

TREATMENT OF FIXED-INCOME SECURITIES IN TERMS OF SUSTAINABILITY IN THE CAIXABANK GROUP

Transparency towards the customer is our priority

At CaixaBank, we are committed to offering our customers financial instruments that take into account sustainability-related criteria. For this reason, and in the interests of transparency, it is issuing this press release to explain the scoring it uses to classify fixed-income securities in terms of sustainability to its stakeholders.

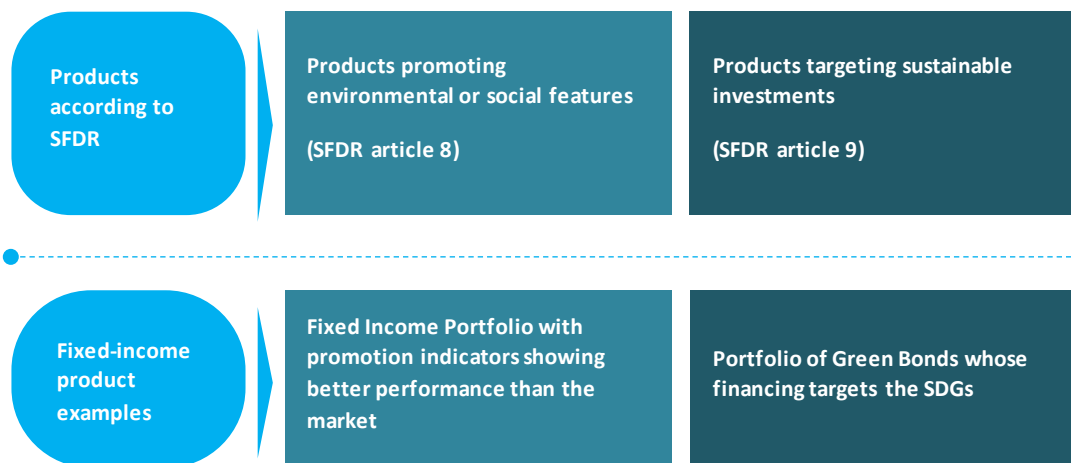
CaixaBank considers the sustainability of fixed-income products

The European Union and its Member States are committed to meeting certain internationally defined sustainability goals (e.g. the United Nations "Sustainable Development Goals" ("SDGs")) and are carrying out coordinated action plans to achieve them, both at the international level (e.g. the Sustainable Finance Action Plan) and at the national level (e.g. the Energy Transition Act in the case of Spain).

In addition, many companies and enterprises are adapting their production models, investments and internal policies towards more sustainable criteria with a special focus on promoting change in society.

The Sustainable Finance Disclosure Regulations ("SFDR")¹ were published in 2019. By introducing different disclosure obligations, they distinguish between two categories of financial products that are considered "sustainable".

In practice, these categories are differentiated by the level of integration of sustainability factors (environmental, social and governance, or "ESG") into the products, as shown below:



¹ Regulation (EU) 2019/2088 of the European Parliament and of the Council, of 27 November 2019, on sustainability finance disclosure regulations ("SFDR").

CaixaBank Group entities take into account different criteria to select the companies and issuers to invest in, in order to determine whether financial products (such as investment funds and SICAVs, alternative investment funds, insurance products with an investment component and pension plans) are considered sustainable in accordance with applicable European regulations.

CaixaBank's analysis of fixed-income assets

CaixaBank is firmly committed to supporting investment in fixed-income products that comply with environmental, social and corporate governance criteria in accordance with the Group's sustainable strategy.

We have therefore designed a proprietary methodology based on information obtained from external providers' databases that allows us to rate public (government-issued) and private (company-issued) fixed-income products by measuring a series of sustainability indicators.

1. Public fixed-income products

In the case of public fixed income, i.e. securities or debt securities issued by governments and public bodies (e.g. the Spanish State, its Autonomous Communities, etc.), different procedures have been established depending on the vehicles used to invest in these products.

- **Investment Funds and Pension Plans:** to the extent that these vehicles are index-linked, the performance of different indicators is measured against their benchmarks. For example, Spanish government debt is compared against other debt on the basis of ESG valuations, according to information provided by external data providers selected by the CaixaBank Group. This takes two indicators into account, which must be met cumulatively.

100% index-linked products

(Investment Funds, Pension Plans, EPSV and Unit Linked)

Promotion indicator	Global	ESG valuation better than the traditional index ¹
	Environmental to choose between	Lower CO2 intensity than traditional index ² or More green, social and sustainable bonds than the benchmark index

(1) ESG valuation adjusted for green, social and sustainable emissions

(2) To measure the level of emissions, CO2 intensity is used, a commonly accepted metric whose unit of measurement is tonnes of CO2 equivalent emissions per million of company sales (TCOe2/€m sales).

The first of these indicators is the ESG rating of the vehicle according to data provided by external data providers, which should be, when aggregated across all components, better than the traditional benchmark. The portfolio is therefore managed with a view to achieving an appropriate balance between bonds that have a higher valuation than the traditional index and



bonds that are below it, with the objective that the ESG valuation of the aggregate exposure should be higher than that of the index.

Therefore, in order for a product claiming Article 8 status to incorporate bonds with a worse valuation than the traditional index average, it must be offset, in terms of portfolio weight, by other positions with a better valuation.

