

PROCEDURE FOR AVOIDANCE OF CONFLICTS OF INTEREST IN THE PROVISION OF INVESTMENT SERVICES

I. GENERAL PROVISIONS

1.1. *The Procedure for Avoiding Conflicts of Interest in the Provision of Investment Services* (hereinafter - **the Procedure**) is prepared in accordance with the *Law on Financial Instruments Markets* of the Republic of Lithuania (hereinafter – **the Law**), *the Delegated Regulation (EU) 2017/565 of the European Commission* (hereinafter – **the Regulation**), the *Law on Collective Investment Undertakings* and the *Law on Managers of Alternative Collective Investment Undertakings* (hereinafter – “**AKISVI**”) and other legal acts and guidelines of supervisory authorities. The Procedure complies with the policy of avoiding conflicts of interest, as stipulated in the Law and Regulation, but based on the *Procedure for the Preparation of Internal Legal Acts* approved by the board of Šiaulių bankas AB (hereinafter - **the Bank**), in the context of the Bank's internal documents, this document is assigned to the competence of the Bank's board, therefore it is called the Procedure.

1.2. The Procedure sets the requirements for the Bank's internal processes and measures for identifying and managing circumstances that may cause conflicts of interest in the Bank's provision of investment and ancillary services, and provides methods for avoiding and/or managing such conflicts upon their occurrence.

1.3. All employees of the Bank and the Bank's Group of companies, as well as managers of the Bank and the Bank's group of companies, must comply with this Procedure.

1.4. In carrying out its activities, the Bank adheres to high standards of commercial ethics, applies the principles of fair trade equally and correctly to everyone. The Bank treats all customers equally, without giving preference to anyone.

II. USED DEFINITIONS

2.1. Personal Transaction as defined in the *Rules of Personal Transactions on Financial Instruments*.

2.2. Compliance Function is a function performed by the Bank's Compliance Department (hereinafter - **AD**), which includes compliance risk identification, assessment, monitoring and related consulting, risk mitigation and reporting.

2.3. Compliance specialist – an AD employee who performs the function of compliance control in the Bank in the field of providing investment services.

2.4. Head of the Bank – a member of the Bank's Supervisory Board or the Board, the Head of the Bank's administration.

2.5. Person related to the Bank (hereinafter - **Related Person**) - the Head of the Bank, any employee of the Bank or the Bank's Group of companies or any other natural person participating in the provision of investment services or investment activities to the Bank, provided that such services are provided on behalf of the Bank and are controlled by the Bank, or providing services to such a

natural person for the Bank in accordance with the agreement on the transfer of operational functions.

2.6. A Conflict of Interest is a situation where the interests of different parties conflict with each other, and the parties must take care of and trust each other. A conflict of interest under this Procedure includes both an existing conflict of interest (i.e. an existing conflict of interest) and a potential conflict of interest (i.e. a conflict of interest that may arise under certain circumstances). It also includes a perceived conflict of interest (i.e. a situation where a conflict of interest may be perceived), even if there is no actual conflict of interest. Situations that could potentially cause a conflict of interest are detailed in chapter III of the Procedure. Conflicts of interest may arise between the persons specified in the item 3.1 of the Procedure.

2.7. Inside information (hereinafter - **VNI**) - implies as defined in the *Procedure for Ensuring and Disclosing the Confidentiality of the Bank's Inside Information* and the *Rules of Personal Transactions on Financial Instruments*. In relation to persons executing orders for financial instruments (hereinafter - **FI**), VNI is also information of a precise nature provided by the Client related to his orders, directly or indirectly related to one or more issuers or FIs, the disclosure of which may have a significant impact on these FIs or for the FI price of derivatives linked to them.

2.8. Client - any natural or legal person, other organization or its division, and/or or entity to whom the Bank provides investment and/or ancillary services.

2.9. Other concepts used in the Procedure are understood as they are defined in the Law and Regulation.

III. SITUATIONS POSSIBLE TO CAUSE CONFLICT OF INTERESTS

3.1. It is considered that, in the case of the provision of investment services by the Bank, a Conflict of Interests arises when the interests of the Bank, the Related Person or the person directly or indirectly linked to the Bank in a control relationship, and/or the Client's interests conflict with each other.

