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Policy on the integration of sustainability risks into investment decisions

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1 Introduction

Conscious of the fact that financial and investing activities make a crucial contribution to economic development, Bankinter Group is committed to conducting its own business responsibly and to encouraging its customers to transition to a similarly firm commitment to future challenges and sustainable development. The Group's sustainability strategy rests on the following core principle: its business goals must be compatible with sustainable development and environmental and social objectives, preserving environmental and cultural resources for future generations, respecting diversity, and promoting the training and recognition of social groups that need specific support.

This principle is complemented by other Bankinter Group policies, including:

- The sustainability policy
- The human rights policy
- The environmental policy
- The risk management and control framework
- The finance sector policies

In addition, the responsible investment policy and strategy takes into account international conventions and standards such as the United Nations Global Compact, the Universal Declaration of Human Rights, the United Nations Guiding Principles on Business and Human Rights, and the Principles for Responsible Banking of the United Nations Environment Programme Finance Initiative.

European Regulation 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services (the '**Disclosure Regulation**') governs the main obligations concerning disclosures to end investors on the integration of sustainability risks, on the consideration of adverse sustainability impacts, and on pre- and post-contractual information on financial products with sustainable investment objectives or which promote sustainable investments.

Financial institutions, and in particular those that provide wealth management or advisory services for their customers, must always act in the best interests of these end investors and conduct adequate due diligence before making any investments. The Disclosure Regulation goes one step further and requires institutions that manage certain financial instruments or that provide advisory services on investments to integrate into their due diligence and investment selection processes, and assess on a continuous basis, not only relevant financial risks but also all relevant non-financial risks, and in particular relevant sustainability risks, that might have a material negative impact on the financial return of an investment.

Definitions

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Engagement: strategy by which shareholders conduct constructive dialogue with the companies in which they invest to improve environmental, social and governance issues, for example by proposing initiatives and monitoring the implementation of proposals.

Sustainable investments: investments in an economic activity that contributes to an environmental objective, as measured for example by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste and greenhouse gas emissions, or on its impact on biodiversity and the circular economy; or investments in an economic activity that contributes to a social objective, in particular investments that contribute to tackling inequality or that foster social cohesion, social integration and labour relations, or investments in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies must good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

Sustainability risks or ESG risks: all environmental, social or governance events or conditions that, if they occur, could cause an actual or potential material negative impact on the value of an investment.

Sustainability factors or ESG factors: all information related to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters, including the following:

- Environmental factors: climate change, carbon footprint, scarcity of resources, efficient water management, toxic emissions, clean energy, pollution, deforestation, control of CO_2 emissions, impact on the biosphere, renewable energy.

- Social factors: slavery, child exploitation, impact on local communities, health, nutrition, demographic risks, security, diversity and employment equality, human rights, access to finance, access to information.

- Governance factors: directors' remuneration, embezzlement and corruption, political lobbies, governance structure, political influence, business ethics, anti-competitive behaviour and fiscal transparency.

Financial products: For the purposes of this policy, financial products refer to the following:
- Collective investment institutions: both investment funds and SICAVs
- Pension funds
- Discretionary portfolio management

Categories of financial products: The Disclosure Regulation distinguishes between three types of financial products:

- Non-sustainable products: financial products that do not promote or have a sustainable objective as defined in the regulation, although their management does integrate sustainability risks and they may invest in sustainable investments.

- Products that promote environmental or social characteristics or a combination of both: i.e. products that do not have a specific sustainable objective but whose management not only integrates sustainability risks but also follows the principle of not causing significant damage to other ESG objectives or factors.

- Products that have sustainable investments as an objective: i.e. products with one or more specific objectives or that have designated a benchmark sustainability index and whose investments must contribute to those objectives by integrating sustainability risks and adhering to the principle of not causing significant harm to other ESG objectives or factors.

3 Scope of application

This document describes the policy on the integration of sustainability risks into investment decisions (the '**Policy**') and it therefore applies to the parent company Bankinter, S.A. (the 'Bank') and to Group companies that provide the following reserved activities:

- Management and administration of collective investment institutions and pension funds
- Discretionary portfolio management
- Investment advice

Purpose

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The analysis of sustainability risks and factors in investment advisory and decision-making processes can realise benefits beyond financial markets. It can increase the resilience of the real economy and the stability of the financial system, and ultimately can impact on the risk-return of financial products.

In the interests of improving transparency and disclosures to end investors, this Policy explains how to integrate the relevant real or potentially real sustainability risks into investment decision-making processes in the provision of the reserved activities described in the previous section.

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ESG integration and criteria

Investment decision-making process

The Entities' internal investment decision-making and selection procedures have traditionally taken into account both quantitative and qualitative criteria when choosing underlying financial instruments or those in which financial products invest.

These quantitative and qualitative criteria were initially based on financial criteria or indicators. Similarly, risk analysis basically consisted in measuring financial risks that traditionally affected the performance of financial products, such as market risk, credit risk and liquidity risk, etc.

The definition of sustainability risk included in the Disclosure Regulation mentions environmental, social or governance events or conditions that could cause a negative material impact on the value of an investment. These events or conditions are specified in the legislation implementing the Disclosure Regulation and in Regulation 2020/852 of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, which amends Regulation (EU) 2019/2088 (the '**Taxonomy Regulation**'), and they are summarised in the Definitions section above.

