Banco Santander Retirement Savings Plan

Statement of Investment Principles – September 2023 (replaces November 2022)

1. Background

This Statement sets down the principles governing decisions about investments for the Banco Santander Retirement Savings Plan ("the Plan") to meet the requirements of the Pensions Act 1995 ("the Act") and the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. Before preparing this statement the Trustees have consulted the Sponsoring Employer, Banco Santander S.A. ("the Bank"), and obtained and considered written professional advice from the Plan's investment consultant, Mercer Limited ("Mercer"), and the Scheme Actuary.

The Trustees' investment responsibilities, of which this statement takes full regard, are governed by the Plan's Trust Deed, a copy of which is available for inspection on request.

The Trustees will review this Statement at least every three years and immediately following any significant change in investment policy.

In considering the appropriate investments for the Plan, the Trustees have obtained and considered advice from the Plan's investment consultant. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

2. Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Plan is exposed, the Trustees have considered their objectives and adopted the following objectives:

- To ensure they can meet their obligations to the beneficiaries of the Plan.
- To pay due regard to the Bank's requirements with regard to the size and incidence of contribution payments.
- To achieve buyout within an appropriate timeframe, while taking an appropriate level of risk.
- To reduce the risk in the Plan's investment strategy over the long-term as and when it is affordable to do so. In this context risk is defined as the volatility of changes in the Plan's asset portfolio relative to its liability portfolio (primarily due to changes in interest rates and inflation).

In order to ensure that an appropriate investment strategy is in place for the Plan, the Trustees review the investment strategy of the Plan periodically and in particular after the triennial actuarial valuation.

3. Financially Material Considerations, Risk Management and Measurement

There are various risks to which any defined benefit pension plan is exposed. The Trustees' policy on risk management in relation to risks that are potentially financially material to the Plan over its anticipated lifetime is outlined below. These considerations are taken into account when making decisions relating to the selection, retention and realisation of investments:

- The primary investment risk upon which the Trustees focus is that arising through a mismatch between the Plan's assets and its liabilities. The Trustees manage this risk by allocating a portion of the Plan's assets to bonds which possess similar characteristics to the Plan's liabilities. The Trustees' willingness to take this risk is dependent on the continuing financial strength and support of the Bank. The Trustees receive regular business updates from the Bank and formally assess the support at least every three years as part of the actuarial valuation.

- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's liabilities, as well as producing more short-term volatility in the Plan's funding position. The Trustees have considered carefully the implications of adopting different levels of risk.

- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the Plan's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.

- The Trustees recognise the risks of underperformance introduced by the use of active management but also recognise the potential benefits. As such the Plan's bond assets are managed on a passive (index tracking) basis while cash held in the Sterling Liquidity Fund is managed on an active basis.

- Arrangements are in place to monitor the Plan's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustees receive regular reports from the investment managers and periodic updates from the investment consultant.

- The Trustees recognise the risks arising from environmental, social and corporate governance ("ESG") issues, including climate change and stewardship. The Trustees believe that these risks present threats but also opportunities, and that they are only one risk to which the Plan is exposed. See Section 9 for dedicated comments on these risks and the Trustees' approach.

- The Trustees recognise the currency risk inherent in investment in overseas markets. The Plan invests in sterling denominated assets to manage this risk.

- Should there be a material change in the Plan's circumstances (including deterioration in the covenant of the Bank), the Trustees will review whether and to what extent the investment arrangements should be altered, in particular whether the current risk profile remains appropriate.

- The safe custody of the Plan's assets is delegated to professional custodians via pooled vehicles. The investment manager is responsible for the appointment of custodians within their pooled funds.

4. Portfolio Construction

The Trustees have adopted the following control framework in structuring the Plan's investments subject to the overriding constraint that at the total Plan level the expected level of risk is consistent with that detailed in Section 3.

- To help diversify manager specific risk, multiple manager appointments within a single asset classes are preferred where practical. However, due to the size of the Plan, a single manager has been appointed.
- At the total Plan level, investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer, where appropriate. The passive funds aim to track indices with appropriate level of diversification while the Sterling Liquidity Fund invests in a broad range of liquid cash assets.
- No investment in securities issued by the Bank or affiliated companies is permitted (other than any such securities held within a pooled fund in which the Trustees invest).
- Borrowing is not permitted except as to cover short term liquidity requirements.

