

HCOB's Approach to Responsible Marketing & Sales Practices

(including aspects of Capital Markets & Corporate Compliance)

This document summarizes HCOB's approach to responsible marketing and sales practices. Overall, HCOB's approach to responsible marketing and sales practices is embedded in and complemented by HCOB's Code of Conduct, its Reputational Risk Policy, and Conflict of Interest Policy. These policies, including the approach to responsible Marketing & Sales Practices, apply to HCOB AG including all branches and representative offices located in Germany and abroad as well as its affiliates and are available on a centralized platform.

By signing a contract with HCOB employees confirm they will follow these internal rules. During the onboarding they are trained concerning these regulations. Furthermore, regular training is required on certain relevant aspects in subsequent years, as training courses on the overall Code of Conduct, conflicts of interest, fraud and anti-money-laundering are key parts of the training curriculum. Adherence to these principles is being monitored and violations of the Code of Conduct and underlying principles are being sanctioned (e.g. may result in formal written notices, bonus cuts or termination of employment). If a breach of responsible marketing and sales practices or a set of circumstances that gives rise or may give rise from the point of view of an objective third party, to damage the interests of a client or those of the Bank and/or its Companies is identified by Employees and Relevant Persons, they must immediately report this to Compliance.

Naturally, the Bank adheres to all relevant regulations and national laws regarding marketing and advertising, but not exclusively, e.g., the Act against Unfair Competition¹ or the German Securities Trading Act² regarding the specific regulations relating inter alia to transactions involving financial instruments.

Furthermore, HCOB always aims for transparent and truthful communication. This includes transparency regarding costs and risks involved in the relevant financial instruments (on its corporate lending, deposit taking and other refinancing products). HCOB commits to communicate potential rejections of customer applications (e.g. for lending products) to its (corporate) customers.

Moreover, no publication of offensive content or ethically and morally ambiguous information is tolerated. Regarding its clients as well as other stakeholders, no improper influence will be conducted, and the protection of their privacy ensured.

HCOB adheres in this regard to the regulations of the General Act on Equal Treatment³ externally and internally and the prescriptions of the General Data Protection Regulation (GDPR) and local laws and regulations concerning data protection. HCOB will never use customer data without the client's consent and will not use any data gathered within the know-your-customer-due-diligence process for marketing purposes.

¹ Gesetz gegen den unlauteren Wettbewerb (UWG)

² Wertpapierhandelsgesetz (WpHG)

³ Allgemeines Gleichbehandlungsgesetz (AGG)

In addition, HCOB has set up mechanisms for regular review and improvement of marketing and sales practices. This includes the use of feedback and research to continuously optimize marketing strategies and align them with ethical standards. HCOB ensures that its Marketing practices do not exploit or reinforce social inequality.

In principle, due to its business model, HCOB does not engage in transaction banking, payment service accounts, wealth management or consumer credit products in retail banking for private customers.

However, HCOB is operating, initially in a limited range, as a depository institution for tailor made deposits of selected own clients and of standardized deposit products for private individuals via an internet-based third-party platform. The terms and conditions of the standardized deposit products are fully transparent, standardized and set by the platform provider based on the commercial parameters provided by HCOB.

As HCOB does otherwise not offer retail banking services, the practices related to responsible marketing and sales focus primarily on transactions with its corporate and institutional clients, with lending, deposit-taking, and market-based refinancing being the major business types.

For its refinancing, HCOB has set up a Debt Issuance Program, which provides extensive transparency on the conditions and risks involved in the respective financial instruments that may be issued under the program. The "Base prospectus" and its respective updates are available on the Investor Relations homepage in the Funding section. The Base prospectus is governed by the prospectus regulation of the EU and approved by the German regulator, Bundesanstalt für Finanzaufsicht (BaFin).

Furthermore, HCOB has established communication channels, where (potential) clients and stakeholders can provide feedback or lodge complaints, e.g., via the HCOB website.

Aspects of Capital Markets & Corporate Compliance

Department Corporate & Securities Compliance

From an organizational point of view, in particular, the Corporate & Securities Compliance department of the Business Unit Compliance works to ensure responsible marketing and sales via the compliance with the above-mentioned legal standards and regulatory requirements, which result from the German Securities Trading Act (WpHG), the minimum requirements for the compliance function (MaComp) of the German Regulator Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the Market Abuse Regulation (MAR). Corporate Compliance also works across the board to ensure compliance with the bank's key legal regulations and requirements. In particular, the minimum requirements for the Risk Management (MaRisk) of the BaFin and the Guidelines on Internal Governance of the European Banking Association (EBA) provide a regulatory basis. The activities are procedurally bundled in the core processes of Conflicts of Interest, Investor Protection, Market Protection, Legal Monitoring and Compliance Training/Awareness. The Corporate & Securities Compliance department is also responsible for the cross departmental core processes for compliance governance (including compliance risk assessment, compliance controls and compliance reporting).

