



Risk and Compliance Department

Asset safeguard policy

May 2023

Introduction

In compliance with the objective of client protection set forth in the Spanish Securities Market Act and its implementing regulation, Cecabank, S.A. has established the following policy.

1. General principles for the protection of clients' financial instruments

Entities providing investment services must make adequate arrangements to safeguard the ownership rights of clients, especially in the event of the investment firm's insolvency, and to prevent the use of a client's financial instruments for their own account.

a. Distinction between own assets and clients assets

Cecabank, S.A. has established in its computer system a structure of securities accounts that allows differentiating between its own financial instruments and those of clients and, within these, identifies the assets owned by each client.

This structure of assets for own account and for clients is kept in central depositaries or sub-custodians that Cecabank, S.A. uses to support its clients in the different markets in which they operate.

In the Domestic Market (Spain), Cecabank, S.A. maintains the following account structure:

- Own account and several third-party accounts with the Central Depositary (IBERCLEAR).
- Accounts of end clients in BME Clearing, in its capacity as clearing agent.

In the International Markets, Cecabank, S.A. uses sub-custodians to settle and custody securities, with the following account structure:

- Own account, third-party account and UCI accounts (according to the requirement of the CNMV - Spanish Securities Market Commission - for maintaining assets belonging to this type of client).

The regulatory requirements of certain countries do not allow third-party accounts, and they require the opening of specific accounts for each end client.

b. Account reconciliation

Cecabank, S.A. guarantees the accuracy of the internal records of financial instruments owned by clients with respect to the third parties in whose possession they are held, by carrying out the following reconciliation processes:

Domestic Market (Spain):

- *Fixed-income and Equity Instruments:* the Central Depositary (IBERCLEAR) has established a series of daily reconciliation processes that Cecabank, S.A., as a participating company in the ARCO platform, fulfils in accordance with the operating procedures published by IBERCLEAR and approved by the CNMV.
- *Derivative financial instruments contracted in organised markets:* Cecabank, S.A. carries out the reconciliation with respect to the accounts held for BME Clearing clients.
- *Physical securities* deposited in CECABANK, S.A.'s safe: the Securities Department and the Internal Control Department perform a semi-annual reconciliation.

International Markets:

- *The balances of each account opened in the different sub-custodians used by Cecabank, S.A. are reconciled every week.*
- *If new agreements are established with other sub-custodians, the same process shall be performed.*

All these reconciliation processes are carried out by a unit of the Securities Department that is dedicated to carrying out control functions within the department, separated from the settlement and custody areas and reporting directly to the department director.

In addition to the processes carried out by the Securities Department, there are other departments in Cecabank, S.A. that supervise these processes.

- Internal Control periodically reviews the legitimacy of the processes.
- Internal Audit carries out reviews according to the operating model established by the General Management.

The annual audit includes these reconciliation processes among its review points, requesting from the sub-custodians and the Central Depositary information regarding the records that Cecabank, S.A. maintains in each of the accounts.

2. Custody of financial instruments of clients - Rules relating to sub-deposit

Article 42 of Spanish Royal Decree 217/2008 enables entities to deposit the financial instruments held on behalf of their clients in accounts opened with a third party, on the condition that the entities act with due competence, care and diligence in the selection, designation and periodic review of the third party.

It also stipulates that entities providing investment services must enter into agreements with third parties to ensure that, in the event of financial hardship, the transfer of the custodied financial instruments can be arranged. For investment firms, such agreements shall also apply to cash.

If, within three months from the onset of the financial hardship, the effective transfer has not been completed, the Spanish National Securities Market Commission (CNMV) shall require the entity in hardship and one of the authorised entities to hold financial instruments to carry out the transfer without delay.

Cecabank, S.A. shall comply with this requirement by signing agreements to this effect with third parties of recognised reputation and solvency, based in countries with specific regulations and supervision regarding the holding and custody of financial instruments and which are also subject to such specific regulation and supervision.

Cecabank, S.A. has the following sub-deposit scheme:

Domestic Market (Spain):

Cecabank, S.A. is a member of different settlement and custody platforms created by the Central Depository (IBERCLEAR) and BME Clearing: public debt, private fixed income (AIAF), equities and derivatives contracted in organised markets. Therefore, it has not delegated the deposit of its clients' financial instruments to any third party.

International Markets:

Cecabank, S.A. uses sub-custodians to carry out settlement and custody of financial instruments in the different international markets where it carries out its clients' transactions.

- Within this model, Cecabank, S.A. has chosen the most straightforward possible operational approach by outsourcing this activity to entities that comply with the market's requirements and practices. Therefore, the sub-custodians must fulfil the following requirements:
- Be renowned entities
- Have the required experience and solvency to perform this activity at a worldwide level
- They must have their headquarters in countries subject to specific regulations and supervision on the holding and custody of financial instruments
- They must custody high volumes of financial instruments in its reference markets.

With regard to the monitoring of the international sub-custodians with which Cecabank S.A. operates, the Risk and Compliance Department of Cecabank, S.A. drafts a periodic report on these sub-custodians. By virtue of the conclusions included in these reports, Cecabank, S.A. assesses the fulfilment of the specified requirements for the purpose of continuing or not the relationship.

