Sustainability Risks Integration Policy

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1. INTRODUCTION

1.1. Background

In 2015, the United Nations General Assembly adopted a new global sustainable development framework: the 2030 Agenda for Sustainable Development, with the Sustainable Development Goals (SDGs) at its heart. Over the next few years, these goals will guide the readiness of a future that ensures stability, a healthy planet, just, inclusive and resilient societies, and prosperous economies.

Approved under the United Nations Framework Convention on Climate Change, the Paris Agreement aims to strengthen the response to climate change while achieving, among other things, that financial flows are consistent with a path that leads to development resilient to climate change and with low greenhouse gas emissions.

The transition to a low-carbon, more sustainable, resource-efficient and circular economy, in line with the SDGs, is considered essential in ensuring the long-term competitiveness of the European Union economy.

It is in this sense that this Policy responds to the above principles, to the European Commission's Sustainable Finance Plan and, in particular, to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (hereinafter 'SFDR Regulation'), which establishes the need to specify and publish the policies on how they are integrated into their investment management processes, as well as continuously assessing all relevant sustainability risks that may have a material negative effect on the investment's financial profitability.

1.2. Sustainability risks integration

Sustainability Risk in investment management is defined as an Environmental, Social or Governance (ESG) event or condition that, if it occurs, could have a material negative impact on the value of the investment.

Likewise, the VidaCaixa Group (hereinafter, 'VidaCaixa', 'the Group' or 'Grupo VidaCaixa') integrates ESG aspects into the management of its insurance business investments and also into the management of its clients' investments from its activity as a pension fund manager.

1.3. Aim

The aim of this Policy is to establish the principles and premises that regulate the integration of sustainability risks. The policy therefore includes:

- A **frame of reference** that allows for the integration of sustainability risks in investment management.
- The **scope** of the sustainability risks to cover.
- The **governing framework** to follow when integrating sustainability into investment management for the proper integration of sustainability risks.

All this is geared towards:

- Defining the necessary principles and rules to ensure integration of sustainability risks in investment management, both for the VidaCaixa Group and the managed pension funds.
- Ensuring sufficient management of these risks, both for VidaCaixa and for the shareholders and beneficiaries of the managed pension funds.
- Complying with regulatory requirements and supervisory expectations.

2. SCOPE OF APPLICATION

This Policy has a corporate nature. Consequently, the defined action principles apply to all VidaCaixa's insurance subsidiaries that are exposed to sustainability risks. These subsidiaries' governing bodies will take the necessary decisions to integrate the provisions in this Policy and, following the proportionality principle, adapt the governance framework to the specifics of the structure of their governing bodies, committees and departments, and their principles of action, methodologies and processes as set out in this document.

This integration may involve, among other decisions, the subsidiary approving its own policy. Approval will be necessary for those subsidiaries needing to adapt the provisions of this Policy to their own specificities, either due to issue, jurisdiction or significance of the risk in the subsidiary.

This document is dynamic in nature, so it will be adapted as the function and organisation evolve and change due to the development and implementation of new principles and models for managing sustainability risks. Likewise, the social and international environment in this ambit is subject to continuous review given the environmental challenges that the Group faces globally, so the strategy and standards must adapt appropriately to new recommendations or legal requirements that may arise, or resulting from dialogue between the group and its stakeholders. In this regard, VidaCaixa will review this Policy at least annually, and must update it to ensure it remains aligned with international regulations and best practices.

This Policy is applicable from the date it is approved by the Board of Directors and excludes any pre-existing investment.

3. REGULATORY FRAMEWORK

This Policy will be governed by the provisions of current applicable regulations, as well as by those that amend or replace them in the future.

Specifically, on the date it was drafted, the current applicable regulation was the SFDR Regulation.

This Regulation contains the requirements that oblige participants in financial markets to act in the interest of end investors; in particular, but not exclusively, the requirement to act with adequate due diligence before making the investment, pursuant to the provisions of Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/65/EU, (EU) 2016/97, (EU) 2016/2341[1], and Regulations (EU) No 345/2013 and (EU) No 346/2013[2], and national legislation regulating personal and individual pension products.

