



**EXCERPT FROM THE CONFLICTS OF INTEREST AND
PERCEPTION OF INCENTIVES POLICY IN THE FRAMEWORK OF
THE PROVISION OF BANCO SABADELL INVESTMENT SERVICES**

This document is a translation of a Spanish language document which was approved by the Board of Directors of Banco de Sabadell, S.A. on 28/05/2020. The Spanish version of this document will prevail in the event of any discrepancy or dispute.

1. Introduction

1.1. Definition

1.1.1. Conflicts of interest

For the purposes of this Policy, a conflict of interest exists when, in the provision of investment services or auxiliary services, or a combination of both, there is a counterposition between the Institution's interests, including those of Directors, Management and employees or any person directly or indirectly linked to them for control, and those of their customers, or amongst customers themselves, which could lead to the impairment of the latter's interests.

The existence of a conflict of interest does not imply that such impairment will be generated, yet that it is sufficient for the possibility of such impairment to occur in the future.

1.1.2. Incentives

All and any fees, commissions or non-monetary benefits paid by the Institution to third parties or received by the Institution from third parties due to the provision of investment services, auxiliary services or a combination of both are considered as incentives.

1.2. Objective and unit responsible

This Conflicts of Interest and Perception of Incentives Policy (PCIPI, for its acronym in Spanish) has a triple purpose: (1) Identify the circumstances which constitute or may lead to a conflict of interest between the Institution and its customers or between two or more customers in the provision of investment services; (2) adopt measures which allow the materialisation of conflicts of interest to be prevented in this area, establish mechanisms and procedures to identify these conflicts and determine the manner of managing these unavoidable conflicts of interest, and lastly (3) regulate the principles and critical management parameters in terms of the perception of incentives.

This Policy is the responsibility of the Compliance Division of Banco de Sabadell, S.A.

1.3. Scope of application

This Policy shall be applicable to the activities of Banco de Sabadell, S.A. (hereinafter Banco Sabadell, the Bank or the Institution) in relation to the provision of investment services, and therefore any reference to conflicts of interest carried out therein must be understood to be related to such activities.

This Policy is applicable to directors, managers, employees and related agents or any directly or indirectly related person of the Institution, whose functions have a direct or indirect relationship with the activities in the scope of the securities market or in relation to MiFID instruments.

1.4. Regulatory framework

The legal documents used as reference for this Policy are:

- Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000, relating to the taking up and pursuit of the business of credit institutions.
- Directive 2013/36/EU of 26 June 2013, regarding access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.
- Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on financial instrument markets and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II).

- Delegated Directive (EU) 2017/593 of the Commission of 7 April 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to the safeguarding of financial instruments and funds belonging to customers, 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 the Commission of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.
- EBA Guidelines on internal governance (EBA/GL/2017/11) of 26 September 2017.

Additionally, it is also important to take the following national regulations into account:

- Royal Decree 217/2008, of 15 February, on the legal system for investment firms and other institutions providing investment services, partially amended by Royal Decree 1464/2018, of 21 December.
- Royal Decree-Law 14/2018, of 28 September, amending the revised text of the Securities Market Act.
- Royal Legislative Decree 4/2015, of 23 October, approving the revised text of the Securities Market Act, amended by Royal Decree-Law 14/2018, of 28 September, and by Royal Decree 1464/2018, of 21 December, implementing the revised text of the Securities Market Act.

1.5. Related policies

This Policy is configured as a by-product of BANCO SABADELL GENERAL POLICY ON CONFLICTS OF INTEREST, with the objective indicated in point 1.2. Its content is therefore specific and limited, as stated in point 1.3. In the event of any discrepancy between the two policies, the BANCO SABADELL GENERAL POLICY ON CONFLICTS OF INTEREST shall prevail.

