



INFORMATION  
ON PROVISION OF  
**INVESTMENT  
SERVICES**

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# INTRODUCTION

In accordance with the current legislation on investment services,<sup>1</sup> Banco Santander, S.A. (the "Bank") provides its Customers with important information on the Bank and the various financial instruments and services it offers below.



The content of this document is available on the Bank's website at [www.bancosantander.es/espacio-mifid](http://www.bancosantander.es/espacio-mifid).



If the Customer needs to clarify anything, it can go to a branch or call the **Superlínea Santander phone line (915 123 123) and Santander Personal**.

To better understand this document, the concepts that are written in italics (the first time they appear in this document) are explained in the attached glossary. If you have any doubts, please ask us. We will be happy to assist you!

1. Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and its two supplementing pieces of legislation: Commission Delegated Directive (EU) 2017/593 of 7 April 2016 and Commission Delegated Regulation (EU) 2017/565 of 25 April 2016. In addition, the Spanish Securities Markets and Investment Services Law [Ley 6/2023, de 17 de marzo, de los Mercados de Valores y de los Servicios de Inversión], Royal Decree 813/2023, of 8 November, on the legal regime of investment services companies and other entities that provide investment services, and Royal Decree 814/2023 on financial instruments, admission to trading, registration of marketable securities and market infrastructure.

# INFORMATION ON BANCO SANTANDER

## General information

Banco Santander, with tax identification number A-39000013 and registered office in Santander, Paseo de Pereda, 9-12, is a Spanish credit institution incorporated under the laws of Spain and located in Spain.

The Bank is supervised by the Bank of Spain ([www.bde.es](http://www.bde.es)) and the Spanish National Securities Market Commission ([www.cnmv.es](http://www.cnmv.es)). It is registered in the registers of both Spanish supervisory entities under numbers 49 and 1, respectively.

Commercially speaking, the Bank uses various brands such as Santander Private Banking (in private banking), Santander Select (in personal banking), Santander Corporate Investment Banking (in retail banking), among others.

The services that the Bank offers comply with the legislation in force and are supervised by the Bank of Spain, the National Securities Market Commission and other regulatory bodies.



**For further information,  
please contact:**

### **Banco de España**

c/ Alcalá 48  
28014-Madrid (Spain)  
Tfno. +34 913 385 000  
[www.bde.es](http://www.bde.es)

### **Comisión Nacional del Mercado de Valores**

Calle Edison 4  
Oficina de atención al inversor  
28006-Madrid (Spain)  
Tfno. +34 902 149 200  
[www.cnmv.es](http://www.cnmv.es)



## Communications with Customers – Language – *Methods of communication* – Recordings and records

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The communications that the Bank sends its Customers will be in Spanish. If you would prefer to receive them in a different language, you can ask for more information in your branch.

The general methods available to communicate with the Bank are:

- In person, via the Bank's network of branches, including the specialist branches of Santander Private Banking and Santander Companies, as well as the Bank's network of agents.
- Via Santander Personal or Superlínea (telephone number +34 915 123 123) and other enabled phone lines.
- Via the website [www.bancosantander.es](http://www.bancosantander.es) or the Bank's app, if you have contracted these services.
- Via the channels established to file a formal complaint with or without a claim via the Complaints and Customer Service Department, at the following address: Apartado de Correos 35.250, 28080-Madrid, Spain, or by email at [santander.reclamaciones@gruposantander.es](mailto:santander.reclamaciones@gruposantander.es).
- By any other means admitted by the applicable legislation and that the Bank has available or enabled at any given time.
- The contracting of investment services and products, and the processing of orders on them may be performed via the following channels:
  - In person, via the Bank's network of branches, including the specialist branches of Santander Private Banking and Santander Companies, as well as the offices of the Bank's network of agents;
  - By remote channels, through the remote banking services that the Bank has available at any given time; in particular:

- by telephone at Santander Private Banking, Digital Sales and any other enabled channels;
- via the website [www.bancosantander.es](http://www.bancosantander.es) or through the Bank's mobile application.

For this, the Customer must sign up to remote banking services. Or by any other means admitted by the applicable legislation and that the Bank has available or enabled.

