



**EXCERPT FROM BANCO SABADELL SAFEGUARDING OF
FINANCIAL INSTRUMENTS POLICY**

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

Amongst other financial services, Banco de Sabadell, S.A. offers its customers security and financial instrument deposit, custody and management services; therefore, it is obliged to protect the assets received from customers (financial instruments and funds), preventing their improper use, and know, at all times, and without delay, the position of the funds, securities and ongoing transactions for each customer.

1.2. Objective and unit responsible

This Policy establishes the principles and critical parameters adopted by Banco de Sabadell, S.A. (hereinafter, Banco Sabadell, the Bank or the Institution) to guarantee the protection of the ownership rights of the assets received from customers (financial instruments and funds).

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

1.3. Scope of application

This Policy is applicable to Banco de Sabadell, S.A. activities in the provision of investment services, particularly with regard to the deposit, custody and management of customers' financial instruments.

1.4. Regulatory framework

The legal documents used as reference for this Policy are:

- Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets of financial instruments 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.

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

- 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, amended by Directive 2015/1535/EU of the European Parliament and of the Council, of 9 September.
- Circular 5/2009, of 25 November, of the National Securities Market Commission, which regulates the auditor's annual report regarding customer asset protection.
- Royal Decree 217/2008, of 15 February, on the legal system for investment firms and other institutions providing investment services.
- Royal Legislative Decree 4/2015, of 23 October, approving the revised text of the Securities Market Act.
- Royal Decree 1464/2018, of 21 October, implementing the restated text of the Securities Market Act.

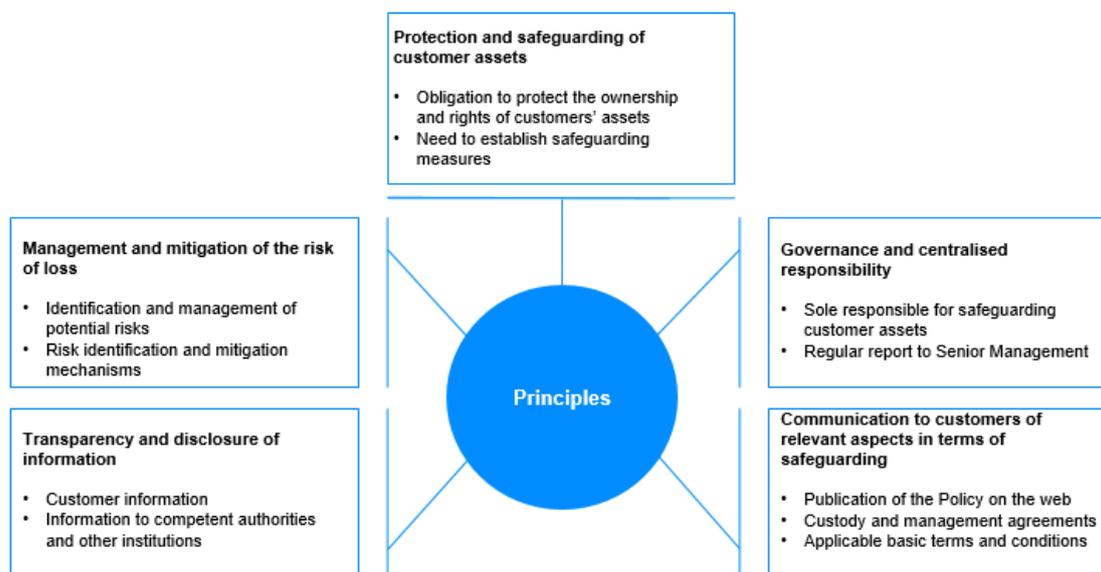
2. Principles and critical management parameters

In terms of the safeguarding of customer assets, the following principles and critical management parameters have been identified:

2.1. Principles

The general principles which govern the safeguarding of financial instruments are as follows:

Figure 1. Principles for the safeguarding of financial instruments



2.1.1. Protection and safeguarding of customer assets

The Institution is subject to the obligation to protect the ownership and the rights to the assets entrusted to it by its customers (financial instruments and funds).

To do so, measures which are conducive to the safeguarding of these assets shall be adopted to prevent their improper use. In this regard, the critical management parameters defined in this Policy shall particularly be taken into consideration.

The measures include the forecast of an eventual transfer of the financial instruments in custody in the event of financial difficulties of the Institution (Art. 42.4 RD 217/2008).

2.1.2. Management and mitigation of the risk of loss

Customer deposit, custody and management of securities and financial instruments activities are subject to the risk of loss or decline in assets, which must be identified and managed in an adequate manner.

In this regard, it shall be guaranteed that in the adoption of safeguarding measures for customer assets all risks which could impact the correct exercise of this obligation have been considered (e.g. improper use of the same, fraud, poor management, inadequate maintenance of records or negligence, etc.) Consequently, the corresponding identification mechanisms shall be established and effective mitigation elements shall be implemented which enable the standard discharge of activity.

2.1.3. Governance and centralised responsibility

With the purpose of mitigating the risks deriving from the fragmented management between different units, the Institution shall appoint a single responsible party who shall assume the overall responsibility with regard to the safeguarding of customer assets.

