managing conflicts of interest when offering investment services, especially as pertains to:

Documents:

- code of conduct binding on employees of CSOB; its purpose is to set and promote corporate values, including but not limited to employees’ fair conduct in the interest of clients,
- code of conduct binding on financial market dealers,

Rules:

- for accepting gifts by employees,
- for trading in investment instruments by employees for their own account or for account of persons akin to them,
- for dealing with inside information,
- for dealing with clients,
- for trading in financial markets,

Organizational and administrative measures:

- preventing exchange of confidential information between departments and bank employees performing activities that could be in mutual conflict of interest,
- to prevent market manipulation,
- a system of rewarding employees set up in order to ensure that remuneration of employee performing a specific activity is not directly dependent on remuneration or results of an employee performing another activity, if the given activities can be in mutual conflict of interest.

If, despite of the rules and provisions adopted, it is not possible to reliably prevent a negative impact of conflicts of interest on interests of a client, CSOB shall inform the client about the nature or source of the conflicts of interest prior to investment services providing and enables hereby the client to make an informed decision.

Incentives

When providing clients with investment services CSOB can offer to or receive from third parties pecuniary or non-pecuniary incentives on a regular or irregular basis. CSOB proclaims that these incentives improve the quality of these services without affecting the commitment of CSOB to act in the best interests of its clients. This is attained primarily with the help of provisions aimed at ensuring the adherence of the rules for dealing with clients, setup of the internal control system in CSOB and through separation of certain activities performed when providing investment services to clients.

For example, the bank receives a fee from investment companies for the distribution of securities of their collective investment funds. As a rule, this fee is set as a percentage of a management fee. This percentage is being calculated only from that part of the equity in the fund represented by the fund securities held by clients, which were procured for them by CSOB. This payment makes it possible to use the whole distribution network of the bank for extensive offering of collective investment securities and to provide clients not only with dealing services, but also with investment advisory and, while doing that, with relevant information.

CSOB offers its clients shares funds of CSOB Investiční společnost and KBC Group's collective funds via its branch network or the branch network of Poštovní spořitelna, Česká pošta, s.p. and agents of Českomoravská stavební spořitelna, a.s.