The Customer may also contract products and services and perform the transactions that are available at any given time via the channels that we have indicated.

The Bank will provide the Customer with the documentation and information related to this document in a durable medium in electronic format, so that it may access it, save it and reproduce it when it requires. The Bank may provide this documentation and information by email or other available means other than post and, in any case, to its customer mailbox at the Bank, accessible via the remote banking services that the Bank has available at any given time, in particular, on the Bank's website [www.bancosantander.es](http://www.bancosantander.es) and the Bank's mobile application. To be able to receive this documentation and information, the Customer must sign up to remote banking services (Digital Banking Contract). However, if the Customer is classified as a retail Customer, it may opt to receive the documentation and information on paper, at no additional cost. To do so, it must make a request to the Bank in writing.

The Customer must provide the Bank with its address in Spain and notify the Bank of any change to this address. If it does not do so, the Bank will not be responsible if the Customer does not receive postal communications at another address.

The Bank may:

- Draw up a record of in-person meetings that it holds with the Customer on receiving, transmitting and executing orders. This record will be available for a maximum of 5 years.
- Record, in accordance with the established legal rules, the calls and electronic communications, and keep a copy of the recordings for 5 years after they occur. The Customer is entitled to request a copy during that period.

## Activity through Credit Institution Agents

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The Bank may contact its Customers through a "Credit Institution Agent".

Agents are individuals or entities who, under a commercial relationship with the Bank, promote its services, receive and transmit Customer orders, market financial instruments and, if authorised by the Bank, advise on the financial instruments and investment services that the Bank offers.

The Bank's agents act with the confidentiality, objectivity, transparency of information, professionalism and impartiality required by the Bank in its codes of conduct and strive to defend the Customer's interests.

In accordance with the applicable legislation, the Bank verifies the professional capacity of its agents and checks that they comply with current legislation.

The Bank's agents are registered in the Bank of Spain's agents register. This register can be consulted at any given time at [www.bde.es](http://www.bde.es) > Entities and professionals > Operations and processes > Official registers > Register of agents and distributors.



Information on provision of investment services at Banco Santander, S.A.



## Nature and frequency of the order execution notices and periodic statements of financial instruments

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The Bank will provide its investment services to its Customers with information on the execution, receipt and transmission of the orders relating to financial instruments, as well as information on their execution, in accordance with the legislation.

Where the Bank must send a notice confirming the execution of an order, it will do so at the latest on the first business day after execution or, if it receives the confirmation from a third party, on the first business day after the date on which it receives the confirmation from the third party at the latest. The Bank will send this notice to the Customer in a durable medium.

In the portfolio management service, the Bank will provide a statement or extract of the portfolio management activities completed on its behalf. This document will be provided with the frequency established in the standard investment portfolio management Contract, which will be at least quarterly, and will include the details of the transactions executed during that period.

## Mechanisms to protect the Customers' assets

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The Bank is a strong financial entity and has specific procedures to protect the assets of its Customers that it keeps, whether they are financial instruments or funds.

The Bank is subscribed to the Deposits from Credit Institutions Guarantee Fund (DGF). This fund guarantees the depositor a repayment of up to EUR 100,000 per person and per entity, in accordance with the legal limit in force on the review date of this MiFID Document. The guarantee covers the credit balances in the account, including the funds from short-term transactions and nominative deposit certificates that the entity must return in the applicable legal and contractual conditions, regardless of the currency in which they are denominated and provided that they are established in Spain or another European Union Member State.

Deposits in securities and financial instruments held by a bank are guaranteed up to a maximum of EUR 100,000 (on the review date of this document) per person and entity. This is separate from the guarantee of cash deposits that you have at the same bank, in accordance with current legislation.

The DGF has its headquarters at calle José Ortega y Gasset, número 22, 28006 Madrid, telephone number +34 91 431 66 45, email address: [fogade@fgd.es](mailto:fogade@fgd.es) and website [www.fgd.es](http://www.fgd.es)

The Bank offers detailed information on the DGF, its functioning, the conditions and method for making a claim, the guarantee, its scope and regulation, among others. You can view this information on the Notice Board available on the Bank's website: [www.bancosantander.es/tablon-anuncios/fondo-garantia-depositos](http://www.bancosantander.es/tablon-anuncios/fondo-garantia-depositos).



