

VP Bank (Luxembourg) SA · Valid from November 2018

MiFID II: Information and Principles



VP Bank (Luxembourg) SA is a bank domiciled in Luxembourg and is subject to authorisation and regulation by the Luxembourg Commission de Surveillance du Secteur Financier (CSSF), L-2991 Luxembourg, www.cssf.lu

Introduction

The European Union (EU) Markets in Financial Instruments Directive, in effect since November 2007 (hereinafter referred to as "MiFID"), underwent revision in response to evolving market structures, innovations on the financial markets and the financial crisis. The new version was adopted on 15 May 2014 (hereinafter referred to as "MiFID II"). The aim of this revision of the standardised legal framework for the provision of investment services and asset management activities by financial service providers is twofold: to enhance market transparency and, in particular, to improve investor protection. "MiFID II" is supplemented and clarified by various delegated acts and guidelines containing detailed provisions.

Object and content of this booklet

From 3 January 2018 the Banking Act and associated Grand-Ducal Regulation of Luxembourg require banks providing investment services and/or ancillary services to furnish their clients with detailed information on the new rules governing the services and products they offer. This booklet is designed to give you an overview of VP Bank (Luxembourg) SA (hereinafter referred to as "VP Bank") and the services it renders in connection with investment transactions.

This booklet does not claim to give a comprehensive account of all aspects of the investment business. Where necessary, we refer you to other documentation that VP Bank has already made available to you or which can be obtained from us free of charge. This booklet contains numerous technical terms and expressions. These are based on the terminology used in the legislation. Where appropriate, we have explained these terms in the footnotes or referred you to the relevant legislation.

We reserve the right to inform you of changes to the content of this booklet only when such changes are significant. If you would prefer a printed version, you can download one directly from the website or order one from your client advisor. The current version is available on our website at www.vpbank.com/lu_brochures_en

MiFID II: Information and Principles

General information

Information on VP Bank (Luxembourg) SA

VP Bank (Luxembourg) SA, 2, rue Edward Steichen, L-2540 Luxembourg, registered in the Luxembourg Commercial and Company Register (RCS) under the number RCS B29509, is a lending institution established under Luxembourg law and subject to supervision by the Luxembourg Commission de Surveillance du Secteur Financier (CSSF), with registered office at 283, route d'Arlon, L-1150 Luxembourg (website: www.cssf.lu). Further information on the organisation and structure of VP Bank can be found in the VP Bank Group annual report, which can be accessed on our website at report.vpbank.com and which you are welcome to download direct from there, or in the VP Bank General Terms and Conditions, which can likewise be found on our website at www.vpbank.com/lu_brochures_en. On request we will be happy to send both documents to you.

Language and means of communication

The language used in the business relationship between VP Bank and our clients is the correspondence language chosen by the client. As a rule, you can always communicate with VP Bank in German. At its sole discretion VP Bank may conduct communications with clients partly or entirely in other languages, in particular in English and French, and may also furnish clients with English-language documents. We will normally communicate with you by letter. Orders and notifications by telephone, fax, e-mail or VP Bank e-banking will be accepted only on the basis of a separate written agreement. If such an agreement exists and if you use one of these channels to communicate with us, we reserve the right to contact you in the same way.

Contractual terms and conditions of business

The rights and duties applicable to you and VP Bank in connection with the provision of investment services and/or ancillary services are governed by the contractual terms and conditions of business. In particular, the VP Bank General Terms and Conditions apply. This booklet merely provides supplementary information.

Safekeeping of financial instruments and deposits

With regard to the safekeeping of financial instruments VP Bank observes the statutory and regulatory requirements applicable to deposit business. The financial instruments and deposits booked to the client's accounts are held in safe custody directly or indirectly by a securities depository. Under agreements concluded with VP Bank, a depository may only exercise rights of lien, retention and

similar rights attaching to such financial instruments if these rights relate to claims arising from the acquisition, management and custody of those instruments.

As required by law, VP Bank is a member of the Luxembourg deposit guarantee scheme (Fonds de garantie des dépôts Luxembourg [FGDL], www.fgdl.lu/info@fgdl.lu) and of the Luxembourg investor compensation scheme (Système d'indemnisation des investisseurs Luxembourg [SIIL]).

Complaint management

VP Bank attaches great importance to the satisfaction of its clients and potential clients. Clients and potential clients may direct complaints directly to their client advisor or by e-mail to info.lu@vpbank.com

VP Bank will ensure that all complaints receive a response and are handled efficiently. To this end an independent complaint management body will check all complaints received and coordinate the response. VP Bank ensures that complaints receive a response and are resolved to the complainant's satisfaction within the time limit prescribed by law. In addition, VP Bank is always keen to identify any room for improvement suggested by the complaints received and to optimise its processes accordingly.