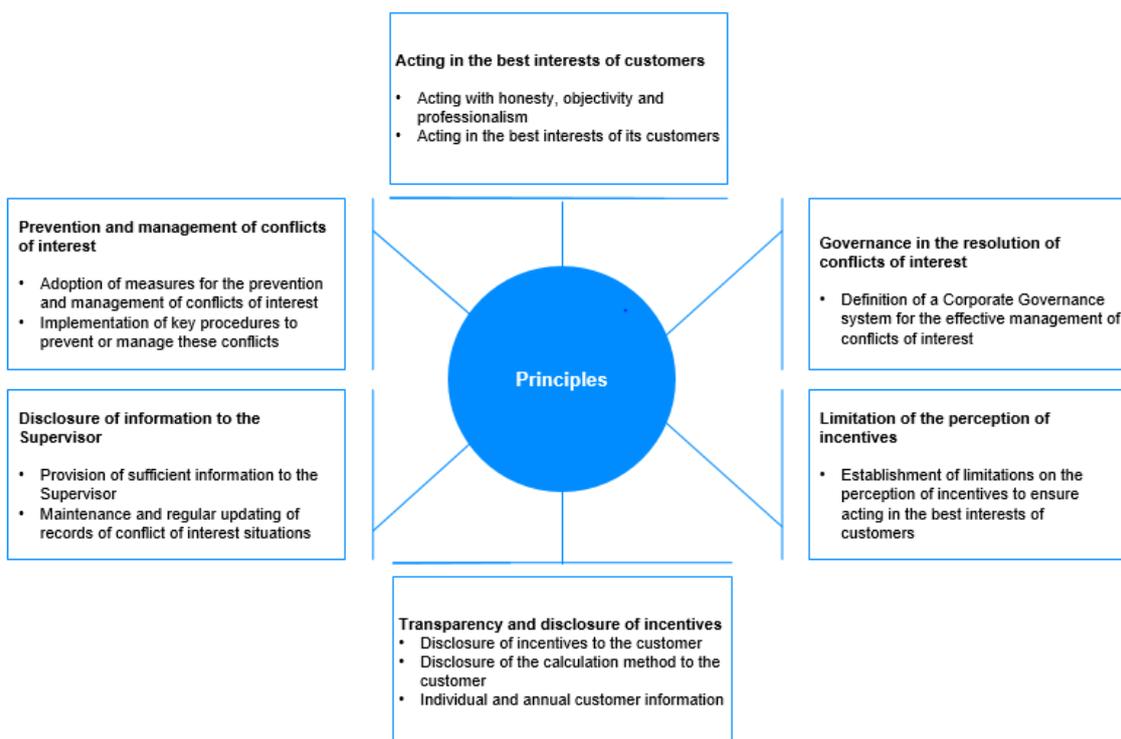
2. Principles and critical management parameters

In terms of the management of conflicts of interest and perception of incentives, the following principles and critical management parameters have been identified:

2.1. Principles

The general principles which shall govern the management of conflicts of interest and perception of incentives are the following:

Figure 1. Principles for the management of conflicts of interest and the perception of incentives



2.1.1. Acting in the best interests of customers

The Institution must act honestly, impartially, professionally and always in the customer's best interest.

Ahead of a situation in which the investment services offering may lead to conflicts of interest between the Institution and its customers, rules should be established which guarantee that these conflicts do not prejudice customers' interests.

2.1.2. Prevention and management of conflicts of interest

The Institution must adopt effective measures for the prevention and management of the conflicts of interest which may arise in relation to the various lines of its business and the activities which it carries out, which at the same time, must be suitable to preserve the objectivity and independence of the individuals affected by the conflict of interest.

To do so, the circumstances which give rise to, or may give rise to, a conflict of interest which implies a risk of undermining the customers' interests must be identified. The Bank shall also define the measures that should be adopted and the key procedures to prevent or manage these conflicts

2.1.3. Governance in the resolution of conflicts of interest

The Institution must have a Corporate Governance system in place which allows it to manage potential conflicts of interest in an efficient manner.