## Conflicts of Interest Policy

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The Bank has a Conflicts of Interest Policy and specific procedures to prevent, identify, register, manage and, if they cannot be avoided, inform its Customers on possible conflicts of interest that could harm them.

The aim of the Conflicts of Interest Policy and the procedures implementing it is to:

- Identify the relationships, services, activities or transactions in which conflicts of interest may arise.
- Ensure adoption of measures to prevent conflicts of interest, as far as possible.
- Establish a process that makes it possible to identify and assess the relevance of the conflicts, decide the measures to mitigate them and communicate any relevant conflict of interest (current or potential).
- Determine how to manage an unavoidable conflict of interest and how to inform the individual or entity affected.
- Appropriately document the application of the measures in force to meet the above purposes, so that they can be controlled internally and explained to the regulators.

If the Customer needs further information, it can contact the Bank by any of the channels indicated in the previous section.



# CUSTOMER CLASSIFICATION

## Classification system

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The applicable legislation on the Securities Markets and Investment Services classifies Customers in 3 different categories based on their level of knowledge and experience in the financial markets and their capacity to assume the risks arising from their investment decisions, with the aim of adapting the rules on protection to each category:

- **Retail Customer** (essentially individuals, small and medium-sized enterprises or local authorities, among others): Receives the maximum level of protection envisaged in the legislation both when assessing the suitability and appropriateness of an investment, and in terms of the documentation and information received before and after contracting investment products and services.
- **Professional Customer** (essentially institutional and experienced investors, regional governments, etc.): Receives an intermediate level of protection, since it is assumed that it has experience, knowledge and capacity necessary to make its own investment decisions and understand and assume their risks.
- **Eligible counterparty Customer** (investment services companies; credit institutions; insurers and reinsurers; collective investment undertakings and management companies of collective investment undertakings; venture capital funds, other closed-ended collective investment entities and management companies closed-ended collective investment entities; pension funds and their management entities; other financial institutions authorised or regulated under European legislation or the domestic law of a Member State; and national governments and their corresponding services, including those that trade public debt at national level, Central Banks and supranational bodies. Entities from equivalent third countries and Autonomous Regions will also be considered eligible counterparties. The legislation envisages a basic level of protection for this type of

Customer, given that they are entities that commonly act directly in the financial markets.

This category only applies for the services of receipt, transfer and execution of Customer orders and the related ancillary services, such as the custody and administration of financial instruments services on behalf of Customers. If an eligible counterparty Customer needs other services, such as advice or portfolio management, it must request a change of classification from the Bank.

The legislation establishes objective criteria to classify Customers in different categories. The Bank applies these criteria to perform that classification and inform them of their category.

The classification performed by the Bank and communicated to the Customers is also valid for Santander Private Banking Gestión, S.A. SGIC and Santander Asset Management, S.A., SGIC, if they provide services to the Bank's Customers through the Bank at any time.



## Right to request changes in the classification assigned

In accordance with the "Customer Classification Policy", the following changes of classification may be requested:

Original classification	Possible classification changes
Retail Customer	Professional Customer
Professional Customer	Retail Customer Eligible counterparty Customer
Eligible counterparty Customer	Professional Customer Retail Customer

If the Customer wants to change its classification, it must make a request to the Bank in writing. The request must include the Customer's signature and the date from which it wants the new classification to take effect. The Customer may submit its request in person at a branch of the Bank or via the form available at [www.bancosantander.es/espacio-mifid](http://www.bancosantander.es/espacio-mifid).

Whether or not the Bank accepts the request will depend on the Customer's compliance with the legal and regulatory requirements established at any given time for the change of category being requested. Where the Customer changes from a retail to a professional Customer, this involves the express waiver of being considered a retail Customer and the associated level of protection. In this case, the statements on compliance with at least 2 of the 3 requirements indicated below and required under legislation must be marked on the form and, if the Bank does not have data allowing it to check this for itself, sufficient information and confirmation that those requirements are met must be provided:

- Have executed transactions in the securities markets with an average volume exceeding EUR 125,000 in the last 4 quarters, with an average frequency above 10 transactions per quarter.
- The cash and the value of the financial instruments deposited in financial institutions exceeds EUR 500,000.