If the client is not satisfied with VP Bank's response to a complaint, the client can refer the complaint to the Luxembourg supervisory authority, the CSSF (cf. www.cssf.lu/en/consumer/complaints) or else initiate the relevant action under civil law or enforcement law. Further details of the CSSF's extrajudicial complaint resolution procedures are published on the VP Bank website at www.vpbank.com/lu_complaint_management

Client classification

Classification by VP Bank

Under the Luxembourg Banking Act, banks are obliged to classify their clients according to precisely defined legal criteria into three categories: "non-professional clients", "professional clients" and "eligible counterparties". Under the provisions governing these groups, the duty of information and the code of conduct apply to differing degrees and there are different rules governing provision of advice and execution of securities transactions. The general principle is to afford the client the highest possible level of protection. The classification is normally based on an evaluation of the overall client/business relationship and is thus general in character. VP Bank does not offer multiple classifications differentiated according to particular types of financial instrument or individual services.

All new clients will be informed of their classification. Existing clients will be informed only if their existing classification changes.

Non-professional client

VP Bank will classify you as a non-professional client (often referred to also as a “private investor”) if we are certain that you do not count as either a professional client or an eligible counterparty.

According to the legal definition, the non-professional category goes beyond natural persons and includes small and medium-sized businesses, regardless of their legal form.

Non-professional clients are afforded the highest possible level of protection, i.e. all the statutory investor protection provisions apply to them in full.

In particular, notification duties, the obligation to obtain best execution for the client and the duty to provide information on client order processing are applicable without restriction.

Professional client

In order to classify you or your company as a professional client, the criteria set out in the Luxembourg Banking Act must be met.

Professional investors are clients who possess the experience, knowledge and expertise to make their own investment decisions and properly assess and assume the associated risks. Professional clients are treated as such in relation to all financial instruments, investment services and ancillary services.

The following clients are defined as professional clients:

1. companies subject to authorisation or prudential supervision, as follows:
 - a) investment service providers, especially credit institutions and securities firms;
 - b) other authorised or regulated financial institutions;
 - c) insurance and reinsurance companies;
 - d) undertakings for collective investment and their management companies;
 - e) pension funds and their management companies;
 - f) stock exchange traders and commodity derivatives dealers;
 - g) other institutional investors whose primary activities are not covered by items a) to f) above and which are subject to authorisation or prudential supervision at home or abroad in order to engage in activities on the financial markets;
2. companies subject to authorisation or prudential supervision not covered by point 1. above which meet or exceed at least two of the following three criteria:

- total assets of EUR 20 million;
- sales or net turnover of EUR 40 million;
- equity capital of EUR 2 million;

3. national and regional (federal, state, district, municipal) governments, public bodies that manage public debt at national or regional level;
4. central banks, international and supranational institutions such as the World Bank, the International Monetary Fund, the European Central Bank, the European Investment Bank and other comparable international organisations;
5. other institutional investors subject to authorisation or prudential supervision not covered by point 1. above whose primary activities consist in investing in financial instruments, and institutions which engage in the securitisation of assets and other financial transactions.

The level of protection for professional clients is lower than that for non-professional clients.

Eligible counterparty

Under the provisions of the Luxembourg Banking Act, the “eligible counterparty” category is chiefly reserved for legal entities subject to authorisation or supervision, large companies, governments, central banks and international or supranational organisations.

These clients have the lowest level of protection. In the case of eligible counterparties, the law again allows us to assume that those acting on their behalf have sufficient experience, knowledge and expertise to make investment decisions and to adequately assess the risks involved. We do not provide investment advice and asset management services for such clients. If a client classified as an eligible counterparty nevertheless wishes to receive such services, we treat that client as a professional client.

Reclassification

Clients may at any time apply to VP Bank in writing for a change of classification (upgrade) from “non-professional client” to “professional client” status. It should, however, be noted that a change of classification entails a change in the level of protection afforded to you by law. Moreover, VP Bank can agree to such an upgrade only if at least two of the following criteria stipulated in the Luxembourg Banking Act are met:

- In the preceding four quarters you have carried out an average of 10 transactions of significant volume per quarter on the relevant market.
- You have liquid assets and financial instruments amounting to the equivalent of EUR 500,000 or more.
- You have at least one year’s experience in a professional position in the financial sector requiring knowledge of the envisaged transactions or services.

However, VP Bank may at its discretion reject an application for reclassification even if the above criteria are fulfilled.

In addition, clients may at any time apply to VP Bank in writing for a reclassification from “professional client” to “non-professional client” status.

Your client advisor will be happy to advise you on the precise procedure and effects of reclassification. These will be agreed with you in writing.

It is your responsibility to inform VP Bank of any changes which might affect your classification. If we ascertain that you no longer meet the criteria for the client category in which you have been classified, we are required to make an adjustment of our own accord. In this case we shall inform you immediately.