5. Investment Strategy

Given the investment objectives set out above, the Trustees have established the following Plan-specific target strategic asset allocation:

Asset Class	**Allocation %**
Over 15 Year Fixed Interest Gilts	15.0
Over 5 Year Index Linked Gilts	30.0
5-15 Years Index Linked Gilts	10.0
Over 15 Year Corporate Bonds	35.0
Sterling Liquidity Fund	10.0
Total	**100.0**

The Trustees expect to generate a return that is higher than that of the Plan's liabilities, on a net of fees basis. It is recognised that over the short term, performance may deviate from this target and there are no guarantees that an excess return above the liabilities will be generated.

The strategic allocation may be allowed to drift from the target over time in order to ensure it reflects the changing characteristics of the liabilities. This drift will be controlled through periodic review and rebalanced if necessary with the objective of managing the Plan's interest rate and inflation risk exposures while maintaining an expected return sufficient to meet its objectives. The Trustees will agree on the rebalancing exercises upon receipt of advice from the investment consultant.

6. Day to Day Management of the Assets

To meet their strategic objectives, the Trustees have appointed Legal & General Investment Management Limited ("Legal & General") to manage the Plan's assets. Legal & General are regulated by the relevant regulatory authority.

6.1 Objectives

The benchmarks and performance objectives for each of the underlying investment funds are outlined below. Further details and the investment restrictions can be found within the contractual documentation between the Trustees and Legal & General.

For each passive fund, Legal & General aim to track the relevant benchmark index (gross of fees) to within the tracking error tolerance range set out in the table below for two years out of three.

Fund	Benchmark Index	Tracking Error Expectation +/-%
Over 15 Year Gilts Index	FTSE-A Over 15 Yr Gilts	0.25
Over 5 Year Index Linked Gilts Index	FTSE-A Over 5 Yr Index Linked Gilts	0.25
5-15 Years Index Linked Gilts	FTSE-A 5-15 Yrs Index Linked Gilts	0.25
Investment Grade Corporate Bond – Over 15 Year Index	Markit iBoxx GBP Non-Gilt Over 15 Year Index	0.50

The Sterling Liquidity Fund's primary objective is to preserve capital, and its secondary objective is to outperform the benchmark Sterling Overnight Index Average ("SONIA").

6.2 Fees

Investment management fees paid to Legal & General are based on the market value of assets under management. The following fee arrangement has been agreed between the Trustees and Legal & General:

Fund	Charging Structure
Fixed Interest Gilts	0.100% p.a. on the first £5m, 0.075% p.a. on the next £5m, 0.050% p.a. on the next £20m, 0.030% p.a. thereafter.
Index Linked Gilts	0.100% p.a. on the first £5m, 0.075% p.a. on the next £5m, 0.050% p.a. on the next £20m, 0.030% p.a. thereafter.
Corporate Bonds	0.150% p.a. on the first £5m, 0.125% p.a. on the next £5m, 0.100% p.a. on the next £20m, 0.080% p.a. thereafter.
Sterling Liquidity Fund	0.125% p.a. on the first £5m, 0.100% p.a. on the next £5m, 0.075% p.a. on the next £20m, 0.050% p.a. thereafter

Legal & General levy an additional £500 p.a. charge for benchmark management, if applied.

The investment consultant is generally remunerated on a fixed fee basis, although budgets may be agreed in advance for projects.

7. Additional Voluntary Contributions ('AVCs')

These arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profile of the funds remain consistent with the objectives of the Trustees given their understanding of the needs of the members. Legal & General is the AVC provider.

8. Cashflow Policy

Any cashflows into or out of the Plan are, in the normal course of events, directed to/sourced from Legal & General.

In the event of a surplus balance in the Trustee bank account below £100,000, the Plan's administrator will retain the surplus in the bank account to meet future cashflow requirements. In the event of a deficit below £100,000, the Plan's administrator will source the required cash from the Legal & General managed Sterling Liquidity Fund, if available.

If the surplus or deficit exceeds £100,000, or if the balance in the Sterling Liquidity Fund is insufficient, the Trustees will instruct Legal & General to direct or source monies to/from Legal & General funds after taking advice from their investment consultant.

Income is distributed from the Plan's funds where possible to meet the Plan's cashflow requirements.

The Trustees have full discretion to alter the cashflow policy if, in doing so, they consider it to be in the best interests of the members of the Plan.

This policy will be reviewed on an annual basis to ensure that it continues to be adequate as the Plan matures.

9. Buying and Selling Investments

The responsibility for buying and selling investments has been delegated to the Plan's investment manager and the day to day activities that they carry out are governed by the arrangements between the manager and the Trustees. These are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

10. ESG, Stewardship (including Engagement Activities) and Climate Change Considerations

The Trustees believe that good stewardship and ESG issues may have a material impact on investment risk and return outcomes and may therefore be considered as part of the Plan's investment process. The Trustees also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration. When setting investment strategy, ESG factors, including climate change, may be considered alongside a number of other factors that can influence investment strategy.