3.2. A Conflict of Interest in the provision of investment services, may occur in cases where the Bank or the person specified in paragraph 3.1 of the Procedure:

3.2.1. may have financial benefits or avoid financial losses at the Client's expense. For the sake of clarity, it is noted that the Bank's financial benefit in the sense specified in this paragraph is not considered the remuneration received by the Bank for the services provided to the Clients;

3.2.2. are interested in the result of the service provided to the Client or the result of the transaction executed on the Client's account in a different way than the Client is interested in that result (e.g. (i) the Bank is interested in the Client purchasing specific FIs due to the commission fees received by the Bank, (ii) the Bank provides the FI distribution service to the Client (the issuer) and is interested in distributing such FIs, (iii) The Bank or another person specified above is interested in the Client entering into a transaction regarding FIs held by or related to the Bank or another person specified above, (iv) The Bank or another person specified above is interested for the Client

to enter into a transaction regarding specific FIs due to established commercial or personal relationships with an entity that is in one way or another related to a specific FI, etc.);

3.2.3. has a financial or other kind of interest in prioritizing the interests of another Client or group of Clients at the expense of the Client's interests (except the commissions or other payments for services normally paid in such case);

3.2.4. engages in the same activity as the Client;

3.2.5. receives or shall receive an incentive not from the Client, which is related to the service provided to the Client, and which may be provided in the form of money, goods or services, except the commission or other payments normally paid for the services in such case.

3.3. A Conflict of Interest is also possible if the Client or another person acting on behalf of the Client, offers the Bank or a person related to the Bank a financial or non-financial benefit, i.e. gifts, discounts, entertainment, services, etc.

3.4. A Related person acting for the benefit of the Bank may dispose of VNI or other confidential information about the Clients, therefore the transactions he carries out on his own or the Bank's expense may lead to a Conflict of Interests.

3.5. Different risks of Conflicts of Interests arise from the investment and ancillary services provided by the Bank and the investment activities carried out:

3.5.1. execution of clients' orders;

3.5.2. FI distribution;

3.5.3. disposal of VNI and other confidential information;

3.5.4. execution of personal transactions;

3.5.5. execution of trading on a Bank's account;

3.5.6. provision of market-making services;

3.5.7. provision of depository services;

3.5.8. management of FI accounts and accounting of FI.

3.6. When the Bank accepts and executes the Client's orders, it receives information about the Client's intentions and the demand and supply of FI. This creates preconditions for the misuse of that information, thereby causing a Conflict of Interests related to:

3.6.1. in the interests of other Clients who enter into transactions for the same FP or use other Bank services;

3.6.2. In the interests of the bank, when carrying out transactions at its own expense, including performing the functions of a market maker. For example, the Bank, when entering into transactions on its own account, seeks to increase the return from assumed positions as much as possible, therefore, in theory, a Conflict of Interests may arise between this type of activity and the Clients who enter into transactions with the Bank;

3.6.3. by executing Personal transactions;

3.6.4. the fact that the Bank itself can be the distributor of FIs, for which the Client's order is submitted or a transaction is executed;

3.6.5. by inappropriate timing or distribution decisions, as the manner in which orders are executed or distributed may tend to give biased preference to certain funds or to Clients or Related Persons at the expense of others, especially when the Bank executes orders for:

3.6.5.1. FIs issued by the Bank or Clients, or persons related to the Bank, or persons for whose benefit the Bank operates;

3.6.5.2. FIs distributed publicly or privately by the Bank or owned by the Bank.

3.7. The Bank may find itself in a Conflict of Interests situation by **offering Clients FIs during their distribution** and receiving payments from Client issuers or Client investors for the services provided to them.

3.8. When disposing of VNI or other confidential information, the risk of a Conflict of Interests arises when the Bank's employees, who are responsible for the preparation and publication of essential information of the issuers (which includes the Bank itself), dispose of the information before its public disclosure. Therefore, the possibility of a conflict of interest arises in the Bank:

3.8.1. when concluding Personal transactions for the issuer's FIs;

3.8.2. when making transactions at the Bank's expense.

3.9. Bank employees executing transactions on their own account may get into a Conflict of Interests in the event of conflicts between their interests and those of other Bank's clients (or the Bank itself) in the event of purchase / sale of the same FI at the lowest / highest price.