When depositing instruments issued in non-Member States of the European Union, the assigned sub-custodians may also request the use of local sub-custodians or central depositaries subject to the regulations and supervision of these non-Member States. In such case, it is noted that the clients' rights over these instruments may be different from those that they would have if they were subject to the law of a Member State.

Accounts held with international sub-custodians are global type accounts. Therefore, the insolvency of a sub-custodian, with the appropriate commencement of insolvency proceedings and/or the appointment of receivers or liquidators, could lead to temporary restrictions of availability, depreciation in value or even the loss of the client's financial instruments or of the rights arising thereof.

In any case, Cecabank, S.A. may deposit its clients' financial instruments with a third party domiciled in a State not subject to regulation and supervision solely under the following conditions:

- a) That due to the nature of the financial services or the services related to these instruments, the custody must be carried out in a third party in that State.
- b) That the financial instruments belong to a professional client and the latter requests Cecabank, S.A. in writing to deposit them in a non-EU country.

a. Operating processes

Cecabank, S.A. has established real-time connection mechanisms that connect its Securities application with the operating systems of its sub-custodians, allowing for a constant exchange of data, both for settlement transactions and for corporate events that occur on the clients' positions.

Meetings are frequently held with the sub-custodians (at least 4 times per year) to analyse any detected problems, streamline processes or analyse new functionalities.

Other providers of this type of service are contacted on an annual basis in order to learn, first-hand, about the existing offer in operational terms and regarding rates.

The reconciliation processes have been detailed in point 1.b. above.

b. Outsourcing agreements

Based on Cecabank, S.A.'s sub-deposit structure, it results that Cecabank, S.A. has not established any outsourcing agreement in its current situation:

- Domestic Market (Spain): Cecabank, S.A. is a direct participant in the different subsystems established by the Central Depositary.
- International Markets: Cecabank, S.A. uses an international custodians model that is considered common market practice. This type of support does not imply that Cecabank, S.A. is outsourcing its custody and settlement functions in international securities, but that the sub-custodians are service providers.

3. Aspects to consider with regard to safeguarding clients' cash

Currently, Cecabank, S.A. acts as a depositary of its client's cash accounts and it does not receive cash from clients that is intended for any purpose other than the deposits it holds, as defined by Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions. Cecabank, S.A., as a credit institution with official authorisation from the Banco de España, shall take the appropriate measures to safeguard the rights of its clients.

4. Employment of Clients' Financial Instruments.

Cecabank, S.A., complying with the provision of article 19 of Directive 2006/73/EC, does not use the financial instruments held for its clients to finance its own business.

The transactions of financial instruments are solely based on instructions made by the clients, as established in clause six of the securities custody contract signed between Cecabank, S.A. and its clients:

“DISPOSAL OF SECURITIES:

In order to totally or partially dispose of securities, the client must have given the instruction through the means previously agreed by the parties, provided that the instruction is given by a person empowered for such purpose.”

If Cecabank, S.A. establishes agreements with third parties that result in the use of its clients' financial instruments, the following requirements must be observed:

- it shall obtain the clients' prior express consent to use the financial instruments,
- When using the instruments, it will abide by the conditions specified and approved by the client.

If the instruments are held in a global account, Cecabank, S.A. must also comply with one of the following requirements:

- It shall obtain the express consent of each of the clients whose instruments shall be deposited in a global account.
- It must have systems and controls that ensure the use of the instruments only if the client has given his express consent.

a. Controls that guarantee the non-use of the financial instruments

The fulfilment of this policy is controlled by the following means:

- The operational areas for own portfolio management and third-party portfolio intermediation are separate and have implemented the information barriers required by the Spanish Securities Market Act. The Securities Department is physically separated from the Treasury Department and has separate operating systems and specific human support for each activity.
- A record of orders and transactions is kept, including the details of the instructions communicated by the client.
- Own account balances and client balances are reconciled according to that detailed in section 1.b.

- The clients are sent a confirmation for each transaction carried out in their account, providing specific details of the transaction or transactions and the overall position.

5. Review and Evaluation of the Asset Safeguard Policy.

a. Review of the policy's design

The design of the policy on safeguarding financial instruments is reviewed yearly by the Securities Department. The Regulatory Compliance Department assesses the review carried out.

b. Compliance with the policy

The compliance with the policy shall be assessed at different times:

- The Internal Control Department shall regularly assess the compliance with the policy.
- Internal audits according to the calendar established by the Management.
- Annual external audit.

The conclusions arising from these assessments shall be submitted to the Regulatory Compliance Department for inclusion in its annual report.

