

## **INFORMATION ON THE POLICY FOR EXECUTION OF CLIENT ORDERS OF DSK BANK AS AN INVESTMENT INTERMEDIARY**

in accordance with the Markets in Financial Instruments Act ("MFIA") and Article 65, para. 5 and 6, Article 66, para. 3 - 9 of Commission Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive ("Delegated Regulation 2017/565")

### **1. Introduction. Purpose of Policy**

The purpose of the Policy for Execution of Client Orders of DSK Bank AD (the "Bank") as an investment intermediary (the "Policy") is to regulate the manner of execution and to provide information to clients of the Bank about the Bank's main obligations arising from MFIA, transposing the provisions of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU ("MiFID II"), Delegated Regulation 2017/565, and bylaws for their implementation.

MiFID II provides for an obligation for investment intermediaries, when executing orders of retail and professional clients, also when trading on their own account and acting as a client's counterparty, to take all reasonable steps to obtain the best possible result for their clients, while taking into account the price, costs, speed, likelihood of execution and settlement, amount, nature and any other consideration relevant to order execution, as well as an obligation to act in the client's best interest when choosing an investment intermediary to whom they place or transmit client execution orders when providing portfolio management services and receiving or transmitting orders. Similar obligations have been identified in the previous provision, known as MiFID I, which is supplemented by MiFID II.

The Bank's clients shall bear in mind that the obligation to take sufficient steps to ensure the best execution is not an obligation of the Bank to obtain the best result for the client in each single case. The Bank shall fulfill this obligation by establishing and maintaining effective implementation rules in a Policy to ensure that its clients receive the best results when the Bank is providing its investment services, on a regular basis. The Bank shall introduce internal mechanisms for regular monitoring of Policy rules and escalation of monitoring results to the top management in order to take all necessary corrective actions if any gaps has been identified during monitoring.

By signing an individual contract for provision by the Bank of investment and/or ancillary services and activities relating to the provision of order-based services, the client also agrees with the Policy.

*2. Description of the relative importance of factors and criteria determining the "best execution" and the ways in which they are taken into account as part of all reasonable steps to obtain the best possible result for the client, in accordance with Article 66, para. 3, letters (a) and (d) of Delegated Regulation 2017/565.*

#### *2.1. Factors determining the best execution and their relative importance*

When executing client orders, the Bank shall take into account the following factors:

- Price, while striving to obtain the best price for the client,
- Cost of execution,

- Speed of execution,
- Likelihood of execution and settlement,
- Order size,
- Order's nature and
- Any other consideration that might be relevant to order execution

The Bank shall determine the relative importance of factors mentioned above while taking into account multiple criteria, including client categorization (whether it is categorized as a professional client or a retail client), existence of more than one competing venues of order execution and execution costs at each of those venues, characteristics of the order and financial instruments to which the order refers.

In general, the highest relative importance would be the cost of execution, as the Bank strives to obtain the best possible price for its clients. However, considering the client characteristics, in certain cases, the speed of transaction execution is likely to be of greater importance to professional clients, whereas for retail clients, in the absence of specific instructions, the greatest weight would be of the total transaction value. Therefore, in each given case, the Bank will seek to individually assess the importance of all such factors.

The main criteria that the Bank shall take into account when determining the relative importance of the best execution factors according to clients' categorization are as follows:

- For professional clients:

Where the Bank is executing orders of professional clients, it shall determine the best possible result for the client while taking into account its characteristics, including its categorization as a professional client, the order characteristics, including cases where it is related to securities financing transaction ("SFT"), characteristics of financial instruments being the subject of this order, as well as the characteristics of the venues of execution to which the order may be directed.

- For retail clients:

Where the Bank is executing an order on behalf of a retail client, it shall determine the best possible result for the client in terms of the total transaction value for the client constituting the price of the financial instrument, increased (upon acquisition) or accordingly reduced (upon disposal) with the costs associated with the execution of the order, which include all costs incurred by the client and directly related to order execution, including the venue fees, fees for clearing and settlement, as well as other fees paid to any third parties that might be related to order execution.

