Policy for Responsible Investment and Integration of Sustainability Risks

ABANCA
ABANCA investments seek, in addition to the financial return for the investor and better management of sustainability risks, to contribute to the sustainable and inclusive development of society. And thereby, to fulfill the promise that ABANCA has proposed with society, 365 days a year.
INTRODUCTION

ABANCA has implemented a responsible investment program that is supported by the following pillars:

- Integration of sustainability risks: environmental, social and governance (ESG) in making investment decisions, such as how to contribute to better long-term risk management for investments and to identifying opportunities derived from the sustainability.
- Strengthening the investment plan, introducing ESG materials in the investment process that allows for more well-informed decisions.
- The incorporation of sustainability criteria in the investment process is considered good practice by the entity’s customers, which is reflected in the greater demand for products and services related to responsible investments.

OBJECTIVE

This Policy for Responsible Investment and Integration of Sustainability Risks intends to lay out the strategy and basic principles of voluntary and aspirational actions on this matter, with the purpose of gaining a return on investment that is consistent with customer objectives, while seeking to maximize social welfare. To do this, the sustainability risks or ESG risks on investments are considered, and the specific financial metrics on these factors are incorporated.

Furthermore, this Policy intends to respond to the obligations of [EU] Regulation 2019/2088 of the European Parliament and of the Council, of November 27, 2019, on the disclosure of information related to sustainability in the financial services sector. Specifically, the Policy has the aim of explaining how the sustainability risks are integrated into decision-making processes for investment and advisement.

DEFINITION AND SCOPE

Scope of application

This policy will be applicable to ABANCA Corporación Bancaria, S.A., as well as its branch in Portugal, to ABANCA Vida y Pensiones de Seguros y Reaseguros, S.A., and to ABANCA Mediación, Operador de Banca-Seguros Vinculados, S.L. (hereinafter the entities will jointly be called ABANCA), constituting a reference document for managed assets as well as the investment products and services offered at ABANCA.

Specifically, it will be directly applicable to the provision of discretionary and individualized management services for customer portfolios and of advisement services, whether it be on financial instruments or insurance-based investment products.

It will also be applicable when making decisions about investments in ABANCA’s own portfolio.

ABANCA will furthermore push all participants along the value chain to be governed by patterns of conduct and values analogous to those established in this Policy.
Scope

This Policy establishes the general guidelines for ABANCA’s actions as far as the integration of sustainability risks and responsible or sustainable investment.

The integration of sustainability risks when making investment decisions is applicable to all savings-investment products and services offered by ABANCA; meanwhile, the responsible investment criteria are only considered for some specific products and services offered by ABANCA.

Drafting the general guidelines for action at ABANCA in the matter of integration of sustainability risks and responsible investment has entailed the study and analysis of a broad set of legislation, standards and reports.

The documents presented in Annex I have been taken into account for the preparation of this Policy.

The Policy for Responsible Investment and Integration of Sustainability Risks is complemented by the rest of the entity’s policies.

Code of Ethics and Conduct

The principles of the Policy are aligned with the organizational culture set forth in the ABANCA Code of Ethics, which promotes respect for human rights, transparency, professional ethics and sustainability.

The investment model is built upon the four values that govern internal behavior (responsibility, reliability, quality and innovation): a reliable and competent management team that ensures the asset selection process is of high quality, thus generating innovative products.

ESG Factors

ABANCA’s Alpha360 investment model integrates certain ESG factors as relevant variables in the decision-making process. This integration allows for more well-informed decisions, both for variable and fixed-rate assets in the different portfolios of its own, as well as for the offer of financial products and services to customers.

