



**EXTRACT FROM THE FINANCIAL INSTRUMENT  
SAFEGUARDING POLICY OF BANCO SABADELL**

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

## **1. Introduction**

### **1.1. Definition**

Among the financial services Banco de Sabadell, S.A. offers its customers, it has services for the deposit, safekeeping and management of securities and financial instruments, therefore it has an obligation to protect the assets received from customer (financial instruments and funds), impede their improper use and know, at all times and without delay, the position of the funds, securities and current transactions of each customer.

### **1.2. Aim and responsible party**

This policy shall set out the critical principles and parameters adopted by Banco de Sabadell, S.A. (hereinafter, Banco Sabadell, the Bank or the Entity) to ensure the protection of the ownership rights of the assets received from customers (financial instruments and funds).

The Department of Regulatory Compliance of Banco de Sabadell, S.A. is responsible for this policy.

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

This Policy shall apply to the activities of Banco de Sabadell, S.A. in the provision of investment services, in particular with regard to the deposit, safekeeping and management of customers' financial instruments.

### **1.4. Regulatory framework**

The legal instruments to which this Policy refers are:

- European Parliament and Council Directive 2014/65/EU of 15 May 2014 on markets in financial instruments, which amends directives 2002/92/EC and 2011/61/EU (MIFID II).
- Commission Delegated Directive (EU) 2017/593 of 7 April 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards the safeguarding of financial instruments and funds pertaining to customers, product governance obligations and rules applicable to the provision or receipt of fees, commissions or other monetary or non-monetary benefits.
- Commission Delegated Regulation (EU) 2017/565 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 the terms defined for the purposes of that Directive.

In addition, the following Spanish legal statutes should be taken into account:

- European Parliament and Council Directive 2000/12/EC of 20 March 2000, with regard to the taking up and pursuit of the business of credit institutions, as amended by European Parliament and of the Council Directive 2015/1535/EU of 9 September.
- Memorandum 5/2009 of 25 November of the National Securities Market Commission, which regulates the auditor's annual report on the protection of customer assets.
- Royal Decree 217/2008 of 15 February on the legal regime for investment services companies and other entities providing investment services.
- Royal Legislative Decree 4/2015 of 23 October, approving the consolidated text of the Securities Market Act.

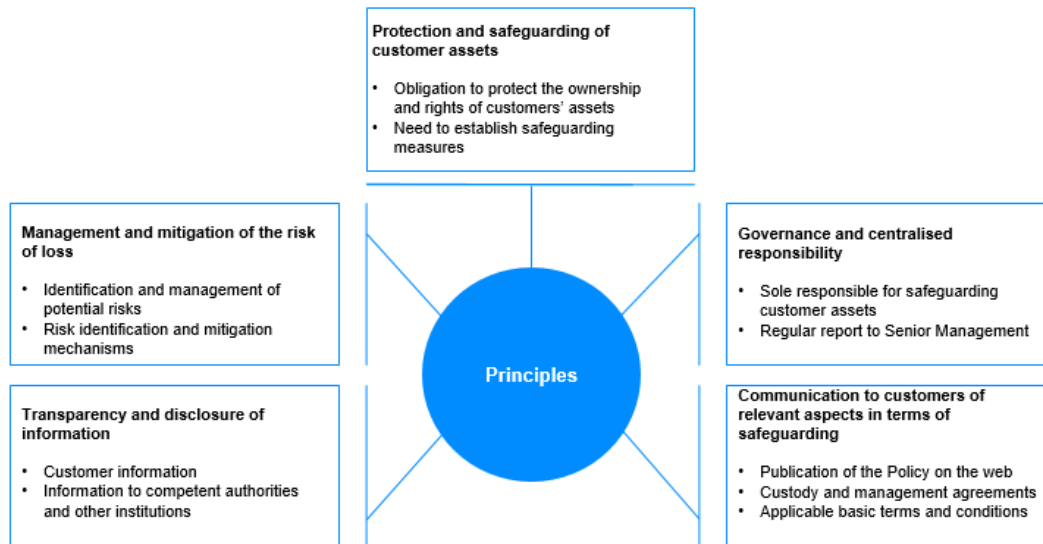
## 2. Critical management principles and parameters

The following critical management principles and parameters have been identified in the safeguarding of customer assets:

### 2.1. Principles

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

Figure 1. Principles in the safeguarding of financial instruments



#### 2.1.1. Protecting and safeguarding customer assets

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

To this end, measures must be taken to safeguard these assets and prevent their misuse. In this regard, particular consideration shall be given to the critical management parameters defined in this policy.

The measures include the provision for the possible transfer of the financial instruments held for safekeeping in the event of the Entity's financial difficulties (Art. 42.4 RD 217/2008).

#### 2.1.2. Loss risk management and mitigation

The business of deposit, safekeeping and management of customers' securities and financial instruments is subject to the risk of loss or decline of assets, which must be identified and appropriately managed.

