Annex IV

Details on Best Execution process requirements and definitions

The Bank must apply the policy and strengthen the controls around including the ultimate accountability/ capability for ensuring that execution arrangements and policies to meet the requirements and also to take all sufficient steps is not limited to conduct cursory review of policy documents.

The accountability can be determined within two key elements:

- ownership of responsibility for delivering best execution; and
- how the Bank review/ monitoring the adequacy of their arrangements

1) Detail on information on Execution Policy and Execution Arrangements

Minimum information an Execution Policy should consider:
a) An account of the relative importance the Group assigns, with the criteria to the factors, or the process by which the Bank determines the relative importance of those factors.
b) A list of the execution venues on which the Group Company places significant reliance in meeting its obligation to take all sufficient steps to obtain on a consistent basis the best possible result for the execution of client orders and specifying which execution venues are used for each class of financial instruments, for retail client orders, professional client orders and SFTs.
c) A list of selection factors for an execution venue, including qualitative factors such as clearing schemes, circuit breakers, scheduled actions, or any other relevant consideration, and the relative importance of each factor.
d) Execution Factors: Price, costs, Speed, likelihood of execution and settlement, size, nature, or any other consideration relevant to the execution of an order
e) Where applicable, information that the Bank executes orders outside a trading venue, the consequences, for example counterparty risk arising from execution outside a trading venue, and upon client request, additional information about the consequences of this means of execution venue.
f) Summary of the selection process for execution venues, execution strategies employed, the procedures and process used to analyze the quality of execution obtained and how the Bank monitors and verifies that the best possible results are obtained for clients.

In addition:
a) The Bank shall not receive any remuneration, discount, or non-monetary benefit for routing client orders to a particular trading venue or execution venue which would infringe the requirements on conflicts of interest or inducements
b) The Bank shall only receive third party payments in line within the regulation that comply with and shall inform clients about the inducements that the Group Company may receive from the execution venues.
c) The Bank must not structure or charge their commissions in such a way as to discriminate unfairly between execution venues.
d) Where the Bank apply different fees depending on the execution venue, the Bank shall explain these differences in sufficient detail to allow the client to understand the advantages and the disadvantages of the choice of a single execution venue.
e) The information shall specify the fees charged by the Bank to all counterparties involved in the transaction, and where the fees vary depending on the execution venue.
f) Where a client makes reasonable and proportionate requests for information about its policies or arrangements and how they are reviewed to the company, the Bank shall answer clearly and within a reasonable time.
g) Where the Bank entity executes orders for retail clients, it shall provide those clients with a summary of the relevant policy, focused on the total costs they incur. The summary shall also provide a

link to the most recent execution quality data published for each execution venue listed by the Bank in its execution policy. The Bank shall provide appropriate information to their clients on their order execution policy. That information shall explain clearly, in sufficient detail and in a way that can be easily understood by clients, how orders will be executed by the Bank for the client.

h) The Bank that executes orders or decisions to deal should notify its clients of any material changes to its execution arrangements or execution policy. A change is material where its disclosure is necessary to enable the client to make a properly informed decision about whether to continue utilizing the services of the company. The Group Company should consider the materiality of any changes it makes to the relative importance of the best execution factors or to the venues on which it places significant reliance in meeting the overarching best execution requirement.

i) The defined language of the policy should be both in local language and in English next to other languages reflecting the business intention and client scope.

j) If third party providers or other service providers (outsourcing) are involved, the Best Execution Policy must clearly state and name the provider that has been chosen to fulfill the requirement of best execution. Further, it must be ensured that the execution principles of the provider fulfill the requirements of our Execution Policy.

Details on Execution Factors

- Price: To have complete transparency on the quality of execution for transactions in relation to price, it is appropriate that the information provided in relation to price should exclude all commissions or accrued interest, where relevant. In determining appropriate information for assessing price quality, both daily average levels and point-in-time information should be required. This will provide clients with an appropriate context and a more complete picture when analyzing the quality of execution obtained. To allow for price comparisons between financial instruments it is also necessary to specify the currency code of any reported transaction.

- Costs: The provisions of this Directive that provide those costs of execution should include the Group Company entity's own commissions or fees charged to the client for the provision of the company service.

The Bank should be structuring or charging its commissions in a way, which discriminates unfairly between execution venues if it charges a different commission or spread to clients for execution on different execution venues, and that difference does not reflect actual differences in the cost to the Bank of executing on those venues. It is necessary to specify all costs in the execution of a client order relevant to the use of a specific venue and for which the client pays directly or indirectly. Those costs should include execution fees, including fees for the submission, modification or cancellation of orders or quotes withdrawals, as well as any fees related to market data access or use of terminals. The relevant costs may also include clearing or settlement fees, or any other fees paid to third parties involved in the execution of the order when they are part of the services provided by the execution venue. Information on costs should also include taxes or levies directly in-voiced to or incurred by the venue on behalf of the members or users of the execution venue or the client to whom the order refers.