The following measures have been taken to achieve this integration:

- Application of the United Nations’ Principles for Responsible Investment (PRI), Principles for Responsible Banking (PRB) and Principles of the Global Compact, in addition to the integration of specific ESG criteria in the selection of funds and analysis of assets.
- Promotion of specific internal training in the field of ESG criteria and socially responsible investments.
- Improved access to information about sustainability risks, thanks to ESG data processing tools from external providers and the development of its own tools for analysis, management and decision-making.
- Establishment of quantitative and qualitative ESG thresholds and criteria, to measure and assess the sustainability risk of investments.
- With its investment providers, ABANCA promotes the adaptation of the principles of responsible investment and information transparency.
Principles for Responsible Investment

ABANCA is committed to guiding its actions based on the following implementation of the Principles for Responsible Investment (PRI)

1. To consider the ESG criteria in investment analysis and decision-making processes.
   - In the case of discretionary portfolio management (Alpha Strategies) and advisement services, funds are exclusively incorporated that are managed by entities who have signed the Principles for Responsible Investment (PRI).
   - Within the discretionary portfolio management service, the incorporation of products that promote ESG criteria will be favored, making investment strategies that comply with this classification available to customers.
   - ABANCA has developed a geographical ESG global assessment method with more than 80 variables related to the environment, social development, strategic governance and economic data from more than 200 countries.
   - A sampling of the investment alternatives in ESG is requested at every meeting with international investors.
   - An investment assessment methodology has been incorporated, which adjusts the profitability/risk ratio with criteria that combine financial analysis and ESG criteria.

2. To be an asset owner and incorporate ESG criteria in ownership policies and practices.
   - ABANCA actively requests fund managers and companies who incorporate ESG criteria in the company analysis process (CEO-President duality, board composition, compensation policy, environmental commitments, human rights, information transparency, etc.).

3. To request appropriate information about ESG from companies that it invests in.
   - ABANCA does not invest in companies that do not produce their annual reports under the Global Reporting Initiative Standards.
   - ABANCA performs an analysis on the ESG data that companies include in their annual account statements and reports.

4. To promote the acceptance and implementation of the Principles within the investment sector.
   - Portfolios generated discretionally under Alpha strategies consider the investment from a long-term point of view, i.e., beyond the cycle.
   - The level of demand for providers is that they be signatories of the Principles for Responsible Investment.

5. To cooperate with the goal of increasing effectiveness in the implementation of the Principles.
   - ABANCA is a signatory of the United Nations’ Principles for Responsible Investment and the Principles for Responsible Banking.
   - The Entity promotes training for people in the organization, to obtain the certifications issued by PRI Academy and the European Federation of Financial Analysts Societies (EFFAS). So that they can develop the necessary capacities to allow them to comprehend the impact of their activity, implement the Principles more efficiently, and the importance of all of this in fostering a sustainable society.

6. Reporting on ESG activities and progress made as far as implementing the Principles.
   - ABANCA publishes the long-term orientation and commitment to responsibility during the investment process to its stakeholders.
   - With regard to stakeholders, we have a communication policy that supports the acknowledgement of the Principles and what they represent.
   - ABANCA’s non-financial annual report is prepared according to the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards) under its comprehensive option, and it is independently reviewed by an external auditing company according to ISAE 3000, to comply with Law 11/2018 on Non-Financial Information and Diversity.
Notwithstanding the foregoing, the application of the above criteria does not mean that all products offered by ABANCA are considered sustainable products under the Regulations for Disclosure, i.e., products that promote environmental or social characteristics and products that have sustainable investments as an objective.

The composition and diversification of the portfolios managed are both aligned with the strategic positioning adopted by the ABANCA Investments Division for the different portfolios, objectives and risk profiles. As far as the advisement service, through a process that incorporates both quantitative and qualitative criteria, the sustainability risks are taken into account for the selection of products and the composition of recommendation lists. The management of its own accounts and of the insurance-based investment products that the insurance company implements applies the same sustainability criteria, being adapted to the financial objectives established at all times.

The integration of sustainability risks or ESG risks in the decision-making process allows the quantitative risk analysis to be complemented from a qualitative perspective, improving the risk assessment for the investments.

This is a complementary tool to traditional financial analysis and is aimed at improving the profitability/risk ratio of investments through the identification and management of potential sustainability risks that may not affect the value of the assets it invests in.