Information on the financial instruments and investment services offered by VP Bank

Financial instruments

Trading in financial instruments¹ involves financial risks. These risks can differ greatly depending on the financial instrument involved. The legislation makes a basic distinction between “non-complex financial instruments”² and “complex financial instruments”. Information on the types of financial instrument that are available and the risks they involve is given in our “Opportunities and risks inherent in securities transactions” brochure available via the link www.vpbank.com/lu_brochures_en

Investment services and ancillary services

We can provide you with all types of investment services and ancillary services³, especially those involving the sale, purchase and custody of financial instruments. VP Bank conducts buy and sell transactions either on an execution-only or no-advice basis or in the context of investment advice or asset management (also known as portfolio management) services.

Execution-only or no-advice transactions

Buy and sell transactions undertaken at your request are carried out on an execution-only basis. If you are classified as a non-professional client or private investor, whenever we execute a transaction in complex financial instruments we check whether the financial instrument concerned is appropriate to your knowledge and experience. In the event that the client’s knowledge or experience is found to be inadequate, we will send a warning to the client before

final execution of the transaction on the market and will execute it only if clearly instructed to do so.

If you have granted a third party authority to instruct and execute such transactions, VP Bank will comply with the instructions of that third party without further evaluation of the client’s knowledge and experience.

In all cases “execution only” purchases and sales are carried out at your own risk.

Investment counselling and asset management

At your request, we provide you with investment advice or asset management services. “Investment advice” means giving the client a personal recommendation relating to one or more financial instruments. The buy or sell decision remains with the client. We define “asset management” as the management of financial instruments (either individually or as a portfolio) for an individual client on the basis of an investment strategy agreed between the client and VP Bank. Under an asset management agreement, the client delegates the decisions on individual investments to VP Bank. We accept an investment advisory or asset management mandate only on the basis of a separate written agreement.

One of the obligations of an investment firm that provides investment consulting is to inform its clients whether it gives advice in an independent capacity or not. VP Bank provides investment consultancy in the form of non-independent advice.

This means that VP Bank is entitled to receive financial inducements from its distribution partners in connection with its investment counselling. More detailed information can be found in the General Terms and Conditions.

In order to ensure that the investment advice we give meets the client’s needs, when defining the investment universe VP Bank considers financial instruments provided by third parties as well as those provided by VP Bank and associated or affiliated companies (hereinafter referred to as “own financial instruments”). If a third-party financial instrument and one of our own financial instruments are equally suitable, we may give preference to our own.

Before offering investment advice or asset management services, we are obliged by law to obtain various information unless it is already in our possession. This information includes - where relevant - the following:

- your knowledge and experience of the investment business; in particular, information on the type of services, transactions and financial instruments with which you are familiar and the type, volume and frequency of the

¹ For the term “financial instrument”, see the Luxembourg Banking Act.

² For the term “non-complex financial instrument”, see the Luxembourg Banking Act.

³ For the term “investment services”, see the Luxembourg Banking Act.

transactions in financial instruments that you have carried out, plus information on your education and profession or previous professional activity;

- your investment objectives; in particular, the aim of your planned investments, your investment time horizon, your risk tolerance and your risk profile;
- your financial circumstances; in particular, the provenance and amount of your regular income and regular financial commitments, your total assets including liquid assets and real estate, and your loss-bearing capacity.

Only on the strength of this information are we able to recommend suitable transactions in financial instruments or to execute such transactions on your behalf under an asset management agreement. In our view, suitable services and financial instruments are those (and only those) that

- are in keeping with your investment objectives;
- involve a level of investment risk that you can bear financially;
- involve only risks that you are able to understand on the basis of your knowledge and experience (suitability test).

If you have been classified as a professional client, we assume that you have the requisite knowledge and experience.

When evaluating the knowledge and experience of legal entities or if a power of attorney has been granted, we base our assessment on the person dealing with us. Where (for a legal entity) there are multiple authorised signatories or individuals with a power of attorney, we base our assessment on the person with the least knowledge and experience. If the authorised person only has joint signing authority, all the other persons involved must have the requisite knowledge and experience. When evaluating financial circumstances and investment objectives, our assessment is based on the account holder. For accounts with two or more account holders, it is based on the financial circumstances of the financially weaker/weakest account holder. The assessment of the investment objectives must be based on the account holder with the lowest expected return and the lowest risk capacity and risk tolerance. In making our assessment, we rely on the information you provide and assume that such information is accurate. Should you fail to provide us with the information we request or if the information provided is insufficient, we are prohibited by law from providing you with recommendations.

After receiving investment advice from VP Bank but in principle before we carry out any transaction on your behalf, as a non-professional client you are issued with a statement which outlines the investment recommendations we have made to you and gives information on how these are suitable for you (hereinafter referred to as "statement of suitability"). If you agree to buy a financial

instrument by telephone, fax, e-mail or VP Bank e-banking, thereby preventing us from issuing this written statement of suitability to you beforehand, we can furnish you with it immediately after closing the transaction on condition that you have consented to such retroactive handover of the statement and that we have given you the option of deferring the transaction so as to allow you to receive the statement beforehand.