Following is outlined the subjects, which fall in the very working area of Corporate & Securities Compliance but lay in the responsibility of the business units and each staff member as well. The subjects mentioned below support a responsible marketing and sales directly or indirectly.

Conflicts of Interest

The core process Conflicts of Interest is used to manage conflicts of interest in the HCOB. This is based on the Bank's Conflict of Interest Policy, which defines the measures to identify, prevent and disclose conflicts of interest. BU Compliance defines the criteria for determining the compliance relevance of employees and maintains a register of conflicts of interest. Potential conflicts of interest are monitored

based on data on business relationships, secondary activities, mandates and compliance-relevant information, also with technical support. Part of the core Conflicts of Interest process is the so-called Independence Compliance Process, which monitors the preservation of the auditor's independence when commissioning non-audit services.

Investor Protection

The core Investor Protection process works to ensure compliance with the regulations for the protection of the bank's customers regarding transactions in financial instruments. This includes, among other things, compliance with product governance requirements, the provision and documentation of investment advice (suitability declarations) as well as order processing and execution (best execution). In addition, the requirements for the representative for the protection of client funds and financial instruments (so-called single officer), the classification of clients (client classification), the collection of information about the client, information provided to the client (e.g. brochures, advertising materials) and complaint management are regularly reviewed.

Market Protection

The fundamental aim of market protection is to guarantee adherence to regulations concerning market abuse prevention. These processes seek to safeguard the markets, enhance trust in the banks, prevent harm to the bank and its staff, and ensure compliance with regulatory requirements to uphold the financial markets' integrity. The main tasks in the context of the prevention and detection of market abuse are the monitoring of all trading activities regarding market-manipulative behavior and potential violations of the prohibition of insider trading. Monitoring compliance with the requirements of MAR and MaComp for personal transactions (employee transactions) is part of this. Other components include the maintenance of insider lists and the restricted list, which are compared with the transactions and any suspicious cases resulting from this are reported to the competent supervisory authority.

Legal Monitoring

The core process Legal Monitoring identifies the regulations and requirements that are essential for HCOB, including those touching marketing and sales issues, assigns them to clear responsibility at Business Unit management level and works towards their implementation. In addition, the departments are required to identify new or amended regulations and requirements in their area of responsibility by applying the usual commercial duty of care for banks. The Legal Monitoring Committee ensures a close exchange between the Compliance unit and the departments responsible for standards and escalates cases of insufficient accountability or implementation.

Cross-functional Compliance

The Corporate & Securities Compliance department is responsible for the cross-departmental core processes for compliance governance, which includes compliance risk assessment, compliance reporting and compliance controls.

Compliance Risk Assessment (CRA):

The legal obligation to prepare a compliance risk analysis as well as to regularly review it and, if necessary, update it follows from several regulatory requirements, where there are the German Anti Money Laundering Act (GwG)⁴, the German Banking Act, the MaComp, the MaRisk, the German Securities Trading Act (WpHG), and the "Guidance on compliance with financial sanctions" published by the

⁴Gesetz über das Aufspüren von Gewinnen aus schweren Straftaten (Geldwäschegesetz – GwG)

Deutsche Bundesbank. In accordance with these obligations, the risk analysis is also extended to the Group level, which includes not only the branches but also affiliates which fall into the group of entities to be regularly surveilled by the Compliance department.

The Compliance Risk Assessment is approved by the Compliance Officer (Head of Compliance) and the Chief Risk Officer (CRO). Reporting to the Board of Management and the Risk Committee is usually done via Compliance Reporting. The results of the CRA are the essential basis for the control and monitoring actions of BU Compliance.

The CRA describes the specific situation of the HCOB Group with regard to the risk that, for example, it is misused for money laundering or terrorist financing purposes, sanctions are not complied with, or embargo (regulations) are violated, exposes the latter to financial endangerment to his detriment by means of other criminal acts (fraud), but also – which has a strong connection to responsible marketing and sales practices – if regulatory requirements for securities trading are not complied with, standards and guidelines are not implemented or adhered to in the HCOB or are not implemented or complied with on time, and the client's assets are not sufficiently protected pursuant to the Section 81 of the German Securities Trading Act (WpHG) and the Minimum Requirements concerning Discretionary Accounts (MaDepot)⁵ and its prescriptions concerning the duties of the so called "Single Officer".