- Speed of execution may have different meanings for the different types of execution venues as the measurement of speed varies by both trading systems and trading platform. For continuous auction order books, speed of execution should be expressed in milliseconds while for other trading systems it is appropriate to use larger units of time. It is also appropriate to exclude the latency of a particular participant's connection to the execution venue, as this is out-side of the control of the execution venue itself.

- Likelihood of execution and settlement indicates the probability of execution of a particular type of order and is supported by details on trading volumes in a particular instrument or other characteristics of orders and transactions. Information on likelihood of execution should allow for the calculation of metrics such as the relative market size of a venue in a particular financial instrument or a class of financial instruments. Likelihood of execution should also be assessed with data on failed transactions or cancelled or modified orders.

2) Client Categorization

Retail Clients: For retail clients, the best possible result is determined in terms of the total consideration. Total consideration is the price of the financial instrument and the costs related to execution, including all expenses incurred by the client, which are directly related to the execution of the order such as execution venue fees, clearing and settlement fees, and any other fees paid to third parties involved in the execution of the order.

Professional Client The concept of total consideration is relevant for the assessment of best execution for professional client orders too, because in practice the company is unlikely to be acting reasonably, if it gives a low relative importance to the net cost of a purchase or the net proceeds of a sale. There may be circumstances, however, where other factors will be more important for professional clients and MiFID clearly allows legal entities flexibility in this regard.

3) **Details on characteristics of the Client Order**:

The Bank should be able to point to clear process which recorded the scope of their clients' instructions or implement them into execution arrangements. These included systems that recorded clients' venue preferences for all their orders and/or processes which left a clear audit trail of a client's wishes when they requested that the parameters of an algorithm should be customized by the company.
The company should not exclude best execution requirements all algorithmic execution since the company exercising its own judgement as part of its order routing logic

4) Systematic internalisers

(SIs) are the investment firms which, on an organised, frequent, systematic, and substantial basis, deal on own account by executing client orders outside a regulated market, MTF or OTF without operating a multilateral system.

Systematic internaliser is a counterparty and not a trading venue. This means, while trading venues are facilities in which multiple third party buying and selling interests interact in the system, a systematic internaliser operates a bilateral system and is not allowed to bring together third party buying and selling interests in functionally the same way as trading venue.

A systematic internaliser should not consist of an internal matching system, which executes client orders on a multilateral basis, an activity that requires authorisation as a multilateral trading facility (MTF). An internal matching system in this context is a system for matching client orders which results in the Group Company firm undertaking matched principal transactions on a regular and not occasional basis

5) Quote driven market/ Order driven Market/ RFQ

The starting point for legal entities is that:

- Retail clients do legitimately rely on the Group Company to protect their interests in relation to the pricing and other parameters of a transaction (with the intention that best execution is always provided to retail clients); but

- Professional clients, the assumption is that they do not rely on legal entities to achieve best execution. However, to reach this conclusion, we expect legal entities to apply a four-fold cumulative test

6) Details on Finance Instruments:

a. OTC Derivatives and Other Bespoke Products:

When executing orders or taking decision to deal in OTC products including bespoke products, the Bank shall check the fairness of the price proposed to the client, by gathering market data used in the estimation of the price of such product and, where possible, by comparing with similar or comparable products.

OTC Derivatives in this context are products not admitted to trading, or not traded on, a trading venue (i.e., regulated market, MFT or OTF).

The Bank will need to make use of data analytics so that they can scrutinize the methodologies and inputs underpinning any valuation process and pricing models with respect to OTC products.

In praxis, this could mean:

- assessing market reference data (interest rates, FX rates, yield curves, etc.) to obtain a theoretical value of a derivative instrument rather than just comparing spreads between counterparties
- considering market information on credit risk, discount rates and yield curves prior to trading debt securities rather than just obtaining multiple broker quotes; and / or
- Using any new published price feeds (because of the MiFID II trade reporting obligations) as appropriate.

The Bank need to ensure that they have the necessary procedures and arrangements in place as well as appropriate valuation systems. With greater access to technology and data analytics, the Bank will be expected to scrutinize the methodologies and inputs underpinning any valuation processes and pricing models utilized with respect to OTC products to ensure that they are consistently checking the fairness of the price. Similarly, when placing orders resulting from decisions to deal in OTC products, legal entities will be expected to undertake the necessary checks on the fairness of the price and ensure that it is reflected in their arrangements.

This is an ex-ante assessment by the Bank that takes place prior to the execution of the order. However, there is an expectation that any pre-trade checks or processes would be included in the company's review and monitoring of its best execution arrangements. The company would therefore need to have records, documentation in place, to evidence this as part of their ongoing monitoring of best execution. Checks or controls will be calibrated according to the nature of the financial instrument and the characteristics and circumstances of the individual trade.

b. Securities Financing transactions:

The Bank, when applying the criteria for best execution for professional clients, will typically not use the same execution venues for securities financing transactions (SFTs) and other transactions. SFT's are used as a source of funding subject to a commitment that the borrower will return equivalent securities on a future date and the terms of SFTs are typically defined bi-laterally between the counterparties ahead of the execution. The choice of execution venues for SFTs is more limited than in the case of other transactions, given that it depends on the particular terms defined in advance between the counterparties and on whether there is a specific demand on those execution venues for the financial instruments involved.