In this regard, it shall be ensured that all risks that may impact on the proper exercise of this obligation (e.g. misuse, fraud, poor management, inadequate record keeping or negligence, etc.) have been considered in the adoption of measures to safeguard customer assets. Consequently, the relevant identification mechanisms must be established and elements of effective mitigation must be implemented to permit the normal performance of the activity.

#### 2.1.3. Centralised governance and accountability

In order to mitigate the risks arising from the fragmented management between different departments, the Entity shall designate a single officer to assume overall responsibility for the safeguarding of customer assets.

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This role - which is performed by the head of the Entity's Centralised Operations Directorate - must have sufficient skills and unhindered authority to perform his or her functions effectively. His/her main functions should include the obligation to periodically report to the Entity's senior management on the monitoring of the Entity's effectiveness in complying with the requirements for safeguarding customer assets.

#### **2.1.4. Transparency and Disclosure of Information**

The Entity shall provide its customers with relevant information on the safeguarding of their assets. In particular, the following aspects shall be reported:

- The possibility that their assets may be held by a third party on behalf of the Entity, as well as the Entity's liability in relation to any act or omission of the third party and the consequences for the customer of the third party's insolvency.
- The existence and terms of any security interest, lien or right of redress that the company has over their assets.
- The Entity's obligations and responsibilities regarding the use of their assets.

In addition, the Entity shall make the following information on customer financial instruments available to the competent authorities and other entities<sup>1</sup>:

- The accounts and associated internal records identifying the balances of financial instruments held by each customer.
- Details of existing accounts 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/relevant persons involved in the process, including those in charge of supervision.
- Existing agreements reached with third parties to establish the correct identification of the ownership of the assets.

#### **2.1.5. Communication to customers of relevant safeguarding issues**

The Bank provides information to its customers on relevant safeguarding issues through three channels:

- The Financial Instruments Safeguarding Policy, which is available to customers in the Bank's branch network and on the corporate website, as well as on the mobile phone application that the Bank makes available to customers.
- The safekeeping and management contracts for financial instruments signed by customers: These contracts cover the main aspects related to the management of financial instruments through the Bank's safekeeping and guarantees on these instruments.
- In the document of basic Terms and Conditions applicable to investment and ancillary services and investment products marketed by Banco Sabadell to retail and professional customers, also available to customers in the Bank's Branch Network and on the corporate website, as well as in the Entity's mobile phone application.

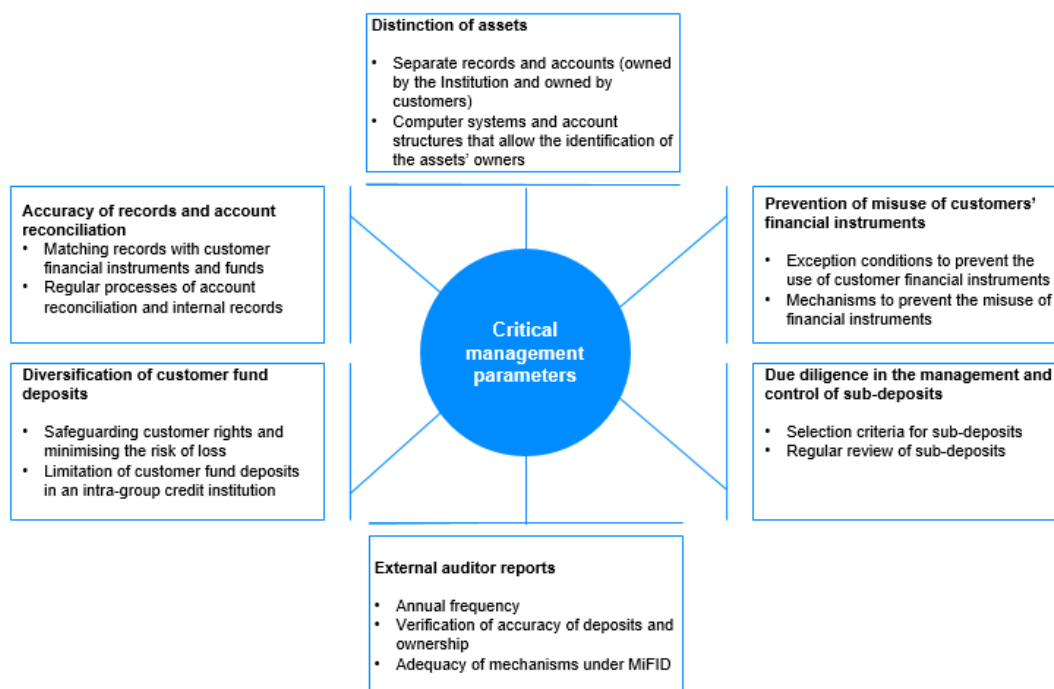
#### **2.2. Critical management parameters**

The figure below shows the critical management parameters for the FINANCIAL INSTRUMENT SAFEGUARDING POLICY:

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<sup>1</sup> Other entities expressly identified in Art. 2.5 of Delegated Directive (EU) 2017/593: appointed insolvency administrators and those responsible for the resolution of failing institutions.