Report mailing frequency with asset management mandates

Clients who have signed an asset management mandate with VP Bank will receive an annual management report as at 31 December.

Benchmarks

For all portfolios for which VP Bank has accepted an asset management mandate it has defined an appropriate and informative benchmark index.

At the client's request the performance report will include not just the change in value of the client's portfolio but also the performance of the corresponding benchmark. Such a request should be made to the advisor, who will conclude the relevant agreement with the client. It is only possible to agree on the benchmarks adopted by VP Bank. By contrast, it is not possible to agree on an individually selected benchmark. On request the advisor will inform the client of the indices which VP Bank has adopted for the individual investment guidelines. VP Bank reserves the right to change its benchmarks in future.

Statements of suitability

In addition, as part of our investment proposal process we will provide you once a year with an overall evaluation in writing of the suitability of the investments held in your portfolio on VP Bank's recommendation, providing you have concluded a written agreement with VP Bank to receive such an evaluation. These statements are generally issued in hard copy. At VP Bank's discretion they may also be provided in electronic format, although only if you have given VP Bank an e-mail address for the purposes of executing the relevant transaction or receiving the service.

Recording of telephone conversations and electronic communications

Telephone calls and electronic communications between VP Bank and clients which lead or may lead to transactions must by law be recorded. Copies of the recordings of telephone calls and electronic communications involving you as the client are available to you on request for a period of at least five years.

Target market test

Every provider of a financial instrument is obliged to define a target market. By stipulating a target market the issuer provides a general definition of the types of client for which an instrument is suitable. VP Bank obtains the target market information from an external provider. If no target market is available from this provider, where VP Bank renders an advisory or portfolio management service the target market must be defined by VP Bank itself. VP Bank now has a duty to clarify whether a particular financial instrument is suitable for the client as per the information given by the provider. The target market test compares the target market of the financial instrument with the information supplied by the client on his or her knowledge and experience, investment objectives and financial circumstances. The result indicates whether the recommended financial instrument is suitable for that particular client.

Principles governing execution of orders

We provide all investment services and ancillary services in an honest, fair and professional manner and in the best interests of our clients. We take all adequate measures to achieve the best possible execution of clients' orders ("best execution") whenever we execute an order ourselves or instruct a broker to execute it, taking appropriate account of the various types of client with whom we deal. We have summarised the principles according to which we execute clients' orders under the heading "Best execution policy". In addition, for each type of financial instrument VP Bank compiles a list of the five top trading exchanges (based on trading volume) together with information on the level of execution quality they achieve. This is published online at www.vpbank.com/mifidII_en

Information on charges and subsidiary costs**Ex ante disclosure**

VP Bank has a duty to disclose the charges and subsidiary costs of investment services and ancillary services to you in advance (ex ante disclosure). For services provided under investment advisory and asset management mandates and in certain cases involving execution-only and no-advice business, VP Bank will also disclose the production costs (i.e. the costs of designing and administering the financial instruments concerned) to you ex ante.

The costs are disclosed on the basis of estimates. In the case of asset management mandates costs are estimated and disclosed on the basis of the investment strategy and the corresponding historical portfolio data. The costs involved in execution-only and no-advice business and for investment advisory mandates will be disclosed to you by VP Bank on a transaction-specific basis. If certain condi-

tions are fulfilled, and in particular if the client is classified as a professional client, such disclosure may be done in a standardised manner. If you have authorised an external asset manager (EAM) to place trading orders with us, product costs will be disclosed to the EAM in a standardised manner. The charges and subsidiary costs of the investment services and ancillary services provided by VP Bank are detailed in the booklet "Fees and rates for investments".

Ex post disclosure

In every case the service charges actually levied will be disclosed by VP Bank ex post (afterwards) as frequently as specified under the heading "Client statements and reporting". If VP Bank has already disclosed the product costs ex ante, the client will equally frequently be informed of the product costs that actually arise. Ex post cost statements may vary from ex ante cost estimates. When issuing ex post cost statements VP Bank is also reliant on data furnished by product providers and information suppliers which may well apply different statement cut-off dates, different prices (e.g. middle price or closing price on a particular day) or, in the case of foreign currencies, different exchange rates and times.

Furthermore, the financial inducements received or paid in connection with services or products relating to the client's assets will be estimated ex ante and subsequently stated ex post based on the actual amounts received and paid.

Handling conflicts of interest

We have taken an array of measures to pre-empt potential conflicts between your interests and the interests of VP Bank, our employees or other clients. We have summarised these measures for you under the heading "Conflicts of interest policy".

