

LUX-POL-012

Best Execution / Selection and  
order handling Policy



| Version | Approval Date | Responsible Areas | Approval           |
|---------|---------------|-------------------|--------------------|
| 5.4     | 11/12/2024    | Compliance        | Board of Directors |

| LOCATIONS SCOPE | AND | BAH | ESP | LUX | MON | PAN |
|-----------------|-----|-----|-----|-----|-----|-----|
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## Order Execution & Order Management Policy

### Contenido

|     |                                                                          |    |
|-----|--------------------------------------------------------------------------|----|
| 1.  | INTRODUCTION .....                                                       | 3  |
| 2.  | SCOPE .....                                                              | 3  |
| 3.  | LEGAL FRAMEWORK.....                                                     | 4  |
| 4.  | DESCRIPTION .....                                                        | 5  |
| 4.1 | General Criteria.....                                                    | 5  |
| 4.2 | Execution factors .....                                                  | 5  |
| 4.3 | Execution of orders.....                                                 | 6  |
| 4.4 | Order Management Criteria and Procedures .....                           | 7  |
| 5.  | MONITORING AND CONTROL.....                                              | 9  |
| 6.  | COMMUNICATING THE POLICY TO CUSTOMERS AND OBTAINING CONSENT.....         | 9  |
|     | ANNEX I. BROKER SELECTION PROCESS .....                                  | 11 |
|     | ANNEX II. EXECUTION VENUES AND INTERMEDIARIES FOR INSTRUMENTS CLASS..... | 12 |

## 1. INTRODUCTION

ANDBANK LUXEMBOURG, S.A., (hereinafter, “the Bank” or “Andbank”) is required under the Markets in Financial Instruments Directive “MiFID II”) to ensure best execution of its retail and professional clients’ financial instruments orders. To that respect, the Bank shall provide clients with information on its Order Execution Policy (“the Policy”), the purpose of which is to define the Bank’s procedures for executing orders aiming to obtain the best possible results for its clients’ transactions; and to define the procedures and systems for managing and assigning orders in order to enable their prompt and correct execution and subsequent assignment policy simplified introduction. Under MiFID II, Clients must also be informed of the key aspects of the Policy and of any significant change on it.

Specifically, this Policy:

- Describes the circumstances in which the Bank will execute orders itself and in which it will transmit orders to third parties for execution.
- Defines the Bank’s criteria for selecting execution venues and specifies the measures and procedures that must be followed to ensure appropriate execution as part of the provision of the service of execution of customer orders in relation to one or more financial instruments.
- Defines the Bank’s criteria for selecting the brokers or broker-dealers who will execute the orders or transmit them to other third parties for execution and specifies the measures and procedures that must be followed to ensure appropriate selection, as part of the provision of the service of receiving and transmitting customer orders in relation to one or more financial instruments.
- Defines the Bank’s general principles for managing the orders received from customers and the process for taking decisions and executing these orders, as part of the provision of discretionary and individual investment portfolio management services and the service of executing orders on behalf of customers.

## 2. SCOPE

This Policy is applicable to, and must be complied with by, the Bank, as an authorized entity to provide investment and/or ancillary services, as well as all the Bank’s professionals and employees who perform activities relating directly or indirectly to the provision of investment services, including agents. In this regard, all the Bank’s professionals and staff, and its agents, must know, comply with and apply this Policy.

The Execution Policy applies only:

- to retail and professional Clients, unless expressly stated otherwise in this document; and
- for the following types of Financial Instruments (hereinafter, also “Instruments”) traded or admitted to trading on a Regulated Market (hereinafter, the “Market”):
  - o Transferable securities.
  - o Money-market instruments.
  - o Units in collective investment undertakings.
  - o Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.

- Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
  - Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or an MTF.
  - Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6., and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognized clearing houses or are subject to regular margin calls.
  - Derivative instruments for the transfer of credit risk.
  - Financial contracts for differences.
  - Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.
- Andbank accepts no obligation to apply the Policy in relation to a specific order if the Client is an eligible counterparty.
  - The Order Execution Policy shall apply where Andbank acts in accordance with a mandate from the Client to execute orders on a Client's behalf or receive and transmit orders on behalf of the Client for execution in relation to:
    - The execution venue where the orders will be executed; and/or
    - The Intermediary to be used to achieve such execution.
    - The Policy will also apply in relation to orders transmitted by Andbank in the name and on behalf of the Client by virtue of discretionary portfolio management contracts

### 3. LEGAL FRAMEWORK

- DIRECTIVE 2014/65/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU art. 27
- COMMISSION DELEGATED REGULATION (EU) 2017/576 of 8 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the annual publication by investment firms of information on the idBank of execution venues and on the quality of execution
- Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements

and operating conditions for investment firms and defined terms for the purposes of that Directive art 64.