Single Officer

The Single Officer is tasked with the protection of client assets from the consequences of an insolvency of the entity providing investment services and investment ancillary services⁶ and other institutions in the custody chain, as well as the protection of client assets from the loss of property rights. This involves constant monitoring based on a risk analysis and regular evaluation of the organizational arrangements of the HCOB for the protection of clients' financial instruments, which in turn, are held because of the marketing and sales activities of the client facing units of the bank. The Single Officer also provides consulting and support to relevant persons regarding compliance with applicable regulations and must ensure financial reporting to the management board at least once a year, with ad hoc reporting if significant risks are identified. Additionally, the Single Officer acts as the contact person for competent authorities and has the authority to access all relevant information needed to fulfill their tasks within all divisions of the bank.

Compliance Reporting

A process has been implemented for at least annual or ad-hoc reporting to the Management Board and the Risk Committee of the Supervisory Board on the relevant core processes of compliance. Monthly reports are also written during the year. Based on these reports, the Compliance Officer reports quarterly to the Management Board and the Risk Committee of the Supervisory Board.

Ad-hoc reporting is provided for topics that go beyond "daily business" in compliance because they represent a particular risk situation and require immediate disclosure of information (disclosure of information without undue delay) or for topics for which there is a special occasion. The reporting would also cover circumstances where a customer complaint has been raised because of a conflict of interest while conducting investment services, which in turn may be connected to the marketing and sales happened prior to that.

Compliance Controls

To ensure compliance with legal and supervisory requirements in the bank, including those connected with marketing and sales, the Compliance department carries out its own control and monitoring act-

⁵ Rundschreiben 07/2019 (WA) Mindestanforderungen an die ordnungsgemäße Erbringung des Depotgeschäfts und den Schutz von Kundenfinanzinstrumenten für Wertpapierdienstleistungsunternehmen (MaDepot)

⁶ For the sake of easier readability, the term "investment services and ancillary investment services" are also referred to as "investment services" in the following sections.

ivities. As part of the core Compliance Controls process, the standards for the planning and implementation of these control and monitoring actions are created and compliance with them is ensured. The compliance control concept serves as the basis for this. In addition, the core process is responsible for tracking the implementation of measures defined as part of the control and monitoring activities by the Compliance department.

Potential Infringements Despite Robust Compliance Culture

Even though the HCOB Group has implemented all requisite measures to foster a robust compliance culture, there remains the possibility of inadvertent or intentional non-compliance. This can arise due to several factors, including human error, evolving regulatory landscapes, and complex financial operations. The rigorous procedures and controls in place are designed to mitigate such risks, but no system is infallible.

The compliance framework includes thorough training programs, regular audits, and stringent monitoring. However, there are scenarios where infractions might occur. For instance, employees may inadvertently overlook certain compliance requirements or misinterpret regulatory guidelines. Additionally, rapid changes in regulations might temporarily outpace the institution's ability to adapt, leading to unintended breaches.

Instances of potential conflicts of interest, as discussed in the compliance risk assessment, underscore the importance of continuous vigilance and adaptation. The compliance department is committed to addressing such issues promptly and effectively to uphold the integrity of the bank and protect client interests.

Outlined below are such circumstances which cause potential breaches of compliance rules related to marketing and sales practices, which, if the investment service improperly conducted, could result in violations of laws and regulations governing investment services and ancillary investment services.

1.1 Securities transactions – investment services

HCOB owns the general license to provide all investment services to clients although not all of them are provided at once and in the same point of time.

1.1.1 Investment advice

The term “investment advice” is defined as making personal recommendations to clients or their representatives that relate to transactions in specific financial instruments, insofar as the recommendation is based on the evaluation of the investor's personal circumstances or is presented as being suitable for him and is not made exclusively via information distribution channels nor is accessible to the public.

Risks concerning the compliance with responsible marketing and sales practices may arise in relation to investment advice particularly in the situations set out below:

- recommendation given to the client to purchase or sell financial instruments, when the Bank, its Companies, Employees or Relevant Persons have at the same time a material interest in a purchase or sale that differs from the client's interests (e.g. due to proprietary transactions, issues or placements, purchase or sale of listed equity investments or personal account dealing of Employees, variable remuneration components, private financial interests),
- front and parallel running against orders resulting from the investment advice as part of proprietary trading, proprietary transactions or personal account dealing of Employees,

- recommendation made to the client to buy or sell financial instruments based on confidential information that is not publicly known,
- publicly known information, which serves as the basis for a recommendation made to the client to purchase or sell a specific instrument of an issuer, conflicts with price sensitive information regarding the issuer that is not publicly known, and which at the same time is available in other business units of HCOB (e.g. information from the lending business, M&A advisory (currently not offered by HCOB, therefore currently not relevant), etc.),
- recommendation made to a client to buy or sell financial instruments of an issuer, on whose management, supervisory, advisory or steering committees Employees of the Bank and its Companies exercise a mandate,
- recommendation made to a client to purchase or sell such financial instruments that are not in the interest of the client and attract above-average commission payments. In this connection directly linked buys and sells of the same type of financial instruments – irrespective of the amount of the transaction fees – are generally not permitted.
- acceptance or giving gifts or other benefits in relation to investment advice infringing upon the rules set in HCOB's benefits policy

