BNP Paribas CIB
Order Handling and Execution Policy
Asset Class Specific Appendices
Equity Derivatives Appendix

BNP PARIBAS CIB GLOBAL MARKETS
London, October 2026

BNP PARIBAS

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Table of Contents

1. Products in scope 3
2. Application of Best Execution for products in scope of this Appendix 4
3. Execution factors taken into consideration 7
4. BNP Paribas' choice of execution venue 8
5. Price formation and monitoring 10
5.1 Ex-ante price formation 10
5.2 Ex-post monitoring and review of prices 11

1. Products in scope

This policy is an appendix to the overarching BNP Paribas CIB Order Handling and Execution Policy and should be read in conjunction with that document. Terms used in this Appendix but not otherwise defined shall have the meaning given to them in the BNP Paribas CIB Order Handling and Execution Policy.

This appendix provides further details with regards to the application of best execution in relation to the following financial products (the "Equity Derivatives Products"):

- Vanilla options (call, put, combination of both, either listed or OTC)
- Volatility derivatives (Volatility swaps, Variance swaps, Dispersion swaps…)
- Convertibles bonds
- Warrants
- Discount certificates, bonus certificates
- Tracker and leverage products
- Products with Asian exercise
- Barrier and options with Cliquet/Rachet feature
- Options with look back features
- Cancellable products
- Equity forward
- Equity swaps
- Dividend swaps and futures
- Systematic investment strategies including funds or options
- CFDs
- Exchange-traded Fund (ETF)
- Futures
- Structured notes
- Custom Baskets
- Covered call
- Other exotic options

Underlying of those products can be single stocks, equity indices, sectorial indices, emerging market indices, basket of equities/commodities/currencies, custom indices, convertible bonds, corporate bonds, ETFs, MLPs, depositary receipts or mutual funds.

With respect to the Equity Derivatives Products, we provide the following services:

- Requests for Quote ("RFQ");
- Unwinding a derivative or secondary market product;
- Executing of orders pursuant to specific instructions and therefore without discretion;
- Executing of order with discretion

2. Application of Best Execution for products in scope of this Appendix

Retail clients

We will always owe a duty of best execution to retail clients unless they place an order with specific instructions that cover each and every aspect of that order.

Professional clients

In respect of the Equity Derivatives, whether or not a duty of best execution is owed for a particular trade will depend on whether BNP Paribas determines that the client has placed legitimate reliance on it to meet the relevant best execution requirements. This is, in practice, is less likely to apply where clients have asked us for a quote (RFQ), as well as when we execute orders pursuant to specific instructions (and therefore without discretion) or provide executable or streaming (two way) prices

Requests for Quotes and Executable Streamed Prices

Where a client executes a trade directly from a live streamed BNP Paribas price or submits a request for quote, the obligation to provide best execution will depend upon whether or not the client is placing legitimate reliance upon BNP Paribas in the execution of the transaction. This will be determined by a number of factors, including the complexity and transparency of the product / market, the level of sophistication of the client and the ability of the client to seek alternative competitive quotes.

BNP Paribas will take these factors into consideration to assess whether or not a duty of best execution is owed, but considers that for such activity, Professional Clients will not generally be placing reliance upon BNP Paribas.

Specific Instructions

Where a client places an order with specific instructions that cover each and every aspect of an order, BNP Paribas, acting in accordance with these instructions, will not have any discretion over the execution of the transaction, including when or where to execute the order. As such BNP Paribas will not be deemed as acting on behalf of the client and best execution **will not apply**

To the extent that a client places an order with a specific instruction that only cover partial aspects of the order best execution will be owed on the aspects of the order in respect of those elements not covered by the instructions, for instance where the order does not specify the venue on which the trade should be executed on.

Restructuring

When BNP Paribas agrees with a client to restructure, unwind or otherwise modify an existing contract ("Event") we will treat this Event as a new transaction has taken place and consider the application of best execution to this Event in accordance with the processes described in this Product Appendix.

Novation

When BNP Paribas agrees to a novation it may do so subject to a fee to compensate the firm for any difference in pricing between the bilateral contract being stepped out of and the replacement contract being stepped into, due for example to difference in the CSA. This fee may also include costs to reflect the administrative overhead.

Exchange traded derivatives, negotiated off-order book

Certain products, such as listed futures and listed options contracts, must be traded on a regulated market (RM) and are subject to specific rulebooks stipulated by the RM. Where the rulebook permits, BNP Paribas and the client may agree to execute a trade on a bi-lateral basis, with BNP Paribas acting in a principal capacity. Typically, such a transaction would then be submitted to the venue within a time period and manner specified by the venue.

The application of best execution in such cases will be determined on the basis of the factors as described in the Requests for Quotes and Executable Streamed Prices section of this document.

Examples of permissible "off venue" transaction include;

Block trades

A Block Trade is a bilaterally negotiated futures, options or combination transaction that is permitted to be executed apart from the public auction market. Typically, the venue will stipulate a minimum size for a transaction to be eligible for block trade execution.

Exchange for Physical

An Exchange for Physical ("EFP") transaction involves the off-venue execution of a futures and, on the opposite side of the market, the simultaneous execution of an equivalent quantity of the cash product.

