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# **CONFLICT OF INTEREST POLICY**

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## **UNICREDIT BANK AG**

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**AS OF JANUARY 1, 2018**

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# Table of Contents

<b>1 INTRODUCTION</b>	<b>3</b>
<b>2 GENERAL PROVISIONS</b>	<b>4</b>
<b>3 SPECIFIC INFORMATION</b>	<b>5</b>
3.1 Execution Principles for Transactions in Financial Instruments	5
3.2 Definition of Sales Targets without Conflict of Interest	6
3.3 Inducements	6
3.4 Compensation Systems	7
3.5 Portfolio Management	7
3.6 Establishment of Confidentiality Areas	8
3.7 Investment Recommendations and Investment Strategy Recommendations	8
3.8 Credit-financed Transactions in Financial Instruments	8
3.9 Avoidance of Conflicts with the Personal Interests of Employees	8
3.10 Representation on Company Boards	9
3.11 Shareholdings	9
3.12 Investment Banking	9
3.13 Resolution of Banks and Creditor Participation (Bail-in)	10

# 1 INTRODUCTION

UniCredit Bank AG (hereinafter called “the Bank”) renders services to retail and corporate customers, as well as to financial institutions. It is the duty of the Bank to respect the interests of all its customers and to avoid conflicts. In accordance with the requirements of the German Securities Trading Act (hereinafter called “WpHG”) and the German Investment Services Conduct of Business and Organisation Regulation (“WpDVerOV”), this policy informs about the measures taken by the Bank to identify and manage conflicts of interest. Further details will be provided to you on request.

Please note that this Conflict of Interest Policy is also available in its most recent version on the Bank’s website at

<https://www.hypovereinsbank.de/portal?view=/de/footer/rechtliche-hinweise.jsp>

Potential and actual conflicts of interest in the sense of this policy may arise between the interests of a customer on the one hand, and the interests of

- the Bank,
  - other legal entities within UniCredit Group,
  - members of the Bank’s management board,
  - employees of the Bank,
  - contractually tied agents or other parties related to the Bank
- on the other hand.

Furthermore, such conflicts may occur between diverging interests of two or more of our customers in the context of services rendered by the Bank to those customers.

In particular, conflicts of interest may arise

- in the areas of investment advice and portfolio management, from the Bank’s own interest in the sale of financial instruments, especially of UniCredit Group’s own products;
- from the execution of unspecified customer orders by the Bank;
- from inducements (e.g. selling commissions/portfolio-based commissions) received from or provided to third parties in connection with investment services and ancillary investment services rendered to our customers;
- from performance-related remuneration of employees and agents;
- from business relations of the Bank with issuers of financial instruments, e.g. in case of a creditor/debtor relationship, advice on a corporate finance strategy, participation in offerings or cooperation arrangements;
- from the provision of investment recommendations on financial instruments offered to our customers for purchase;
- from obtaining and using information which is not publicly available;
- from personal account dealings in financial instruments by the Bank’s employees;
- in the course of rendering advisory and/or financing services to customers pursuing the acquisition or divestment of companies or assets, for example if different investors seek to acquire the same target company;
- from personal relations of the Bank’s employees or members of its management board, or parties related to such persons;
- from above mentioned persons acting as members of supervisory boards and advisory boards.

## 2 GENERAL PROVISIONS

In order to avoid diverging interests from having a detrimental impact on our customers' interests while providing e.g. advisory services, order execution, portfolio management or the preparation of investment recommendations, we have committed the Bank and its employees to compliance with the applicable laws and regulations and to high ethical standards. We expect, at all times, integrity, diligence and honesty, lawful and professional behaviour, adherence to market standards, and in particular the consideration of our customers' interests. These interests always have priority over the interests of the Bank and its employees.

Within the Bank, an independent compliance function operates under the immediate responsibility of the management board. It is headed by a specifically appointed chief compliance officer. Responsibilities of this compliance function include, among other things, the early identification, prevention and management of conflicts of interest, as well as preventing misuse of inside information and market abuse.

In identifying conflicts of interest resulting from rendering (ancillary) investment services or other potentially conflict-relevant services, we will take into account, among other things, whether we, our employees or any third parties directly or indirectly linked to us by control

- are likely to realise a financial gain or avoid a loss at our customers' expense,
- have an interest in the outcome of a service provided to customers or of a transaction carried out on their behalf which diverges from the customers' interest with regard to the outcome,
- have a financial or other incentive to favour the interests of a customer or a group of customers over the interests of other customers,
- pursue the same business as customers,
- receive or might receive in the future from a third party an inducement, be it in the form of commissions, fees or other cash or non-cash benefits, in relation to a service rendered to a customer, other than the standard commission or fee in favour of the Bank for that service.

