

SAFEGUARDING OF CLIENTS' FINANCIAL INSTRUMENTS

(Only available in English version)

1. INTRODUCTION

Andbank Luxembourg (the "Bank") has developed its best practices in order to meet the requirements established by the Market in Financial Instrument Directive 2014/65/UE of the European Parliament and of the Council of 15 May 2014 (the "MIFID II Directive").

MIFID II Directive includes a series of obligations of application to those entities that provide investment services in relation to the information that these entities must provide to their clients, including policies relating to safeguarding the financial instruments and funds belonging to clients ("Client's Assets").

Thus, in the preparation of this Safeguarding of Client's Asset Policy ("Policy"), the following regulatory sources have been considered:

- MIFID II Directive;
- Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU ("Delegated Directive") with regards to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits ;
- Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/UE ("Delegated Regulation") as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive;
- Luxembourg law of 30 May 2018 on markets in financial instruments (the "Law") implementing the MIFID II Directive;
- Grand-ducal Regulation of 30 May 2018 relating to the safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits (the "Grand-ducal Regulation"), implementing the Delegated Directive;
- In implementing the above, the Law notably amends in such context quite substantially the Luxembourg law of 5 April 1993 of the financial sector, as amended from time to time ("PSF Law"), in relation to provisions of MIFID II which strengthen investor protection such as the more stringent rules regarding organizational requirements, inducements and research but also replaces the law of 13 July 2007 on markets in financial instruments, as amended. The Grand-Ducal Regulation replaces the grand-ducal regulation of 13 July 2007 on organizational requirements and rules of conduct in the financial sector.

The above provisions are collectively referred to as the “Applicable Regulations” in the present Policy.

By application of the Applicable Regulations, the Bank is committed to ensuring that the funds and financial instruments owned by its clients are properly segregated and have an optimal level of protection.

2. SCOPE OF APPLICATION

1. To whom does it apply

The Bank and the Group must apply and comply with this Policy, as a credit institution authorised to provide investment and/or ancillary services. The same applies to a director, partner or equivalent, manager or tied agent of the Bank, an employee of the Bank as well as any other natural person whose services are placed at the disposal and under the control of the Bank, a natural person who is directly involved in the provision of services to the Bank or to its tied agent under an outsourcing arrangement for the purpose of the provision by the Bank of investments services and activities.

2. What does it cover

The aim of this Policy is to describe the chief measures adopted by the entire Andbank Bank group (the “Group”) to ensure the protection of the ownership rights of assets received from clients, financial instruments and funds (the “Assets”), avoid improper use of same and be aware promptly at all times of the position of Assets and the current operations of each client.

The measures developed in the present Policy with respect to the protection of the rights of property of the Clients are limited to the financial instruments and Client’s funds entrusted to the Bank in the framework of the provision of investment and ancillary services.

3. MAIN MEASURES WITH REGARD TO THE PROTECTION OF THE CLIENTS ASSETS

1. Distinction between own assets and Assets of the Clients

The Bank, in its IT system, has a securities account structure which differentiates between its own financial instruments and client’s Assets and, within the latter, it identifies the Assets owned by each one (represented by book entries or physical titles) .

In order to guarantee such distinction, the Bank guarantees that Assets are deposited in global accounts or omnibus (of cash or securities respectively) separated from those which are deposited for the Bank.

The Bank will review, prior to the opening of the omnibus accounts, that the following requirements are met:

- a) That exists a total separation between the positions of the Bank and the one that belongs to the Client;

- b) That exists procedures implemented with the aim to ensure the individualization of the position of every Client;
- c) That in the begin of the commercial relation with the Client, the Bank has informed them about the possibility of operating across omnibus or global accounts, of the inherent risks and of the identification of the entity that operates depository of the account omnibus or globally.

In the National Market, the Bank holds accounts with KBL Luxembourg and ALLFUNDS International.

In the other Markets, the Bank's custodians are Bank Of New York and Andorra Banc Agricol Reig S.A..

The criteria defined for outsourcing this function in the Bank are contained in the Bank's Outsourcing Policy and the present Policy for new provisions applicable specifically for the purposes of this latter.

