

# ORDER EXECUTION POLICY FOR INVESTMENT SERVICES ON THE FINANCIAL INSTRUMENTS MARKET

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## 1. GENERAL PROVISIONS

- 1.1 The purpose of the Order Execution Policy (hereinafter – the Policy) is to enable high-quality order execution and accomplishment of best results for clients, as well as explaining the procedure of order execution at AS BlueOrange Bank (hereinafter – the Bank). The Bank shall apply the provisions of the Policy when it executes, or forwards for execution, orders in respect of financial market instruments, with the status – retail or professional.
- 1.2 The Bank's commitment to obtaining the most favourable result for its client means that in providing investment services the Bank shall act honestly, fairly and professionally in accordance with the best interests of its client; however, the Bank undertakes no additional liabilities in excess of those provided for by the applicable legal enactments or agreements concluded with the client.
- 1.3 The Bank shall take every necessary measure to obtain the best possible result for the execution of client orders, but the Bank cannot guarantee that the execution of every order will achieve the best results for the client, particularly in exceptional circumstances.
- 1.4 The Bank shall implement the Policy in accordance with the applicable legal enactments of the European Union and the Republic of Latvia, the Bank's Strategy and Articles of Association.
- 1.5 When the client gives an order for any financial instruments transaction to the Bank, the client agrees that the Bank will comply with the Policy in respect of such order, and therefore shall recommend the client to examine the principles and provisions of the Policy to be satisfied that they are acceptable.
- 1.6 The Bank shall not be allowed to execute transactions in financial instruments owned or managed by the client unless the client agrees to the Policy.
- 1.7 At the Bank, actions related to order execution shall be implemented by the structural divisions maintaining clients' financial instruments accounts, the Brokerage Services Department, and the Financial Market Department.
- 1.8 In cases where the client has given specific instructions for execution of any transaction in financial instruments or in respect of specific parameters of the transaction, or placing the order, the Bank shall fulfil such specific instructions of the client. In such cases, the client's special instructions may hinder or prevent the Bank's actions aimed at securing the best execution for the client under the Policy. In such cases, the Bank shall be released from its best execution obligations under the Policy.
- 1.9 The Bank shall notify clients about substantial amendments to the Policy and the procedure for executing orders. A client may decline consent to the amendments; in this case, the client shall notify the Bank in writing. If a client does not consent to amendments made to the Policy, the Bank shall not be entitled to provide the client with services related to the acceptance and execution of orders in respect of financial instrument transactions.

## 2. WAYS OF SUBMITTING ORDERS AND PROCEDURE OF EXECUTION

- 2.1 The client may give an order via the Internet Bank, trading platform, over the phone, in writing or by visiting the Bank in person, provided that the relevant agreements have been entered for transactions in financial instruments. Different ways of submitting orders imply different processing before the Bank may start to execute an order; therefore, the sequence of recording the orders specified in the Policy shall not mean that the Bank would start the execution of orders sequentially.
- 2.2 When the client participates in an initial offer (issue) of a financial instrument, the Bank shall accept the client's order and transfer it for execution to an issuer or an issuer's authorised representative in accordance with the issue provisions (prospectus).
- 2.3 The Bank shall execute the client's orders on time, efficiently, and in good faith. The Bank shall execute mutually comparable orders of the client sequentially, unless the characteristics of orders or prevailing market conditions make this impracticable, or else if the client's interests require different action by the Bank. A retail client shall be informed about any material difficulty relevant to proper execution of orders.
- 2.4 The Bank shall be entitled to limit the types of orders offered to the client (e.g., market orders, limit orders), even if the venue where the relevant instrument is traded offers a number of other order types:
  - 2.4.1 *Limit order* – is an order to buy or sell a specific number of financial instruments at a particular price or at a better price. A limit order may be executed partially;
  - 2.4.2 *Market order* – is an order to buy or sell a specific number of financial instruments at the best available market price. A market order may be executed partially, unless the market depth is sufficient to execute the order in full, there are trading venue limitations or other obstacles.