## 4. DESCRIPTION

### 4.1 General Criteria

When receiving and transmitting or executing orders in relation to Financial Instruments on behalf of Clients, Andbank will take, accordingly to the mentioned legal framework, all reasonable steps to achieve best execution. This does not mean that Andbank must obtain the best possible result in the execution of every order it receives from its Clients but rather that its obligation is to apply this Execution Policy to every order from its Clients with the aim of achieving the best possible result in line with the criteria set out in it. It therefore has an obligation to act (to execute the orders of its Clients in accordance with an Execution Policy read and accepted in advance by its Clients) and not to achieve (i.e. to always obtain the best possible result for every order).

### 4.2 Execution factors

Andbank will determine the relative importance of relevant execution factors, not all execution factors will be applicable to all products, these factors are set out below:

- Price - Ordinarily, the Bank will consider price to be the most significant factor in the execution of a transaction, however there may be circumstances where other Execution Factors should be prioritized over price. In taking all sufficient steps, our front office staff will use their commercial judgement to achieve the best possible outcome for the transaction, taking into account the following factors, in addition to price, to determine the manner in which your Order will be executed:
- Costs - The best price may not always offer the best result for a Client if it comes with a high cost, either explicit or implicit. Explicit costs include transaction costs (e.g. settlement costs) and implicit costs result from how a trade is executed (e.g. as an immediate or standing order or in a block).
- Speed - Volatility and liquidity may mean that for certain orders timeliness of execution becomes more dominant, for example in a situation with low liquidity the time horizon for achieving best execution may be extended. Where the Bank considers the cost of an adverse market movement is likely to be great, speed of execution may be very important.
- Likelihood of execution or settlement - The likelihood that the Bank can source adequate liquidity with sufficient depth of market, having necessary credit facilities and clearing services in place to guarantee settlement.
- Size of the Client's Order - Ensuring that Orders are executed in a manner which is suitable to the size requested and does not place an inappropriate impact on the market
- Nature of the Client's Order - The particular characteristics of an Order, such as whether it is a quote or limit order are always relevant to how it is executed.

When determining the relative importance of the execution factors mentioned above, the criteria that will be taken into account are the characteristics of:

- the Client, including their categorization as a Retail or Professional Client;
- the Client's order;
- the Financial Instruments that are the subject of the order;

- the Execution Venues to which the order can be directed. Regarding this matter, the process of selecting execution venues is divided into two stages:
  - o Pre-selection of potential execution venues, on the basis of qualitative variables. The Bank will take into consideration the price and costs, the prestige and significance in the market of the possible execution venue, high quality service, high market volumes, efficient execution and settlement, and optimum computer systems.
  - o Once the pre-selection of potential execution venues has been carried out, the final execution venue will be chosen from among these, taking into consideration, among other factors, the execution factors mentioned above.

#### 4.3 Execution of orders

##### a) Acting in a principal capacity

The Bank may execute itself customer orders in relation to the following financial instruments:

- Fixed Income in certain circumstances
- OTC Derivatives
- Structured Products
- Units in investment funds

Andbank may act in a principal capacity when Executing a Client Order and generally seeks to internalize Orders for the specific instruments cited above, whereby the client trades with the Bank as Principal, on the basis that we can meet our Best Execution obligation on a consistent basis by doing so.

Where the Bank trades as principal it will use a number of execution venues including Regulated Markets, Multilateral Trading facilities, Organized Trading Facilities, Systematic Internalizes, and Market Makers as liquidity providers. The selection will be made at Andbank's discretion. The Bank uses appropriate internally and externally available information on execution venue metrics to conduct ongoing assessments of the quality of the execution provided to clients through internalization. Andbank will continually monitor the available information and as additional information and external data becomes available this will be incorporated into the Bank's pricing controls and reviews. This also includes the assessment of the ongoing efficacy and quality of the service and execution provided to Andbank when conducting market making activity or managing its own risk through available liquidity providers.

Based on the above considerations for Non-listed Fixed Income or OTC derivative transactions, Andbank will check the fairness of a price when proposing it to clients. For those financial instruments which count on one execution channel only (e.g. shares in collective investment schemes), the Bank will use this channel for the subscription to those financial instruments and its best execution obligations with respect to those financial instruments will be deemed fulfilled.