Client statements and reporting**Execution-only, no-advice business and investment consulting**

Shortly after (i.e. normally on the business day following) execution of a securities transaction on your behalf we shall send you the corresponding settlement advice (transaction statement). Prior to executing your order, we shall not inform you of its execution status unless you have expressly requested us to do so. Periodically (normally at the end of each calendar quarter) we shall send you an itemised statement of the financial instruments held in your account (statement of assets), unless such a summary has already been sent to you as part of another periodic statement. These arrangements are subject to any special agreement to the contrary.

Asset management

If you have entered into an asset management mandate with us, you have the option of receiving a transaction statement immediately after each securities transaction we execute on your behalf. In this case we will also send you a report on the asset management services we have performed for you (hereinafter referred to as “asset management report”), normally once a year after the end of the respective calendar year. Otherwise we will send you an asset management report every three months (normally after the end of a calendar month) or, in the case of credit-financed asset portfolios, every month (after the end of the respective month). If you are classified as a non-professional client, this report will also contain a statement of how our asset management activities have been geared to your preferences, objectives and other characteristics.

Format

These transaction statements, statements of assets and asset management reports are generally issued in hard copy. At VP Bank’s discretion they may also be provided in electronic format, on condition that you have signed an agreement to that effect.

Loss threshold reporting

Where you have entered into an asset management mandate, we shall inform you if the total value of your portfolio falls by 10% relative to the last asset management report and again each time a further 10% decrease in value occurs. Such notification will be made no later than at the end of the business day on which the relevant threshold is breached. If that day is a non-business day, the notification will be made at the end of the next business day. If you are classified as a non-professional client and your portfolio contains credit-financed instruments or transactions involving contingent liabilities, you will be notified of a decrease in value if the initial value of such a financial instrument falls by 10% and again each time a further 10% decrease occurs. Such notification will be made no later than at the end of the business day on which the relevant threshold is breached. If that day is a non-business day, the notification will be made at the end of the next business day. Loss notifications will be made on an individual instrument basis.

Conflicts of interest policy

Identifying conflicts of interest

The provision of banking services may give rise to conflicts of interest. Conflicts of interest can occur between VP Bank and the clients, between one client and another, or in the relationships between VP Bank, its governing officers, employees and clients. Conflicts of interest between VP Bank and its subsidiaries and other financial services companies are also possible.

Conflicts of interest of potential detriment to the client can in particular arise if VP Bank, a governing officer or employee of VP Bank or a person who directly or indirectly exerts a controlling influence on VP Bank (hereinafter referred to as “relevant persons”) is in one of the following situations:

- VP Bank or a relevant person obtains a financial advantage or avoids a financial loss at the client’s expense.
- VP Bank or a relevant person has an interest in the outcome of a service provided to the client or of a transaction effected on the client’s behalf which is not compatible with the client’s own interest.
- There is a financial or other incentive for VP Bank or a relevant person to favour the interests of another client or client group over those of the client.
- VP Bank or a relevant person is competing for the same business as the client.
- VP Bank or a relevant person is currently or will in future be in receipt of an incentive in the form of pecuniary advantages or services from a person who is not identical with the client in respect of a service rendered for the client, such incentive being in addition to the normal fee or commission for that service.

We regard it as our paramount task to safeguard the interests of our clients in the best possible way. However, differences in clients’ requirements and the diversity of VP Bank’s product range mean that conflicts of interest cannot always be avoided. We have therefore established rules for dealing with possible conflicts of interest in order to preclude their occurrence. Furthermore, the applicable regulatory regime requires us to execute client orders in strict adherence to a best execution policy. Compliance with this requirement is monitored by an internal unit of VP Bank, which intervenes immediately if it identifies any case of non-compliance.

Avoiding conflicts of interest

To ensure that investment consulting, asset management and execution-only services and no-advice business are carried out in the best interests of our clients and that, wherever possible, conflicts of interest are avoided, we have taken an array of internal measures.

Chinese walls and blocking information flows

VP Bank has effective internal procedures which prevent or control the exchange of information between relevant persons whose activities could give rise to a conflict of interest if such exchanges of information might be detrimental to the interests of one or more clients (Chinese walls).

Special monitoring of certain individuals

VP Bank carries out 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 VP Bank.

Removing financial incentives

VP Bank ensures there is no direct link between the remuneration received by relevant persons and their activities on the client's behalf that could give rise to conflicts of interest.

VP Bank reserves the right, within the bounds of the applicable legal provisions, to pay inducements to third parties for the acquisition of clients and/or the provision of services. Such inducements are normally calculated on the basis of the commissions, fees, etc., charged to the client and/or the volume of assets placed with VP Bank. VP Bank will disclose the amounts of inducements paid for the provision of a particular service. On request VP Bank will at any time disclose further particulars of agreements made with third parties in this regard. The client hereby expressly waives any right to demand more extensive information from VP Bank.

Where VP Bank provides independent investment consulting or asset management, it will not accept financial inducements from third parties. The client duly notes and accepts that, in connection with the provision of independent investment consulting and the execution of orders involving financial instruments (execution-only, no-advice business), VP Bank is entitled to receive and retain financial inducements to the extent that these improve the quality of client service and do not give rise to conflicts of interest.