6. Communication to Clients on the Relevant Aspects in terms of Safeguarding.

Cecabank, S.A. provides its clients with information on relevant aspects in respect of safeguarding via two channels:

- The document Policy on the Safeguarding of Financial Instruments, which is delivered to all new clients upon signature of the agreement (see Annex). For existing clients, this policy shall be made available on the company's intranet.
- Custody contract. Clause one of the agreement includes the possibility of Cecabank, S.A. using national and international sub-custodians to better manage the custody of financial instruments. Clause five of the agreement includes the existence and conditions of Cecabank, S.A.'s security guarantee right over the client's financial instruments in the event of current account overdrafts caused by securities transactions.
- Additionally, Cecabank, S.A. shall inform about the adopted measures to ensure the protection of clients' financial instruments or funds in its possession. It will also inform about certain information regarding any relevant deposit guarantee or investor compensation schemes applicable to Cecabank, S.A. by virtue of its activities in a Member State in accordance with the applicable regulations.

To this effect, Cecabank, S.A. is a member of the Spanish Deposit Guarantee Fund of Credit Institutions (FGD). The purpose of the Deposit Guarantee Fund is to guarantee deposits in cash and in negotiable securities and the financial instruments provided for in article 2 of the Spanish Securities Market Act (except for those entrusted to perform investment services in tax havens or in countries or territories specified by the Spanish Ministry of Economy and Finance, or those held in the branches of Spanish credit institutions in non-EU countries with investment protection schemes equivalent to those operating in Spain) set up in the entities up to a maximum amount established in the Spanish regulations per depositor (whether natural or legal persons), even if they have several deposits or a single deposit has several owners.

With regard to negotiable securities and financial instruments, securities owned by financial institutions, public bodies and certain natural or legal persons linked to credit institutions in any of the ways provided for in the regulation shall not be considered.

This guarantee covers the restitution of deposited financial instruments and securities, but in no case any loss of investment value.

In accordance to the regulation, the guarantee shall become effective when any of the following events take place:

- Cecabank, S.A. has been declared bankrupt and that this situation entails the suspension of the restitution of clients' securities, financial instruments or cash.
- The Banco de España has determined that, in their view, Cecabank, S.A. appears to be unable for the time being, for reasons which are directly related to its financial circumstances, to repay the deposit and the institution has no current prospect of being able to do so.

7. ANNEX. SUMMARY VERSION OF THE POLICY

In compliance with applicable regulations, Cecabank, S.A. has adopted the appropriate measures to safeguard the ownership rights of its clients. These measures are included in Cecabank, S.A.'s Asset Safeguard Policy, which is summarised below:

- 1. Distinction between own assets and clients assets.** Cecabank, S.A. has established in its computer system a structure of securities accounts that allows differentiating between its own financial instruments and those held on behalf of clients and, within these, identifies the ownership of the assets of each client.
- 2. Account reconciliation.** Cecabank, S.A. guarantees the accuracy of the internal records of financial instrument owned by clients with respect to the third parties in whose possession they are held, by carrying out the required reconciliation processes according to the type of financial instrument and type of market (domestic or international).
- 3. Selection of sub-custodians.** Cecabank, S.A. uses sub-custodians to carry out settlement and custody of financial instruments in the different international markets where its clients carry out transactions. The criteria for selecting these sub-custodians are: reputation/prestige; experience and solvency at a worldwide level; headquartered in countries subject to specific regulations and supervision on the holding and custody of financial instruments; custody of high volumes of financial instruments in their reference markets.

When depositing instruments issued in non-Member States of the European Union, the designated sub-custodians may also require the use of local sub-custodians or central depositaries subject to the regulations and supervision of these non-Member States. In such case, it is noted that the clients' rights over said instruments may be different to those that they would have if they were subject to the law of a Member State.

Accounts held with international sub-custodians are global type accounts. Therefore, the insolvency of a sub-custodian, with the appropriate commencement of insolvency proceedings and/or the appointment of receivers or liquidators, could lead to temporary restrictions of availability, depreciation in value or even the loss of the client's financial instruments or of the rights arising thereof.

In relation to the custody of clients' financial instruments, Cecabank, S.A. will enter into agreements with third parties to ensure that, in the event of financial hardship, the transfer of the custodied financial instruments can be arranged.

- 4. No use of clients' financial instruments** Cecabank, S.A. does not use the financial instruments held for its clients to finance its own business. The transactions with financial instruments are solely based on instructions made by the clients.

If Cecabank, S.A. establishes agreements with third parties that result in the use of clients' financial instruments, their prior express consent must be obtained; in addition, the use of instruments shall abide by the conditions specified and approved by the client.

If the instruments are held in a global account, Cecabank, S.A. must also comply with additional requirements for the protection of the client's interests.

5. Control of the compliance with the Policy. Cecabank, S.A. has designed a control system to analyse the compliance with this Policy.

6. Transparency. Cecabank, S.A. shall provide additional information to its clients on the relevant aspects of asset safeguarding, upon request.

7. Guarantee system. Cecabank, S.A. is a member of the Spanish Deposit Guarantee Fund of Credit Institutions (FGD). The purpose of this Deposit Guarantee Fund is to guarantee the securities and cash deposits or other financial instruments set up in credit institutions in accordance with article 4 of Spanish Royal Decree 2606/1996 of 20 December regarding deposit guarantee funds in credit institutions.