The single responsible party (a function which is the responsibility of the Head of the Institution's Centralised Administration and Operational Services Division) must have sufficient skills and authority to carry out the responsibilities efficiently and without impediment. Their main duties include the obligation to regularly report to the Institution's Senior Management on the supervision of the latter's effectiveness with regard to compliance with the requirements for the safeguarding customer assets.

2.1.4. Transparency and disclosure of information

The Institution must offer its customers relevant information in terms of the safeguarding of their assets. In particular, it must provide information on the following aspects:

- The possibility of their assets being maintained by a third party on behalf of the Institution, as well as the latter's responsibility with regard to any act or omission of the third party and the consequences for the customer of the insolvency of the third party.
- The existence and conditions of any guarantee right, retention or compensation right which the company has over their assets.
- The obligations and responsibilities of the Institution with regard to the use of their assets.

On the other hand, the Institution must make available to the competent authorities and other institutions¹ the following information regarding the customers' financial instruments:

- The accounts and the associated internal records in which the balances of the financial instruments maintained for each customer are identified.
- Information regarding the existing accounts held with third parties opened by Banco Sabadell, with their identification and the relevant agreements reached with such third parties.
- Detailed identification of outsourced tasks.
- The main individuals/relevant interveners in the process, including the individuals responsible for the supervision.
- Existing agreements with third parties to establish the correct identification of the ownership of the assets.

2.1.5. Communication to customers of relevant aspects in terms of safeguarding

The Bank submits information to its customers regarding relevant aspects in terms of safeguarding through three channels:

- The Safeguarding Policy of Financial Instruments, which is available to all customers in the Bank's branch network and on the corporate website, as well as in the mobile application that the Institution makes available for its customers.
- The custody and financial instrument management agreements signed by customers. These agreements include the main aspects related to the management of financial instruments through custodians and the Bank's guarantees of the same.

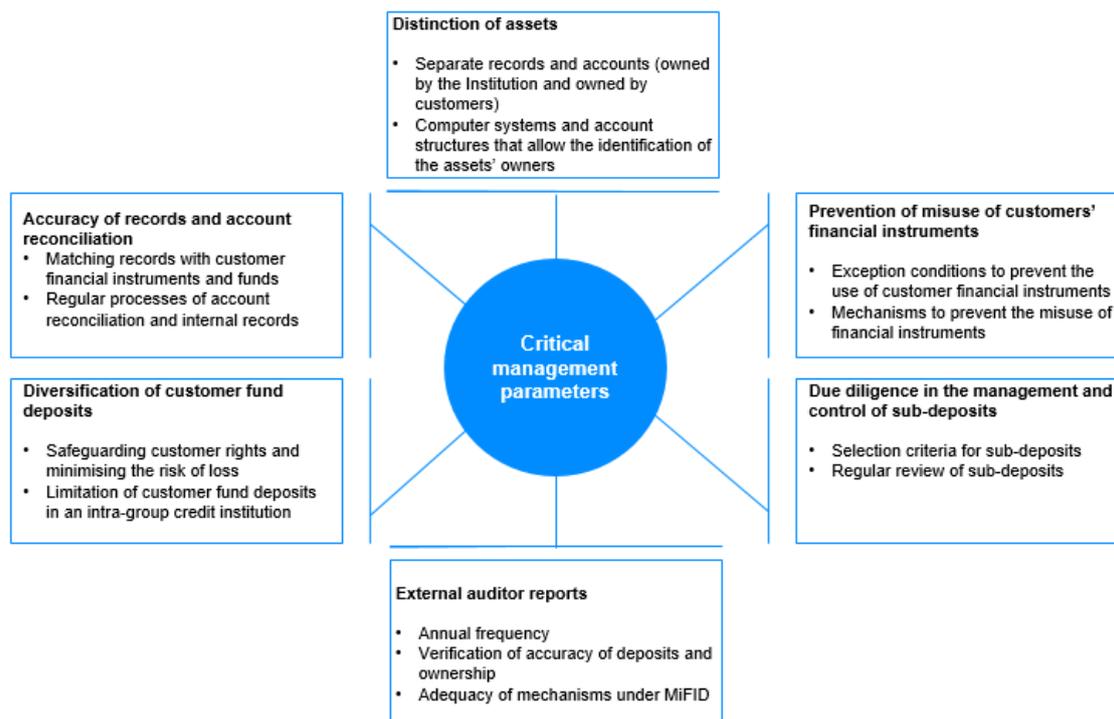
¹ Other institutions expressly identified in Article 2.5 of the Delegated Directive (EU) 2017/593: designated bankruptcy administrators and those responsible for the resolution of unviable institutions.

- The basic Terms and Conditions document applicable to investment and auxiliary services and investment products marketed by Banco Sabadell to retail customers and professionals is also available to customers at the Bank's branch network and on its corporate website, as well as in the mobile application which the Bank has made available for its customers.