##### b) Reception and transmission of orders

The Bank will always transmit orders received from its customers for the following classes of financial instruments:

- Listed Equities (national and international)
- Listed Derivatives
- Units in investment funds for Spanish customers

The Bank will usually transmit orders received from its customers in relation to the following classes of

instruments:

- Fixed Income in certain circumstances
- OTC Derivatives
- Structured Products

Customer orders in relation to the above financial instruments may also be executed by the Bank itself. Please refer to Section 4.3.a.

For exceptional reasons, the Bank will transmit customer orders to brokers/broker dealers not expressly included in this Policy in the following cases:

- Specific customer orders: Where the Bank accepts an Order with reasonable specific instructions in relation to some or all aspects of handling the Order (including executing at a particular price or time or through the use of a particular strategy), in following the instructions, the Bank will be deemed to have satisfied its Best Execution obligation in respect of that Order. A specific instruction could include a direction to execute at a particular time, or to break an order into defined sizes for execution.

Where the specific instructions only cover a portion of an Order and the bank has discretion over the execution of other aspects of the Order, then the Bank will continue to owe its clients Best Execution on the aspects not covered by the client's initial instructions.

- A transaction with a type of financial instrument not expressly provided for in this Policy.
- Changes in market conditions.
- Other factors to be taken into consideration.

#### **4.4 Order Management Criteria and Procedures**

##### **a) Criteria for processing orders**

The Bank will ensure that the following requirements are met when processing customer orders:

- The execution or receipt and transmission of orders will be performed with speed and accuracy.
- Similar customer orders will be managed sequentially and promptly, except where this is not possible due to the characteristics of the order, or market conditions, or in cases where it is in the customer's interest to use a better method.
- Retail customers must be informed immediately about any relevant difficulty that may arise in executing their orders correctly.
- In cases where the Bank is responsible for overseeing or performing the settlement of the order, it will adopt the necessary measures to ensure that the funds are assigned to the customer's account correctly.
- The Bank will not, under any circumstances, make an inappropriate use of the information in its possession on its customers' pending orders.

The Bank may only aggregate orders from various customers when the following conditions are met:

- It is unlikely that any of the customers whose orders are aggregated will be adversely affected.
- Each customer is advised that the result of a specific order could be adversely affected due to the aggregation.
- The orders are allocated fairly, specifying how the relationship between the size and price of

the orders determines the allocation and, where appropriate, the handling of partial transactions.

- The criteria contained in this Policy are applied when partially executing an aggregated order.
- Where orders are aggregated from one or more customers with transactions for own account, these transactions will not be allocated in a way that adversely affects a customer and, if they are executed partially, the customer transaction will take priority over the transaction for own account.

#### b) Order management process

The decision-making and order management process will be carried out while observing the following steps:

As regards the service of portfolio management:

- a) The investment department will take investment decisions on the basis of various macroeconomic and mathematical models. Once the portfolio composition has been defined, it will be constructed through the issuance of purchase and sale orders.

Before sending the order, the decision will be checked to ensure that it complies with the limits established for each portfolio.

- b) Investment decisions on behalf of customers must always be taken prior to executing orders or transmitting them to the broker/broker-dealer for execution, before the result of the transaction is known. In specific terms, the transactions will be pre-assigned to the various portfolios.

As regards the services of portfolio management, execution of orders and receipt and transmission of orders:

- a) The investment department will contact the execution venues or various third-party brokers (financial institutions, brokers, broker-dealers, management companies, etc.) chosen according to the criteria and principles established in section 3 of this Policy in order to ensure that the customers obtain the best price.
- b) The purchase or sale order must be submitted in the way agreed with the relevant party. The records (order record, transaction record and confirmation record) must be filed in a format that enables the information to be stored accessibly and to be held for a minimum period of five (5) years.
- c) The Bank will hold a record of the aggregate transactions that it must file in a durable format that enables the information to be stored accessibly and to be held for a minimum period of five (5) years.

If the execution prices are different after the transaction has been executed, in order to avoid a possible conflict of interest among the various customers arising from this situation, the Bank has in place various objective criteria for pro-rata allocation or distribution of transactions among customers that ensure fairness and non-discrimination among them.