To meet their obligations resulting from these standards, participants in financial markets must integrate them into their processes, including due diligence, as well as continuously assessing all relevant financial risks and, in particular, all sustainability risks that could have a material negative effect on the investment's financial profitability. Therefore, participants in financial markets should specify how they integrate these risks into their policies and publish them.

[1]

- Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).
- Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).
- Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.
- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.
- 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.
- Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.
- Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs).

[2]

- Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds.
- Regulation (EU) No 346/2013 of the European Parliament and of the Council of 17 April 2013 on European social entrepreneurship funds.

4. GENERAL PRINCIPLES FOR THE INTEGRATION OF SUSTAINABILITY RISKS

VidaCaixa, in accordance with the mission and values of the CaixaBank Group, takes criteria of socially responsible investment into consideration when managing its investments based on the principles of sustainable investment and transparency in management.

Including ESG (Environmental, Social and Governance) criteria and integrating them into investment management can have a favourable effect on the long-term financial results of companies and contribute to greater economic and social progress.

It is under this context that VidaCaixa integrates ESG factors following the PRI criteria (Principles for Responsible Investment) promoted by the United Nations, to which it has adhered since 2009, as its main reference.

VidaCaixa also undertakes to integrate ESG factors into the organisation, following the Principle for Sustainable Insurance (PSI) of the UNEPFI (United Nations Environment Programme Finance Initiative) as a reference, to which it has adhered since 2020.

Likewise, in managing its investments, VidaCaixa considers the social aspects in its Human Rights Policy, which establishes its commitment to respect the main international declarations and principles, including:

- The United Nations International Bill of Human Rights, which includes:
  - The Universal Declaration of Human Rights
  - The International Covenant on Civil and Political Rights
  - The International Covenant on Economic, Social and Cultural Rights
- The ILO Declaration on Fundamental Principles and Rights at Work and the eight fundamental Conventions it has identified.
- The Charter of Fundamental Rights of the European Union
- United Nations Guiding Principles on Business and Human
- Rights
- The OECD Guidelines for Multinational Enterprises
- The United Nations Global Compact

Similarly, when managing its investments, the Entity considers environmental aspects, included in its Environmental Risk Management Policy, which establishes that the following are taken into account, among others:

- The Paris (COP21) and Katowice, Poland (COP24) Agreement
- The United Nations (UN) Sustainable Development Goals (SDGs)
- The energy transition scenario adopted by the Government of Spain

Additionally, through its support of the *Task Force on Climate-Related Disclosure* (TCFD), VidaCaixa commits to and supports its recommendations on climate change.

Integrating ESG criteria into investment management as a principle of action is compatible with having exclusion criteria for certain assets from the investment portfolio if deemed appropriate.

VidaCaixa expresses its opposition to investing in companies or States that engage in reprehensible practices that violate international treaties such as the United Nations Global Compact, of which it is a signatory. Similarly, the Entity will not invest in companies in sectors or with activities excluded in its various policies, such as arms, as set out in VidaCaixa's Defence Policy, or companies with significant activities in extracting or generating thermal coal, or the extraction or production of tar sands, as set out in VidaCaixa's Environmental Risk Policy.

ESG analysis is intended to be applied to all assets in the portfolio and to constantly improve in the medium and long term. To do this, VidaCaixa uses data from providers specialised in ESG in its analysis and considers due diligence procedures performed with external fund managers. It also relies on partners to establish the criteria, methodologies and procedures necessary to perform its analysis. In addition, it takes part in forums and ESG working groups, coordinating with other CaixaBank Group companies, and collaborates in the regulatory developments proposed at an international level, such as the European Commission's Sustainable Finance Action Plan.

More specifically, the management of environmental risks, specifically climate risks, is defined in VidaCaixa's Environmental Risk Management Policy. This policy defines sectoral exclusions applied to investments made directly for VidaCaixa to reduce its exposure to environmental risks, and specifically to transition risks and physical risks due to climate change.