- Have worked or be working in the financial sector for at least 1 year in a position that requires knowledge on the envisaged transactions or services.

Furthermore, before making the change to a professional Customer, the retail Customer must conduct the MiFID test. This test will confirm that it has the necessary knowledge and experience.

Based on the change request made, the Bank will communicate to the Customer the new classification assigned or its denial. This communication will also be valid for other Santander Group companies, such as Santander Private Banking Gestión S.A. SGIIC and Santander Asset Management S.A. SGIIC if they are providing services to the Customer through the Bank at that time.

If the new classification assigned is based on the information that the Bank cannot verify for itself, the Customer is responsible for ensuring that the information it provides to the Bank is accurate and true. The Bank will not be liable for any harm or loss that may arise if the information is not correct or true. However, if necessary, the Bank can request further information to check the data if this is necessary to assign the requested classification. In any case, the Bank is entitled to change the classification based on the conditions established in the applicable legislation at any given time and the Customer Classification Policy. The Bank will inform the Customer of any change in the classification.



## Professional Customers and eligible counterparty Customers

In accordance with the legislation on the Securities Markets and Investment Services, if the Customer is classified as a professional or eligible counterparty Customer, the following is established in the provision of the services by the Bank:

If the Customer is classified as a professional Customer, the Bank has no obligation to provide it with the following information, unless the Customer requests it in writing:

- Information on the execution of its transactions, including information on the fees, costs and expenses associated with them..
- Regular information on the status of its positions in investment products.
- When the Bank provides the advisory service: (i) information on how the recommended investment products are adapted to its characteristics, preferences and investment objectives; and (ii) an assessment as to whether the benefits of the change of investment products recommended are greater than the costs associated with the change or not.
- When the Bank provides the portfolio management service: (i) a periodic report on the service and investments held in it; and (ii) information when the overall value of the portfolio falls by 10% and, subsequently, by multiples of 10%.
- Furthermore, when the Customer executes transactions that are not related to advisory and portfolio management services, the Bank is not obliged to notify it of the costs and expenses associated with that investment, either before or after executing the transaction, while it holds the investment.

If the Customer is classified as an eligible counterparty Customer, the Bank has no obligation to provide information on the entity, the investment services and products, the execution of the transactions, the transactions executed and the investment products it maintains in its positions, the associated costs, expenses and incentives, and other aspects.

# APPROPRIATENESS AND SUITABILITY ASSESSMENT

The Bank will assess whether the products or services are appropriate or suitable for the Customer, in accordance with the applicable legislation, as established in the Basic Contract for the provision of investment services (the "Basic Contract") and the Specific Contracts (as defined in the Basic Contract) that the Customer signs. The aim of these assessments is to allow the Bank to act in the Customer's best interest.

In the appropriateness assessment, the Bank will assess the Customer's knowledge and experience in investments to determine whether a product or service is appropriate for the Customer.

When the Bank markets investment products, their appropriateness for the Customer will be assessed. This assessment will be conducted provided that the investment refers to products classified as complex in accordance with the applicable legislation, even if the investment is proposed by the Customer; i.e., it is the Customer that requests it. However, if the investment is in products not classified as complex and it is proposed by the Customer, the Bank will not be required to assess whether those products are appropriate for it, informing the Customer of this (in transactions on Collective Investment Undertakings –except non-complex ETFs–, whether or not they are classified as complex products, the Bank will conduct the appropriateness assessment).

The Bank considers that the orders that the Customer issues directly on non-complex products through the remote channels that the Bank has available at any given time are proposed by the Customer. Therefore, the Bank will not be required to assess the appropriateness of these orders.

In the Customer suitability assessment, the Bank assesses its knowledge and experience in investments, its financial position (including its capacity to bear losses) and its investment objectives (including its risk tolerance and its possible sustainability preferences). The Bank will assess suitability when it provides the advisory service or portfolio management service, to

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determine whether the products or services are suitable for the Customer, taking into account its characteristics, needs and objectives.