For the early identification and prevention of conflicts of interest, we take the following measures, among others:

- Establishment of organisational procedures for the protection of our customers' interests in the course of investment advice, securities' offerings and portfolio management;
- regulations for acceptance and granting of inducements, as well as for their disclosure and, if the acceptance of inducements paid to the Bank is not justified, for their disbursement to the customer;
- regulations on sales targets and remuneration;
- establishment of areas of confidentiality by implementation of information barriers, segregation of responsibilities and/or physical separation ("Chinese Walls");
- maintenance of an "insider list" and a "watch list", which facilitate the monitoring of sensitive information inflow, as well as the prevention of abuse of insider information and other compliance relevant information;
- maintenance of a "restricted list" of issuers and securities related to them, which serves to avoid potential conflicts of interest within UniCredit Group by restrictions on its sales, trading, research and other market-based business activities;
- maintenance of a conflict register for the definition, identification and documentation of potential conflicts of interests;
- maintenance of a register for the logging of outside business interests of our employees (e.g. sideline jobs);
- maintenance of a sales targets register for the prevention of conflicts of interest in the course of investment advice;
- establishment of internal guidelines on pricing, placement and allocation of issuances;
- continuous control activities by the compliance function (e.g. ongoing monitoring of the Bank's proprietary business and personal account dealings of our employees);
- in addition, risk-oriented review and control activities by the compliance function focussing on the implementation of and adherence to regulatory requirements;

- policies and procedures in relation to investment recommendations designed to prevent or manage conflicts with the interests of those persons to whom investment recommendations are disseminated;
- dedicated processes for the assessment and approval of new products;
- continuous trainings for our employees;
- internal operating instructions, compliance guidelines and policies (e.g. guidelines for gifts and entertainment, guiding principles for personal account dealings and personal real estate transactions);
- restriction of internal information flow according to the "need-to-know principle", for example through constraints on IT access rights;
- maintenance of a whistleblowing system which enables UniCredit Bank AG's employees – also anonymously – to call its attention i.a. to fraudulent behaviour and financial crime;
- definition of an escalation process for identified conflicts of interest, in case no mutual consent on the management of such conflicts can be reached between the involved internal parties, as well as for potential reputational risk, which may entail escalation up to board level.

The Bank has established organisational and administrative arrangements deemed to be sufficient to ensure that the risk of interference with a customer's interests is managed and avoided in most cases. Where the measures to prevent or manage a conflict are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the customer will be avoided, the Bank will abstain from the transaction causing such conflict. In very limited circumstances, the Bank will disclose to the customer the general nature and sources of the conflict of interest, as well as the resulting risks and the steps undertaken to mitigate such risks, before undertaking business on his/her behalf, so that the customer can take the decision in respect of the service offered on an informed basis. If a customer classification pursuant to WpHG exists, such disclosure will take into account the customer's classification as a retail customer, a professional customer or an eligible counterparty. Disclosure will take place as a measure of last resort only if no other possibility to solve the identified conflicts of interest exists. It is to be made in a meaningful, but anonymised manner in order to maintain business secrecy, banking secrecy and, where applicable, German data protection law versus other customers.

Under chapter 3, you will find more detailed information about conflict of interest relevant issues which require specific attention.

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## 3 SPECIFIC INFORMATION

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### 3.1 Execution Principles for Transactions in Financial Instruments

In accordance with its obligations pursuant to WpHG, the Bank has established execution principles for transactions in financial instruments ("Best-Execution Policy") in the context of executing unspecified customer orders where a conflict may arise between the interests of the customer and the Bank. To resolve this to the benefit of the customer, this Best-Execution Policy was established which allows the Bank to comply with its obligation to define order execution factors to achieve the best possible client outcome. Achieving the best possible outcome for the client and/or determining the best possible execution venue does not imply any guarantee that the best possible result will in fact be achieved for each individual order. What is relevant is that the method used must typically lead to the best outcome for the client. Such execution principles are part of the Bank's General Business Conditions and its Special Conditions for Securities Transactions and, therefore, form the basis for the business relationship with the customer. The conceptual design and development of the best execution processes as well as their review required by WpHG takes place with involvement of the compliance function. For further information, please refer to the Best-Execution Policy also provided to you.