With the aim to being an active owner in the management of its investments and exercising the rights derived from them, especially in the areas set by the PRIs:

- It takes part in forums and working groups directly or indirectly that seek to promote dialogue with the asset managers and companies in which it invests, divesting in cases of incompatibility with the aspects previously expressed or our policies.
- It exercises the policy rights of its own equity positions or on behalf of its clients and attending general shareholders' meetings voting with a PRI mindset.

To ensure proper identification, measurement, assessment, management, control and monitoring of risks, VidaCaixa envisages a Risk Catalogue with two description levels in its strategic risk management processes set out in the Risk Management Policy, among other aspects. In the scope of integrating sustainability risks, ESG aspects are included within the following level 2 risks:

- **Credit – Sustainability risk (including climate)**
  Impairment in the solvency of Grupo VidaCaixa Asegurador's investment portfolio as a result of any event or ESG (Environmental, Social and Good Governance) status that, should it occur, could have a real or possible material negative effect on the value of the investment.
  Climate change risks are contextualised as being of particular significance, such as investments in companies exposed to potential physical risks of gradual or abrupt climatic events (on their assets, supply chains, etc.) or from losses that the risks of transition towards a low-carbon economy (regulatory changes, technological changes, new customer preferences, etc.) could generate.

- **Other Operational Risks – Fiduciary risk**
  Losses in the event that the VidaCaixa Group manages, advises or safeguards the investment assets of its clients incorrectly, or without assessing the sustainability risks that may affect them, even complying with regulations and regulations, if they materialise to the detriment of clients in a manner that is greater than that inherent to the financial risks of their investments.

- **Reputational – Failure to promote ESG aspects or poor integration of them into the business**
  Failure to integrate ESG aspects into the strategy, the actions of the VidaCaixa Group or the management of the insurance business investments and client investments (including shareholders and beneficiaries of the managed pension funds). Examples of this would be non-transparent tax structures, the perception of avoiding taxes or the presence of the VidaCaixa Group in tax havens or low tax havens (itself or its clients).

5. GOVERNING FRAMEWORK

The governing framework for the integration of sustainability risks is structured from the highest level of the organisation to the management and operating units, with an appropriate segregation of functions.

The pillars on which the governing framework is based are:

- Compliance with the principles set out in this Policy.
- Alignment with best practices, supervisory expectations and current regulations.
- Involvement of the governing and management bodies.
- Implementation of a coherent internal control framework that guarantees the strict segregation of functions and the existence of several layers of independent control.

5.1 . Governing Bodies

VidaCaixa’s governing bodies perform functions associated with their responsibility to approve and supervise the strategic and management guidelines established in the realm of sustainability, as well as the supervising, monitoring and integrated control of risks as a whole.

5.1.1. Board of Directors

VidaCaixa’s Board of Directors is responsible for implementing a risk governance framework in line with VidaCaixa’s risk appetite, and in line with that set out by the CaixaBank Group. It is also responsible for the strategic definition of VidaCaixa and its Group, the required organisation for its implementation, and supervising and controlling management in their compliance with the objectives and management guidelines established by the Board of Directors, all in accordance with its corporate purpose and interest. In relation to the integration of sustainability risks, the following responsibilities are of note:

- Establishing the strategy and guiding principles for integrating sustainability risks. It approves this policy and ensures its compliance.
- It establishes the framework for monitoring the situation and evolution of the integration of sustainability risks (nature, type of information and frequency).
- It establishes and supervises the implementation of a risk culture that promotes behaviours consistent with identifying and mitigating sustainability risks.
- It establishes and maintains an appropriate organisational structure for the integration of sustainability risks proportional to the nature, scale and complexity of the activities it performs.
- It ensures that personnel involved in the integration of sustainability risks have the appropriate skills and experience.