3.10. When trading at the Bank's expense, conflicts of interest may arise:

3.10.1. when the Bank simultaneously executes or intends to execute the Client's order for the same FI;

3.10.2. when the Bank performs the function of a market maker at the same time;

3.10.3. when the Bank enters into transactions of derivative FI with Clients as a party to those transactions. In such cases, the interests of the Bank and the Clients do not coincide because the single result of the transaction to the Client represents the opposite result of the same transaction to the Bank. The higher the risk of Conflict of Interests, the more significant part of the Bank's activities and income is represented by the discussed trading in FI at the Bank's expense and income from it. The Bank may also find itself in a situation of Conflict of Interests in cases where it determines the price of the transaction executed with the Client, instead of using objective market data, as well as when the time difference between the transaction executed with the Client and the transaction executed for hedging purposes (if such is executed), may result the Bank receiving ancillary financial benefits due to the price difference in time.

3.11. When providing depository services to Clients, a Conflict of Interests may arise when:

3.11.1. when the Bank simultaneously provides the Client with other investment and/or related or unrelated services, e.g. executes the Client's orders for FIs, distributes FIs, provides crediting services, etc.;

3.11.2. the Bank chooses custodians of financial assets;

3.11.3. the employee responsible for the provision of depository services, knowing where the Client's investments are planned, would be interested in

concluding transactions at his own expense or at the expense of Related persons.

3.12. While providing FI custody services, the Bank may encounter situations where Conflicts of Interests may arise: when choosing custodians, providing information about Client portfolios to other Bank departments and ensuring confidentiality in relation to other Clients.

IV. INCENTIVES

4.1. The Bank ensures that the Bank's remuneration policy and practices apply to all relevant persons who have a direct or indirect impact on the investment or ancillary services provided by the Bank or the Bank's conduct, if the remuneration of such persons and similar incentives could cause a Conflict of Interests that would encourage them to act in violation of any interests of the Bank's Clients. In addition, the elimination of any direct link between the remuneration of persons who mainly carry out one type of activity and the remuneration of other persons who mainly carry out other activities, when these types of activities may lead to a Conflict of Interests, must be sought.

4.2. Related persons are prohibited from paying or accepting any kind of fee or commission, as well as providing or accepting any kind of non-monetary benefits, except in cases where:

4.2.1. the payment or benefit is intended to improve the quality of the relevant service provided to the Client; and;

4.2.2. payment does not prevent the Bank from fulfilling its obligation to act honestly, correctly and professionally, taking into account the interests of the Clients as much as possible.

V. MEASURES AND PROCEDURES FOR THE MANAGEMENT OF CONFLICTS OF INTERESTS

5.1. All Bank employees must take all the following measures and other possible measures in order not to get into the situations listed in Chapter III of this Procedure and not limited to them, and in the event of a Conflict of Interests to properly manage them.

5.2. All Bank employees must comply with the internal documents regulating the provision of Bank's investment services. *Order Execution Procedure, Procedure for the Provision of Investment Services to Clients* and other internal legal acts, the provisions of which include and/or detail the aspects of avoiding and managing Conflicts of Interests related to the specific areas regulated by these documents.

5.3. If the interests of the Bank, the Related Person and the Client collide, the Client's interests are met first, followed by the interests of the Bank or Related Persons, and subsequently time priority principle is applied. In cases where there is a Conflict of Interests between two or more Clients, the Bank must act in such a way that none of the Clients benefit or avoid losses at the expense of the other Client, and the losses incurred by the Clients are as small as possible. In all cases, the Bank must strive to ensure that the benefits/damages experienced by the Clients are proportionately equal,

i.e. i.e. not to give priority to the interests of one Client at the expense of the interests of another Client.

5.4. Bank operations are organized in such a way that the activities of employees performing different types of activities are separated. Employees are prohibited from exchanging information with employees of another department if this exchange of information could harm the interests of the Clients. When the exchange of information is necessary for the provision of services to the Client, employees must consult with the Bank's compliance specialist to assess the threat of significant harm to the Client's interests.

5.5. In order to avoid a Conflict of Interests, employees providing investment services and other persons related to the Bank must adhere to the following principles:

5.5.1. refuse to directly or indirectly accept money or its analogues easily convertible into money, gifts, discounts, entertainment (such as invitations to dinner, participation in cultural events, arrival for tourist purposes, etc.) or services (considered as gifts) that may influence or which could be assessed as being capable to influence the performance of the Bank's employee's or other Related person's functions, performance of duties or decisions;

5.5.2. Bank employees must report to their direct manager about attempts by Clients or persons related to them to offer them such gifts or entertainment, as well as about other circumstances of potential or real Conflicts of Interests. The direct manager and the bank's compliance specialist must be informed about this immediately.