### 3.2 Definition of Sales Targets without Conflict of Interest

Sales targets are all policies and objectives which, directly or indirectly, concern the turnover, volume of or the profit from the transactions recommended as part of the Bank's investment advice. This includes measures of the management board or sales management of the business divisions related to the steering of product distribution in the course of investment advice, either on a strategic or product level, but also on the level of sales performance controlling.

Pursuant to WpHG, the Bank is required to design, implement and monitor sales targets in such a way that the interests of our customers are not adversely affected. To this end, the Bank maintains a sales targets register which facilitates the detection, documentation and monitoring of potential conflicts of interest caused by sales targets in the context of investment advice rendered. Furthermore, the controlling of sales performance in the Bank takes place on an aggregated level. Besides, the compliance function is involved in the establishment of the Bank's annual strategy and approval process for new products as well as in the review of the remuneration systems and internal work instructions, and it advises on customer information material.

### 3.3 Inducements

Under WpHG, inducements are any fees, commissions or other monetary benefits, as well as all non-monetary benefits.

In connection with providing investment services and ancillary investment services (hereinafter called "Services"), the Bank may not accept inducements or provide inducements to third parties who are not customers of these Services or who do not act on behalf of the customer unless the inducement is designed to enhance the quality of the Services rendered to the customer and does not conflict with the orderly provision of the Services in the best interest of the customer.

Prior to the provision of the respective Services, the existence, nature and amount of the inducement, or, where the amount cannot yet be ascertained, the method of calculating that amount, must be clearly disclosed to the customer in a manner that is comprehensive, accurate and understandable. This happens particularly within the scope of the ex ante cost information. Where the Bank was unable to ascertain the amount of a payment or benefit to be received or granted on an ex ante basis, and instead disclosed the method of calculating that amount to the customer, it will also inform the customer ex post about the exact amount of the payment or benefit received or granted.

In case on-going inducements are received by the Bank in relation to Services provided to its customers, it will inform the concerned customers on a periodic and individual basis about the actual amount of the inducements received or granted.

In case the Bank is obliged to disburse to the customer the fee, commission or other monetary benefit received in connection with the provision of Services, it will inform the customer about the respective disbursement mechanisms.

The Bank discloses both monetary inducements (e.g. commissions and follow-up commissions) and non-monetary inducements (e.g. invitations to training events) to the customer. Non-monetary benefits received or provided by the Bank in connection with Services rendered to the customer will be priced and disclosed separately. Minor non-monetary benefits are described in a generic way.

In connection with portfolio management services the Bank may only accept minor non-monetary benefits under certain regulatory conditions (see chapter 3.5 Portfolio Management). Any monetary inducements accepted by the Bank in connection with portfolio management services will be disbursed to the customer in full as soon as reasonably possible after receipt.

In connection with the retail fund sector the Bank receives trailer fees of normally up to 70% of the fund's yearly management fee from the financial investment management company. Your relationship manager will inform you about the currently applicable percentage upon request. In connection with the brokerage of custody accounts to third parties the Bank receives one-off commissions of up to 7%. In connection with the placement of closed-end funds the Bank receives one-off commissions of up to 9%.

The Bank will provide more detailed information concerning monetary and non-monetary inducements upon request.

### 3.4 Compensation Systems

The compensation systems of the Bank are designed to ensure that the remuneration of its employees does not interfere with its customers' interests. The systems are set up to avoid any incentives which might motivate the employees to place the Bank's or their own interests above their customers' interests. Particularly, the calculation of variable compensation components is also based on qualitative goals.

### 3.5 Portfolio Management

Under a portfolio management agreement, the customer has delegated the administration of securities, accounts and commodities, including the decision about purchase and sale of financial instruments, commodities and foreign exchange, to the Bank as his/her asset manager. This means that, within the framework of the investment principles and based on a specific investment profile agreed upon with the customer, the Bank takes decisions about purchase and sale of financial instruments, commodities and foreign exchange without obtaining the customer's separate approval for each transaction. This situation may heighten an existing or create a new conflict of interest. The Bank counters the resulting risks through appropriate organizational, procedural and contractual measures.

