



**EXCERPT FROM BANCO SABADELL CUSTOMER  
CATEGORISATION AND ASSESSMENT 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**

#### **1.1.1. Customer categorisation**

##### **1.1.1.1. Retail customers**

All customers who are not professional customers or eligible counterparties will be classified as retail customers, in accordance with that set forth in Directive 2014/65/EU (MiFID II). Retail customers benefit from a higher level of protection under current regulations.

##### **1.1.1.2. Professional customers**

Professional customers will be considered to be those customers who have the experience, knowledge, and expertise necessary to make their own investment decisions and to correctly assess the risks inherent in those decisions.

A customer may be considered a professional customer if they are one of the entities listed in Annex II of Directive 2014/65/EU (MiFID II) or if they submit an explicit request to be considered as such, waiving their maximum protection, always provided that an adequate assessment is carried out of their expertise, experience and knowledge which offers reasonable guarantees that the customer is capable of making their own investment decisions and of understanding the risks that they incur. In the course of that assessment, at least two of the following criteria shall be satisfied:

- The customer has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
- The size of the customer's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds EUR 500,000;
- The customer works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

##### **1.1.1.3. Eligible counterparties**

Eligible counterparties are those defined in Article 207 of the Restated Text of the Securities Market Law (*Texto refundido de la Ley del Mercado de Valores*). Entities classified as eligible counterparties will be informed of the classification which they have been assigned. Nonetheless, they may explicitly request a classification which offers them greater protection.

### **1.1.2. Classification of products according to their complexity**

#### **1.1.2.1. Complex products**

For the purposes of this policy, complex products are those which include one or more of the following characteristics:

- They may represent a higher risk of loss for the investor.
- They are not liquid, or have very low liquidity.
- The investor may stand to lose an amount exceeding the acquisition cost.
- There is no public, complete or comprehensible information for a retail investor regarding the characteristics of the product.
- They are structured deposits whose structure makes it difficult for the customer to understand the cost of exiting the product before term.
- The product is a derivative.

There is a sub-group within this category called 'particularly complex' products, which are generally not suitable for retail customers. The most frequently distributed products included in this category are:

- Issues by credit institutions: private equity, preferred shares, convertible issues, subordinated issues.
- Structured products with a capital guarantee of less than 90% whose underlying assets are inflation indices or funds not traded on a daily basis.
- CIUs whose targeted return over a given period is no more than 90% and is subject to the evolution of underlying assets that are not liquid or have a very low liquidity.

#### **1.1.2.2. Non-complex products**

For the purposes of this policy, non-complex products are those that meet all of the following characteristics:

- They can be frequently redeemed at prices known by the general public. In general, it is simple to ascertain their value at any given time and make them effective.
- The investor cannot lose an amount exceeding the acquisition cost, i.e. the initial investment.
- There is public, complete or comprehensible information for a retail investor regarding the characteristics of the product.
- They are not derivative products.

#### **1.2. Objective and unit responsible**

The objective of this policy is to describe the main measures taken by Banco de Sabadell, S.A. (hereinafter, Banco Sabadell or the Bank) with regard to the categorisation of new and existing customers, as well as the assessment of the appropriateness and suitability of those customers in relation to savings and investment products, as provided in the MiFID II regulation.

This policy is the responsibility of the Compliance Division of Banco Sabadell.

#### **1.3. Scope of application**

This policy is applicable to the activities engaged in by Banco Sabadell in the course of its customer relations in order to provide investment services (execution only, advice or portfolio management).

Nonetheless, concerning customer assessments, this policy focuses on customers classified as retail or professional customers pursuant to current regulations.

#### **1.4. Regulatory framework**

The legal documents used as references for this policy are:

- Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU and Directive 2011/61/EU (MiFID II).
- 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.
- Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and

the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits.