5.6. When the Bank enters into a transaction with the Client at its own expense, the Bank's employees seek to ensure that the criteria will be met, the fulfillment of which determines that the transaction will be considered to have been entered into under the best conditions for the Client, taking into account the market price of the FI, the volume of the transaction and other characteristics, except for the cases when being a party to the with the a client, the Bank may not have the obligation to ensure the best result for the Client, as stipulated in the *Order Execution Procedure Procedure*.

5.7. The compliance function in the field of investment services within the Bank is carried out by a compliance specialist.

5.8. Bank managers are responsible for ensuring a clear separation of structural units, their functions and responsibilities, including structural physical separation, if necessary, for example, depository control functions are clearly separated from the services provided by the financial intermediary.

VI. DISCLOSURE OF INFORMATION ON CONFLICTS OF INTEREST

6.1. If the Bank's applied organizational or administrative measures for the prevention and management of Conflicts of Interest are insufficient to avoid the threat of significant damage to the Client's interests, the Bank's employee providing investment services shall inform the Client of the existing Conflict of

Interest before starting to provide investment and/or ancillary services, clearly indicating that the Bank's Conflict of Interest management measures are insufficient to prevent the threat of damage to the Client's interests, and discloses information about the general nature and/or causes of Conflicts of Interest, as well as the actions taken to address the risks to reduce the impact of factors. This information:

6.1.1. is submitted in a durable medium - in writing (with signature) or by e-mail;

6.1.2. must be sufficiently detailed, taking into account the nature of the Client, to enable the Client to make an informed decision regarding the investment and/or ancillary service, the provision of which may result in a Conflict of Interest.

6.2. The measure mentioned in paragraph 6.1 of the Procedure is the last possible option and it is used only in special cases when all other applicable measures of managing Conflicts of Interest do not guarantee that the risk of significant damage to the Client will be avoided. An investment or ancillary services may be provided only after the Client explicitly expresses his consent to the provision of the investment service in the event of a Conflict of Interest.

6.3. If the Bank decides not to provide an investment service because the Conflict of Interests will not be managed, the Client is informed that the Bank will not provide the Client with relevant investment and/or ancillary services, but the Conflict of Interest is not disclosed to the Client.

6.4. An employee who has identified circumstances that he believes may lead to a Conflict of Interest must report this to the compliance specialist and his immediate supervisor. In case of uncertainty regarding the assessment of the situation, it is necessary to contact the compliance specialist for advice.

6.5. The employee may transfer information that may cause a Conflict of Interest to third parties only in accordance with the law, when such information is necessary to protect the Bank's interests.

6.6. The Bank stores and regularly updates information about the investment and/or ancillary services provided by the Bank and investment activities that have resulted in or may result in a Conflict of Interest that may harm the interests of one or more Clients. This information is collected and updated by the AD according to the data of the Bank's departments that provide investment and ancillary services, unless the separate internal documents of the Bank regulating the provision of investment services provide otherwise.

VII. RESPONSIBILITY AND INTERNAL CONTROL

7.1. All the Bank units, Bank employees and managers mentioned in the Procedure are responsible for the proper performance of the functions specified in the Procedure.

7.2. The compliance specialist prepares and constantly updates the list of Fis for which there is a possible Conflict of Interest when providing investment and ancillary services or executing transactions. All Related persons must be introduced to this list.

7.3. The compliance specialist regularly checks transactions in FIs, which may result in a Conflict of Interest, and informs the CEO of the Bank and the Head of the Internal Audit Service about the detected violations.

VIII. FINAL PROVISIONS

8.1. The owner of the Procedure is the Markets and Treasury Department, which is responsible for the administration of the Procedure (document coordination, renewal and submission to the Board of the Bank) and consulting.

8.2. The Procedure is reviewed regularly, at least once a year, and its organizers take all appropriate measures to eliminate deficiencies. If, in practice, too much reliance is placed on the fact that the resolution of Conflicts of Interest is possible through the disclosure of information about them to the Clients, this is considered a deficiency of this Procedure and the measures applied must be reviewed.

8.3. The procedure is changed and supplemented accordingly, when the risk of new Conflicts of Interest appears.

8.4. Employees must also follow the Bank's Code of Ethics, the Conflict of Interest Management Policy, the Conflict of Interest Management Procedure and the rules for personal transactions regarding financial instruments, which are intended to reduce and/or manage the risks of conflicts of interest.

8.5. The Procedure is owned by the Market and Treasury Department, which is responsible for the administration of the Procedure (coordination, renewal, submission to the Board of the Bank) and consulting.

Šiaulių Bankas AB