The financial inducements received may include those paid by third parties (including Group companies) in connection with the acquisition/distribution of collective capital investments, certificates, notes, etc. (hereinafter referred to as "products"; these include products managed and/or issued by a Group company), in the form of volume discounts and finder's fees (e.g. from issue and redemption commissions). The size of such remunerations varies according to the product and the provider. Volume commissions are usually calculated on the basis of the volume of a product or product group held by VP Bank.

The amount of such discounts usually corresponds to a percentage of the management fees charged for the product in question and is credited periodically throughout the holding period. Finder's fees are one-off payments amounting to a percentage of the issue and/or redemption price concerned. Additionally, sales fees may also be paid by issuers of securities in the form of discounts on the issue price or one-off payments equivalent to a percentage of the issue price.

Avoidance of inappropriate influences

VP Bank avoids inappropriate influences by means of

- measures which prevent or restrict relevant persons from exerting any inappropriate influence on how services are provided;
- exclusion from certain activities (e.g. certain staff transactions);
- measures which prevent relevant persons from being involved in the provision of the service at the time or immediately afterwards, where such involvement might hinder the proper management of conflicts of interest.

Separation of functions

VP Bank ensures the separation of functions by strictly separating the duties of our asset management, investment consulting, trading and processing departments. Exceptions are possible within the limits laid down by law; for example, staff in the investment consulting department can arrange for certain types of financial instrument to be issued directly through third parties on the client's behalf.

Internal directives

VP Bank has its own internal directives and regulations, including those governing the policy on gifts and rewards in favour of employees.

Investment selection process

Under an asset management mandate, the client delegates responsibility to VP Bank for managing the assets and hence also for taking decisions to buy and sell financial instruments. This means that, within the framework of the investment objective agreed with the client, we take buy and sell decisions without obtaining the client's consent each time (subject to any specific arrangement to the contrary). This arrangement may compound any existing conflict of interest. We counter the resultant risks by means of appropriate organisational measures and in particular by operating an investment selection process that is geared to the client's interests.

Disclosure of unavoidable conflicts of interest

It may occasionally happen that the above measures to prevent conflicts of interest from occurring are not enough to guarantee with sufficient certainty that your interests will not be adversely affected. In such cases we shall inform you promptly of the general types and sources of conflicts of interest and of the measures taken to mitigate the risk of your interests being adversely affected.

Best execution policy

The principles set out below apply to the execution of orders placed by a client for the purpose of buying or selling securities or other financial instruments (e.g. options). "Execution" means that we conclude the relevant transaction with another party on a suitable market in accordance with the client's order and for the client's account (commission transaction). Where the client concludes an agreement directly with us to purchase financial instruments at a fixed or determinable price (fixed-price transaction), the following principles apply only in part (see "Fixed-price transactions").

The best execution policy does not apply to the issue of units of non-exchange-traded investment funds at the offering price or their redemption at the redemption price through the fund's custodian bank or to primary market transactions. The following best execution policy also applies if we buy or sell financial instruments for the client's account in performance of our duties under an asset management agreement concluded with the client.

If the client requires further information on our execution strategies and provisions and on our monitoring procedures, we will be happy to provide it within a reasonable delay.

Execution criteria

Client orders may normally be executed through various channels and execution venues. We execute client orders via the channels and venues which in normal circumstances consistently offer the prospect of best execution in the client's interests.

We take the following execution criteria into account: price, costs, speed, probability of execution and settlement, order size, type of order, and all other factors of relevance to order execution (e.g. market conditions, security of settlement), paying due attention to the characteristics of the client, order and financial instrument concerned.

In the case of less liquid financial instruments, only one trading price may be available. In this case VP Bank will accept the first price offered without waiting for others.

When selecting specific execution venues VP Bank weights the aforementioned execution criteria using the following factors:

- the characteristics of the client and whether the client is classified as a private client or a professional client;
- the characteristics of the client order;
- the characteristics of the financial instruments that are the object of the order;
- the characteristics of the execution venues to which the order can be forwarded.

When executing orders for a private client we assume that the priority is to achieve the best possible overall price (price of the individual instrument and all execution-related costs), taking into account all costs directly associated with the transaction. Since securities prices generally fluctuate and thus may conceivably move to the client's disadvantage after an order has been placed, we tend to favour venues on which execution can be completed speedily and with a high level of probability. This corresponds to overweighting these criteria against the other criteria, such as order settlement, order type and all other factors of relevance to order execution.

Execution venues

Selection

As a rule, the client order will be placed and executed on the home market through VP Bank AG in line with the applicable best execution policy. Alternatively, an order may be executed on a different market, provided that the client's interests are served by equivalent market conditions, especially with regard to market liquidity and achievable price. In so doing the relevant legislation and exchange regulations are always observed.