5.1.2. Risk Committee

The Risk Committee advises VidaCaixa’s Board of Directors on the Group’s overall propensity to risk and its strategy in this regard. As part of managing dialogue activities with companies and providers of investment products, and exercising the rights inherent to the listed securities that comprise the portfolios managed by VidaCaixa, this Committee:

- Proposes the approval of this Policy to the Board.
- Monitors the degree of appropriateness of the Risks assumed to the previously decided profile and ensures that the Group’s actions are within the established tolerance levels.
- Jointly with the Board of Directors, determines the information that the Board of Directors must receive and sets the information that the Committee must receive, so that knowledge of the exposure to this risk in the decision-making process is sufficient.
- Assesses the risk of regulatory compliance with actions and decisions, detecting any risk of non-compliance and monitoring and studying possible deficiencies in accordance with ethical principles.
- Checks that the Group has the means, systems, structures and resources in accordance with best practices to allow it to implement its strategy in managing this risk.

5.1.3. Audit and Control Committee

VidaCaixa’s Audit and Control Committee oversees the effectiveness of the internal control and management systems for financial and non-financial risks.

In addition, and within the Entity’s own action scope, VidaCaixa’s Audit and Control Committee oversees that Internal Audit ensures the proper operation of the information and internal control systems, checking their adequacy and integrity.

5.2. Committees

5.2.1. Management Committee

VidaCaixa's Management Committee is responsible for developing the Strategic Plan and the consolidated budget approved by the Board of Directors. It also approves structural changes, appointments, and the business strategies and investments.

The development involves adopting agreements on sustainability either directly or through its delegated committees.

Specifically, and within VidaCaixa's own scope, the Management Committee:

- Gives its agreement to VidaCaixa's sustainability policies, as well as to public adhesions and commitments in this regard.
- Receives regular information on sustainability initiatives.

5.2.2. Investment Committee

The Investment Committee is responsible for establishing and approving the investment stance, approving and endorsing the operations carried out by the insurer, as well as ensuring the correct management, monitoring and control of the insurer's investments and those of clients according to defined investment policies and the current regulatory framework.

It is also responsible for optimising and making the financial structure of VidaCaixa's balance sheet profitable using the risk appetite framework and risk limits policies approved by the Board of Directors and based on the principles of sustainable investment and transparency in management, as well as the integration of ESG aspects.

5.2.3. Global Risk Committee

The Global Risk Committee is the subordinate Body of the Risk Committee responsible for globally managing, controlling and monitoring, among others, the integration of sustainability risks.

The specific objective of the Global Risk Committee is to adapt VidaCaixa's strategy in terms of integrating sustainability risks to that established by the Board of Directors within the risk appetite framework, coordinating measures to mitigate non-compliance and the reaction to the initial warnings, and keeping the VidaCaixa Board informed via the Risk Committee of the VidaCaixa's main lines of action and the risk situation.

5.2.4. Sustainability Steering Group

The functions of this Group are to coordinate decisions on sustainability across the Entity, analyse and be aware of the reports related to these risks prior to their being reported to the Investment Committee, the Global Risk Committee, the VidaCaixa's Governing Bodies or the Committees of subsidiaries of the CaixaBank Group to whom such risks must be reported. Its functions also include the monitoring and promotion of action plans related to those risks.

6. CONTROL FRAMEWORK

VidaCaixa promotes a risk culture that encourages risk control and compliance, as well as establishing a robust internal control framework that extends across the entire Entity and allows fully informed decisions to be made about the risks assumed.

The VidaCaixa Group's internal control framework is structured into Control Levels that follow the CaixaBank Group's Three Lines of Defence model, which guarantees the strict segregation of functions and several layers of independent control:

- The **first control level** is made up of procedures and processes of the operating units that manage dialogue activities with companies and providers of investment products, and exercising the rights inherent to the listed securities that comprise the portfolios managed by VidaCaixa. They are responsible for applying the internal policies and procedures in this regard, proactively implementing measures to identify, manage and mitigate Risks, and establishing and implementing adequate controls.
  Specifically, the Sub-Directorate General for Investments acts as the first level of management control.

