

## Further Information on the Management of Conflicts of Interest

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### I. Introduction

The identification and prevention of conflicts of interest and the proper management of such conflicts represent an important task for any financial services enterprise. WestLB AG, together with its associated companies ("WestLB") obligates employees and other persons acting for it, to identify, analyse and manage conflicts of interest in such a way as to ensure the fair treatment of all parties involved in a manner that does justice to their interests, and avoids any detriment to client interests.

Conflicts of interest can arise in particular if WestLB Group finds itself in a situation in which its own interests are in conflict with the interests of one or more of its clients, or in which the interests of a number of its clients are not compatible with each other.

WestLB Group has therefore taken extensive measures for the prevention, early identification and management of conflicts of interest.

### II. Possible conflicts of interest for WestLB

Potential conflicts of interest could arise from the differing interests of

- WestLB AG,
- other clients of WestLB AG,
- employees of WestLB AG including the company management, and

- companies belonging to WestLB AG and persons employed by them.

Conflicts of interest could arise in particular

- if information is available to WestLB or its employees which is not yet publicly known,
- as a result of personal relationships of our employees, the company management or persons associated with them,
- if these persons serve on supervisory boards or advisory boards of other companies,
- as a result of relations between WestLB and issuers of financial instruments, e.g. where WestLB
  - is involved in issuing financial instruments for an issuer,
  - holds a direct or indirect stake in an issuer or the issuer is a subsidiary of WestLB,
  - has provided or guaranteed a loan to an issuer of financial instruments,
  - has been involved in producing a financial analysis of an issuer of financial instruments,
  - provides payments to/receives payments from an issuer of financial instruments,
  - has entered into co-operation agreements with the issuer of financial instruments, or
  - jointly operates or holds direct or indirect subsidiaries or equity investments with an issuer of financial instruments,
- when producing, publishing or distributing financial analyses or other information about financial instruments or their issuers, where these directly or indirectly recommend a particular investment decision, and
- in the context of encouragement to give preference to a particular financial instrument (e.g. in connection with analysis, advice, recommendation or order execution).

Conflicts of interest which endanger customer interests can also occur when providing the following investment services or ancillary investment services:

- Financial commission transactions (buying or selling financial instruments in one's own name for the account of a third party),
- Proprietary trading (buying or selling financial instruments for one's own account as a service for others),
- Intermediary business (buying or selling financial instruments in the name of a third party and for the account of a third party),
- Serving as an investment intermediary (negotiating transactions to buy and sell financial instruments or evidence of these),

- Portfolio management (managing one or more portfolios invested in financial instruments on behalf of third parties with decision-making powers),
- Investment advisory services (providing personal recommendations to customers or their agents in relation to particular financial instruments where the recommendation is based on an examination of the personal circumstances of the investor or is represented to be suitable for him/her and not provided solely through the media or released to the public.
- Custody business (holding and administering financial instruments for third parties and associated services),
- Extending credit or loans to others to carry out transactions in securities where the company extending the credit or loan has an interest in these transactions,
- Advising companies on capital structure and industrial strategy and advising and providing services on mergers and acquisitions,
- Foreign exchange transactions related to securities services,
- Services based on an underlying asset as defined in Section 2 Paragraph 2 nos.2 and 5 of the German Securities Trading Act (WpHG).

### III. Measures taken by WestLB to deal with conflicts of interest

In order to prevent and identify existing or potential conflicts of interest, and to resolve such conflicts in an appropriate manner, WestLB Group has established an independent Group Compliance function under the direct responsibility of the Chairman of the Managing Board, and has established measures which can be applied at any stage of our conflicts management process. These measures include:

#### 1. Controlling the flow of information; Chinese walls

WestLB has introduced rules governing the handling of certain types of sensitive information, including confidential, not publicly available and price-sensitive information, particularly insider information. These include restricting the flow of information and, notably, setting up areas of confidentiality by means of physical and organisational separation ('Chinese walls'). One of the aims of these measures is to allow areas on one side of a Chinese wall to carry on their business regardless of any (possibly conflicting) activities on the other side of the wall. The measures include separation of reporting lines.

#### 2. Register of conflicts

Group Compliance keeps a confidential register of conflicts listing ongoing or transaction-related business relationships with customers and advisory mandates, in order to identify potential conflicts of interest at an early stage.