2. Records of Financial Instruments

In order to prove the distinction indicated in paragraph 3.1, the Bank relies on a structure of records and necessary account that allows, in every moment and without delay, to make the difference between the assets of a client and the assets of other clients and of its own assets. This structure guarantees the accuracy and especially the correspondence with the securities, the financial instruments and the cash of the client. The information contained in the Record of Financial Instruments shall be updated regularly and with a sufficient periodicity in order to use such information in the reports of audit.

The Bank has internal records of the global or omnibus accounts, which disclose all the clients by account and risk on behalf of which the Bank carries out operations through this type of accounts. In addition, the Bank has an account open that includes the financial instruments negotiated for its own portfolio.

In the event of the Client's Financial Instruments have settled on accounts of third entities, the entity guarantees that the third entity relies on an account structure that should allow the identification to the Bank to each one of its clients and that relies on a record of assets that grants the same conditions of protection requested by the Bank.

In the event that the Clients' instruments are deposited with sub-custodian, the Bank shall guarantee that, in turn, it can be distinguished from the financial instruments of the sub-custodian and from the Institution's proprietary financial instruments and guarantee that client funds are booked by the sub-custodian in a separate account or accounts from those used to book the Institution's own funds: the Bank shall ask the sub-custodian to use an account naming convention that differs from what is used for its own books, and where this is not possible it shall ask it to take similar measures to those taken by the Bank to reconcile the records.

3. Account Reconciliation

The Bank guarantees the accuracy of the Record of Financial Instruments owned by its Clients with regard to the third parties who are in possession of same and performs the reconciliation processes described below:

- Information supplied by the custodian or sub-custodian, usually movement files detailing entries in the cash and security accounts belonging to each client. A tool will be used for this purpose that will make it possible to reconcile Swift MT950 (cash) and Swift MT535 (securities) type messages.
- Certificate provided by the sub-custodian (both where said sub-custodian has been appointed custodian by the Institution, or by a third-party custodian) detailing the client's position.
- Information on transactions pending settlement from the intermediary/settling institution.
- Information from the counterparty entity, in the case of OTC transactions, regarding the outstanding transaction amounts.
- At the level of National Market, (i) weekly reconciliation (for Assets), (ii) monthly reconciliation of balances, (iii) half yearly count of record references which form the balance, (iv) annual count of physical shares
- At the level of International Markets, (i) reconciliation of transactions and weekly reconciliation of balances in custodians (ii) if new agreements with other custodians were to be reached, the same process would be applied (iii) monthly reconciliation of the positions held directly in the management companies of non-commercialised international funds.

Where there are discrepancies between both sources of information, the origin will be investigated.

The Finance Department carries out the reconciliations. These reconciliations are documented.

Similarly, the Internal Audit Department carries out regular audits in line with the Audit Plan.

The annual External Audit includes those reconciliations in its review, requesting the sub custodians and the central depository to provide information for each account opened in the name of the Institution.

4. Rules on sub-deposits

The Applicable Regulation allows the Bank to deposit the Assets which they hold on account of their clients, in accounts open with a third party, on the condition that the Bank acts with due competence, attention and diligence in the selection, designation and periodic review of said third party (Sub-custodian).

The Bank will periodically select and evaluate its sub-custodian(s), in order to ensure that it continues to satisfy the criteria leading to its selection. This review will be carried out by the Operations Department.

When selecting sub-custodians, the Bank and in particular the Operations Department will exercise due skill, care and diligence and shall take account of the following factors:

- Rating of the company
- The market requirements and practices regarding the holding of said assets that may adversely affect the client and his/her/its rights
- The internal procedures to safeguard financial instruments in place at the potential sub-custodian. These procedures must not conflict with those of the Bank and the sub-custodian must provide the Bank with timely notification of any change or modification thereto.
- Not depositing client financial instruments in companies from third countries that are not subject to specific regulations and supervision in that country as regards the holding and custody of financial instruments
- Not depositing financial instruments in countries that do not regulate the safeguarding of financial instruments on behalf of others, except where the nature of the instrument is such that it has to be deposited with that third party, or where a professional client expressly requests so in writing
- Costs and commissions (provision of tax certificates, resolution of reconciliation issues, etc.)
- Other factors to be taken into account such as, for example, the market coverage, the amount of custody admitted the quality of service, the level of specialization, experience and prestige, etc.

The agreement with the sub-custodian must contain an express representation that the latter has clearly identified client records and accounts, separate from the Bank's positions and those of the sub-custodian.

