

ČSOB'S APPROACH TO LIMITING CONFLICTS OF INTERESTS IN THE PROVISION OF 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 when ČSOB and their Clients, potential Client included, could get to mutual conflict of interest. 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 of conflict of interest management are mainly based on

- Directive of the 2014/65/EU of the European Parliament and of the Council on markets in financial instruments,
- Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse,
- Regulation (EU) of the European Parliament and of the Council 2016/1011 on indices used as benchmarks in financial instruments and financial measures or to measure the performance of investment instruments,
- Commission Delegated Regulation (EU) 2017/565 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,
- Act No. 256/2004 Coll. on capital market undertakings, as amended,
- Decree No. 308/2017 Coll. detailing certain rules for the provision of investment services, as amended (effective from January 2018).

In ČSOB, the rules for conflict of interest management are mainly laid down by the **Policy concerning the Conflict of Interest in the Provision of Investment Services** (hereinafter the “Policy”), which covers specific conflicts of interest that may occur in the provision of investment services between

- ČSOB, including its executives, employees and tied agents, and the clients or prospective clients of ČSOB;
- KBC, the companies controlled by KBC and the companies controlled by ČSOB, their executives, employees and tied agents and the clients and prospective clients of ČSOB;
- the clients or prospective clients of ČSOB between them;
- investment intermediaries through whom ČSOB receives the order to purchase or sell securities and their clients.

The Policy specifies a number of conflict of interest areas as well as the measures to **eliminate their negative impact on the interests of the clients of ČSOB**.

In general, a conflict of interest may arise, for example, from a situation where the investment service provider, or an employee, tied agent or investment intermediary thereof,

- could gain financial benefits or avoid financial loss to the detriment of the client;
- could have an interest in the outcome of the service provided to the client/the transaction carried out that is different from the client's interest in the outcome of the service/transaction;
- could be motivated to favour the interests of one client or a group of clients to the interests of another client or another group of clients;
- conducts business in the same field as the client (i.e. the client is a competitor of the investment service provider).
- receives or would receive an incentive from, or provides or would provide an incentive to another person than the client in connection with the service provided to the client.

The above-mentioned conflicts of interest are managed by ČSOB so as to avoid any adverse impact on the clients' interests.

2. ČSOB Procedures for managing conflicts of interest

In order to manage potential conflicts of interest, when developing, modifications and marketing of 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. If it is impossible to fully exclude a potential conflict of interest, ČSOB will adopt any and all measures necessary to prevent this conflict of interest and its negative impact on the client's interests. However, if this process is not sufficient to reliably prevent an adverse impact of the conflict of interest on the client's interests, ČSOB will take measures to mitigate the risk of the negative impact on the client.

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

Policies:

- ČSOB Group Employee Code of Ethics, the purpose of which is to lay down and promote corporate values, including fair conduct by the employee in the interest of the clients;
- the Code of Ethics of Traders in Financial Markets;
- Conflict of Interest Policy for the Provision of Investment Services;
- Policy concerning Inducements in the Provision of Investment Services (detailed information about the ČSOB policies regarding inducements in the provision of investment services is available at www.csob.cz/mifid);
- Market Abuse Prevention and ČSOB Employee Personal Trading Policy (containing the rules aimed against insider dealing and market manipulation and the requirements for employee personal trading);
- ČSOB Gift and Hospitality Policy (specifying the rules for the receipt of gifts and hospitality by the employees).

Rules concerning:

- the ČSOB anti-corruption programme;
- the protection and handling of internal and other confidential information regarding clients and their orders and transactions;

- dealings with clients,
- trading in financial markets,
- executing orders,
- contribution of the PRIBOR reference rate,
- remuneration,
- product development, modification and marketing.

Organisational and administrative measures:

- to prevent unauthorised sharing of internal and other confidential information about clients between ČSOB units and employees performing activities which may mutually represent a conflict of interest and between ČSOB and other companies from the ČSOB Group or the KBC Group and other persons (the “Chinese wall” principle);
- to prevent market manipulation and the abuse of internal or other confidential information about the clients,
- setting up a system of employee remuneration so that the remuneration of an employee is independent from the performance-based remuneration of the any unit of ČSOB, ČSOB Group or KBC Group whose interests may be in mutual conflict and so that honest and independent conduct of such an employee is ensured,
- to ensure mutual independence of the individual units of ČSOB that may be mutual conflict the separate management (the controlling and reporting lines),
- to control the activities of an employee by another employee (the four-eyes principle);

with a view to group-based management and mitigation of any conflict of interest arising from the membership of ČSOB in KBC Group

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,
 - arranges issues and/or distributes the instruments of issuers to whom it also provides other services of a financial nature.