2.5 The Bank may limit any order or apply a shorter validity term than established at a given trading venue.

### 3. RECORDING PHONE CALLS AND ELECTRONIC COMMUNICATIONS, STORING RECORDINGS

- 3.1 The Bank shall ensure the recording and digital storage of recorded communication with clients, including intra-bank communication.
- 3.2 Communication with a client shall take place as stated in clause 2.1 of the Policy. The Bank shall document in-person communication as meeting notes.
- 3.3 The Bank shall ensure the recording of communication with clients and intra-bank communications aimed at agreeing on transactions to be concluded on its behalf (or upon providing services that include the receipt and forwarding of client orders for execution), including cases where transactions mentioned in conversations and communications are not concluded.
- 3.4 Employees of the Bank shall not be entitled to use personal means of communication (mobile phone, tablet etc.) for communication with clients or intra-bank communications aimed at submission of a financial instrument transaction order to the Bank.
- 3.5 The Bank shall notify clients that client communications with the Bank regarding financial instrument orders are recorded, and that clients are entitled to receive recordings of such phone calls, digital communications, or other communication, from the Bank.
- 3.6 The Bank shall ensure the storage of phone call, digital and other communications recordings for at least 5 years following recording (7 years if mandated by the Financial and Capital Market Commission).

### 4. COMBINING AND SPLITTING ORDERS

- 4.1 The Bank shall be entitled to combine a client's order with any transaction on its own behalf as well as with orders of other clients, wherever it believes that a better result will be obtained for the client than if the order is executed separately. The Bank shall only be entitled to combine orders if it is unlikely that such combination of orders would disadvantage the clients whose orders are combined by the Bank.
- 4.2 In cases where the client's orders have been combined, upon execution of the transaction the relevant combined transactions shall be allocated among clients whose orders have been combined in good faith and without discrimination. A combined order that is executed in full shall be allocated at the price of execution in accordance with the volume of each individual order. In case of a combined order that is executed partially or through more than one transaction and at different prices, individual orders of the clients shall be allocated and satisfied in accordance with the time and price priority, i.e. the last individual order shall only be executed to the extent the earlier order has been executed in full. The Bank may only allocate a combined order that has been executed partially on a pro rata basis in accordance with the volume of individual orders at the price of execution upon receipt of the consents of all clients whose orders have been combined.
- 4.3 In offering services of investment portfolio management, the Bank may combine client orders in accordance with the market practice, ensuring the principle of mutual fairness in respect of portfolios of such clients. In providing portfolio management services, such combined client orders (executed partially or in full) shall be reallocated on a pro rata basis in accordance with the initial volume of such orders at the price of the combined order.

### 5. FACTORS AFFECTING ORDER EXECUTION

#### General Description of Factors

- 5.1 Unless the client has given specific instructions for executing any transaction in financial instruments or placing an order, in executing transactions the Bank shall consider the following criteria:

- 5.1.1 Volume and nature of the transaction and its impact on the market;
  - 5.1.2 Price at which such transaction might be executed, costs related to execution;
  - 5.1.3 Likelihood and speed of transaction execution and settlement;
  - 5.1.4 Other considerations that are important for transaction execution or placing the order, in the Bank's opinion.
- 5.2 In determining the importance of the aforementioned criteria, the Bank shall take into account the client's status (retail or professional), type of the client's order, type of the financial instrument that is the subject of the order, market situation, as well as venue where the transaction may be executed.
- 5.3 In most cases where the order conforms to the standard market volume and is traded on the regulated market or at a multilateral trading facility, the transaction price shall be treated as the most important criterion in determining best execution for the client. However, if the client has the status of a professional client and execution of a transaction might impact on the market price or likelihood and speed of settlement, the Bank reserves the right to execute the client's order as it deems appropriate in order to achieve the most favourable result for the client at a certain time.

## Execution Factors in Respect of Retail Clients

- 5.4 For retail clients, best execution shall be determined in terms of the total consideration. The total consideration is the price of the financial instrument and all costs related to the transaction execution, including expenses incurred by the client, for example, execution venue fees, clearing and settlement fees and any other fees paid to third parties involved in the order execution.
- 5.5 Other factors of execution, evaluated as a whole – speed and likelihood of execution, speed and likelihood of settlement, order execution volume and type etc. – shall be equivalent to overall cost.
- 5.6 The Bank is aware that different client segments may have different priorities in respect of execution factors. Similarly, factors may have different priority in accordance with the type of financial instrument or venue. Evaluation of the factors may differ in accordance with whether the Bank executes an order or forwards it for execution further.