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

- Royal Decree 217/2008 of 15 February on the legal system for investment firms and other entities providing investment services.
- Circular 3/2013 of 12 June, of the National Securities Market Commission (hereinafter, CNMV), implementing certain obligations to provide customers receiving investment services with information regarding the assessment of the appropriateness and suitability of financial instruments.
- Royal Legislative Decree 4/2015 of 23 October, approving the revised text of the Securities Market Act.
- Circular 1/2018 of 12 March, of the National Securities Market Commission (hereinafter, CNMV), on caveats in relation to financial instruments.
- Royal Decree-Law 14/2018 of 28 September, amending the restated text of the Securities Market Law, approved by Royal Legislative Decree 4/2015 of 23 October.
- Royal Decree 1464/2018 of 21 December, implementing the restated text of the Securities Market Law (...)

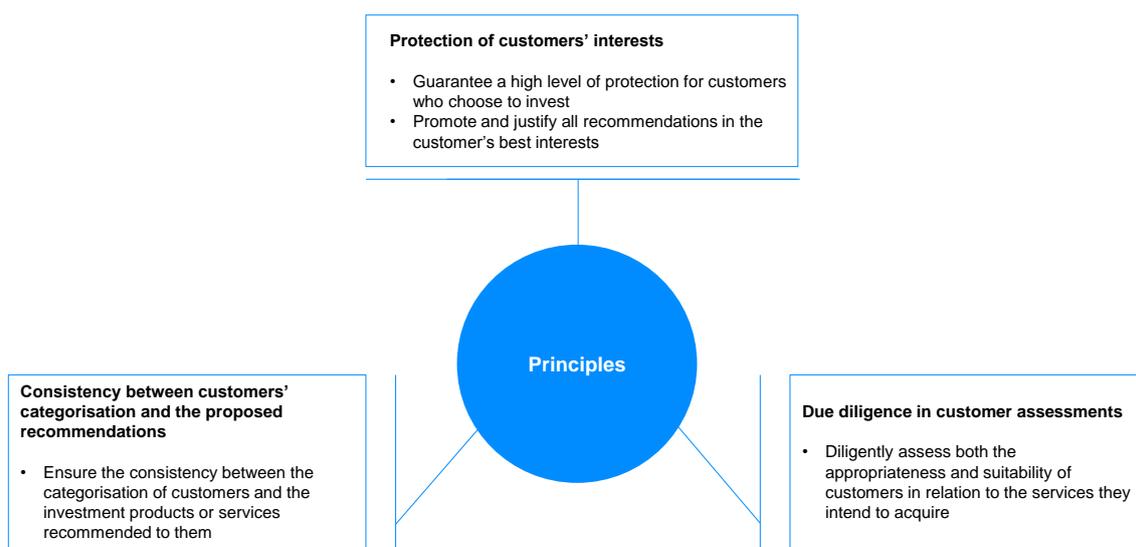
## 2. Principles and critical management parameters

The following principles and critical management parameters have been identified in relation to the categorisation and assessment of customers:

### 2.1. Principles

The general principles governing the categorisation and assessment of customers are as follows:

*Figure 1. Principles for the categorisation and assessment of customers*



#### 2.1.1. Protection of customers' interests

The Bank should guarantee a high level of protection for its customers who choose to invest. It should therefore promote and justify all of its recommendations to enter or exit an investment in portfolios that are subject to the provision of advice in the customer’s best interests.

In order to achieve this objective, when providing advisory services for investments or portfolio management, the Bank should categorise its customers, assess their knowledge, experience and financial capacity to undertake new investments in savings and investment products, and it should also consider their investment goals and their risk tolerance level.

Should a customer wish to carry out, at their own initiative, a transaction involving a complex product that is not deemed suitable for them, the Bank will object to executing that transaction, as it will consider the protection of its customer to be its top priority.

**2.1.2. Consistency between customers’ categorisation and the proposed recommendations**

When recommending investment services or financial instruments, or when proposing investment strategies to customers, the Bank should ensure that the categorisation of those customers is consistent with the investment products or services recommended to them, considering both the complexity of their characteristics and the nature of the associated risks.

**2.1.3. Due diligence in customer assessments**

When providing advisory services in relation to investments or portfolio management, the Bank should diligently assess the appropriateness and suitability of its customers in relation to those services.