To be able to perform these assessments, in accordance with the service or product in question, the Customer must complete the tests or questionnaires that the Bank establishes (the "MiFID Test"), allowing the Bank to obtain the following information on the Customer:

- For the appropriateness assessment: information on its knowledge and experience in investments.
- For the suitability assessment: information on its knowledge and experience in investments, its financial position and its investment objectives, including its possible sustainability preferences.

To conduct the appropriateness assessment, if the Customer has a current MiFID Test and has provided all the information required for the suitability assessment, the Bank will take into consideration the information that it already has regarding its knowledge and experience in investments included in that MiFID Test.

The MiFID Test is valid for a maximum of 3 years from its completion. However, the Bank may ask the Customer to update or confirm its information to perform the appropriateness and suitability assessments. The Bank will notify the Customer of the outcome of these assessments.

The Customer must provide the Bank with all the information necessary to conduct the appropriateness and suitability assessments. If this information changes, it must notify the Bank and provide up-to-date information. The new information that the Bank provides will replace the previous information.

If the Customer provides the Bank with the information necessary to assess the appropriateness or that information is insufficient, the Bank advises the Customer that it will not be able to decide whether the product or service is appropriate for it. In these cases, the Bank will inform the Customer that it has not been able to assess the appropriateness of the product or service in question, advise it of the consequences that may arise for it if it contracts it and ask it to

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expressly confirm (in writing or verbally) that it wishes to go ahead with the transaction, in accordance with the applicable legislation.

If the Customer does not provide the information requested by the Bank for the suitability assessment or if that information is insufficient, the Bank will be unable to provide the advisory and portfolio management services to it.

The Bank will provide the Customer with the necessary information and issue the corresponding notices on the appropriateness and suitability assessments, in accordance with the applicable legislation.

In the advisory and portfolio management services, if there are no products aligned with its sustainability preferences, the Customer may adapt them stating the reasons. This change will not alter the validity period of the Customer's MiFID Test.

The Bank has computer systems and tools that allow it to check whether the investment services and products are appropriate and suitable for each Customer.



## Multiple holders and representation

In relation to the Specific Contracts with several Holders:

- The suitability assessment will be conducted taking into consideration the MiFID Test of the Holder recorded as primary holder of the Specific Contract (the **"Primary Holder"**).

If the Holders do not reach an agreement to designate a Primary Holder, the Bank will consider the Holder with the least knowledge and experience in investment,

with the weakest financial position or the most conservative investment objectives to be the Primary Holder, taking its MiFID Test into consideration to assess the suitability.

If the Holders want to change the Primary Holder, all the Holders must send a written request to the Bank. In any case, the products or services that they have contracted before the change will remain valid.

- The appropriateness assessment will be conducted taking into consideration the MiFID Test of the Holder that performs the trade or transaction ("**Payer**").

If it is not expressly established in the Specific Contract, the Primary Holder of the Specific Contract will be considered the Payer. If more than one Payer is identified in the Specific Contract, to assess the appropriateness, the MiFID Test of the payer appearing first in the Specific Contract will be taken into consideration.

- The other Holders accept the appropriateness and suitability assessments conducted in accordance with the above points and will be bound by them.

If the Customer acts through representatives, in the appropriateness and suitability assessments:

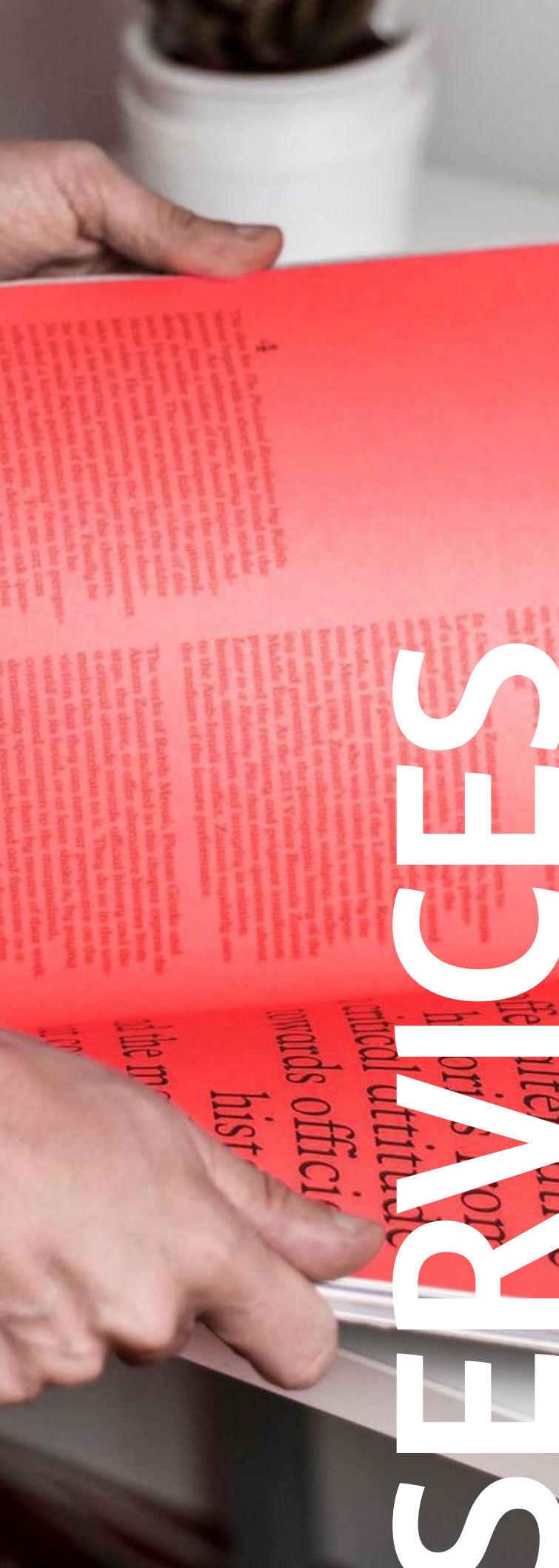
- The Bank will take into account the Customer's MiFID Test, disregarding the points on Specific Contracts with several Holders.

The MiFID Test must be conducted by the representative or, where possible, by the Customer itself.

- When the representative completes the relevant MiFID Test representing the Customer:
  - The Bank will take into account the representative's knowledge and experience in investments.
  - The Bank will take into account the financial position, investment objectives and sustainability preferences of the represented Customer, in accordance with the information obtained in its MiFID Test.

- If there is any change in the information or circumstances of the Customer or its representation, it must notify the Bank and provide up-to-date information.





# PROCEDURE FOR PROVIDING INVESTMENT AND ANCILLARY SERVICES

Before providing any investment or ancillary service, if the Bank meets with the Customer/potential customer in person, the employee must draw up a record of the in-person meeting between the Bank and the Customer, whether or not it ends in contracting. This record must be signed by all those in attendance at the end of the meeting. The Customer can access this record for a maximum of 5 years from the meeting date.

## Advice

The investment advice service is only provided to retail or professional Customers.

In the investment advice service, the Bank will make personalised recommendations to the Customer on investment services and products, assessing whether they are suitable based on the result of its MiFID Test.

The Customer is free to follow the Bank's recommendations or not. In the advisory service, the Bank has no power to manage the Customer's investments. The Customer is solely responsible for the decisions it makes on its investments. The Customer decides whether to hold its investments or not and must monitor their performance.

The advisory service can be independent or non-independent and will be adapted to the terms and procedures established by the Bank. In any case, the Customer will be duly informed in the Basic Contract and the relevant Specific Contracts regarding the independent or non-independent nature of the advisory services provided by the Bank.

Whether it offers non-independent or independent advice, the Bank takes into account sustainability risks when providing the service. This is done in accordance with the Environmental, Social and Climate Change Risks Policy established by the Bank, which the Customer can consult at [www.bancosantander.es](http://www.bancosantander.es)

In this Policy, the Bank establishes the criteria to identify, assess, monitor and manage environmental and social risks, and other activities related to climate change. Under this Policy, in the investments considered for the advisory services, the most significant impacts of the environmental and social risks of each investment are assessed.