In this regard, a series of administrative measures must be applied, as well as effective organisation measures in order to detect, prevent and manage the conflicts of interest which may arise at the time of the provision of any investment or auxiliary service, or due to a combination of both, for which the Institution is authorised.

2.1.4. Disclosure of information to the Supervisor

The Institution must make sufficient information available to the competent authority in terms of the management of conflicts of interest in order to carry out its duties as supervisor in this regard.

To do so, a register of the types of investment or auxiliary services must be maintained and updated, carried out by the Institution or on behalf of the same in which a conflict of interest has arisen which has represented a risk of undermining customers' interests, or in the case of a service of an ongoing activity, in which such conflict could arise.

2.1.5. Limitation of the perception of incentives

The Institution shall ensure that no fees or commissions will be charged or paid, nor shall it provide or receive any non-monetary benefit in connection with the provision of an investment or auxiliary service, to a third party or party other than the customer or the individual acting on behalf of the customer, unless the payment or benefit:

- has been designed to improve the quality of the relevant service provided to the customer, and
- does not prejudice the compliance of the investment service firm's obligation to act honestly, objectively, professionally and in the best interests of its customers.

Any payment or benefit which enables or is necessary for the provision of investment services, such as custodial expenses, settlement and exchange fees, regulatory or legal fees, and which, by their nature, cannot conflict with the duty of the investment firm to act honestly, objectively, professionally and in the best interests of its customers, shall not be subject to the requirements of this paragraph.

2.1.6. Transparency and disclosure of incentives

Prior to the provision of the corresponding investment or auxiliary service, the Institution must clearly disclose to the customer, in a complete, accurate and understandable manner, the existence, nature and amount of the fee, commission or non-monetary benefit.

When the Institution has not been able to determine *ex-ante* the amount of a payment or benefit which must be received or paid, the method used to calculate such amount must be disclosed to the customer. In this case, the Institution shall also provide information to its customers regarding the exact amount of the payment or the benefit received or paid *ex-post*.

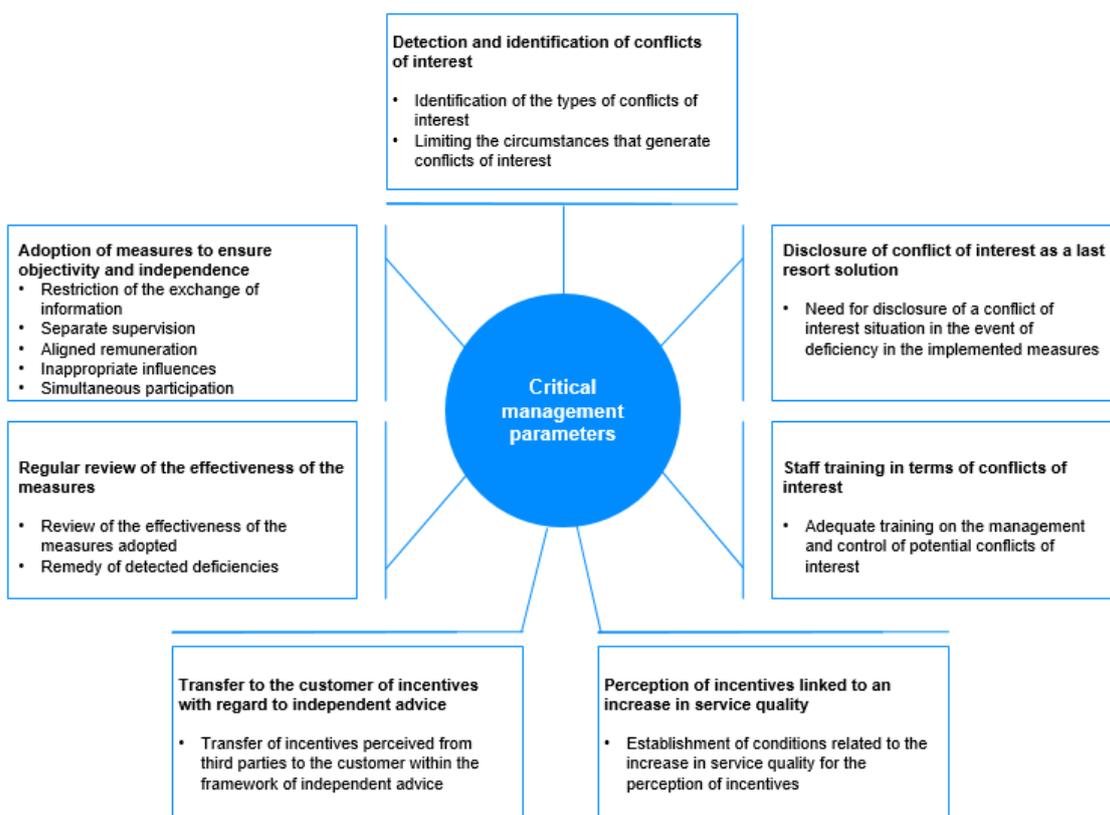
Whilst the Institution receives or pays (recurrent) incentives with regard to the investment services provided to customers, the latter must be informed at least once a year of the cash amount of the payments or the benefits perceived or paid. Non-monetary benefits for lesser amounts could be described in a generic manner.