The Trustees have given the appointed investment manager(s) full discretion when evaluating ESG factors, including climate change considerations, and in exercising stewardship obligations attached to the Plan's investments, in accordance with their own corporate governance policies and taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustees periodically review the responsible investment policies of the appointed investment manager(s). The Trustees will, where it is deemed necessary, engage the manager(s) in discussion on their policies. It will however be made clear to the manager(s) that any decisions taken by the manager(s) should be in the best long term financial interest of the Plan and its members.

Member views are not taken into account in the selection, retention and realisation of investments.

11. Investment Manager Appointments

11.1 Alignment with the Trustees Policies

When engaging with investment managers to implement the Trustees' investment strategy outlined above, the Trustees are concerned that, as appropriate and to the extent applicable, the investment managers are incentivised to align their strategy and decisions with the objectives of the Plan.

As the Plan invests only in pooled funds, the Trustees accept that they do not have the ability to specify the risk profile and return targets of the manager other than through the choice of specific funds. The Trustees will therefore make investment manager appointments in such a manner that the vehicles best align with the investment objectives of the Plan, as set out in Section 2. The investment manager is incentivised by the knowledge that the Trustees will review their appointment if, over time, they do not meet expectations.

The investment manager is appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class they have been selected to manage.

The Trustees look to the investment consultant for their forward-looking assessment of a manager's ability to meet its performance objectives. The investment consultant's manager research ratings assist with due diligence and questioning the manager directly during presentations. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular fund changes, the Trustees will review the fund appointment to ensure it remains appropriate and consistent with the wider investment objectives.

11.2 Incentivisation and Medium/Long-Term Decision Making

The Trustees do not have a policy about making investment decisions based on their assessment of the performance of an issuer of debt. Instead, the assessments of the medium to long-term financial and non-financial performance of an issuer are made by the investment manager, where applicable. The manager may be in a position to engage directly with such issuers in order to improve their performance in the medium to long term.

The Trustees make appointments with the view to them being long term (to the extent this is consistent with the Trustees' overall investment time horizon).

The Trustees do however consider the investment consultant's assessment of how each investment manager embeds ESG issues into their investment process. Further details can be found in Section 9.

11.3 Evaluation and Remuneration

The Trustees receive, and consider, performance reports produced on a quarterly basis, which present performance information and commentary on the funds they invest in over the quarter, 1 year, 3 year and 5 year periods. The Trustees review the absolute performance, and relative performance against a suitable index used as the benchmark (where appropriate), on a gross of fees basis.

The Trustees' focus is primarily on long term performance (i.e, over 3 and 5 years) but a manager's appointment may be reviewed at any time. Examples of why this may happen are:

- There are sustained periods of performance not in line with expectations;
- There is a change in the portfolio manager or portfolio management team;
- There is a change in the underlying objectives of the investment manager;
- There is a significant change to the investment consultant's rating of the manager.

The investment manager is remunerated by way of a fee calculated as a percentage of assets under management. The Trustees review manager fees on a regular basis to ensure they remain appropriate.

11.4 Portfolio Turnover Costs

Turnover costs arise from a) "ongoing" transactions within an investment manager's portfolio and b) "cashflow" costs incurred when investing in, or realising assets from, a mandate.

The Trustees seek information from their investment manager on these ongoing portfolio turnover costs and will take action if costs are deemed excessive.

The Trustees seek to minimise cashflow costs by receiving income from mandates where possible. The Trustees monitor the costs of implementing strategic change via their investment consultant.

11.5 Duration of the Arrangements

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustees will retain an investment manager unless:

- There is a change to the overall investment strategy that no longer requires exposure to that asset class or manager;
- The manager appointed has been reviewed and the Trustees have decided to terminate the mandate.

12. Compliance with the Statement

The Trustees, Legal & General and Mercer each have duties to perform to ensure compliance with this Statement. These are:

The Trustees will review this Statement as required, receiving advice from Mercer and consulting with the Bank as required, and will record compliance with it at the relevant Trustees' meeting.

Legal & General will prepare quarterly reports to the Trustees including:

- A valuation of all the investments held for the Plan,
- Records of all transactions together with a cash reconciliation,
- A review of recent actions undertaken on behalf of the Plan together with a summary of their current stated policy.

Mercer will provide the advice needed to allow the Trustees to review and update this Statement as required.