

Dealing with conflicts of interests at the Bank

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Baader Bank Aktiengesellschaft (referred to as the "Bank") lives from the trust placed by its clients, the general public and its own employees in its integrity, fairness and reliability and the quality of the services it provides. For this reason we appreciate your trust in the fact that the Bank handles sensitive information with due care. This trust largely depends on the conduct on the part of our managerial staff and our employees. As a client of the Bank, you can at all times rely on our employees to provide you with services using optimal expertise and the utmost care and conscientiousness while safeguarding your interests. To this end, the Bank has long imposed rigorous rules of conduct for the purposes of further consolidating our clients' trust in us and ensuring continuous observance of and compliance with the respective statutory and supervisory regulations. These rules of conduct form an integral element of our business operations, for which reason you can at any time expect of our employees that they act with the utmost care, honesty and professionalism while observing the applicable practices and market standards.

Our implementation of these rules of conduct in the provision of securities-related and ancillary services is consolidated by our principles on dealing with conflicts of interests. Conflicts of interests usually arise when a client places an order with us and his/her expectations of proper and due execution clash with the interests of other market participants using the services of the Bank. However, these differing expectations cannot be fully ruled out in view of the fact that we execute orders for a large number of clients and also seek to be of assistance to our clients in other banking services apart from the execution of orders. Since conflicts of interests could put the professionalism and reputation of the Bank in question, we have taken appropriate measures and precautions to ensure the identification of such circumstances in good time and thus be able to deal with them appropriately.

Conflicts of interest at the Bank

Conflicts of interest can arise between clients of the Bank and the Bank itself, other Group member companies, the personnel employed by the Bank including the Management Board or other external companies and persons contractually bound to the Bank or between clients of the Bank.

Further conflicts of interest can rise in particular from personal connections between Management Board members or employees of the Bank (as well as with persons associated with the same) with third parties, e.g. with issuers of financial instruments or with their employees (e.g. as clients of the Bank), for instance as result of having seats on supervisory boards.

Furthermore, conflicts of interests may arise if the Bank

- cooperates on issuances of the respective issuer of financial instruments and other investable assets,
 - is the lending or guarantor bank for the respective issuer of financial instruments,
 - has entered into cooperational arrangements with the respective issuer of financial instruments,
 - acts on the one hand as book-running broker/specialist or designated sponsor for a financial instrument and on the other a client order is to be executed for this financial instrument within the framework of institutional brokerage business or commission trade at the market place in question with or without the client's instruction,
 - acts as book-running broker/specialist or designated sponsor for the same financial instrument at several domestic market places,
- and in this respect receives commissions or other grants from the issuer.

This applies in particular in the case of liquidation of positions arising from this activity at other market places where the Bank is likewise acting as book-running broker or designated sponsor for the respective financial instruments,

- itself holds a portfolio of the financial instruments it is handling within the framework of its activity as book-running broker/specialist or designated sponsor,
- conducts – in connection with the compilation and publication of finan-

cial analyses – proprietary trading or if employees of the Bank privately conduct transactions in financial instruments,

- conducts stock exchange deals as portfolio manager for more than one client or investment fund, in particular in the allotment of global orders among individual clients.

Conflicts of interests can also arise as a result of

- information becoming known to the Bank or individual, relevant employees of ours which is not in the public domain at the time of a client's transaction (insider information),
- the Bank receives/grants benefits (e.g. placement or trail commissions, non-cash benefits, brokerage remuneration) from/to third parties in connection with securities-related services,
- employees of ours receive a performance-related remuneration,
- the Bank making/receiving payments to/from the respective issuer of financial instruments or trading partner/business partner (so-called kick-back regulation). We shall inform the client groups that are relevant as per the German Securities Trading Act (WpHG) in advance as to the type and magnitude of such kick-back payments.

It is irrelevant as to whether conflicts of interest have actually arisen or there is only a risk of this happening. Our regulations relate to both actual and potential conflicts of interest.