A current list of the venues on which we regularly execute client orders can be found in the annex to this booklet and is also published on our website at www.vpbank.com/mifidII_en. This list is not exhaustive and is subject to change at any time.

Systematic internaliser (SI)

We reserve the right to execute client orders through what is known as a "systematic internaliser" (SI)⁴, providing this does not cause detriment to the client in comparison with other means of execution.

⁴ Another financial service company which regularly trades for its own account in an organised and systematic manner by executing client orders outside a regulated market or MTF (see footnote 5).

In the case of OTC forex derivatives VP Bank will act as an SI. These are treated as fixed-price transactions. For these transactions we refer to market data which are only very temporarily binding. Because of the market volatility and market liquidity of the OTC forex derivatives concerned, VP Bank will continuously adjust the price to current representative market prices (fair value). However, markups can arise and will be disclosed to the client accordingly.

Smart order routing

For order execution purposes VP Bank favours selected brokers which use smart order routing (SOR). These brokers have order handling procedures which enable VP Bank to adhere to its best execution policy.

Order execution outside a trading facility

With the client's consent, VP Bank normally executes client orders on a regulated market, via a multilateral trading facility (MTF)⁵, via an organised trading facility (OTF)⁶ or outside a trading facility (OTC)⁷. Transactions executed OTC always involve a degree of counterparty risk. For the client this risk can result in a loss – in the worst case, of the entire investment amount – if the counterparty is not able to fulfil its contractual obligations.

Market orders

With a market order the client sets no price limit. The order will be executed at the next available price. This type of order should only be selected for highly liquid securities.

Limit orders

To achieve the fastest possible execution, limit orders in equities and other financial instruments authorised for trading on a regulated market are forwarded to a regulated market (exchange), an MTF, an OTF or an SI, subject to notification of the order, so as to make the limit order available to other market participants. In the case of large orders VP Bank reserves the right to decide whether the order is to be notified or not.

Deviations from best execution policy

Execution instructions from the client

The client may give us express instructions on how the order is to be executed. Such instructions relate chiefly to the choice of trading facility. Client instructions of this kind free VP Bank from its duty to comply with the execu-

tion principles designed to ensure the best possible outcome. This means that best execution within the context of our best execution policy is no longer assured. However, VP Bank is under no obligation to comply with all express instructions issued by the client.

Special market situations

Exceptional market conditions or disruptions to technical systems may require VP Bank, in the best interests of the client, to deviate from the principles set out here. In this eventuality VP Bank will take all suitable measures to achieve best execution.

Consolidation of client orders

It frequently happens that multiple clients wish to buy or sell the same security on the same day. The general principle is to ensure the fair allocation of aggregated orders and transactions, including with regard to execution price and probability of execution.

In general, client orders are processed sequentially according to the time of their receipt. However, we reserve the right to execute multiple orders jointly, providing such consolidation of orders is not generally detrimental to the client with due regard to the execution price and the probability of execution, as per the best execution policy. Jointly executed multiple orders are allocated to individual clients proportionately according to the time stamp indicating when the individual order was received.

Fixed-price transactions

VP Bank does not execute client orders relating to fixed-price transactions in accordance with the principles set out above. The contractual agreement merely obliges us to deliver the purchased financial instruments to the client and to procure ownership of them for the client in return for payment of the agreed purchase price. This applies accordingly whenever VP Bank offers securities for subscription as part of a public or private offering or concludes contracts with clients pertaining to financial instruments that cannot be traded on an exchange (e.g. OTC forex derivatives). Prior to concluding a fixed-price transaction with the client VP Bank will refer to market data and conduct a comparison with similar or comparable products to verify that the prices offered to the client are appropriate. The list of execution venues (see annex) gives the conditions under which fixed-price transactions are offered on a regular basis.

⁵ A multilateral trading platform which brings together multiple parties that are interested in buying and selling financial instruments and enables them to do so on a non-discretionary basis by concluding contracts with each other.

⁶ A multilateral system which is neither an exchange (regulated market) or an MTF and which brings together multiple parties that are interested in buying and selling debt securities, structured financial products, issue certificates or derivatives within the system by concluding contracts with each other.

⁷ OTC stands for "over the counter" and refers to financial transactions between market participants that are carried out off-exchange.

Regular review

We review the execution policy underlying the principles set out above on a regular basis (at least once a year) to determine whether they still ensure the best execution of client orders. As part of this review we refer in particular to the information which the execution venues are required to publish each year. If the review indicates a need to modify the above principles, we do so. In the event of significant changes we inform our clients accordingly.