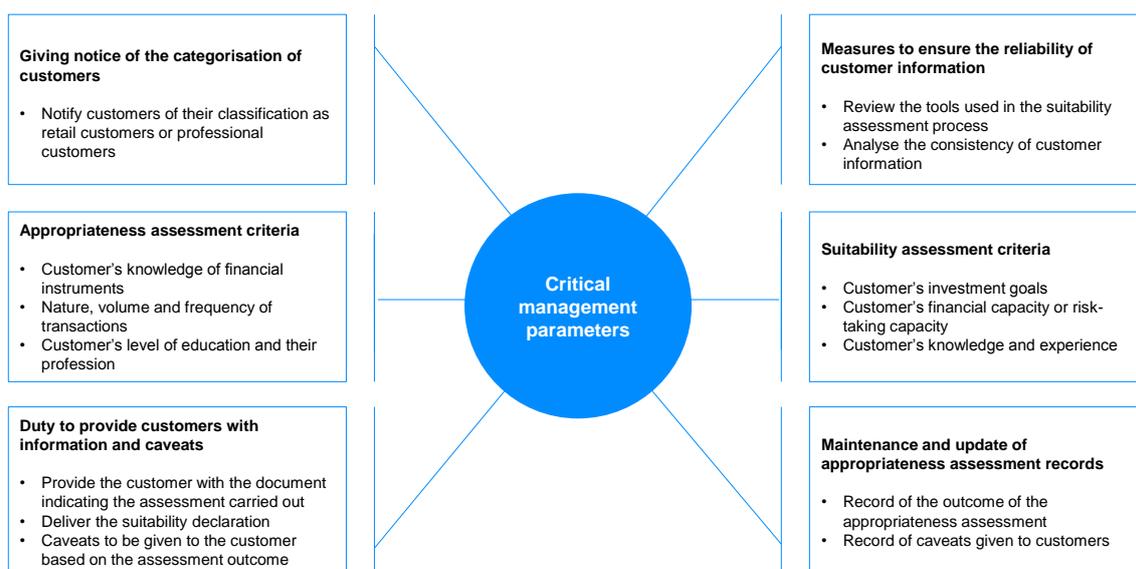
To this end, the Bank should gather sufficient information about the customer’s investment knowledge and experience in relation to the specific type of product or service, about their financial situation, including their capacity to sustain losses, and about their investment goals, including their risk tolerance.

Without the above information, the Bank will not be able to recommend investment services or financial instruments to the customer.

**2.2. Critical management parameters**

The following figure shows the critical management parameters for the CUSTOMER CATEGORISATION AND ASSESSMENT POLICY:

*Figure 2. Critical management parameters for the categorisation and assessment of customers*



### **2.2.1. Giving notice of the categorisation of customers**

The Bank should notify its customers of their classification as retail customers, professional customers or eligible counterparties.

It should also give notice, using a durable medium, of their right, where applicable, to request a different classification, indicating the limitations that this new classification may entail with regard to their protection in their capacity as customers.

### **2.2.2. Measures to ensure the reliability of customer information**

The Bank should ensure the reliability of the information obtained about its customers for the purposes of their categorisation. To this end, it should:

- verify that customers are aware of the importance of providing accurate and up-to-date information;
- check that all of the tools used in the assessment process, such as those used to define risk assessment profiles or to assess customers' knowledge and experience, are adequate and suitably designed;
- check that the questions asked in the process can be easily understood by customers, that they give an accurate portrayal of the customer's goals and requirements and that they enable the Bank to obtain the information required to carry out the suitability assessment; and
- take the necessary measures to ensure the consistency of the customer's information, for example, checking for any obvious inaccuracies in the information provided by customers.

In the event the Bank has an ongoing relationship with the customer, it should have appropriate mechanisms and procedures in place to keep adequate, up-to-date and reliable customer information.

### **2.2.3. Appropriateness assessment criteria**

When the customer is offered an investment service or instrument, the Bank should determine whether the customer has the experience and knowledge necessary to understand the inherent risks involved.