## Execution Factors in Respect of Professional Clients

- 5.7 For professional clients, best execution is determined in terms of the speed of possible execution and the volume of execution.
- 5.8 Other factors, evaluated as a whole – such as total consideration, likelihood and speed of settlement, and transaction type – are of the same importance as the factors of execution speed and transaction volume.

# 6. TRANSACTIONS IN FINANCIAL INSTRUMENTS

## General Provisions

- 6.1. The Bank may limit the range of financial instruments available to the client, i.e. the client may not be able to trade in all financial instruments which are available on all the venues which the Bank has direct or indirect (via a brokerage institution) access to..
- 6.2. The Bank informs that it may execute transactions outside a trading venue (regulated market and multilateral trading facilities (MTFs)) or organised trading systems (OTs). By consenting to the Policy, the client agrees that their orders may be executed outside a trading venue. The above shall not be applicable in cases where the client has notified the Bank that the order may not be executed outside a trading venue to which the Bank has access either directly or indirectly (via a broker).
- 6.3. In cases where the client gives a limit order for shares admitted to trading on a regulated market, where the order cannot be executed under prevailing market conditions, the Bank is entitled not to publish the limit order in accordance with the client's instruction.

## Transactions in Financial Instruments Traded on Regulated Markets

- 6.4. The Bank shall execute transactions in financial instruments traded at trading venues (i.e. shares, bonds, Treasury bills, exchange-traded fund shares, common standardised derivatives, etc.). In such cases, the client's order shall be matched against another party's counter order in accordance with the trading venue's trading rules.
- 6.5. The Bank shall execute client orders for transactions in financial instruments traded on regulated markets as follows:

- 6.5.1. An order shall be forwarded for execution to a trading venue available to the Bank where, in the Bank's opinion, best execution may be ensured for the client, being in most cases the venue with the highest liquidity of the financial instrument specified in the client's order. Higher liquidity of the trading venue also ensures faster execution of the transaction, which results in lower risk of possible change of the market price over the period from acceptance of the client's order until its effective execution. In cases where one and the same financial instrument is traded on more than one market and the Bank may provide access to more than one trading venue for the client, best execution for the client shall be secured by execution of the order on the most liquid market; for a client with the retail client status, the market on which the order can be executed at the best price shall be chosen, considering the price of the financial instrument at the relevant trading venue, Bank fees, and other expenses tied to the execution of the order;
  - 6.5.2. In cases where the order volume is comparable to the standard volume on the market, the order shall be executed immediately upon its receipt as far as possible. In individual cases where the Bank believes that aggregation of the order with orders of other clients or the Bank's own transactions will not be to the disadvantage of the client's result, the Bank may hold the order execution in order to aggregate it with other orders. Where such delay occurs, the Bank shall undertake no notify the client immediately using approved means of communication;
  - 6.5.3. In cases where the client's order exceeds or differs from the standard market volume by a considerable amount its execution might be disadvantage the overall result of execution of the client's order, the Bank may: execute it on its own behalf; or execute it in parts; aggregate it with orders of other clients; or otherwise, so as to ensure best execution for the client in the Bank's opinion, in view of the transaction and market conditions;
  - 6.5.4. In certain cases, the Bank may execute the client's orders against the Bank's own portfolio or any other client's portfolio in order to ensure best execution for clients. In such cases, the order execution price shall reflect the market conditions and shall not discriminate between clients. By consenting to the Policy, the client agrees to such exceptional cases, unless the client gives specific instructions to the contrary;
  - 6.5.5. If necessary, as soon as possible after the order is received, the Bank shall transmit the order to a relevant external broker for execution.
- 6.6. In certain cases where the client specified the Bank as the counterparty to a transaction, the Bank shall quote a price – indicative or precise – to the client as a risk price. In such cases, an agreement on the transaction shall be entered into between the parties: either the client agrees to the quoted fixed price or, in case of an indicative price, the Bank confirms the precise price and the client agrees to such price. Seeing as in such cases the Bank and the client enter into a bilateral agreement and the client has given specific instructions, the Bank assumes that the order is neither transmitted further nor executed on behalf of the client. Consequently, the Policy shall not be applicable in the aforementioned cases. However, the Bank shall apply its best efforts to protect the client's interests and to avoid conflicts of interest. The above shall not be applicable in cases where the client has notified the Bank that the order may not be executed outside a trading venue to which the Bank has direct or indirect (via a brokerage institution) access.