Internal measures for the recognition and prevention of conflicts of interest

The Management Board of the Bank has created a comprehensive compliance organization for far-reaching prevention and avoidance of such conflicts of interests. The Compliance department is permanently commissioned with the management of conflicts of interests; its employees work independently of the Bank's trading, business and handling departments, so they can go about their duties in a neutral and autonomous manner. The compliance organization in place at the Bank embraces the following preventive measures among others for protecting and safeguarding the interests of the Bank's clients:

- Ensuring the competence and reliability of employees
 Our employees are selected carefully. The qualification requirements are stipulated in job descriptions. The competence and reliability of departments with a special responsibility are ensured by annual expert testing. All Bank employees also receive regular training in specialised and, more specifically, compliance-related issues. Conduct in compliance-related issues is regulated in the working instructions, which are updated regularly.
- Reporting obligations
 - Employees are obligated to report immediately to Compliance on any circumstances which could lead to a conflict of interest, such as personal relationships with clients, insider information or unusual transactions. Insider transactions and price manipulation are strictly prohibited.
 - In addition, employees must report secondary activities – both voluntary and paid – immediately. Should a conflict of interest arise, which can't be avoided by internal measures, it shall be disclosed to clients or prohibited.
 - The employees of the Bank are obligated to report to Compliance accordingly in the event of receipt of benefits and the offering and acceptance of gifts. The working instructions provide employees with information on prohibited benefits. The Bank's employees are not permitted to participate in so-called "Friends and Family Programmes". Compliance checks whether or not benefits may be accepted, and whether client interests are safeguarded. As appropriate, Compliance accepts or rejects the benefits. In individual cases, the benefits are disclosed to clients. Authorised benefits are included in the Resources and Benefits Register.
- Controlling the flow of information

- Confidentiality areas have been set up which are partitioned off by what are known as “Chinese walls”. These are virtual or real barriers for limiting the flow of information between different spheres of activity and departments of the Bank. The confidentiality areas are separated off from the other areas and their information and reporting channels in functional and spatial terms and through the allocation of different EDP access authorizations. Each and every employee is strictly prohibited from passing on sensitive information from a confidentiality area to another of the Bank’s areas or to external recipients. Exceptions are only admissible if other departments/employees, complying to the need-to-know principle, have to be involved in the transaction, and must be reported to Compliance. This procedure ensures a targeted control and monitoring of insider information and precise knowledge as to the actions of the persons involved. These restrictions on information are employed to enable the Bank to conduct transactions in the interests of its clients without being influenced by other information possessed by the Bank in other departments which could lead to a conflict of interests.
- The employees are also obligated to maintain banking secrecy and to comply with data protection requirements. The data protection agent ensures that personal data is handled correctly.
- We keep watch lists, blacklists and approval lists in which those financial instruments can be recorded in connection with which conflicts of interests can arise. Transactions in financial instruments from the watch list or the approval list remain permissible as long as there is no conflict of interests with the respective employee transaction; this is monitored and checked centrally on a daily basis. Transactions in financial instruments from the blacklist are prohibited.
- We keep a directory of insiders, in which all relevant Bank employees having insider information are recorded (with point in time and the type of information). All transactions conducted by these employees are strictly controlled.
- Employee transactions
Employees are required to disclose all of their private securities transactions. In the event of several transactions, employees must obtain authorisation from Compliance before placing orders as part of an employee transaction; Without such authorisation, the private settlement of transactions in financial instruments is not permitted. The purchase of Bank treasury shares is published on the website by the Managers, and reported to BaFin.
- Compliance controls
 - All trading transactions carried out by ourselves (market making, designated sponsorship, client transactions, treasury, Executive Board, and above all transactions in financial instruments in which insider information is disclosed) or our employees are subject to ongoing controls via the Compliance department in order to identify insider trading, market manipulation or other violations of the supervisory law or internal working instructions. Audit procedures can be carried out in selected areas on a random basis. Any anomalies are looked into by Compliance. In particular the Bank’s proprietary trading transactions are examined to ascertain whether they were executed with knowledge of customer orders or whether customer information was exploited by means of front/parallel running or scalping. Violations are not tolerated by our Bank and can lead to disciplinary action.
 - The same team is responsible for managing the order books for both Berlin and Munich. Their market making activity is therefore daily and closely monitored by Compliance.
 - Compliance prepares a risk analysis every six months. Risk-oriented half-yearly or annual reviews or audits are carried out on this basis. This includes an annual inspection, by Compliance, of how conflicts of interest are managed.
 - When new products are introduced, they undergo a strict product approval process, which involves Compliance.
 - Compliance monitors regularly on a random basis the publication of advertising materials and other information to clients, and ensures that there is no misrepresentation therein.
 - The conformity of the prices in clients’ invoices with market conditions is checked daily.
 - Research studies, in particular with rating and/or upside target changes are only published subject to prior approval on the part of Compliance (check for conflicts of interest).
- Prevention of the preferential treatment of certain clients