In this way, ABANCA has established a series of qualitative and quantitative criteria that condition the investable universe and investment decision-making with the goal of reducing exposure to certain assets whose sustainability risk could be elevated.

The management of socially-responsible investment operations applied to certain ABANCA products and services seeks a balanced three-fold objective: create long-term value and bring maximum profitability for the investor based on the investor’s risk profile, act using professional best practices and respect the commitment made to protect the environment, and contribute to the sustainable development of society.
ABANCA’s responsible investment strategy applies the following approaches to decision-making, which are not exclusive and may be complemented by each other:

**ESG Criteria**

1. “Best in class” (best ESG companies): suggests investment in the companies situated at the top of their sector in terms of compliance with criteria in the field of environmental sustainability, social commitment and ethics in the governance of their business.

2. Commitment: in this case, an investor who acts proactively, communicating to the company that it pursues responsible behavior. ABANCA maintains an active dialogue with companies in which it has invested or wants to invest, with the goal that they will pursue responsible behavior and to try to influence said behavior.

**Exclusion**

In this case, investments managed by ABANCA will not directly involve companies who have values contradicting those of the organization, for example, companies that:

1. Do not comply with the regulations in the sector or country where they operate.

2. Produce arms of any type (nuclear, anti-personnel mines, cluster bombs, or chemical and biological weapons, etc.), alcohol, tobacco, or gambling products.

3. Violate the 10 Principles of the UN Global Compact.

**Social or environmental impact**

Impact investors, after a specific impact objective is flagged, seek for their investments to produce quantifiable socio-economic or environmental benefits. The investment portfolios focused primarily on impact in companies that provide goods and services with a positive effect, whose objectives are often associated with efficiency of resources (climate, energy, water, health or food).

**Thematic**

New criteria can be included along with the different non-financial themes that ABANCA clients could align with, in line with those cited above (for example, companies that offer solutions to mitigate social and environmental problems).
One of ABANCA’s priority elements is maintaining a fluid, permanent and transparent dialogue with all stakeholders through the different channels of communication, which allow it to identify, within the framework of its Social Responsibility, their material aspects and the associated risks and opportunities.

The investment products management and sales team ensure compliance with the transparency requirements established in the applicable regulations and standards on this subject.

The channels are included, with detailed and up-to-date information, in the Memory on Corporate and Social Responsibility that ABANCA publishes annually on its website.

https://www.abancacorporacionbancaria.com/es/rsc/

Board of Directors

The Board of Directors is responsible for final approval of the Policy for Responsible Investment and Integration of Sustainability Risks, which will adopt the measures necessary for the implementation and supervision of the development and application of the Policy, receiving the annual reports prepared to this effect on its application and outcome.

The owner of this Policy is the ABANCA Corporación Bancaria, S.A., Board of Directors. Any subsequent revision or substantial amendment will have to be approved by the Board of Directors.

Periodic Policy Review

The Investments Division, together with the function of Standard Compliance, and the Comprehensive Risk Management Division will be responsible for reviewing this Policy at least once a year and, if applicable, making the necessary modifications.

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee is the entity responsible for establishing the necessary steps for the implementation of the cited general principles of action and for ensuring compliance with the Policy, in coordination with the Entity’s different General Management Offices in this field.

Investments Division

The area responsible for applying the criteria established in this Policy and the corresponding internal procedures when it comes to making investment decisions or providing advisement services.
The following documents, among others, have been taken into account for its preparation:

- (EU) Regulation 2019/2088 on the disclosure of information about sustainability in the financial services sector.
- The United Nations' Principles for Responsible Investment.
- The United Nations' Sustainable Development Goals (SDGs).
- The 10 Principles of the United Nations' Global Compact.
- The United Nations' Principles for Responsible Banking.
- The Initiative of the Carbon Disclosure Project.
- The Paris Agreement on Climate Change.
- International Standardization Organization Standard ISO 26000.
- The Global Reporting Initiative (GRI) Sustainability Reporting Standards.