1.1.2 Investment and contract broking

The irresponsible marketing and sales practices set out below may arise as part of the brokering of transactions involving the purchase or sale of financial instruments (investment broking):

- Employees or Relevant Persons of Companies of HCOB, who act as investment brokers, broker financial instruments or assets for their clients under criteria that are contrary to the clients' interests (e.g. amount of the commission) or are contrary to the legitimate interests of the Bank or its Companies,
- front and parallel running against the orders resulting from investment and contract broking as part of proprietary trading, proprietary transactions or personal account dealing of Employees,
- Employees or Relevant Persons of Companies of HCOB, who act as investment brokers, broker financial instruments or assets for their clients based on personal interests,
- providers of financial instruments or assets, with which the Bank or its Companies enter into a brokerage agreement, are not selected in the client's interest,
- acceptance or giving gifts or other benefits in connection with services provided infringing the rules set in HCOB's benefit policy.

The causes of breaches of responsible marketing and sales practices arising on the buying or selling of financial instruments in the name of and on behalf of a third party (contract broking) are like those in investment broking.

1.2 Lending business

For the purposes of this Framework Instruction the granting of money loans and acceptance credits as well as all types of loans and financing arrangements, which the Bank offers to its clients, Employees and members of executive bodies, fall within the term "banking business". This includes,

for example, consumer loans, real estate loans, working capital loans, investment loans, project financing, takeover financing, securities loans, syndications, sureties, guarantees and discount loans. Within the framework of lending business – this includes loan defaults as well – breaches of responsible marketing and sales practices may arise in the following situations in particular:

- unauthorized granting of special terms and conditions for loans to provide an advantage to a borrower or to obtain an advantage from such,
- initiation of the granting of loans as part of bidding processes, if several clients and the Bank or its Companies participate in the bidding process independently of each other,
- acceptance or granting of gifts or other benefits in connection with the services provided in the lending business which are not in line with the boundaries of the Bank's policy concerning inducements

1.3 Inducements

Inducements within the meaning of Section 70, chapter 2 WpHG are benefits accepted from third parties or provided to third parties in connection with the provision of investment services or ancillary investment services (see Sections 2 and 3). It is important to know that the HCOB as a bank does not rely on such inducements and only a low amount of a five-digit number in Euro is generated by inducements per year.

Inducements include commissions, fees, other cash payments and all payments in kind, such as, for example, the handing over of IT software and hardware, financial analyses, the carrying out of training seminars as well as any reduction in the fees and costs invoiced to the client. Breaches of responsible marketing and sales practices may particularly arise in relation to the provision of services in the securities business, if the selection of the product underlying the service is primarily based on the amount of the inducements that may be received and is not in line with the client's requirements. Acceptance or giving of inducements for investment services provided opens up significant potential for irresponsible marketing and sales practices and is therefore prohibited as a matter of principle and is only permissible, if

- the inducement is designed to enhance the quality of the service to the client and does not impair the proper provision of the service (due care and diligence, expert knowledge) in the interests of the client and
- the existence, nature and scope of the inducement or, where the scope cannot be ascertained, the method of calculating that scope, is clearly disclosed to the client prior to the provision of the investment service and in a manner that is comprehensive, accurate and understandable.

Agreements containing sliding scale commissions are not permitted.

Fees or charges which allow or are necessary for the provision of the service and which, by their nature, are not likely to jeopardize the careful, diligent, expert provision of the service are exempt from the prohibition on accepting and providing inducements. However, this is valid in those cases only, where the provision of investment services or, where appropriate, ancillary services to clients in a fair and professional manner in accordance with the best interests of its clients is not endangered. Custody fees, management fees, settlement and trading venue fees as well as other official or statutory fees fall into this category.

1.4 Remuneration

The remuneration system as well as the related targets set within the bonus system may also trigger and encourage irresponsible marketing and sales practices. In addition to the salary and the benefit-related allowances the remuneration system, and the term remuneration, includes a variable remuneration component in the form of a bonus as well as the awarding of special bonus payments (cross-departmental bonus payments, bonus payments for outstanding project results or exceptional business or transaction successes etc.).

These may cause, for example, breaches of responsible marketing and sales practices in the following cases:

- dependence of the variable salary component on persons who provide investment advice or portfolio management (currently not offered by HCOB, therefore currently not relevant), on the sales success of a specific product or the frequent turnover of a financial portfolio may result in the client's interests being adversely affected,
- product selection for clients is based not on whether the products meet the client's needs but on which product generates the highest margin in order to achieve the key personal targets set for the variable salary component.