Insofar executable despite limitations, the processing of customers’ orders takes place in the order in which they are received. The transactions are recorded in a timely manner. There is also a “Best Execution Policy”.

- Treasury
Proprietary transactions are usually restricted to long-term investments, and are monitored by Compliance on a daily basis.
- Remuneration
In-house guidelines determine that, in order to prevent any exercising of influence on the part of sales staff, variable remuneration based on sales success may not be paid to certain employees. Compliance monitors the organisation, structuring and implementation of the Bank’s remuneration system in order to eliminate conflicts of interest.
- Whistleblowing hotline
Employees may report any non-compliant conduct to the Whistleblowing department or Compliance. The information is handled confidentially.
- Complaints management
If clients are dissatisfied with the provision of services by the Bank, they have the right to make a complaint to their client advisor. Compliance documents and monitors the processing of complaints. Compliance resolves irregularities in the event of systematic errors.
- Reliability of Compliance
Compliance itself is audited annually by Internal Auditing and an external auditor.
- Responsibility of the Board
The Board is responsible for appropriate risk management and controlling within the company, and aims for good and sustainable corporate governance. Compliance reports twice yearly to the Full Board and the Supervisory Board on anomalies and the observance of and adherence to the prevailing regulations.

Conflicts of interest in relation to our subsidiaries

- Compliance is involved in the acquisition of new investments.
- Concluded business acquisitions are published on both our website and that of the Federal Institute, and in the annual report.
- The Management Board of the subsidiaries is largely independent. The subsidiaries are audited at least once a year by Compliance, pursuant to the regulatory obligations.

Avoidance of conflicts of interest when outsourcing investment services and ancillary investment services

- We work with external asset managers and advisors. In order to ensure that potential asset managers comply with the statutory requirements and internal regulations of the Bank, the latest audit reports are reviewed by Compliance, and a recommendation for the creation of a contractual relationship is submitted to the Board. In addition, asset managers are identified in accordance with the regulations on money laundering.
- Asset managers are also contractually obligated to provide contracts and other legal documents of the Bank to clients.
- Compliance also carries out an annual inspection of the reliability of the cooperation and distribution partners.
- Investment recommendations from our external advisors are checked for their compatibility with the statutory regulations and our investment guidelines.

Dealing with unavoidable conflicts of interest

If in individual and exceptional cases it is not possible to prevent conflicts of interests by means of the aforementioned division of duties or the compliance organisation we will then notify the customer in question of the respective conflict of interests. This is why the escalation process was developed. However, in this connection we draw your attention to the fact that the Bank is under no obligation to disclose significant interests of its own or of its employees insofar as our organisational measures are sufficient to prevent the risk of impairing customer interests. When executing customers’ orders we trade in accordance with our Best Execution policy or the customer’s specific instructions. Customers’ orders always have priority over the Bank’s proprietary trading and employee transactions.

The Bank does not provide investment advice, so no conflicts of interest can arise in this connection.

If you should have any queries or require further information on our handling of conflicts of interests, please do not hesitate to contact our Compliance department at the following eMail address: compliance@baaderbank.de.