For example, if the aggregate eurozone government bond index in 2021 has a valuation of 6.8 and we want to include, in a product that invests in such securities, debt bonds of a eurozone country 1 with a valuation of 5.0 out of 10, we would need, for example, a position in a bond of a eurozone country 2 with a valuation of 7.5, enough to compensate for the low relative valuation of the former.

	Country 1 bond	Country 2 bond	Index ¹
ESG Valuation	5.1	7.5	6.8
Portfolio 1	50%	50%	6.3
Portfolio 2	20%	80%	7.0

(1) index composed of eurozone countries' bonds

In the table above, Portfolio 1 would not qualify but Portfolio 2 would.

The second of the indicators is an environmental indicator of investment in green, social and sustainable bonds, which, depending on the type of investment vehicle, should be better than the benchmark in terms of the contribution of the portfolio duration relative to the index, or lower CO2 emissions than the traditional index.

The "CO2 emissions" indicator is applied by VidaCaixa, S.A.U. de Seguros y Reaseguros, while the "% green emissions" indicator is applied by Caixabank Asset Management, S.G.I.I.C., S.A.U. These are two approaches to the environmental promotion indicator with the same common goal, which is decarbonisation. The former is measured by intensity, while the latter is measured through the premise that the more green bonds there are, the more is being contributed to decarbonisation.

It is important to reiterate that the global promotion and environmental indicators must both be met.

Example of application of both factors

ESG Valuation (0 being the minimum and 10 being the maximum)	CO2 emissions (TC02e/€m sales)	% social or sustainable green emissions
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Product	8.0	110	15%
Traditional index	7.5	130	5%

- Insurance products with an investment component (excluding Unit Linked):** as these products are not benchmarked to any index against that they can be compared against (as is the case for Investment Funds and Pension Plans), a series of minimum criteria are defined to select which public fixed-income products they can invest in.

Furthermore, when the product is complemented by a managed portfolio that is index-linked to market indices, this portfolio will follow the same promotion indicators defined for Investment Funds and Pension Plans.

The typology of the indicators used is shown below:

**Products not 100% index linked
(Insurance – excluding Unit Linked)**

Promotion indicator	Global	ESG valuation better than the traditional index ¹
	Environmental to choose between	Lower CO2 intensity than traditional index ² or More green, social and sustainable bonds than the benchmark index

(3) ESG rating from internationally renowned providers AAA being the highest quality and CCC the lowest quality.

In public debt issuances, cumulative eligibility criteria are for the issuing country to have a minimum ESG rating of BBB, provided by internationally renowned providers, a commitment to climate change, for example through formal support for the commitments of the 2015 United Nations Climate Change Conference (COP21), and to comply with international human rights treaties.

Examples of issuers that meet these eligibility criteria are Spain and EU countries in general.

- Investment funds advised by third-party companies:** the criteria and methodology defined by the external advisor of the particular Investment Fund are followed.

ESG valuation of green, social and sustainable emissions



In order to have a proper impact on promoting sustainability, an adjustment is made to the ESG valuation by incorporating green, social and sustainable emissions by public issuers. For this purpose, the ESG valuation of a bond will not only take into account the public issuer data, but the fact that it is "green, "social" or "sustainable" will be a premium on this valuation.

Thus, for example, the bond of a eurozone country, with an ESG rating in 2021 of 5.9 out of 10, is lower than its counterpart green bond of the same issuer, which, after adjustment, has a rating of 7.4, the result of setting the highest rating in the environmental category and keeping the rest of the indicators unchanged.

Two examples of their application are given below, one for a standard emission and one for a "green" emission:

	ESG Valuation Global	Assessment Environmental	Assessment Social	Assessment Governance
Standard issue	5.9	4.0	7.0	6.2
Green issue	7.4	10.0	7.0	6.2

The ESG rating takes a value from 0 to 10, with 0 being the minimum and 10 the maximum.

2. Private fixed-income products

In the case of private fixed income, i.e. securities or debt securities issued by companies or firms, to determine when a vehicle investing in these products can be considered sustainable in accordance with SFDR, CaixaBank Group entities apply a proprietary methodology based on the following criteria:

Definition of the private fixed-income universe

Firstly, an analysis is made of whether a given security is "investable" or "non-investable" depending on whether or not the issuing company or firm complies with a series of sustainability parameters defined by the internal policies of CaixaBank Group entities and measured using indicators provided by external data suppliers.

As a result of this analysis, all debt securities whose issuer meets the defined parameters are considered as "investable" products and fall within the universe of authorised assets.

Classification of a product according to SFDR

Secondly, in order to classify a vehicle that invests in private fixed income under article 8 of SFDR, CaixaBank Group entities act, as in the case of public debt, i.e. they compare the result of the two promotion indicators indicated above: the ESG rating of the vehicle according to data provided by external providers, which shall be better than the traditional benchmark, and the environmental indicator, either the

investment in green, social and sustainable bonds or the lower CO2 emissions, both with respect to its traditional benchmark.

Therefore, as a result of the application of these indicators, in order to incorporate corporate bonds with a worse valuation than the average of the traditional index, the weight of the portfolio must be offset by other positions with a better ESG valuation, in line with the explanation in point 1.

The methodology explained in this press release is that proposed by the CaixaBank Group, in accordance with currently applicable regulations. However, taking into account the incipient state of the regulation that is in the process of development, CaixaBank will adapt to respond to these changes in order to continue improving transparency towards our stakeholders.