In order to obtain the best execution, when submitting client orders for execution, the Bank will only transmit them on to such investment intermediaries that have the required agreements and execution mechanisms that can ensure that the above factors are taken into account.

## **2.2. Best execution with regard to over-the counter ("OTC") products**

The client shall bear in mind that in certain cases the Bank is able to execute their orders outside a trading venue<sup>1</sup>. This will be the case when executing client orders regarding OTC products offered by the Bank (foreign exchange, interest and commodity derivatives) as well as where the client has

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<sup>1</sup> According to the definition in Article 4, para. 1, item 24 of MiFID II, "trading venue" is a regulated market, a multilateral trading facility ("MTF") or an organized trading facility ("OTF").

explicitly indicated its wish to have its order executed outside the trading venue and this execution does not contradict the applicable law. The bank shall obtain the explicit consent of the client, in the contract concluded with the client, before proceeding to order execution outside a trading venue.

In all cases, when the Bank is executing client orders or taking decision to deal in OTC products, including bespoke products, it shall check the correctness (fairness) of the price proposed to the client by gathering market data used to estimate the price of such product and, where possible, by comparing with similar or comparable products.

The Bank shall regularly take into account any data from external markets and external comparative reference prices (if available) when determining the price or when checking the price of the OTC products proposed. Verifying the fairness of the price of OTC products traded shall be made by the Bank on a systematic basis.

When the Bank is determining the price of the product proposed, it shall apply a product pricing methodology based on an external benchmark or market data or data obtained from an independent data provider and keep the market data based on which it has determined the price of the product proposed in each single case.

Where the Bank is executing client orders to deal in OTC products (in cases where it does not determine the price of the product), it shall perform all necessary checks on the fairness of the price offered to the client. Checking the correctness of the price shall be made pre-trade and shall be based on available markets data or data from an independent data provider for the respective instrument. Verification of correctness of the price proposed to the client is part of the ongoing Policy monitoring.

### ***3. Information about execution venues<sup>2</sup> on which the Bank places significant reliance for the execution of orders of retail and professional clients as well as of professional clients in securities financing transactions (SFT), according to Article 66, para. 3, letter (b) of Delegated Regulation 2017/565***

#### ***3.1. Trading venues on which the Bank places significant reliance for the execution of orders of retail and professional clients***

Upon provision of services for execution of orders on behalf of retail and professional clients and trading on its own account, when the Bank is entering as the counterparty of such clients, it shall place significant reliance on the following trading venues, depending on the class of financial instruments traded:

##### ***A. Equity***

*Shares and stocks of companies* admitted to trading on the regulated market of the Bulgarian Stock Exchange - Sofia AD ("BSE").

The Bank shall execute client orders for transactions in shares and stocks of companies admitted to trading on the regulated market organized by BSE only on this regulated market.

##### ***B. Debt instruments***

*Corporate bonds*

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<sup>2</sup> Within the meaning of the Policy, client order "trading venues" are the regulated market, MTF, OTF, systematic internaliser ("SI"), market maker, any other liquidity provider or entity performing in a third country a function that is similar to the functions performed by any of the above entities.

- The Bank shall execute client orders for conclusion of transactions in corporate bonds admitted to trading on the regulated market, organized by BSE only on this regulated market.
- The Bank shall execute client orders for conclusion of transactions in corporate bonds admitted to trading on a trading venue outside the Republic of Bulgaria through the MTF organized by Bloomberg Trading Facility Limited (Bloomberg).

#### *Government Securities*

- The Bank shall execute orders for transactions in Bulgarian government securities issued by the Ministry of Finance on the BSE and on a multilateral trading facility organized by Bloomberg (E-Bond Bulgaria – an electronic functionality to the Bloomberg Professional platform for trading of Bulgarian government securities), as well as on the interbank market.
- The Bank shall execute orders for transactions in government securities issued by other states on the MTF organized by Bloomberg.

