



**GROUP POLICY ON RESTRICTING FINANCE FOR,
AND INVESTMENT IN, ACTIVITIES ASSOCIATED
WITH THE ARMS INDUSTRY**

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GROUP POLICY ON RESTRICTING FINANCE FOR AND INVESTMENT IN ACTIVITIES ASSOCIATED WITH THE ARMS INDUSTRY

1. Introduction

In every area of its business, the Banco Sabadell Group acts in strict compliance with national and international law. In addition, over the years it has adopted voluntary codes and commitments which, in line with its corporate values, ensure that its actions are guided by an ethical and responsible approach as an essential aspect of its commitment to society.

The Group requires the same approach to be taken by all its business units in their dealings with customers, based on the principle that customers must operate within the bounds of legality in all respects, both with regard to the purpose of their operations and the way in which those operations are carried out.

To give effect to this aim the Group's business units have mechanisms in place to identify, prevent and mitigate any risks or negative impacts their actions could cause. This includes policies and procedures that establish guidelines on the provision of banking products and services to particular business sectors so as to avoid any risk to the integrity of banking systems or to the wider community.

Within this overall policy aim, special attention needs to be given to the financing of, and investment in, the armaments industry. This is the purpose of the present Policy on Restricting Finance for, and Investment in, Activities Associated with the Arms Industry, which identifies the restrictions that are most relevant to the Group.

1.1. Aim

The aim of this Policy is to place restrictions on certain activities related to the armaments industry and to expressly prohibit any business operations linked to controversial weapons.

The Banco Sabadell Group does not invest in or offer finance to companies linked with the development, production, distribution, stockpiling, transfer or sale of controversial weapons, as these terms are defined by existing United Nations conventions.

The restriction extends to conventional weapons where there is a link to international trading activities known as "transfers"¹, provided that there is a reasonable risk that the weapons may be used to commit crimes under international law or serious violations of human rights as provided by the United Nations Arms Trade Treaty approved in 2013, and includes countries that have been made subject to arms embargoes by international organizations.

1.2. Definition

1.2.1. Controversial weapons

For the purposes of this Policy "controversial weapons" means any weapons defined as such by international treaties and conventions in force from time to time.

1.2.2. Arms industry activities

For the purposes of this Policy, "activities associated with the arms industry" means the development, production, distribution, stockpiling, transfer or sale of arms. The factors determining the restrictions imposed by the Group on these activities are described below.

¹ The international trading activity known as "transfer" includes export, import, transit, trans-shipment and brokering.

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1.2.3. Countries and groups subject to arms embargoes

For the purposes of this Policy, “countries and groups subject to arms embargoes” means any countries or groups identified as such by the United Nations Security Council, the Organization for Security and Cooperation in Europe (OSCE) or the European Union.

1.3. Area of application

The Policy is applicable to all operations of the Banco Sabadell Group (the “Group”).

1.4. Regulatory framework

The development, production, stockpiling, transfer and use of certain types of armaments are prohibited under international law. The United Nations Security Council, the Organization for Security and Cooperation in Europe (OSCE) and the European Union maintain a publicly available list of countries and groups that are subject to arms embargoes.

Since 2005 Banco Sabadell has been a participant in the UN Global Compact and is fully committed to compliance with each and every one of its principles.

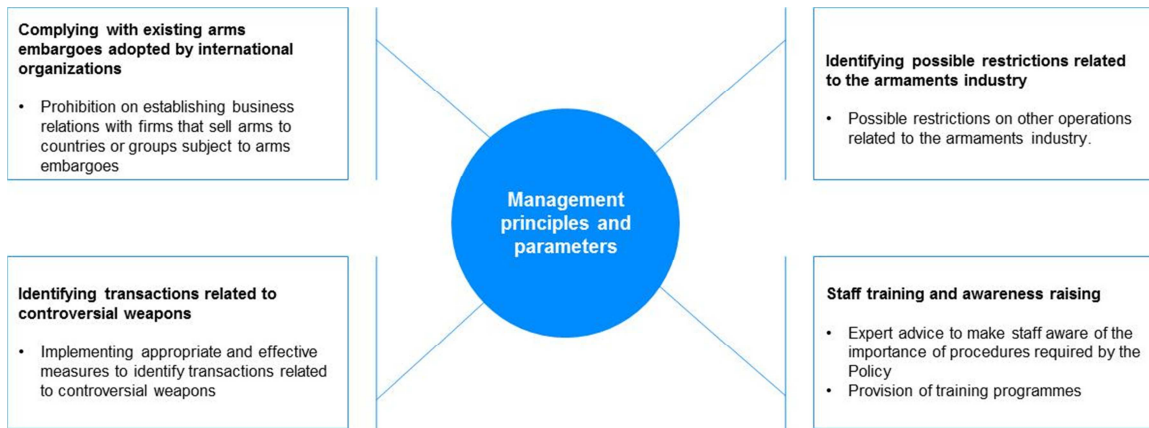
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2. Management principles and parameters