These risks correspond to environmental, social or governance events or conditions and depend, among other factors, on the type of issuer, the sector of activity and their geographical location.

Sustainability risks can affect the value of the investments since they appear as financial risks on the investments, such as market risk (e.g. due to a reduction in demand following a change in consumer preferences), operational risk (e.g. due to an increase in operating costs) and legal risks. These risks can reduce the profits, available capital and change in asset price or default on it, which can affect credit and liquidity.

The Bank has tools and procedures to integrate sustainability risks in the advisory processes and constantly monitors its ESG (environmental, social and good governance) policies and procedures.

In non-independent advice services, the Bank may receive incentives from other entities. Therefore, the Bank includes in these services additional or higher level elements that allow the Customers to benefit from a higher quality in the services, pursuant to the applicable legislation.

If the Bank offers an independent advice service, it will not receive or keep incentives from other entities, unless they are minor, reasonable and proportionate non-cash benefits which do not affect the Bank's independence and that may improve the quality of the service it provides. If the Bank receives incentives in the scope of this service, the amounts to be transferred to the Customer will be paid into a cash account in which it is the holder.

The fact that it receives incentives does not prevent or obstruct the Bank in acting in the Customer's best interest.

The Bank will give the Customer access to a wide range of financial instruments that are appropriate for it. This range of financial instruments will be sufficiently diversified and will take into account criteria of proportionality and representativeness of the financial instruments available in accordance with the characteristics and scope of the advisory service provided, and their independent or non-independent nature. The Bank has an established process for selecting and classifying the financial instruments considered in each form of the advisory service, assigning them a series of parameters based on the category to which they belong and that serves as a basis to make investment recommendations.

To be able to provide the advisory service, the Bank has to perform a suitability assessment, in accordance with the applicable legislation. As part of this, it will gather information from its Customers on their knowledge and experience in investments, financial position (including their capacity to bear losses) and investment objectives (including their risk tolerance and sustainability preferences). It is important that the Customer provides complete and accurate information to enable the Bank to recommend products or services that are appropriate for it. Without this information, the Bank cannot provide investment services that require a suitability assessment or, therefore, make recommendations to the Customer. Using this information, the Bank can check that the products recommended to Customers within the advisory service are compatible with the target market defined by the maker and distributor of the product.

In certain types of advice, such as independent advice or non-independent advice for hedging instruments specially designed for company financing and commercial transactions, the Bank conducts a specific suitability assessment.



The Bank can provide advice on investments in the following forms:

## **1 Recurrent advice for private banking Customers known as “Santander Asesora”**

The Bank offers the Customer a continuous non-independent advice service on investments in financial instruments in which it will routinely make recommendations to it. This service is called “Santander Asesora” and it is only available to private banking Customers.

The service is provided on the Customer’s portfolio under advice, in accordance with this Contract and the Specific Contract of the “Santander Asesora” service.

The Customer pays the Bank an advisory fee for this service.

For this service, the Bank has put in place controls to ensure that the recommendations it makes to the Customer are appropriate. As part of this, it will take into account the outcome of its current MiFID Test and the Customer’s various positions in liability, savings and investment products, whether as sole Holder or Primary Holder, if there are multiple holders, without taking into account the positions it has in independent advice portfolios.

The Bank offers the Customer access to a wide variety of investment products, which includes shares and units in Collective Investment Undertakings (CIUs) and other collective investment entities, both national and foreign. It also includes any financial instrument or fixed income marketable security or equity, whether listed or not on official secondary markets, Multilateral Trading Facilities (MTFs) or Organised Trading Facilities (OTFs), regulated or not, whether national or foreign. The range of products includes entities and Collective Investment Undertakings of third-party suppliers, such as financial instruments issued, endorsed or managed by entities belonging to the Santander Group or entities contractually or otherwise linked to the Bank.



In relation to the Customer’s portfolio under advice, the Bank:

- Monitors the Customer’s investments.
- Will advise the Customer on the measures it must take to align its investments with its investor profile and its economic or financial position.
- Informs the Customer on a monthly basis on the performance of these investments.

The Bank will send the Customer a monthly monitoring report with personalised information on the investments in its portfolio under advice. This report will include up-to-date data on whether the investments it has are appropriate based on the outcome of its current MiFID Test, as well as other information on the financial markets.