We will generally owe you a duty of best execution for the following services:

- Unwinding a derivative or secondary market product;
- Where the execution of a client transaction in terms of size or price is specifically linked to and dependent upon the outcome of BNP Paribas' own hedging activity, such as Equity Swap transactions.

3. Execution factors taken into consideration

When executing transactions in Equity Derivatives Products where best execution applies, in the absence of any specific instructions, BNP Paribas will prioritise the Execution Factors in the following order:

i. Price
The firm seeks to provide a highly competitive service to clients and will respond with a price it considers competitive and fair.

ii. Speed
When a client submits an RFQ the implicit assumption is the client has prioritised speed of execution and requires immediacy of execution.

iii. Size of the request
A quotation will be provided such that the full size requested by the client can be filled. If, due to market conditions, this is not possible the firm will communicate this to the client with a view to changing the execution criteria to facilitate partial fills.

iv. Likelihood of execution
The firm will endeavour to provide a quotation which is valid for a sufficient time window to allow the client to accept if they so desire, notwithstanding a large market move rendering the quote invalid.

v. Likelihood of settlement
Before responding with a price, the firm will check credit line, CCP limit and or settlement limit availability and will only respond with a firm price where sufficient limits are available to settle any resulting transaction.

vi. Ability of execution venue to manage the quotation request
The firm is authorised to trade a limited number of financial instruments within predetermined risk limits, any request for quotation on an instrument outside this scope or beyond the risk limit may be declined.

4. BNP Paribas' choice of execution venue

BNP Paribas will generally act as the execution venue for all Equity Derivatives Products.

BNP Paribas believes that using BNP Paribas as execution venue for Equity Derivatives Products is in the best interests of its clients for the following reasons:

1. Bespoke product range

Most of products traded are bespoke complex products or plain vanilla products with significant size that clients trade directly with BNP Paribas.

2. Limited product scope of external alternatives

BNP Paribas is able to offer liquidity on a comparatively wide range of structured products and derivative contracts, whereas external venues tend to be limited to a smaller range of products or smaller sizes;

3. Likelihood of execution and settlement

External venues to which BNP Paribas could direct client orders are typically "central limit order books" which can be fast moving and subject to variable liquidity. BNP Paribas is able to offer consistency in liquidity provision as well as the ability to hold prices firm for sufficient time to improve the likelihood of execution;

4. Price

BNP Paribas Trading aims to provide a competitive service and is often able to offer clients an improvement on the price available on external venues. When executing a previously provided quote BNP Paribas will consider any change in market conditions during the time elapsed from when the quote was made adjusting the quote accordingly where market conditions dictate, and

5. Market impact

BNP Paribas maintains significant inventories to facilitate client transactions. By using these inventories and transforming liquidity in related instruments we are able to minimise the implicit cost to clients by minimising market impact.

Whilst clients will generally face BNP Paribas as the execution venue, BNP Paribas will utilise a number of execution venues in executing hedge transactions related to OTC transactions executed for clients and in more limited circumstances where BNP Paribas executes an order for clients directly on another execution venue (typically a regulated market). A list of the major execution venues that BNP Paribas relies upon when executing such trades is provided in the execution venues appendix of the BNP Paribas Order Handling and Execution Policy. Appendix III of the BNP Paribas order Handling and Execution Policy.

5. Price formation and monitoring

When Best Execution has been determined to be owed, and when BNP Paribas executes orders or takes a decision to deal in OTC products, (including bespoke products), BNP Paribas will 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, when possible, by comparing with similar or comparable products.

The price proposed to the client consists of a mid-market price to which a number of costs and margins are added to produce the final price proposed to the client.

In addition, where BNP Paribas owes clients a duty of best execution, BNP Paribas will use the following processes to analyse the prices obtained for its clients and the quality of execution obtained.

5.1 Ex-ante price formation

BNP Paribas makes extensive use of the external market prices of similar or related products to estimate the "fair value" of a financial instrument. These external tradable prices are then, together with model parameters, used by BNP Paribas proprietary models to price a range of products. Throughout the trading day BNP Paribas recalibrates these model parameters tracking available markets, to enable the fair value pricing methodology to remain accurate and up to date.

Finally, a number of other costs, including credit and funding charges and any applicable mark-up, are added to produce the price proposed to the client.

Under the MIFID II and as per Article 24(4) of Directive 2014/65/EU and Article 50 of the Commission Delegated Regulation, the difference between the client price and the fair value of the financial instrument are subject to disclosure to the client.

5.2 Ex-post monitoring and review of prices

BNP Paribas's approach is a model-based benchmarking. Given BNP Paribas's price manufacturing policy described above, benchmarking is done on a systematic basis through its algorithms to assess the extent to which its markings are in line with available market parameters levels that can be observed in the market for similar products or for related hedging products.

Whether Best execution is owed or not, BNP Paribas will put in place a daily monitoring process to assess whether the market parameters used to compute the fair value price, including where applicable the mid-price and shifts/spreads applied are fair. The monitoring process provides for exception based reporting, to enable follow up review and analysis of trade execution processes, the results of the analysis being used to verify the effectiveness of BNP Paribas execution arrangements and where necessary amend and enhance trade execution and pricing processes.