In the area of restrictions on finance for and investment in activities associated with the armaments industry, the following management principles and parameters have been identified:

The principles and parameters to be applied under the Group's POLICY ON RESTRICTING FINANCE FOR AND INVESTMENT IN ACTIVITIES ASSOCIATED WITH THE ARMS INDUSTRY are shown in the following diagram:

Figure 1. Principles and parameters to be applied in restricting finance for, and investment in, activities associated with the armaments industry:



2.1. Compliance with embargoes adopted by international organizations

The United Nations Security Council, the Organization for Security and Cooperation in Europe (OSCE) and the European Union maintain a publicly available list of countries and groups that are subject to arms embargoes.

Under the Policy, the Group cannot establish or maintain business relations of any description with companies that sell arms to countries or groups that have been made subject to arms embargoes by the United Nations Security Council, the Organization for Security and Cooperation in Europe (OSCE) or the European Union.

2.2. Identifying transactions related to controversial weapons

The development, production, stockpiling, transfer and use of controversial weapons is strictly and expressly prohibited under international law.

The Group has introduced appropriate and effective mechanisms to identify transactions linked to such weapons.

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2.3. Possible further restrictions related to the armaments industry

Based on the information available to it at the time, the Group may determine that other transactions related to the armaments industry, in addition to those specified in this Policy, are inappropriate.

2.4. Staff training and awareness raising

The Group, with support from its various business units, gives advice and awareness training to its staff on the importance of its established procedures on the financing of and investment in activities associated with the arms industry. To do this it carries out training programmes designed to ensure that its staff have the knowledge and skills they need to carry out their duties successfully.

3. Governance and organizational structure

Effective implementation of the principles and parameters to be applied under this Policy is assured by means of a governance and organizational structure based on the “three lines of defence” model, which ensures that these principles and parameters are fully and properly applied.

4. Procedures

The Group has procedures in place for the management and oversight of its restrictions on financing for and investment in activities associated with the arms industry. It also prepares, maintains and distributes a list of excluded customers, countries and sectors with which business relations cannot be established or maintained owing to their carrying on of operations linked to the development, production, sale and other activities related to controversial weapons or subject to additional applied by the Group.

The list is periodically updated and distributed to all Group business units. It is then incorporated into the procedures and controls applied by each business unit, thus ensuring full compliance.

5. Policy tools and oversight

To integrate these measures into its operating processes the Group, through each business unit with relevant operations, makes any necessary changes to its processes and procedures and equips itself with suitable management, oversight and monitoring tools and any alerts necessary to ensure full and proper implementation. These are then incorporated into internal risk control procedures.

6. Policy document - governance

6.1. Drafting, updating and approval

The Group’s POLICY ON RESTRICTING FINANCE FOR AND INVESTMENT IN ACTIVITIES ASSOCIATED WITH THE ARMS INDUSTRY has been drafted and is periodically updated by the Corporate Social Responsibility Department and approved by the Group Board of Directors.

6.2. Validation, oversight and updates

GROUP POLICY ON RESTRICTING FINANCE FOR AND INVESTMENT IN ACTIVITIES ASSOCIATED WITH THE ARMS INDUSTRY

This Policy has been approved by the Board of Directors and sets out principles which are already being followed by the Banco Sabadell Group. It will be reviewed (both as to overall structure and content) at least once a year. In addition, the Policy will be reviewed in any of the following circumstances:

- a change in the regulatory/compliance framework;
- where new policies are introduced or changes are made to existing policies having an impact on this Policy; or
- where monitoring and control processes show that changes are needed to increase compliance levels or improve the Policy's impact on the Group or its employees.

Changes to the Policy may be proposed by any Group Department. Proposals for changes must follow the guidelines set out in the Governance Policy for Compliance Documents, as follows:

- The Corporate Social Responsibility Department, which has responsibility for preparing and maintaining the Policy, will coordinate the work of considering and assessing the desirability of any changes, alterations and/or adjustments proposed by any Department.
- The Corporate Social Responsibility Department will submit any required changes, and the reasons for them, to the Policies Committee.
- The Policy Committee will decide on whether the changes should be accepted.
- The Corporate Social Responsibility Department will make any changes that are agreed so that the new version of the Policy can undergo the Group's validation process, leading to its possible approval.

6.3. Publication

This Policy document is available for consultation by all Group employees on the CanalBS web site:
<http://canalbs.proteo.bancsabadell.com/sites/external/NormativaManuales/Normativas/mancat/cnor.pdf>.

It is also available on the Group Banco Sabadell corporate web site.

Policy approved by the Board of Directors on 1 February 2018

B Sabadell