Annex: Execution venues of the Bank

Equity capital instruments, structured financial products, securitised derivatives, ETFs

(Preferred brokers: UBS Switzerland AG, Credit Suisse AG, Instinet Europe Limited, ICF Bank AG, RBI)

Country	Name	MIC
Switzerland		
Switzerland	SIX Swiss Exchange - blue chip segment	XVTX
Switzerland	SIX Swiss Exchange	XSWX
Switzerland	SIX Swiss Exchange - structured products	XQMH
Switzerland	BX Swiss	XBRN
Germany		
Germany	Xetra	XETR
Germany	Deutsche Börse	XFRA
Germany	Börse Frankfurt Zertifikate	XSCO
Germany	Börse Stuttgart	XSTU
Germany	EUWAX	EUWX
Germany	Börse Berlin	XBER
Germany	Börse Düsseldorf	XDUS
Germany	Hanseatic Wertpapierbörse Hamburg	XHAM
Germany	Niedersächsische Börse zu Hannover	XHAN
Germany	Börse München	XMUN
Rest of Europe		
Belgium	Euronext Brussels	XBRU
Denmark	Nasdaq Copenhagen A/S	XCSE
Finland	Nasdaq Helsinki	XHEL
France	Euronext Paris	XPAR
Greece	Athens Stock Exchange	XATH
United Kingdom	London Stock Exchange	XLON
Ireland	Irish Stock Exchange	XDUB
Italy	Borsa Italiana	XMIL
Luxembourg	Luxembourg Stock Exchange	XLUX
Netherlands	Euronext Amsterdam	XAMS
Norway	Oslo Børs	XOSL
Austria	Wiener Börse	XVIE
Portugal	Euronext Lisbon	XLIS
Sweden	Nasdaq Stockholm	XSTO
Spain	Bolsa de Madrid	XMAD
Spain	Mercado Continuo Español	XMCE
Eastern Europe		
Poland	Warsaw Stock Exchange	XWAR
Russia	Moscow Exchange (RUB settlement)	MISX
Russia	Moscow Exchange (USD settlement)	RTSX
Czech Republic	Prague Stock Exchange	XPRA
Hungary	Budapest Stock Exchange	XBUD

Country	Name	MIC
North America		
Canada	Toronto Stock Exchange	XTSE
Canada	TSX Venture Exchange	XTSX
USA	Nasdaq All Markets	XNAS
USA	Nasdaq/NMS (Global Market)	XNMS
USA	New York Stock Exchange	XNYS
USA	NYSE MKT	XASE
Asia/Pacific		
Australia	ASX All Markets	XASX
Hong Kong	Hong Kong Exchange	XHKH
Indonesia	Indonesia Stock Exchange (USD settlement)	XIDX
Japan	Tokyo Stock Exchange	XTKS
Malaysia	Bursa Malaysia (USD settlement)	XKLS
New Zealand	New Zealand Exchange	XNZE
Philippines	Philippine Stock Exchange (USD settlement)	XPHS
South Korea	Korea Exchange (USD settlement)	XKRX
Singapore	Singapore Exchange	XSES
Thailand	Stock Exchange of Thailand	XBKK
Africa, Middle East		
Israel	Tel Aviv Stock Exchange	XTAE
South Africa	Johannesburg Stock Exchange	XJSE

Futures/options

(Preferred broker: UBS Investment Bank AG)

Country	Name	MIC
Australia	ASX - Trade24	XSFE
Belgium	Euronext Brussels - derivatives	XBRD
Germany	Eurex Deutschland	XEUR
France	Euronext Paris Monep	XMON
United Kingdom	ICE Futures Europe	IFEU
United Kingdom	ICE Futures Europe - Financial Products Division	IFLL
United Kingdom	ICE Futures Europe	IFLO
United Kingdom	London Stock Exchange - Derivatives Market	XLOD
Hong Kong	Hong Kong Futures Exchange	XHKF
Hong Kong	Hong Kong Exchanges and Clearing	XHKG
Italy	Italian Derivatives Market	XDMI
Japan	Osaka Exchange	XOSE
Canada	The Montreal Exchange	XMOD
Netherlands	Euronext EQF, Equity and Index Derivatives	XEUE
Singapore	Singapore Exchange Derivatives Clearing Limited	XSIM

Country	Name	MIC
Spain	MEFF Financial Derivatives	XMRV
USA	Chicago Board of Trade	XCBT
USA	CBOE Futures Exchange	XCBF
USA	Chicago Mercantile Exchange	XCME
USA	Options Price Reporting Authority	OPRA
USA	NYSE Arca	ARCX
USA	ICE Futures U.S.	IFUS
USA	Commodities Exchange Center	XCEC

Bonds

Country	Name	MIC
CHF bonds	SIX Swiss Exchange	XSWX
FC bonds	ICMA	XCOR
Local bonds	Local securities exchanges	
OTC	OTC	

FX spot, FX forward, FX swap, FX options (fixed-price transactions)

VP Bank Ltd is a systematic internaliser.

A comprehensive list of the existing trading exchanges can be found via the following link:
www.iso20022.org/10383/iso-10383-market-identifier-codes

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