#### **C. Other instruments**

The Bank shall execute client orders for transactions in compensatory instruments, warrants and rights admitted to trading on the regulated market organized by the BSE solely to that regulated market.

#### **D. OTC Derivatives**

The Bank shall execute any client order for transaction in currency forwards and swaps, interest rate swaps, currency and interest rate options, commodity swaps and other OTC derivatives, outside a trading venue. The execution of such transactions shall be in the form of OTC transactions between the client and the Bank. Clients shall conclude standardized contracts with the Bank.

The Bank shall execute any client order for transaction in financial instruments, referred to in item A - D. above outside the trading venue ("OTC") only subject to explicit instruction from the client in accordance with applicable law and to the extent it does not contradict the obligations of the Bank to trade in shares, admitted to trading on a regulated market or traded on a MTF, on a regulated market, MTF with a systematic internaliser or on an equivalent third country market or trade in derivatives for which such an obligation is specifically established, only on a regulated market, MTF, OTF or an equivalent third country market.

#### **E. Derivatives admitted to a trading venue and/or subject to the obligation to trade**

The Bank shall execute client orders for transactions in derivatives admitted to a trading venue outside the territory of the Republic of Bulgaria by transmitting the order to an investment intermediary providing access to the respective trading venue or by entering into OTC transactions with the client, as a counterparty, in accordance with the acting legislation and to the extent this does not contradict the obligations of the Bank.

In the event that derivatives are subject to a trading obligation, the Bank shall execute client orders for transactions with them only on a regulated market, MTF or OTF.

#### **F. Incompleteness of the above-mentioned trading venues**

The above-mentioned trading venues and types of instruments are not exhaustive and do not deprive the Bank of the option to execute client orders on other trading venues different than those

mentioned above. If the Bank is presented with the opportunity to perform or transmit transaction orders to trading venues/ investment intermediaries respectively that are not listed in this Attachment or in the Policy, at more favorable conditions, on a permanent basis, this attachment and the Policy shall be amended accordingly to include these new trading venues/ investment intermediaries respectively. Review of available trading venues shall be made at least once a year in accordance with the Control and Review Procedure set forth in the Policy.

After signing a contract for reception and transmission of orders, and upon request by the client, the Bank shall accept orders for transactions in shares, Exchange Traded Funds (ETFs) and corporate bonds traded on international financial markets and transmit them for execution to a licensed investment intermediary Canaccord Genuity Group Inc. (Canaccord).

### ***3.2. Trading venues on which the Bank places significant reliance upon the conclusion of securities financing transactions (SFTs)***

Currently the Bank is not concluding transactions with professional clients for securities financing transaction. If it starts providing such service, the Bank will duly amend this Appendix and the Policy.

### ***3.3. Trading venues on which the Bank places significant reliance for the execution of orders in the provision of portfolio management services***

Currently the Bank is not providing portfolio management services on a permanent basis. If it starts providing such services, the Bank will duly amend this Appendix and the Policy.

### ***4. Information regarding factors used when selecting and reviewing the execution venues and the relative importance of each factor according to Article 66, para. 3, letter (c) of Delegated Regulation 2017/565***

In selecting the trading venues where the Bank shall perform client orders, it shall rely on such venues where it is able to obtain the best result for the client while taking into account the best execution factors and criteria for determining the relative importance of such factors as set out in paragraph 2.1. above.