To this end, the following aspects should be considered in the appropriateness assessment:

- The types of services, transactions and financial instruments that the customer is familiar with.
- The nature, volume and frequency of the customer's transactions involving financial instruments and the length of time over which those transactions have been carried out.
- The level of education, training and the customer's profession, or if applicable, the customer's previous profession.

The Bank can assume that a professional customer has the experience and knowledge necessary to understand the risks associated with investment services or specific transactions, or the types of transactions or products, in relation to which the customer is categorised as a professional customer.

When providing investment services which are strictly limited to the execution or receipt and transmission of customer orders, the Bank is not obliged to carry out an appropriateness test of its customers, provided that all of the following conditions are met:

- The services are related to one or more of the financial instruments listed in Article 25(4)(a) of Directive 2014/65/EU (MiFID II) (i.e., those classed as non-complex);
- The service is provided at the request of the existing or potential customer;

- The customer has been unambiguously informed that during the provision of that service, the Bank is not obliged to assess the appropriateness of the financial instrument offered, or of the service provided, and that the customer will therefore not benefit from the corresponding protection offered by applicable codes of conduct. This information may be provided in any standardised format.

#### **2.2.4. Suitability assessment criteria**

The Bank should consider the criteria listed below in order to be able to recommend (offer advice) or select (portfolio management) the investment services and financial services which are suitable for the customer and that are best suited to their risk tolerance level and their capacity to sustain losses:

- The recommended transaction meets the customer's investment goals, including their risk tolerance.
- The customer can, from a financial point of view, take on any investment risk related to their investment goals.
- The customer has the experience and knowledge necessary to understand the risks involved in the transaction or in the management of their portfolio.
- When the Bank provides an investment service to a professional customer, as described in section 1 of Annex II of MiFID II Directive, it can assume that this customer has the experience and knowledge necessary to understand the risks involved in the transaction or in the management of their portfolio, and that they can, from a financial point of view, take on any investment risk related to that customer's investment goals.

#### **2.2.5. Duty to provide customers with information and caveats**

During the customer appropriateness assessment process, the Bank should ensure the fulfilment of the following obligations relating to its duty to provide customers with information and caveats:

- Provide the customer with a copy of the document indicating the assessment carried out. This assessment should be consistent with all of the information provided by the customer or available to the Bank and used in the assessment.
- Obtain a copy of the document provided, signed by the customer, showing the date on which the document was provided, by recording the communication sent to the customer using electronic means or any other reliable means.
- When the assessment cannot be carried out because the customer has not provided enough information, the Bank should advise the customer that the lack of information makes it impossible for the Bank to determine whether a particular investment service or product is suitable for that customer.

When the assessment has been carried out, if the Bank considers that the service or product is not appropriate for the customer, the Bank should inform the customer accordingly. This information may be provided to the customer in any standardised format.

As part of the suitability assessment process, the Bank should meet the following requirements in relation to the provision of information and caveats:

- Submit in writing, or in any other durable format, a document (known as a suitability declaration according to MiFID II) including a description of how to adjust the recommendation to the characteristics and goals of the investor each time a recommendation is made.

- Obtain a copy of the document provided, signed by the customer, showing the date on which the document was provided, by recording the communication sent to the customer using electronic means or any other reliable means.

#### **2.2.6. Maintenance and update of appropriateness assessment records**

In order to facilitate the supervisory activity of competent authorities, the Bank should keep an up-to-date record of the appropriateness assessments carried out of its customers, which should include at least the following aspects:

- The outcome of the appropriateness assessment;
- Any caveat given to the customer in the event the investment service or product intended to be purchased has been assessed as potentially inappropriate for the customer, if the customer has requested the execution of the transaction in spite of the caveat and, where applicable, if the Bank has accepted the customer's request to execute the transaction;
- Any caveat given to the customer in the event the customer has not provided sufficient information to allow the Bank to carry out an appropriateness assessment, if the customer has requested the execution of the transaction in spite of the caveat and, where applicable, if the Bank has accepted the customer's request to execute the transaction.

## ANNEXES

### Glossary of abbreviations and acronyms

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Abbreviation / Acronym	Meaning
CNMV	<i>Comisión Nacional del Mercado de Valores</i> (National Securities Market Commission)