2.2. Critical management parameters

The figure shown below includes the critical management criteria for the SAFEGUARDING OF FINANCIAL INSTRUMENTS POLICY:

Figure 2. Critical management parameters for the safeguarding of financial instruments



2.2.1. Distinction of assets

The Institution must maintain the records and accounts which enable it to distinguish, at any given time, and without delay, the assets maintained for a customer and the assets maintained for any other customer and its own assets.

To do so, the Institution must have an IT system and a securities deposit account structure which allows it to differentiate between the financial instruments it owns and the financial instruments of its customers, and amongst these, identify the assets which are owned by each one (represented in account entries or physical securities).

2.2.2. Accuracy of records and account reconciliation

The Institution must guarantee the accuracy of the records and internal accounts, and particularly their correspondence to the financial instruments and funds maintained for customers.

To do so, the account reconciliation process and internal records process shall be carried out on a regular basis for the purpose of guaranteeing that deposited customer assets are correctly identified and registered, as well as analysing the potential problems detected and resolving potential incidences.

2.2.3. Prevention of misuse of customers' financial instruments

In general, the Institution may not use customers' financial instruments to carry out financial transactions on their own behalf, unless the materialisation of the following two conditions is verified:

- The customer has granted their explicit consent prior to the use of instruments in specific conditions, clearly proven in writing and formalised through their signature or equivalent means, and
- The use of financial instruments by this customer is restricted to the precise conditions accepted by the customer.

2.2.4. Misuse of title transfer collateral arrangements

Banco Sabadell shall not enter into any *motu proprio* agreement which implies a change in ownership of a retail customer's assets. If the initiative comes from the customer, the Institution shall ensure that:

- There is only a very weak relationship between the customer's obligation with the company and the use of such agreements, and whether the probability of the responsibility of the customers with regard to the company is scarce or insignificant.
- The amount of the funds or financial instruments of the customer subject to title transfer collateral arrangements significantly exceeds the customer's obligation, or if it is unlimited if the customer has any type of obligation with the company.
- All customers' financial instruments or funds are subjected to title transfer collateral arrangements, without taking into consideration what obligation each customer has with the company.

Title transfer collateral arrangements with professional customers and eligible counterparties fall under the scope of the corresponding framework agreements (GMRA or analogue), which set forth the associated risks and the effect of any agreement of this type on customers' financial instruments and funds.

2.2.5. Mechanisms for the prevention of the misuse of customers' financial instruments

The main mechanisms to prevent the misuse of customers' financial instruments are described below:

- Separate units: The operational units for the management of own portfolios and brokerage of third-party portfolios are separate units and have the corresponding information barriers in accordance with that set forth in the Securities Market Act.
- Record of orders and transactions: Maintenance of a register which includes the data of the instructions communicated by the customer.
- Reconciliation of balances on own account and on customers' behalf.
- Sending, through the communication channel established with the customer, customer confirmations for each movement carried out in their securities account, detailing the specific information of the transaction or transactions, and their global position.

2.2.6. Diversification of customer fund deposits

The Institution must consider the need for diversification and attenuation of risks, depositing customer funds with various third parties for the purpose of safeguarding customer rights and minimising the risk of loss and misuse.

In the case of depositing customer funds in a credit institution which belongs to the Group, the Institution must establish a specific limit² to the percentage of funds which could be deposited in the same, with the purpose of reducing likely conflicts with due diligence requirements and mitigating contagion risks which are inherent to the deposit of all customer funds held with institutions in its own group.

2.2.7. Due diligence in the management and control of the sub-custody

The Institution must act with all due competence, care and diligence in the selection, designation and regular review of the third party and of the mechanisms for the possession and custody of the customers' financial instruments.

2.2.7.1. Selection criteria of the sub-custodians

The minimum criteria which should be considered in the selection of third parties for the possession and custody of customers' financial instruments are:

- They are institutions of recognised prestige and reputation in the sub-custody market.
- They have worldwide experience and solvency to carry out this activity.
- Their headquarters are located in countries with specific regulations and supervision in terms of the possession and custody of financial instruments, unless the nature of the financial instruments requires the deposit in a third party in such jurisdiction, or the professional customer requests in writing that Banco Sabadell carries out the deposit with such third party.
- They have high custody volumes in their reference markets.

2.2.7.2. Regular review of the sub-custodians

The Institution must establish the measures necessary for the financial instruments to be identified at all times as belonging to their holders and duly segregated from the Bank's and the sub-custodian's own assets. To do so, it is necessary to regularly reconcile their accounts and internal records with those of the third parties who hold these financial instruments.

2.2.8. External auditor reports

The Institution, through the external auditor services and on an annual basis, shall also verify the accuracy of the deposits and the ownerships, as well as the suitability of the company's mechanisms in accordance with the provisions of MiFID II Directive, from which a copy of the resulting report is submitted to the corresponding supervisors.

² According to Article 4.3 of the Delegated Directive (EU) 2017/593, the amount deposited in an intra-group credit institution may not exceed 20% of the total of such funds. Any exception to this limit is subject to the consideration and assessment of the specific circumstances that demonstrate the disproportionality of this limit (taking into account the nature, scale and complexity of their activities, etc.)