The sub-custodian shall be chosen by the Board of Directors on the basis of a report submitted to it by the Operations Department.

The Bank is using Andorra Banc Agricol Reig S.A. as main custodian in different markets, and every time that a decision is to be taken that has an impact on the Institution, a committee composed of members of the operation departments of Andorra Banc Agricol Reig S.A. and the Bank is held in order to submit different proposals.

5. Special principles and procedures governing the use of omnibus accounts

With respect to "omnibus" accounts, the Bank shall ensure that, prior to opening global accounts with Client' positions, the following requirements have been satisfied:

- There is a prior report from the Compliance Department on the credit rating of the financial institution at which the Institution is opening a global account and on the specific, legal and operational risks regarding the use of global accounts.
- The report of the Compliance Department has been approved by the Institution's Board of Directors.

- There is absolute separation between the positions held for own account (if any) and those held for the client's account, such that positions held by the Institution and by its clients are never booked in the same account. The name of the global account should expressly reflect that the "account is held on behalf of third parties".
- Internal procedures are in place to separate the position of each client in the books.
- When working with clients for the first time, they have been informed of the possibility of global accounts being used and of the risks such a practice entails and of the identity and credit rating of the financial institution acting as custodian of the global account.

6. Specific principles and procedures governing the use of Client's Assets

The Bank, in compliance with Applicable Regulations does not use the Assets it holds on account of its clients for operations to finance its activity on its own account and therefore all and any transactions involving financial instruments and funds originate solely from clients instructions.

In the event the Bank shall reconsider this approach, it would have to satisfy the following requirements:

- The need to obtain the express consent of the client as to the use of his/her/its instruments, and to abide by the conditions stipulated and approved by the client by means of its signature or any other equivalent mean regarding the use of the financial instruments
- The use of the financial instruments and funds has to be limited to the specific conditions agreed with the client in accordance with the above paragraph
- The need to have systems and controls that guarantee that the instruments will only be used in accordance with client instructions
- The need to maintain a log of the transactions executed with client funds, including the client details and the instructions given by him/her/it, and the number of financial instruments.

In addition to these previous points, the Bank will not establish any agreement with third parties for instruments held in a global account unless the following conditions are fulfilled:

-Express consent of each of the clients whose instruments have been settled in a global account

-Systems and controls that guarantee the use of instruments only if all the clients have given their express consent

Notwithstanding the abovementioned, the Bank shall develop a record of securities financing transactions with respect to Client's financial instruments, including:

-The information of the client from which the financial instruments were used;

-The name of the financial instruments used which belong to each client that has given its consent;

Currently, the Bank performs the following controls to ensure the non-use of financial instruments:

-Separate areas: the operational management of own portfolio and unrelated portfolio brokerage are separate areas and have the relevant information barriers as provided in the Applicable Regulation. The financial markets administration is physically separate from the treasury and capital market division and has different operating systems for each activity

-Registration of orders and operations: there is a record of orders and operations kept at the Bank's systems

-The balances are reconciled with respect to the Bank's own account and for the Clients' account

-Notifications sent to clients for each transaction in their securities account, setting out the specific details of the operation(s) and global position.

4. PROVIDING CLIENTS WITH INFORMATION ON SAFEGUARDING

The Bank shall, prior to the provision of investment services, provide its clients with the relevant information on the protection and safeguarding of his/her/its Assets To that respect, the present Policy shall be put at the disposal of the clients having such a business relationship with the Bank and in the event of Clients signing up for the custody and administration of financial instruments service, they shall **be duly informed in the general terms and conditions of the Bank**, of the following circumstances:

- The financial instruments will be received by the Bank for deposit by delivery or electronic transfer.
- The possibility of using sub-custodians as well as its liability under applicable national legislation, for any act or omission by the third party and of the consequences for the client of the insolvency of said third party.
- The possibility of global accounts being used by foreign custodians and the resulting risks.
- The existence and terms and conditions of any security interest or encumbrance that the Bank has or may have over the Assets of the clients, or of any rights of set-off that the Bank may have in connection with those instruments or funds.
- The possibility that a sub-custodian may have a security interest or encumbrance over the Assets of the clients, or of any rights of set-off that a sub-custodian may have in connection with those instruments or funds.