- The **second control level** ensures the quality of the entire process of generating and managing the different risks, reviews the consistency with the internal policy and the public guidelines of the processes, performs specific controls on the information inputs used, and establishes the design and the guidelines for reviewing the processes and controls established in the management units for these risks. Among others, this includes:
  - Risk Management, as a core function of Directive 2009/138/EC (Solvency II)[3] and a key risk function of Directive (EU) 2016/2341 (IORP II)[4], is the second control level for financial and operational risks on sustainability issues. It is responsible for the functions related to managing the risk management policies, controlling risk categories, and coordinating and maintaining the risk catalogue. Additionally, as a key risk function of IORP II in managing pension funds, risks from the perspective of shareholders and beneficiaries are also taken into consideration as well as controlling the investment policies of the managed funds. Investment Risk Management, part of Risk and Capital Management, manages, monitors and controls investment risks, both in the VidaCaixa insurance business and the risks to which shareholders and beneficiaries of managed pension funds are exposed.

  - As the second level internal control for reputational risk, Regulatory Compliance will ensure the quality of the entire socially responsible policies management process; it will review the coherence of internal policy with the guidelines on sustainability and ensure that specific controls on compliance with this Policy are available.

- The **third control level**, Internal Audit, will carry out periodic supervision activities on the effectiveness and efficiency of the sustainability management framework, including the first and second control levels, as well as compliance with current legislation, the requirements of supervisory bodies, and internal policies and procedures related to this risk. In accordance with the results of its controls, it will issue recommendations to other areas, monitor their proper implementation and, where appropriate, make recommendations to the Governing Bodies and propose possible improvements.

As managing areas in the parent entity, Regulatory Compliance, Audit and Risk, and Internal Audit are responsible for the strategic orientation, supervision and coordination with respect to the respective internal control functions of the subsidiaries while safeguarding their own scope.

There must be a guarantee of controls over the appropriate application of the general principles established in this Policy, as well as, where appropriate, their progression in internal frameworks and procedures.

[3] Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)
[4] Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs)

7. PUBLICATION AND TRANSPARENCY

Establishing an appropriate reporting framework is essential when integrating sustainability risks. The main aims of the information framework are to:

- Provide the Governing Bodies and Senior Management, with enough time, and with accurate, clear and sufficient information to facilitate decision-making and to verify that it is operating within the tolerances for the integration of sustainability risks.
- Satisfy the information requirements of the supervisory bodies.

In terms of integrating sustainability risks, the Global Risk Committee will periodically receive information, at least:

- Annual study on the integration of sustainability risks.
- Half-yearly assessment of the level of inherent and residual risk for ESG risks.

8. UPDATING THE POLICY

The need to update the Policy may be initiated, at any time, at the request of any of those involved in integrating sustainability risks who have identified a need for an amendment, justified, among other causes, by:

- Changes in the regulatory framework.
- Changes in business aims and strategy.
- Changes in management approach or processes.
- Changes derived from the results obtained in the monitoring and control activities.
- New Policies or amendments to existing ones that affect the content of this Policy.
- Amendment to the organisational structure that implies a change in functions.

As a review procedure in future years, whoever makes the update request:

- Will share the result of the analysis carried out with the others involved and will make the necessary amendments to the Policy.
- Will include a summary of the revision made in the Policy's 'Version control' section.
- Will make a proposal to the Sustainability Steering Group, the Global Risk Committee and/or the Investment Committee to present the review to the Risk Committee, where their agreement will be sought prior to being submitted to the Board of Directors for approval.

It is the responsibility of the SRI Strategy Department to update this Policy whenever any of the indicated changes occur.

However, when amendments are made outside the established period – annually by default – if these are minor, approval by only the Global Risk Committee and/or Investment Committee is possible. For these purposes, minor amendments are understood to be those derived from organisational changes without affecting risk management, or corrections that are merely typographical or result from the updating of documents referenced in the Policy[5]. The Risk Committee will always be informed of the amendments approved by the Global Risk Committee and/or Investment Committee. If the Risk Committee deems it appropriate, it will submit the amendments to the Board of Directors.

[5] The 'updating of documents referenced in the Policy' only includes the transcription of fragments of documents approved by the competent bodies (Board of Directors, Global Risk Committee, etc.) or regulatory precepts, provided that the amended content is not regulated by the Policy itself.