The Bank shall rely on different trading venues depending on the specifics of financial instruments offered and the specific client instructions - regulated market, MTF, OTF, systematic internaliser, market maker or other liquidity providers. The choice of specific place of execution of the client order, to the extent that its selection depends on the Bank's discretion, shall be based on an analysis carried out by the Bank and identifying the trading venues where it can obtain the best overall result for the client. When making the selection, qualitative criteria shall be taken into account, namely:

- Price
- Liquidity
- Execution costs
- Clearing schemes
- Mechanisms for suspension or limitation of trade (circuit breakers)
- Actions in accordance with a predefined schedule

The Bank shall assess, on an ongoing basis, to what extent the trading venues, the Bank is relying on, ensure the best possible result for the client and whether changes need to be made to the selected

execution venues. When making such assessment the Bank shall take into account information on the quality of performance published by trading venues in accordance with Commission Delegated Regulation (EU) 2017/575 of 8 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards concerning the data to be published by execution venues ("Delegated Regulation 2017/575") and by the investment intermediaries, in accordance with the Delegated Regulation 2017/576 Commission of 8 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the annual publication by investment firms of information on the identity of execution venues and on the quality of execution ("Delegated Regulation 2017/576").

***5. Information on investment intermediaries on which the Bank places significant reliance in the transmission for execution or placement of orders of retail and professional clients, as well as of professional clients in case of SFTs pursuant to Article 65, para. 5 in relation to Article 66, para. 3, letter (b) of Delegated Regulation 2017/565***

***5.1. Investment intermediaries to which the Bank places significant reliance upon transmission of orders for execution of retail and professional clients***

Upon provision of reception and transmission services for the execution of orders of retail and professional clients, the Bank shall transmit all orders for transactions with shares, exchange traded funds (ETFs) and corporate bonds traded on international financial markets, to a licensed investment intermediary, Canaccord Genuity Group Inc. (Canaccord). Canaccord has mechanisms, rules and procedures ensuring the Bank's compliance with its obligation to act in the best interest of the client when transmitting client orders for execution.

However, when other investment intermediaries can offer better conditions on a permanent basis, the Bank shall carry out a careful and objective comparison to assess whether there is a need to make amendments to this Appendix and the Policy.

***5.2. Investment intermediaries on which the Bank places significant reliance upon transmission for execution of orders of professional clients in case of SFTs***

Currently, the Bank is not providing any services for reception and transmission for execution of orders by professional clients for securities financing transactions. If it starts providing such services, the Bank will duly amend this Appendix and the Policy.

***5.3. Investment intermediaries on which the Bank places significant reliance when placing orders of retail and professional clients for the provision of portfolio management services***

Currently, the Bank is not actively providing any portfolio management services. If it starts providing such services, the Bank will duly amend this Appendix and the Policy.

***6. Description of measures ensuring the consistent achievement of the best result when accepting client orders and transmitting them for execution by another investment intermediary, in accordance with Article 65, para. 5 of Delegated Regulation 2017/565***



When selecting an investment intermediary to whom to transmit client orders for execution, the Bank shall make a careful assessment of the intermediary in question, the market conditions whereby it carries out its business, and will monitor whether the intermediary implements an order execution policy ensuring the best performance for the clients.

The Bank shall assess, on an ongoing basis, to what extent the investment intermediaries to whom the Bank is relying ensure the best possible result for the client and whether it is necessary to make any changes of the investment intermediaries so selected. During this assessment the Bank shall take into account the information on the quality of performance published by the trading venues in accordance with Delegated Regulation 2017/575 and by the investment intermediaries in accordance with Delegated Regulation 2017/576.

#### ***7. Information on the execution of orders outside a trading venue under Article 66, para. 3, letter (e) of Delegated Regulation 2017/565***

The Bank shall execute, outside a trading venue, the client orders for transactions in currency, interest, commodity and other OTC derivatives.

In these transactions, the purchase or sale of financial instruments is carried out outside the organized trading venues (regulated market, multilateral trading facility and organized trading facility) based on a contract between the Bank and the client, whereby the specific derivative is also manufactured. Derivatives are related to specifics, such as the relatively weaker regulation of the OTC market compared to trading venues, especially with regard to ensuring a fair trading price (to the extent that such price is not formed at a trading venue), and the lack of regulatory measures guaranteeing settlement in all cases (e.g. clearing schemes) exposing the client to a larger risk associated with the counterparty.

In order to find a solution to these shortcomings for its clients, the Bank shall adopt, in accordance with its internal rules, a methodology for determining and controlling the price of products traded outside a trading venue (see paragraph 2.2 above).