The orders will be executed promptly and accurately in order to not adversely affect any customer when transactions are carried out for several of them. The general criterion is a neutral treatment of the various customers. To this end, when assigning orders, no particular customer will receive a more favorable treatment than the others. The Bank will act as follows in this regard:

1. Where a transaction has been executed at various prices, the average execution price for this order will be calculated and the securities will be assigned to each customer for which the orders are aimed in this respect.



2. In cases where the Bank enters a limited order, grouping together orders relating to the management of various customer portfolios and it has not been possible to execute the total volume of the order at the fixed limited price, the volume executed at the limited price will be allocated on a pro-rata basis among the customer portfolios.
3. Where it is not possible to follow these procedures, a rotation process will be applied, in alphabetical order.

The Bank undertakes to apply, in all events, these objective criteria, which ensure the best result for customers.

- d) The assets will be deposited in the name of each customer.

## **5. MONITORING AND CONTROL**

In line with regulatory requirement, on an annual basis, Andbank will make public the top 5 Execution Venues in terms of trading volumes for each class of financial instruments, where we have executed Client Orders in the preceding year together with information on the quality of execution obtained. This will include where Andbank is the Execution Venue for the Execution of Client Orders. Andbank is also required to produce a supplementary summary alongside reports on the top five Execution Venues to explain its analysis and conclusions on the quality of execution obtained on the Execution Venues where client Orders were executed in the given class of financial instruments. The report will include, amongst other things, an explanation of the relative importance that Andbank gave to the execution factors when assessing the quality of execution obtained for Client Orders.

The Bank monitors the effectiveness of its Order execution arrangements on monthly basis in order to identify and implement any appropriate improvements. We will be able to demonstrate to clients, at their request, that we have executed their Orders in accordance with this Policy. Andbank, thankfully to the established control model implemented, will check on a qmonthly basis the fairness of the price given to its Clients, for every each instrument class which has been traded through the bank order management process. This includes both the receipt and transmission of orders and the activity of the bank as counterpart of the client. If the Bank, when executing internal controls, detects a tendency or relevant/ frequent cases when the price could have been more fair for the clients, will take the appropriate measures to correct the situation in the short term, for example, changing its arrangements with a specific broker dealer to another.

## **6. COMMUNICATING THE POLICY TO CUSTOMERS AND OBTAINING CONSENT**

- a) Communicating the Policy to customers

The Bank will inform its customers, prior to the execution of the orders, of the most significant aspects of this Policy, detailing the importance assigned to the various factors for choosing the composition of the portfolio and for selecting the brokers, together with confirmation of the brokers it has selected.

This Policy will be communicated by including it in the account opening documentation and through the e-banking system. The Bank reviews this Policy on an annual basis at a minimum or when there is a material change (a material change shall be a significant event that could impact the parameters of Best Execution such as the Execution Factors which affects our Order execution arrangements). We will notify you of any material changes to our Order Execution Policy, including any associated supplements or updates to our list

of Execution Venues by posting an update on our website at: <http://www.andbank.lu>

b) Obtaining customer consent

The Bank will obtain prior consent for the Policy from the customers. This consent will be tacit and will be considered to have been obtained on inception of the transaction, after the customer has received prior communication of this Policy.

The Bank must inform the customers and obtain their prior express consent in cases where it executes orders outside regulated markets or multilateral trading facilities.

Consent may be obtained in general terms or for each transaction in particular.

## ANNEX I. BROKER SELECTION PROCESS

Where we receive and transmit orders we act in the best interests of our clients when transmitting orders to external brokers or broker-dealers for execution. We take all reasonable steps to obtain the best possible result. In doing so, we take into account the factors and criteria set out in paragraphs above.

As a result, we achieve Best Execution by transmitting orders for execution to other entities which can meet the MiFID Best Execution obligation:

- We select an entity or entities most likely to deliver the best possible result for our clients. Where the entity selected is itself a MiFID II firm subject to the best execution obligation, we place a high degree of reliance on that entity. We will ensure that the intermediary's execution policy is consistent with our own as specified in this document.
- Where the entity selected is not a MiFID II firm subject to the Best Execution obligation, we have in place formal arrangements with the entity to seek MiFID II Best Execution standards.
- We monitor and review the execution quality delivered and correct any deficiencies.

The process of selecting brokers/broker-dealers is divided into two stages:

- Pre-selection of potential brokers/broker-dealers, on the basis of qualitative variables. The Bank takes into consideration the price and costs, the prestige and significance in the market of the possible brokers/broker-dealers, high quality service, high market volumes, efficient execution and settlement, and optimum computer systems.
- Once the pre-selection of potential brokers/broker-dealers has been carried out, the final broker/broker-dealer is chosen from among these, taking into consideration, among other factors, price, costs, speed of execution and the likelihood of execution and settlement, the size of the order, the type of order and any other factor that the Bank considers relevant for inclusion in the decision-making process when executing the order.