Lastly, all of the customer's information with regard to fees, commissions or non-monetary benefits must be published in summarised form on the Institution's corporate website.

2.2. Critical management parameters

The figure shown below includes the critical management parameters for the CONFLICTS OF INTEREST AND PERCEPTION OF INCENTIVES POLICY IN THE FRAMEWORK OF THE PROVISION OF INVESTMENT SERVICES:

Figure 2. Critical management parameters for the management of conflicts of interest and perception of incentives



2.2.1. Detection and identification of conflicts of interest

The Institution must identify the types of conflicts of interest which could arise from the provision of investment services, and the existence of which could undermine customers' interests.

Amongst the circumstances which could generate conflicts of interest, amongst others, situations in which the Institution or an individual directly or indirectly linked to the same through a relationship of control, the following stand out:

- a financial benefit can be obtained, or a loss can be avoided, at the expense of the customer;
- having an interest in the result of a service provided to the customer or in an operation carried out on the customer's behalf, which differs from the customer's interest in this result;
- having financial incentives or other types of incentives to favour the interests of a different customer or group of customers ahead of the customer's interests;
- carries out the same activity as the customer;
- receives, or will receive, from an individual other than the customer an incentive in relation to a service provided to the customer, in forms of money, goods or services, apart from the regular fee or retribution for this service.

2.2.2. Adoption of measures conducive to ensuring objectivity and independence

The Institution must establish and implement effective measures for the management of conflicts of interest and procedures which must be followed to guarantee that the individuals affected can perform their activities in an objective manner, and with an adequate level of independence, as well as mitigating the risks of undermining the customers' interests.

The main measures and procedures which must be adopted in order for the Institution to guarantee an indispensable level of objectivity and independence are set out below:

2.2.2.1. Restriction or control of the exchange of information

The Institution must prevent or control the exchange of information between those individuals who participate in activities which include a risk of conflict of interest when the exchange of this information could prove to be at the detriment of the customers' interests.

2.2.2.2. Separate supervision of the individuals affected

The Institution must establish separate supervision of the individuals affected, whose main functions are to carry out activities or the provision of services on behalf of, or in favour of, customers with conflicting interests, or which represent different interests which could lead to conflict, including those of the Institution.

2.2.2.3. Remuneration system aligned with the management of conflicts of interest

The Institution must establish a remuneration system which includes measures which avoid links between the remuneration of the individuals affected who primarily perform an activity and the remuneration of other affected individuals who primarily perform a different activity when a conflict of interests could arise in relation to these activities.

The details of the remuneration system adopted by the Institution are included in the Institution's REMUNERATION POLICY.