## Transactions in Financial Instruments Not Traded on Regulated Markets

- 6.7. The Bank may make transactions with clients in financial instruments and products that are not traded at trading venues but are established by the Bank or another organisation. Such financial instruments may be bonds and other debt securities, currency and fixed-income derivatives, OTC (Over The Counter) derivatives, shares not listed on the regulated market, structured products, etc. Such instruments may comprise financial instruments that as such are traded on regulated markets.
- 6.8. The Bank shall execute client orders for transactions in financial instruments that are not traded on regulated markets as follows:
- 6.8.1. The Bank may execute the client's order on its own behalf at a reasonable price that conforms to the market value of the financial instrument. Offering execution of any transaction in a specific financial instrument to the client, the Bank shall also take into account costs related to offer of the specific product to its clients, for example: capital burden, operational risk, counterparty risk, etc. In respect of such instruments, the Bank shall offer a price – indicative or precise – to the client as a risk price. In such cases, an agreement on the transaction shall be entered into between the parties: either the client agrees to the quoted fixed price or, in case of an indicative price, the Bank confirms the precise price and the client agrees to such price. Seeing as in such cases the Bank and the client enter into a bilateral agreement, the Bank assumes that the order is neither transmitted further nor executed on behalf of the client;
  - 6.8.2. The client may offer an agreement to the Bank, which would not constitute a transaction in financial instruments by itself, but rather a transaction related to financial instruments (including, but not limited, a transaction for securities financing). In such cases, the Bank may close a transaction with the client and agree on details of a specific transaction;
  - 6.8.3. In cases where the Bank is to execute any order on behalf of the client, the Bank shall normally execute it against the Bank's portfolio at a price that corresponds to the market price. Such price shall be calculated on the basis of prices of the relevant financial instrument available on the market as at the moment when the transaction concluded, wherever such a reference price is available; the Bank's mark-up for business profit, costs for capital and counterparty risk shall also be included;

- 6.8.4. In order to execute the client's order, the Bank may execute the transaction directly with any counterparty or against another client's order;
- 6.8.5. The Bank shall submit transactions in exchange traded fund shares either directly or via brokers, to the relevant investment management company that manages the specific investment fund in accordance with the rules of such investment company's investment fund. Information on pricing, redemption of fund shares etc. may be received from the specific fund's management company;
- 6.8.6. Transactions in financial instruments or products developed by the Bank individually for any specific client shall be subject to conditions and the price agreed with the client. In such cases, the Bank shall substantiate the conditions and price of the transaction upon the client's request.

## 7. ORDER EXECUTION VENUES

- 7.1. The Bank shall execute the client's transactions at trading venues to which the Bank has access either directly or via counterparties. Such trading venues have been chosen on the basis of technical capacity to execute transactions and to ensure best execution for the Bank's clients. From time to time, the Bank shall review the execution venues to which it has direct access in order to ensure that the chosen trading venues provide best execution for its clients in respect of financial instruments that are traded at such trading venues most frequently. The list of execution venues used by the Bank (approved by the Bank's Investment Committee and constituting an integral part of the Order Execution Policy) is available on the Bank's website.
- 7.2. The Bank shall annually gather and publish the five largest execution venues by the volume traded for specific financial instruments, in which the Bank has executed client orders in the previous year, as well as the summary of information on the actual quality of execution of the orders.