Figure 2. Critical management parameters in the safekeeping of financial instruments



### 2.2.1. Distinction of assets

An Entity shall keep records and accounts that will enable it at any time and without delay to distinguish assets held for one customer from assets held for any other customer and from its own assets.

To this end, the Entity must have a computer system and a securities deposit account structure that allows it to differentiate the financial instruments owned by it from those of its customers, and within these, to identify the assets owned by each customer (whether represented in the form of book entries or physical securities).

### 2.2.2. Accuracy of records and reconciliation of accounts

The Entity shall ensure the accuracy of its internal records and accounts, and in particular its correspondence with the financial instruments and funds held for customers.

To this end, the reconciliation of accounts and internal records will be carried out periodically in order to ensure that the customer assets deposited are correctly identified and recorded, as well as to analyse possible problems detected and resolve possible incidents.

### 2.2.3. Prevention of misuse of customer financial instruments

In general, the Entity may not use customers' financial instruments for financing transactions of its own account activity, unless the following two conditions are met:

- The customer has given his/her prior express consent to the use of the instruments under precise conditions, clearly demonstrated in writing and formalised by his/her signature or an equivalent mechanism, and
- The use of the financial instruments of this customer is restricted to the precise conditions accepted by said customer.

#### **2.2.3.1. Inappropriate use of title transfer collateral arrangements**

Banco Sabadell will not enter into any agreement on its own initiative that involves a change of ownership of the assets of a customer classified as a retail customer. If the initiative comes from the customer, the Entity shall ensure that:

- There is only a very weak link between the customer's obligation to the company and the use of such agreements, and if the likelihood of the customer's liability towards the company is low or negligible
- The amount of the customer's funds or financial instruments subject to title transfer collateral arrangements far exceeds the customer's obligation, or is even unlimited if the customer has any kind of obligation to the company
- All financial instruments or customer funds are subject to title transfer collateral arrangements, irrespective of what obligation each customer has to the company

Title transfer collateral arrangements with professional customers and eligible counterparties shall be covered by the relevant master agreements (GMRA or similar), which shall specify the associated risks and the effect of any such arrangement on the customer's financial instruments and funds.

#### **2.2.3.2. Mechanisms for the prevention of misuse of customer financial instruments**

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

- Separate departments: The operating departments of proprietary portfolio management and brokerage of third-party portfolios are separate departments and have the relevant information barriers in accordance with the provisions of the Securities Market Act.
- Recording of orders and operations: Maintenance of a record containing the details of the instructions conveyed by the customer.
- Reconciliation of balances on its own account and on behalf of customer.
- Sending, through the customer communication channel, confirmations to customers for each movement made in their securities account, detailing the specific details of the transaction or transactions, and their overall position.

#### **2.2.4. Diversification of customer fund deposits**

The Entity should consider the need for diversification and risk mitigation by depositing customer funds with various third parties in order to safeguard customers' rights and minimise the risk of loss and misuse.

In the case of depositing customer funds with a credit institution belonging to its own group, the Entity shall establish a specific limit<sup>2</sup> on the percentage of such funds that may be deposited with it, in order to reduce potential conflicts with due diligence requirements and mitigate the risks of contagion inherent in depositing all customer funds with entities belonging to its own group.

#### **2.2.5. Due diligence in sub-custodian management and control**

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<sup>2</sup> According to Art. 4.3 of Delegated Directive (EU) 2017/593, the amount deposited with an intra-group credit institution may not exceed 20% of the total of such funds. Any derogation from this limit is subject to consideration and assessment of the specific circumstances demonstrating the disproportionality of this limit (taking into account the nature, scale and complexity of its activity, etc.)

The Entity shall exercise all due skill, care and diligence in the selection, appointment and periodic review of the third party and of the arrangements for the holding and safekeeping of customers' financial instruments.

**2.2.5.1. Criteria for the selection of sub-custodians**

The minimum criteria to be considered in the selection of third parties for the holding and safekeeping of customer financial instruments are:

- These are entities with a recognised prestige and reputation in the sub-custody market.
- They have worldwide experience and solvency to carry out this activity.
- They are based in countries with specific regulations and supervision regarding the holding and safekeeping of financial instruments, unless the very nature of the financial instruments requires them to be deposited with a third party in that jurisdiction, or the professional customer requests Banco Sabadell in writing that they be deposited with such a third party.
- They have high safekeeping volumes in their relevant markets.

**2.2.5.2. Periodic review of sub-custodians**

The Entity must put in place the necessary measures to ensure that financial instruments remain at all times identified as belonging to their holders and properly separated from the bank's own assets and those of the sub-custodian. This requires regular reconciliation of its internal accounts and records with those of third parties holding these financial instruments.

**2.2.6. External auditors' reports**

The Entity, through the services of external auditors and on an annual basis, will verify both the accuracy of the deposits and their holders and the adequacy of the company's mechanisms in accordance with the provisions of the MiFID II Directive, with a copy of the resulting report being sent to the relevant supervisors.

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