As part of its advisory activities the bank may be approached about a particular transaction by different customers with varying objectives and business interests, the relationships with whom are managed by the specialist product areas. There are also Chinese walls between the different product areas. Situations can therefore arise where product areas are working independently and in confidence and are unaware of the activities of the other areas involved.

For instance, one area may be appointed to advise on taking over a company when another business area is about to be mandated to arrange the financing for a competing bid. This conflict of interest must be resolved in a responsible manner. Information must be provided as soon as possible if such conflicts of interest are to be identified.

#### 3. Insider list

Group Compliance also keeps a confidential insider list documenting information which may be relevant to conflicts of interest; this is used to counteract the misuse of such information by means of daily monitoring of staff and proprietary transactions and financial analysis activities.

The list generally includes situations where WestLB has received insider information or is likely to receive it. The assumption is always be that the bank will receive insider information if it signs a confidentiality agreement or a mandate agreement with a company.

The insider lists documents what compliance-relevant information is held with the WestLB group and which members of staff have access to this insider information. Group Compliance uses this list to monitor whether the bank or its staff have carried out any transactions in listed securities where insider information is held.

#### 4. Restricted list

Clients and non-clients of WestLB may also be put on the restricted list for a range of reasons. This is a confidential list placing restrictions on trading in the financial instruments of certain companies. These restrictions may include a ban on proprietary trading or staff transactions or restrictions on publishing/distributing financial analyses.

#### 5. Bundling and allocating orders

In order to avoid conflicts of interest, WestLB never bundles together client orders with those of other clients or for its own account.

## **6. Independence of remuneration**

Staff remuneration is independent of the profits of other areas of the bank where a link might cause conflicts of interest.

## **7. Internal rules**

The measures described are set out in internal guidelines on dealing with conflicts of interest which are binding for all members of staff of WestLB, in compliance guidelines and in other internal directives and handbooks. All arrangements are checked regularly by Group Compliance to ensure they are being adhered to, are effective, and are adjusted where necessary.

### **a) Employee transactions**

The employee trading rules set out a large number of restrictions for personal transactions in securities and derivatives by WestLB employees for their own account or under a power of attorney/as a legal agent. Employee transactions also include transactions carried out by third parties on behalf of or for account of an employee, for instance under an asset management agreement where the employee retains the right to make decisions him/herself.

In addition to the general obligation to reveal all securities custody accounts held, some groups of employees are also required to reveal the transactions in these accounts. There are also rules governing the need to seek approval before accepting powers of attorney, holding periods, a ban on buying and selling on the same day, restrictions on subscribing to new issues and a ban on trading in certain securities by equity dealers, research and marketing analysts, investment bankers and employees in Corporate Finance and the bank's participations unit.

### **b) Accepting and giving gifts and financial benefits**

There is a code of conduct governing accepting and giving gifts and financial advantages which sets out the requirement to report and seek approval for gratuities, special treatment or benefits received in connection with doing business. Employees are not permitted to accept such gratuities, special treatments or benefits above a set minimal level without the prior authorisation of Group Compliance. Employees are also not allowed to demand from or grant to customers or business partners any personal gratuities or benefits such as personal discounts, cash or gifts equivalent to cash in any amount as part of their business activities. It is further forbidden to furnish gratuities to public servants at Federal or State authorities, municipalities or other public bodies.

## **c) Co-investments, directorships, subsidiary activities and private stakes**

Members of the Managing Board and employees of the bank are not permitted to make co-investments in partnerships or unquoted companies. With certain exceptions, they may not hold any offices or external directorships on behalf of WestLB in companies outside the WestLB group where WestLB has granted credit facilities or holds an equity interest. Directorships held in a private capacity, personal stakes and subsidiary activities must be disclosed and require approval.

## **d) Financial analyses**

There are separate and comprehensive rules relating to the production and distribution of financial analysis and how to deal with the related conflicts of interest. The bank has published a summary which can be found on the internet at [www.westlb.com](http://www.westlb.com) under the heading Research. WestLB publishes specific information about potential conflicts of interest in each piece of financial analysis.

## **8. Disclosure of major interests**

Where the precautions and measures to resolve conflicts of interest described above are insufficient, WestLB will disclose the conflict of interest to the customer concerned before providing services.

## **9. Withdrawing from activities**

Where disclosure is not a suitable way of resolving a conflict of interest, WestLB will withdraw from acting for one or more parties to the conflict.

## **10. Training**

Ongoing training measures are also provided to teach employees to identify how conflicts of interest arise in their particular area and how they can be avoided or overcome.