



Conflicts of Interest Policy

NKB Investments Limited

Version 3 November 2009

Introduction

NKB Investments Limited (“NKB”, “the Company”) is a member of URALSIB Financial Corporation (“URALSIB”). URALSIB’s key businesses comprise Asset Management, Insurance, Brokerage, Corporate and Retail Banking, Investment Banking, Brokerage, Private Banking, Leasing and Factoring, having in excess of 17,300 employees and over 623 offices in Russia and abroad. NKB operates as an authorised Cypriot Investment Firm, licensed by the Cyprus Securities and Exchange Commission, and functions as a broker in the Russian equities and fixed income securities markets.

Following the implementation of the Markets in Financial Instruments Directive (MiFID) in the E.U., and in accordance with the Investment Services and Activities and Regulated Markets Law of 2007 (Law 144(I)/2007) in Cyprus, NKB is required to implement and maintain a Conflicts of Interest Policy (“Policy”).

The purpose of this Policy is to set out the Company’s approach to identifying and managing conflicts of interest which may arise between NKB, or a relevant person¹, or a person directly or indirectly linked to NKB by control and NKB’s clients, or between one client and another, when carrying out authorised investment and ancillary services and activities.

Identification of Conflicts of Interest

In order to identify the types of conflict of interest that arise in the course of providing investment and ancillary services or activities, NKB considers, by way of minimum criteria, the question of whether NKB or relevant persons, or a person directly or indirectly linked by control to NKB:

- Are likely to make a financial gain, or avoid a financial loss, at the expense of the client;
- Have an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome;
- Have a financial or other incentive to favour the interest of another client or group of clients over the interests of the client;

¹ "relevant person" in relation to an investment firm, means any of the following persons: (a) a member of the board of directors, partner or equivalent, manager or tied agent of the firm; (b) a member of the board of directors, partner or equivalent, or manager of any tied agent of the firm; (c) an employee of the firm or of a tied agent of the firm, as well as any other natural person whose services are placed at the disposal and under the control of the firm or a tied agent of the firm who is involved in the provision by the firm of investment services or/and the performance of investment activities; (d) a natural person who is directly involved in the provision of services to the firm or to its tied agent under an outsourcing arrangement for the purpose of the provision by the firm of investment services or/and the performance of investment activities.

- Carry on the same business as the client;
- Receive or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for that service.

Taking into account the above, NKB has identified the following situations which could lead to a conflict of interest entailing a material risk of damage to the interests of one or more clients:

- Where NKB or relevant persons provide reception and transmission and/or execution services for financial instruments to more than one client at the same time, or where they aggregate the orders of more than one client (timely/best execution);
- Where NKB or relevant persons engage in personal account dealing in financial instruments, and an NKB client submits orders in these financial instruments that potentially conflicts with such dealing;
- Where substantial gifts and/or entertainment are received that may influence NKB's or a relevant person's behaviour in any way that conflicts with a clients' interests;
- Where a member of the URALSIB group takes proprietary positions in a financial instrument when at the same time there are NKB client orders in relation to that financial instrument;
- Where a member of the URALSIB group issues research material which is non-independent² and has been distributed to NKB clients;
- Where a member of the URALSIB group is involved in Corporate Finance activities when at the same time there are NKB client orders in relation to financial instruments issued by the Corporate Finance client.

This list is non-exhaustive.

Management of Conflicts of Interest

The Company has adopted the following general procedures and measures to manage potential conflicts of interest:

² "Independent research" can only be produced by persons who do not have responsibilities that might conflict with the interests of the clients who may rely upon that piece of research. "Non-independent research" is categorised as such because it has been prepared by persons who may be exposed to such conflicts of interest.

- Effective procedures to prevent or control the exchange of information between relevant persons engaged in activities involving a risk of a conflict of interest where the exchange of that information may harm the interests of one or more clients;
- The separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of, or providing services to, clients whose interests may conflict, or who otherwise represent different interests that may conflict, including those of the Company;
- The removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities;
- Measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries out investment or ancillary services or activities;
- Measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate investment or ancillary services or activities where such involvement may impair the proper management of conflicts of interest.

In addition to the above, specific examples of procedures and controls established to prevent and manage conflicts of interest include:

- Stringent group-wide Chinese Walls and organisational arrangements to manage and control the flow of information which might lead to a conflict of interest;
- Comprehensive policies and procedures regarding the production and dissemination of independent research by group members to ensure potential conflicts of interest are identified, managed and avoided, or else disclosed to the client. These measures include the supervision and remuneration of analysts, editorial review and control, restrictions on analysts dealing ahead of publication of research, and disclosure policy;
- A Personal Account Dealing Policy governing staff personal transactions in financial instruments;
- Remuneration arrangements carefully considered to ensure conflicts do not inadvertently arise through inappropriately set targets, and which do not reward behaviour that disadvantages the interests of clients in favour of NKB or relevant persons, or other clients ;
- A Whistleblowing procedure designed to allow staff to report any wrongdoing by their colleagues;

- A Gifts and Entertainment Policy, and maintenance of appropriate Registers;
- An Order Execution Policy³ to ensure the prompt, fair and expeditious execution of client orders;
- Independent internal control and monitoring functions including Compliance and Risk Management, and Internal Audit.

Where there is no other way of managing a conflict of interest, or where NKB judges the measures in place do not sufficiently protect clients' interests, the conflict will be disclosed to allow the client to make an informed decision on whether to continue using the relevant service.

NKB may also decline to act for a client in cases where NKB believes the conflict of interest cannot be managed in any other way.

The characteristics of NKB's practise include:

- senior management being fully engaged in conflict identification and management;
- senior management taking an holistic view of conflicts risk and conflict mitigation within the full range of business activities for which they are responsible;
- senior management having the means of achieving a consistent treatment of conflicts of interest throughout the group;
- senior management receiving management information on the extent of, and mitigation of, conflicts of interest in the business in order to control the business effectively;
- NKB reviewing on a regular basis the types of mitigation it considers acceptable to address conflict risks;
- a corporate culture within the group which we believe is a key mitigating tool for the proper management of conflicts of interest.

Review

NKB shall review this Policy at least annually, but reserves the right to review and make amendments whenever it deems appropriate. Any material amendments will be notified to clients via the NKB web-site:

www.nkb.com.cy/information/mifid/download.wbp

³ Note – under MiFID, duty of best execution applies only to retail and professional clients.