It is therefore appropriate that the Group Company summarize and make public the top five execution venues in terms of trading volumes where they executed SFTs in a separate report so that that a qualitative assessment can be made of the order flow to such venues. Due to the specific nature of SFTs and given that their large size would likely distort the more representative set of client transactions (namely, those not involving SFTs), it is also necessary to exclude them from the tables concerning the top five execution venues on which the Bankexecute other client orders.

c. Portfolio compression:

When providing portfolio compression, the Bank and market operator's incl. the termination or replacement of the component derivatives in the portfolio compression is not subject to shall not be subject this Regulation with regards to RTS 27 (Data to be published by execution venues on the quality of execution of transactions an RTS 28 (Annual Publication by investment firms of information on the identity of execution venues and on the quality of the execution)

7) Details on Execution Strategy given characteristics of the execution/ trading venues to which that order can be directed

a. Multiple Venues:

Where there is more than one competing venue to execute an order for a financial instrument, in order to assess and compare the results for the client that would be achieved by executing the order on each of the execution venues capable of executing that order listed in the Bank's order execution policy, the Group Company's own commissions and the costs for executing the order on each of the eligible execution venues shall be taken into account in that assessment.

The Bank should regularly assess the market landscape to determine whether there are alternative venues that they could use at least once per year or ad hoc within material changes.

Where the Bank invite clients to choose an execution venue, fair, clear, and not misleading information shall be provided to prevent the client from choosing one execution venue rather than another on the sole basis of the price policy applied by the Group Company.

b. Single Execution Venue:

The Bank using a single venue in its Execution Policy must acknowledge that using a single venue does not diminish the company's responsibility to monitor the quality of execution.

The Bank using single venue to place orders.

- It should be able to show that this allows them to obtain best execution for their clients on a consistent basis and only where they can reasonably expect that the selected execution venue will enable them to obtain results for clients that are at least as good as the results that they reasonably could expect from using alternative execution venues supported by the (Top 5 venue report) or by other internal analyses conducts by the legal entities;

- It should evaluate the specific ways that the Bank executes the order and record their evidence for their decision. Giving an example, sending an order to be executed on the central order book using different order types (e.g., limit orders, fill or kill 'FOK', good till cancelled 'GTC', etc.), executing the order using a pre-trade waiver, or executing the order at a closing or opening auction may result in materially different out-comes. Different outcomes may also stem from the way in which Smart Order Routers and/or algorithms are calibrated. Similarly, entering an order in one block, versus splitting it into multiple child orders, may have a very different market impact and thus directly affect the cost to the client.

The Bank that transmits or places and within Portfolio Management orders with other entities for execution can include a single entity in its policy if is able to show that this allows it to satisfy the overarching best execution requirement. That is, where the Bank transmits or places orders with a single entity for execution, the Bank should determine and should be able to provide reasonably prove that selecting only one entity complies with the overarching best execution requirement. In addition, the Bank should reasonably expect that the entity it selects would be enable it to obtain results for its clients that are at least as good as the results that it reasonably could expect from using alternative entities.

c. Smart Order Routing/ Automated Order Routing:

When the Bank use within the selection of the business selection, either Smart Order Routing (SOR) or Automated Order Routing to ensure to provide best result for the clients, following should be taken into account:

The algorithmic trading strategies can be defined as:

a) the Group Company decision algorithms (determining which financial instruments should be purchased or sold), or
b) execution algorithms (optimizing order execution processes with the automated submission of orders and quotes to one or more trading venues),
c) single algorithmic trading strategy combining both above elements.

Smart Order Routers (SORs) use algorithms for optimization of order execution processes that determine parameters of the order other than the venue or venues where the order should be submitted. SORs are undoubtedly qualified as algorithmic trading. In turn, algorithmic trading does not encompass Automated Order Routers (AOR) where, although using algorithms, such devices only determine the trading venue or venues.

When the bank is using within the definition SOR it has to comply rigorous with the respective articles of Algorithm Trading/DEA within MiFID 2 incl. System and Controls.

Provide information to clients on the possibility that orders might be executed off trading venue

The Bank must obtain the prior express consent of their clients before proceeding to execute their orders outside a trading venue. The Bank shall provide its clients or potential clients with information about where the orders are transmitted or placed for execution, including consequences such as counterparty risk arising from execution outside a trading venue, and, upon client request, additional information about the consequences of this means of execution.

a) RTS 28 – Annual Publication by investment firms of information on the identity of execution venues and on the quality of the execution