Upon request by a client, the Bank shall provide additional information about the consequences of the execution of client orders outside a trading venue.

#### ***8. Warning regarding the provision of special instructions by clients in accordance with Article 66, para. 3, letter (f) of Delegated Regulation 2017/565***

If during the provision of investment services relating to reception, transmission or execution of orders, trading on own account and/or portfolio management, the Bank has received a specific instruction from the client, it shall be deemed that the Bank has acted in the client's best interest while following such specific instructions in respect of the elements covered by such instruction. As regards the execution-related elements not covered by the instruction, the Bank shall apply the Policy.

**The Bank's clients shall bear in mind that any specific instructions they may give may prevent the Bank from taking the measures provided for in the Policy to obtain the best possible results in the execution of those orders.**

**The clients shall carefully consider whether to give any specific instructions to the Bank or let the Bank take action in accordance with the Policy.**

By signing an individual contract for provision by the Bank of investment and/or ancillary services and activities relating to the provision of order-based services, the client shall declare of being aware of consequences of providing specific instructions.

***9. Summary of the selection processes for execution venues, monitoring and review of the execution process in accordance with Article 66, para. 3, letter (g) of Delegated Regulation 2017/565***

***9.1. Summary of the selection process for execution venues, monitoring and review during execution of client orders and trading on own account where the Bank is a counterparty to the client***

In selecting the execution venues, the Bank shall be guided by the interest of its clients for consistently achieving the most favorable execution of orders submitted. In order to obtain a cost-effective, secure and reliable performance, the Bank shall take into account both market (for example, the trading venue's access to the instrument traded, transaction costs and liquidity) and quality features of the execution venue (for example, the access to clearing schemes and other trading and execution arrangement schemes).

This choice made in the Policy is subject to an ongoing monitoring within the program for monitoring of compliance with the statutory obligations of the Bank as an investment intermediary drawn up by the Internal Control of Investment Activities Section. Where within the ongoing monitoring omissions in the Policy have been identified that prevent the Bank from achieving the best results for its clients, measures shall be taken, on a regular basis, to remedy the weaknesses so identified.

The Bank shall assess, at least once a year, whether the execution venues included in the Policy provide the best possible result for the client and whether changes in its execution measures are required, while taking into account, inter alia, the information on the quality of execution published in accordance with Delegated Regulation 2017/576 and Delegated Regulation 2017/575. The Bank shall review the Policy also upon any major change affecting its ability to continue to consistently obtain the best possible results in executing the orders of its clients while using the execution venues included in the Policy, to which it will transmit its client orders for execution. The Bank shall assume that there is a major change upon occurrence of an important event which may affect the best execution parameters such as costs, price, speed, likelihood of execution and settlement, size, nature, and any other consideration relevant to the order execution.

***9.2. Summary of the process of selection of investment intermediaries, monitoring and review of the transmission of client orders for execution***

When selecting an investment intermediary to whom to transmit its clients' orders for execution, the Bank shall carefully assess the intermediary in question, the market conditions in which it operates and shall monitor whether the intermediary implements an order execution policy ensuring the best execution for clients.

Together with the choice of execution venues, the Bank shall also review the choice of investment intermediaries in accordance with the procedure described in item 9.1. above, and if any deficiencies in the policy were found that prevent the Bank from obtaining the best results for its clients on a regular basis, steps shall be taken to remedy the deficiencies so identified.