## 8. TRANSMITTING ORDERS FOR EXECUTION TO SERVICE PROVIDERS

- 8.1. In cases where the client wishes to execute any transaction in financial instruments that is not available from any execution venues used by the Bank or if doing so may ensure best execution, the order may be transferred for execution to an alternative execution venue ensured by external service providers: other credit institutions, investment brokerage companies, investment companies etc. The aforementioned service providers hereinafter are collectively referred to as Brokerage Institutions. Brokerage Institutions shall execute received orders in accordance with their policies and regulations — at a trading venue, acting as a systemic internaliser or transmitting the order for execution to another broker.
- 8.2. When the Bank transmits any order for execution to Brokerage Institutions, it cannot control the execution process or principles and conditions stipulated in the Policy. In choosing an order execution venue via Brokerage Institutions, the Bank shall take into account cost, the counterparty's reputation, speed and likelihood of the transaction execution, as well as other material factors to ensure best execution for the client. The above shall also be applicable in cases where the financial instrument is available at an execution venue used by the Bank, yet the Bank believes that a better result may be achieved for the client by the relevant Brokerage Institution.
- 8.3. The Bank shall apply its best efforts to ensure execution of orders transferred to Brokerage Institutions as close as possible to the best execution, but cannot guarantee best execution for each of such orders.
- 8.4. The list of Brokerage Institutions used by the Bank for further execution of orders (approved by the Bank's Investment Committee and constituting an integral part of the Order Execution Policy) is available on the Bank's website.

## 9. EVALUATION OF BROKERAGE INSTITUTIONS

- 9.1. The Bank shall regularly, no less than once per year, evaluate Brokerage Institutions whose services it uses in order to determine their ability to ensure best execution for clients. The evaluation process shall consider both the criteria specified in section 5 of the Policy and additional factors such as:
  - 9.1.1. Trading venues used by the Brokerage Institution;
  - 9.1.2. The Brokerage Institution's awareness of the wishes and priorities of the Bank's clients;

- 9.1.3. Additional services offered by the Brokerage Institution, e.g. advice, research etc.;
  - 9.1.4. Reputation and competence of the Brokerage Institution;
  - 9.1.5. Principles specified in the Brokerage Institution's order execution policy (or a similar document) and transparency of information.
- 9.2. The Bank shall document available information on Brokerage Institutions and, upon the client's request, may provide the client access to information about a Brokerage Institution.

## 10. DIFFICULTIES IN EXECUTION DUE TO BREAKDOWNS AND DISRUPTIONS IN SYSTEM OPERATION

- 10.1. In exceptional cases, in the event of faults in the Bank's or execution venue's system or disturbances in normal operation of the market, the Bank may, taking into account its own interests and those of its clients, deviate from the Policy in execution and transmission of orders outside the regulated market. In such cases, during execution of orders, the Bank shall take every available and reasonable measure to ensure best execution for the client.
- 10.2. In cases of disturbance or disruption of external market systems, the Bank, or Brokerage Institutions by the Bank (including phone communication), it may be impossible for clients to give orders, and the Bank believes that in such cases it is impossible or even inappropriate to execute orders in accordance with the Policy. In such cases of technical difficulty, the Bank shall notify the client as soon as possible, either individually or by placing the relevant information on the Bank's website.
- 10.3. In cases where the Bank believes that any order executed in such circumstances may impair the client's execution compared to an order executed in normal conditions, before such order execution the Bank shall contact the client to confirm that the client still wishes to execute the order. In cases where the Bank has acted in good faith in execution of the client's order, such order execution shall be binding upon the client even when before the order execution it has not been made sure that the client wishes to execute the order.
- 10.4. The Bank shall notify retail clients about any substantial difficulties in order execution as soon as the Bank becomes aware of such difficulties. It is therefore in the client's best interests to ensure that all contact data given to the Bank are accurate and up to date. Unless substantial difficulties in order execution stem not from an individual order but as a result of cases mentioned hereinabove, retail clients shall be notified by placing information on the Bank's website.

## 11. UPDATING THE POLICY

- 11.1. The Policy shall be updated in accordance with the internal control system procedure and in compliance with amendments to applicable legislation.
- 11.2. The Council and Board of the Bank shall monitor and review the Policy at least once a year, evaluating its effectiveness and compliance, revising the Policy and order execution activities as necessary.
- 11.3. Amendments to the Policy shall be published on the Bank's website and shall take effect from the date of such placement.