It may be in the Bank's interest to purchase financial instruments in the context of portfolio management where the Bank has special benefits from such purchase. To address this risk,

- the portfolio management is organizationally segregated from investment banking, trading desk and proprietary trading;
- the portfolio management is independent in its investment decisions;
- in relation to portfolio management services, the Bank may not accept and retain benefits by any third party; non-monetary benefits may exceptionally be accepted only if they are minor, are capable of enhancing the quality of the service, are of a scale and nature not to impair the best interest of the client, and are clearly disclosed to the client;
- the Bank will disburse any monetary benefit paid by any third party in the context of portfolio management service to the entitled customers as soon as reasonably possible after receipt; the Bank will inform its customers about any fees, commissions or monetary benefits transferred to them, such as through the periodic reporting statements provided to the customers;
- the portfolio management will not purchase financial instruments issued by UniCredit Group except derivatives used for risk hedging.

Another typical conflict of interest in the context of portfolio management may arise from performance-related remuneration agreements. In this context, there could be the risk that the the Bank employee responsible for portfolio management would incur disproportionate risks in order to achieve the highest possible performance which, in turn, will result in increased remuneration.

We accommodate this factor by

- organizational segregation of investment advice and portfolio management;
- not allocating the resulting profits to the portfolio management unit;
- an internal allocation and performance monitoring of all asset management portfolios;
- a detailed risk- and performance controlling of the portfolio management strategy/model portfolios.

In order to generate high transaction related provisions, it may be in the Bank's interest to generate a high transaction turnover in the portfolio management or to select execution venues delivering the highest provisions. To counter this risk, the following measures are applied:

- only a flat rate price model is offered (no transaction related provisions);
- in order to achieve the best possible execution of a customer's orders, execution principles for transactions in financial instruments have been defined and implemented (please refer to chapter 3.1).

### **3.6 Establishment of Confidentiality Areas**

By implementation of information barriers ("Chinese Walls") between the various areas of confidentiality defined in the Bank, it is ensured that dissemination of confidential information remains limited to the minimum necessary in the normal course of business ("need-to-know principle"). Exceptions from this principle are subject to a specific approval process. In particular, the units of Investment Banking, including corporate finance, capital market activities, financial advisory and other capital raising activities are segregated by physical and non-physical information barriers from Markets units. Within the Markets department, customer trading and proprietary trading are segregated by organisational measures. Furthermore, the Research department is always physically separated from all other business areas of the Bank.

### **3.7 Investment Recommendations and Investment Strategy Recommendations**

The Bank has implemented internal guidelines and procedures for the disclosure of possible conflicts of interest when producing or disseminating investment recommendations and investment strategy recommendations, pursuant to current WpHG regulations and the requirements of the Market Abuse Regulation (EU) No. 596/2014. Such disclosure is contained either directly in the disclaimer section of each investment recommendation or can be accessed via a link embedded in the recommendation.

### **3.8 Credit-financed Transactions in Financial Instruments**

Conflicts of interest arising in the context of granting credit facilities to fund transactions in financial instruments are avoided by legal requirements (e.g. ban on financing of equity instruments issued by the Bank or other members of UniCredit Group) and internal guidelines and work instructions (e.g. lending limits at credit collateralisation).

### **3.9 Avoidance of Conflicts with the Personal Interests of Employees**

In order to avoid conflicts with the personal interests of its staff, the Bank has guidelines in place concerning its employees' personal account dealings in financial instruments and real-estate transactions.

The employees are also subject to the legal ban on insider dealing and market abuse (Market Abuse Regulation (EU) No. 596/2014) as well as the regulations regarding personal account dealings resulting from the organisational requirements of WpHG and § 25 a German Banking Act (hereinafter called "KWG"). In case of colliding interests, the customers' interests always take precedence over the personal interests of the employees.



Employees who have occasionally or regularly access to insider information are subject to a pre-clearing process requiring them to have every single transaction in financial instruments cleared by the compliance function before engaging in such activity.

Employees in special functions (e.g. financial analysts, traders) who, in the course of their professional duties, regularly obtain information suitable to materially influence the market conditions of securities and derivatives trading bear special responsibility and are subject to additional requirements (e.g. disclosure of personal dealings in financial instruments to the compliance function). Depending on necessity, trading bans, holding periods or approval requirements for personal account dealings may be imposed additionally.

Persons authorised to make material entrepreneurial decisions, e.g. members of the Bank's management board, are subject to the specific legal regulations ("Directors' Dealings").

Furthermore, the employees are obliged to notify the Bank of and obtain its prior approval for additional occupations and other business interests which are not immediately related to their employment relationship with the Bank, and which might affect the interests of the Bank or its customers directly or indirectly.

Also, the Bank's employees may neither demand nor accept gratuities or other benefits from third parties which are likely to impair their independence, be it for themselves or for their relatives.