The integration of sustainability risks and criteria supplements this traditional financial analysis and means that investment decision-making and selection procedures must now incorporate non-financial factors such as the sustainability factors and risks defined in Section 2 of this document. This will result in a much more comprehensive and rigorous analysis and control of a greater number of factors and potential risks.

The Entities should focus on the sustainability factors and risks they consider to be the most relevant in terms of their economic impact on the value of investees and, therefore, on the return on investments. The exact degree to which these criteria must be integrated into the decision-making process will depend on the commitments and objectives stated in the investment policies of each product but in any case must ensure full compliance with the legal requirements and the management commitment acquired.

The Entities should approach this integration of sustainability risks with the conviction that in the long term it will lead to enhanced returns on the investments they make for their customers, and that it addresses a growing sensitivity to sustainability matters among the investor base as well as increasingly stringent requirements imposed by the various regulatory bodies.

The Entities must ensure they have the necessary technical and human resources to gather the information and conduct the analysis required to measure sustainability risks. They may use both internal and external resources for this purpose. In the case of external resources, this refers in particular to providers with proven experience and a robust reputation in the industry. Since this an evolving landscape in which the definition and measurement of sustainability risks have yet to be standardised, the Entities should adapt these technical and human resources to their particular circumstances.

The objective behind the provision of these resources is to ensure that Entities have a system for assessing and measuring the risk of each investment made or recommended. Although there are several ways of expressing this assessment and measurement, a rating of the type used to assess credit risk is considered to be a useful measure for this purpose, especially since it is readily available from numerous providers on the market. The particular characteristics of each product will determine the application of minimum and/or maximum ratings. As general rule, these limits should be applied at portfolio level rather than at the level of individual positions.

Human and material resources

In line with all of the above and in compliance with the prevailing legislation, Entities should use the following in their investment decision-making process:

- ✓ tools and external data providers to obtain non-financial sustainability information and ESG risk ratings for different types of financial instruments;
- ✓ human resources to carry out this integration and supplement the information supplied by external providers, and to implement ESG strategies in each financial product managed;
- ✓ an internal methodology, as described in the previous section, to integrate ESG factors and risks into their decision-making procedures and monitor investments;
- ✓ other tools and/or procedures in which constructive dialogue and voting policy may influence the decisions made by investee companies, in line with the policy on the long-term engagement of shareholders in sustainability-related matters; and
- ✓ tools to detect any conflicts of interest that may arise when integrating sustainability risks.

Strategies for integrating ESG risks and factors

There are various strategies for integrating sustainability risks, which are explained below.

Strategy based on exclusion criteria: In line with this strategy, the Entity directly excludes certain economic activities, businesses or companies or issuers from the investment universe on the grounds that they do not meet specific sustainability criteria or they are sectors or activities that do not foster sustainability.

Bankinter's risk management and control framework includes a set of sustainability principles which is evolving and expanding as best practices in this area are gradually refined. These principles and policies are applied to sectors with a potential impact on the environment, such as energy, agriculture and mining, and can be found on the Bankinter corporate website.

Equivalent exclusion criteria should be applied to investment decision-making and advisory processes. Other exclusion criteria should also be considered for products that have an express commitment to sustainability.

Best-in-class strategy: This consists in making decisions based on a selection of investments with the best ESG rating. In line with this strategy, the Entity analyses how the investee manages non-financial criteria, regardless of its activity.

Best-efforts strategy: With this strategy, the Entity selects investees whose ESG rating shows the best progression. In other words, it rewards the investees or issuers that are making the most efforts to improve their sustainability, even if they do not have a high ESG rating at the time of the investment.

Impact strategy: The aim of this strategy is twofold: to generate a positive social or environmental impact as well as a financial return by focusing investments in companies whose mission is to pursue activities that are designed to generate a concrete, quantifiable and measurable impact.

Other strategies and/or combinations of the previous ones: One example of this is themed investing. This consists in investing in companies or activities that are aligned with sustainable development, whether environmental or social. It means investing in sectors or activities that make a substantial contribution to improving environmental or social aspects (e.g. activities aligned with the Taxonomy Regulation).

For the Management Company and products where there are no specific exclusion commitments, the best-in-class and best-efforts strategies should be used. There are also products with defined themes and impact strategies may be the wisest option in certain market conditions.
Lastly, some products may require a combination of the above strategies.

Entities should also refer to the policy on the long-term engagement of shareholders since this describes actions related to voting rights and constructive dialogue with investees to force them to recognise the importance of sustainable matters and the need to implement an improvement process in this area.

Monitoring and control

Once sustainable (non-financial) risks have been integrated into the investment decision-making and selection process, they must be measured and monitored in the same way as financial risks.

The Entities' risk management teams should carry out this control in line with their risk management policy and taking into account two aspects: the qualitative and quantitative criteria analysed in the strategy adopted to integrate sustainability risks into the investment decision-making process; and, specifically for the Management Company, the commitment assumed by the funds classified as sustainable.

6 Policy update

The Asset Management area is responsible for drawing up this Policy and amending/updating it as necessary. In any case, the contents will be revised once year and more regularly if appropriate.

Any amendments to this Policy will require approval from the board of directors.

The Policy will be available in the Sustainability section of the website of all entities included in the scope of application.