**10. Information relating to the application of different fees depending on the execution venue according to Article 66, para. 4 of Delegated Regulation 2017/565**

The Bank shall apply a standardized approach when determining the amount of fees and commissions for each individual type of financial instrument for which it provides services relating to reception, transmission and execution of orders. These fees and commissions shall also include the fees and commissions payable to trading venues as set out in the Policy and in item 3.1. of this Appendix t (e.g. BSE), for conclusion of the relevant transactions, payable to depository institutions or sub-depositaries (e.g. for transactions concluded on BSE - "Central Depository" AD), fees and commissions for settlement of transactions concluded, as well as the expenses incurred by the Bank for its operations in relation to the relevant execution venue, reasonable amount of remuneration for services rendered by the Bank and, where applicable, the relevant commissions of investment intermediaries to whom the Bank is transmitting orders for execution relating to conclusion of transactions at different venues. Therefore, it may turn out that for different execution venues the Bank is charging different fees for provision of its own services. These different fees shall reflect the different costs payable for transactions in financial instruments and their settlement at the respective execution venues, as well as the different amounts of costs that the Bank shall incur in connection with its activities associated with those different trading venues.

The Bank shall not structure or charge its fees and commissions in a way that *improperly* discriminates between different execution venues and gives preference to certain execution venues over the others.

**11. Information when there is a choice between more than one execution venues, Article 66, para. 5 of Delegated Regulation 2017/565**

Where there is more than one competing execution venue for a financial instrument order (e.g. for transactions in Bulgarian government securities), the Bank shall take into account its own commissions and execution costs relating to such order at each of the trading venues, in order to evaluate and compare the results that could be obtained for the client upon execution of the order at each of those competing execution venues.

If the Bank offers to the client to choose an execution venue, it shall provide accurate, clear and non-misleading information in order to prevent the client from choosing one execution venue instead of another only based on the pricing policy applied by the Bank. In particular, the Bank shall provide the client not only with information about the costs of execution or transmission for execution of the order to competing execution venues, but also information about liquidity, speed and likelihood of settlement at the competing venues, as well as other details that are relevant for the choice of a particular execution venue by the client.

**12. Information about the incentives the Bank receives and charges in accordance with Article 66, para. 6 and para. 7 of Delegated Regulation 2017/565**

The Bank does not receive any incentives (benefits) from the execution venues it uses, nor does it charge any fees to any counterparties participating in the relevant transaction in financial instruments.

**13. Information on the timeframes in which the Bank will provide to clients, upon request, information about its policies and rules, as well as procedures for their review in compliance with Article 66, para. 8 of Delegated Regulation 2017/565**

If a client of the Bank has made a reasonable and proportionate written request for provision of information by the Bank with regard to its policies and rules related to services provided by the Bank for execution of client orders or services for receipt of client orders and their transmission for execution by another investment intermediary, as well as the procedure for their review, the Bank shall provide clear and accurate information, within a reasonable timeframe, proportionate to the volume and specificity of such request.

**14. Additional information about the retail investors in accordance with Article 66, para. 9 of Delegated Regulation 2017/565**

Retail clients of the Bank shall bear in mind that except in specific cases where the interest of the relevant retail clients requires otherwise, the Bank shall execute their orders for transactions in financial instruments or respectively transmit their execution orders from another investment intermediary while acting in their best interest and considering, in the first place, the total price that the respective retail client shall pay as a result of transactions in financial instruments concluded on its account. When considering the total price payable for the respective transaction in financial instruments concluded at the expense of the respective retail clients, the bank shall take into account the total amount of costs payable in connection with the conclusion and settlement of the relevant transaction in financial instruments, including the fees of the relevant execution venue for the conclusion of transactions in financial instruments, the settlement fees, as well as the fees and commissions payable to the Bank for services provided by it. Retail clients shall bear in mind that such fees and commissions shall be paid by them, where in certain cases the Bank may include all expenses for the conclusion of transactions in financial instruments at the respective trading venues, in its own commission for the respective service.

Clients can find the latest information on the quality of execution published in accordance with Delegated Regulation 2017/575, for each execution venue specified by the Bank in the Policy, as from the earlier of these two dates - their first publication by the trading venues or June 30, 2018, on the Bank's website, in the Financial Markets and Investments Section/Documents, by using the following link: <https://dskbank.bg/бизнес-клиенти/корпоративно-банкиране/финансови-пазари-и-инвестиции>.

The full version of the Policy can also be found on the above link.