### **3.10 Representation on Company Boards**

In order to avoid conflicts of interest of its management or staff holding mandates with companies outside UniCredit Group (e.g. a seat on a supervisory board), the Bank has established regulations and a formal internal approval process for such activities. For instance, such mandate holders may not be permitted to have influence on certain decisions (e.g. prohibition to exercise his/her personal credit approval authority in cases where an employee holds a seat on the board of directors or another governing body of a borrowing company).

### **3.11 Shareholdings**

Specific regulations are in place with respect to the Bank's shareholdings in other companies in order to prevent conflicts of interest within the Bank.

In particular, decisions about the Bank's acquisition or divestment of shareholdings are taken by its management board. Within the Bank, shareholdings are organisationally segregated from credit business.

Decisions about granting credit to shareholdings as defined in § 15 KWG ("Organkredite") are taken in accordance with KWG requirements. At any time, the compliance function is informed about all current shareholdings of the Bank. These are also made transparent to the public: The Bank publishes the names of its shareholdings on the list of holdings as part of its annual report.

Pursuant to the requirements of WpHG, changes in its shareholdings in entities issuing financial instruments for which the Federal Republic of Germany is the country of origin will be registered without delay and will, hence, be visible on the homepage of the Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority).

### **3.12 Investment Banking**

Within the scope of Investment Banking, conflicts of interest may arise, for example, between the Bank and the customer or between different customers if the Bank is mandated by customers with diverging business interests.

In this regard, the Bank has established a conflict of interest management process with the objective of identifying, documenting and eliminating potential conflicts at the earliest possible stage (i.e. already during the initiation phase of a transaction, and before entering into a commitment towards the involved parties) by means of a dedicated conflict register. A suitable measure for managing such conflicts is, for instance, the transaction-specific establishment of ad-hoc information barriers between the involved deal teams. Internal guidelines on pricing, placement and allocation with corresponding documentation requirements serve to set out the arrangements to identify and to manage potential conflicts between the Bank, the issuer client and the investor client in an issuance of financial instruments.

### 3.13 Resolution of Banks and Creditor Participation (Bail-in)

In response to experiences in the 2008 financial crisis, many states adopted rules and regulations according to which banks in danger of default can be duly resolved in future without cost to tax payers. This leads to shareholders and creditors of banks possibly having to participate in their losses in the event of a bank's resolution. The objective is to facilitate the resolution or winding-up of a bank without the use of public funds.

If a customer holds financial instruments issued by the Bank (e.g. equities, bonds or certificates) or any contractual receivables against the Bank (e.g. individual transactions under a Master Agreement for Financial Derivatives Transactions), the customer, in his/her capacity as a shareholder or creditor of the Bank, may be held liable already in case of a resolution of the Bank pursuant to the national legal requirements based on the so-called Bank Recovery and Resolution Directive "BRRD" as well as the regulation establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund (the "SRM Regulation"). If all conditions for resolution are fulfilled, the responsible national resolution authority can adopt – already prior to an insolvency – extensive resolution actions that may have an adverse impact on the Bank's shareholders and creditors (Resolution of Banks and Creditor Participation – "Bail-in").

Whether a shareholder or creditor will be affected by the resolution action of the bail-in will depend on the scope of the measure ordered and on the class to which the creditor's financial instrument or debt receivable is assigned. Within the scope of a bail-in, financial instruments and receivables are assigned to different classes and drawn on for liability according to a statutory ranking (referred to as a liability cascade).

Further details on the so-called bail-in and the liability cascade can be obtained from the "Note on resolution of banks and creditor participation (bail-in)" which is available as a printable version in any branch of the Bank and also on the Bank's internet website

([www.hypovereinsbank.de/bankenabwicklung](http://www.hypovereinsbank.de/bankenabwicklung)),

as well as on the internet website of the German Bundesanstalt für Finanzdienstleistungsaufsicht [https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Merkblatt/BA/mb\\_haftungskaskade\\_bankenabwicklung\\_en.html](https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Merkblatt/BA/mb_haftungskaskade_bankenabwicklung_en.html).

The Bank manages the possible conflict of interest resulting from its own interest in the issuance and sale of products to which the bail-in is applicable and the potentially ensuing shareholder or creditor participation in the Bank's resolution through such measures as disclosure to the investors, a suitability assessment, a preliminary approval process for new products, as well as by appropriate training of sales staff responsible for customer relationship management.