2.2.2.4. Prevention of inappropriate influences

The Institution must prevent or limit the possibility that any individual would exercise an inappropriate influence regarding the way in which a different individual carries out investment or auxiliary services or activities.

2.2.2.5. Limitation and control of simultaneous participation of individual affected

The Institution should impede or control the simultaneous or consecutive participation of a certain individual in diverse services or investment or auxiliary activities when this participation could be in detriment to the adequate management of conflicts of interest.

2.2.3. Disclosure of conflict of interest as a last resort solution

In the case that organisational or administrative measures adopted by the Institution are not sufficient to guarantee, with reasonable certainty, that risks which prejudice the customer's interests will be prevented, the Institution must clearly disclose the general nature or the origin of the conflict of interest prior to acting on behalf of the same. The information shall be communicated in a durable medium and with sufficient information in order to enable the customer to make a decision regarding the service with full knowledge of the cause.

The disclosure of the conflicts of interest to customers must always be a last resort solution. In this regard, there will be no excessive dependence without considering the manner of preventing or adequately managing the conflicts of interest.

2.2.4. Regular review of the efficiency of the measures for the management of conflicts of interest

The Institution must review and regularly assess, at least once a year, the effectiveness of the measures for the management of conflicts of interest, and it must carry out all of the actions necessary for the remedy of any deficiency detected.

The excessive use of the disclosure of conflicts of interest must be understood as an indicator of deficiency of the measures for the management of conflicts of interest adopted by the Institution, which would require the review of its effectiveness.

2.2.5. Staff training in terms of conflicts of interest

All of the Institution's professionals whose roles require so must receive adequate training regarding the management and control of possible conflicts of interest, through the Conflicts of Interest managers of each of the units affected, in accordance with this Policy.

2.2.6. Transfer to the customer of incentives with regard to independent advice and portfolio management

If the Institution offers independent advice regarding investments or portfolio management services, it must return and transfer to customers all fees, commissions or monetary benefits perceived from third parties in regard to these services provided as soon as reasonably possible after receiving them.

Furthermore, the Institution must inform, for example, through regular information statements provided to the customer, of the fees, commissions or monetary benefits which have been transferred to them.

2.2.7. Perception of incentives linked to an increase in service quality

In line with the principle of limitation in the perception of incentives, the Institution may pay or charge fees, commissions or non-monetary benefits, always provided that they are used to increase the quality of the service provided to the customer.

It is understood that a fee, commission or non-monetary benefit is linked to an increase in the quality of the service if its perception complies with the following conditions:

- Justified due to the provision of an additional or higher level service to the customer, which amongst others, the following stand out:
 - The provision of non-independent investment advice with regard to a wide range of suitable financial instruments, and access to these instruments, including an appropriate number of instruments from third party suppliers of products which lack close links with the investment company.
 - The provision of non-independent advice regarding combined investment with, or an offer for the customer to assess, at least annually, the continued suitability of the financial instruments in which the customer has invested, or another ongoing service which is valuable to the customer, such as advice regarding the optimal allocation proposed for their assets, or
 - The provision of access, at a competitive price, to a wide range of financial instruments which probably satisfy the customer's requirements, including a suitable number of instruments from third-party suppliers of products which lack close links to the investment company, together with the provision of value-added tools, such as objective information instruments which help the customer to make investment decisions, or enable the monitoring, modelling and adjustment of the range of financial instruments in which they have invested, or the provision of regular yield reports and the costs and charges associated with financial instruments.
- Not to directly benefit the receiving company, its shareholders or employees without a tangible benefit for the customer in question;
- To be justified due to the provision of an ongoing benefit for the customer in question in connection with an ongoing incentive.

SCHEDULES

Glossary of abbreviations and acronyms

Abbreviation/Acronym	Meaning
PCIPI	Conflicts of Interest and Perception of Incentives Policy (for its acronym in Spanish)
EBA	European Banking Authority