The weighting of these factors will vary depending on the customer category:

- a) The prevailing criterion in the case of retail customers will be that of total consideration, consisting of the price of the financial instrument and the costs relating to the execution, which includes all the expenses incurred by the customer that are directly related to the execution of the order, including the execution fees, those relating to clearing and settlement and others paid to third parties involved in executing the order.
- b) With regard to professional customers, certain factors are taken into consideration in addition to those involved in the case of retail customers, such as the speed and likelihood of execution depending on the trading volumes that they carry out.

As stated by MiFID Directive and developments over it, Andbank reserves its right to select a single broker for a specific instrument if all mentioned conditions are met, always after a rigorous due diligence process and with the approval of the management board of the bank. In this regard, Andbank carries out an on going monitoring which permits the assessment on the Best Execution requirements when a single broker is selected. If the Bank encounters that there is a better option outside the selected broker, it will start the procedure of add another ones or change the current one.

## ANNEX II. EXECUTION VENUES AND INTERMEDIARIES FOR INSTRUMENTS CLASS

| FINANCIAL INSTRUMENT                         | FACTORS TO BE TAKEN INTO CONSIDERATION IN THE SELECTION OF VENUES/BROKERS (% WEIGHTING)                                                                                                                                                                                  | EXECUTION VENUE OR BROKER                                                                                                  |
|----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Listed Equities (national and international) | Price and costs (80%)<br>Speed and likelihood of execution/settlement (15%)<br>Size and nature of the order (5%)                                                                                                                                                         | Transmission of orders to Brokers:<br>Andorra Banc Agricol Reig SA                                                         |
| Fixed income                                 | As regards purchase/sale transactions of fixed income securities (public, private, national, international, preferred securities), Andbank Luxembourg will always act in accordance with the principles set out in its best execution policy for fixed price securities. | Execution by:<br>Andbank Luxembourg S.A.<br>System used (Bloomberg)                                                        |
| Derivatives                                  | Andbank Luxembourg will always act in accordance with the principles set out in its best execution policy for fixed price securities                                                                                                                                     | Execution by:<br>Andbank Luxembourg send the orders to EMSX in the name of Andbank Andorra (SLA)                           |
| Foreign Exchange                             | Andbank Luxembourg will always act in accordance with the principles set out in its best execution policy.                                                                                                                                                               | Execution by:<br>Andbank Luxembourg S.A.<br>System used (Tex-Prod Platform – 360 T Trading Networks)                       |
| Investments funds for Spanish Clients        | Price and Cost (100%)                                                                                                                                                                                                                                                    | Execution by:<br>Andbank Luxembourg S.A.<br>Transmission of orders to:<br>Allfunds Bank International SA or direct via Fax |
| Investments funds                            | Price and costs (80%)<br>Speed and likelihood of execution/settlement (15%)<br>Size and nature of the order (5%)                                                                                                                                                         | Execution by:<br>Andbank Luxembourg S.A.<br>Transmission of orders to:<br>Allfunds Bank International SA or direct via Fax |
| Structured Products (OTC)                    | Regarding purchase/sale transactions of structured products, the bank will always act in accordance with the principles set out in its best execution policy for fixed price securities. In the final prices all fees will be included.                                  | Transmission of orders to:<br>Andorra Banc Agricol Reig SA                                                                 |

**Maximum implicit margins in fixed income and structured products**

| <b>Term</b> | <b>Public debt from OECD countries</b> | <b>Private debt from OECD countries or classified as investment grade</b> | <b>Private debt from non OECD countries or classified as non-investment grade</b> | <b>Other instruments non quoted or illiquid and structured products</b> |
|-------------|----------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| < 1,5 YEARS | 0,4%                                   | 0,5%                                                                      | 0,7%                                                                              | 3,0%                                                                    |
| < 3 YEARS   | 0,8%                                   | 1,0%                                                                      | 1,2%                                                                              | 4,0%                                                                    |
| < 5 YEARS   | 1,2%                                   | 1,5%                                                                      | 2,0%                                                                              | 5,0%                                                                    |
| > 5 YEARS   | 1,6%                                   | 2,0%                                                                      | 2,5%                                                                              | 6,0%                                                                    |