## **2 Independent advice for private banking Customers**

The Bank offers the Customer a recurrent and independent advice service on investments in financial instruments in which it will routinely make recommendations to it. This service is only available for Customers to private banking Customers whose assets in the Bank exceed a certain amount.

The service is provided on the Customer’s portfolio under independent advice, in accordance with this Contract and the Specific Contract of the independent advice service.

The Customer pays the Bank an advisory fee for this service.

For this service, the Bank has defined the controls for the suitability of the recommendations to the Customer, which will be made taking as a reference the result of the current specific MiFID Test for independent advice and exclusively taking into account the positions held by the Customer in the portfolio under independent advice as sole Holder or Primary Holder, if there are multiple holders, without taking into account its other positions at the Bank.

The Bank offers the Customer a wide variety of investment products of third-party suppliers or issuers, including financial instruments issued, endorsed or managed by entities of the Santander Group or entities connected to the Bank. The Bank selects a wide range of financial instruments diversified in terms of type and issuer or provider, to ensure that the Customer can fulfil its investment objectives.

The range of investment products considered by the Bank to provide this service includes shares and units in Collective Investment Undertakings (CIUs) and other collective investment entities, both national and foreign.

It also includes any financial instrument or fixed income marketable security or equity, whether listed or not on official secondary markets, Multilateral Trading Facilities (MTFs) or Organised Trading Facilities (OTFs), regulated or not, whether national or foreign.

In relation to the Customer's portfolio under independent advice, the Bank:

- Monitors the Customer's investments.
- Will advise the Customer on the measures it must take into account to align its investments with its investor profile and its economic or financial position.
- Informs the Customer on a monthly basis on the performance of these investments.

The Bank will send the Customer with a monthly monitoring report with personalised information on the investments in its portfolio under independent advice. This report will include up-to-date information on whether the investments it has in its independent advice portfolio are appropriate based on the outcome of its current specific MiFID Test for the independent advice service, as well as other information on the financial markets.

### **3 One-off advice for private banking Customers**

The Bank offers the Customer a non-independent advice service on investments in financial instruments in which it will make recommendations to it on a one-off basis. This service is only available to private banking Customers.

The service is provided on a portfolio of the Customer merely under custody, in accordance with this Contract.

For this service, the Bank has put in place controls to ensure that the recommendations it makes to the Customer are appropriate. As part of this, it will take into account the outcome of the Customer's current MiFID Test and all its positions in liability, savings and investment products, whether as sole Holder or Primary Holder, if there are multiple holders, except the positions it has in independent advice portfolios.

The Bank offers the Customer access to a wide variety of investment products, such as shares and units in Collective Investment Undertakings (CIUs) and other collective investment entities, both national and foreign. It also includes any financial instrument or fixed income marketable security or equity, whether listed or not on official secondary markets, Multilateral Trading Facilities (MTFs) or Organised Trading Facilities (OTFs), regulated or not, whether national or foreign. The range of products covers entities and Collective Investment Undertakings of third-party suppliers, such as financial instruments issued, endorsed or managed by entities of the Santander Group or entities connected to the Bank by contract or otherwise.

In this one-off advisory service, the recommendations made by the Bank to the Customer do not have a set frequency.

The Bank will make recommendations when the Customer requests or when it considers it necessary based on its activity.

The Bank is not required to monitor or propose investments to the Customer, even if they arise from advice given.

The Bank will review the investments it holds with the Customer at least once a year to check if they are still appropriate for it based on its current MiFID Test. Furthermore, it will notify the Customer of the outcome of this review.

#### **4 One-off advice in hedging instruments**

The Bank offers the Customer a non-independent advice service on financial hedging instruments in which it will make recommendations to the Customer on a one-off basis. This service is only available to Customers of the Bank that are companies, in the scope of their commercial and financing operations.

The Bank has put in place the controls for the suitability of the recommendations to the Customer, which will be made taking as a reference the result of the specific current MiFID Test for advice on hedging instruments and individually assessing the suitability of each recommended product. In this service, the Bank offers the Customer access to a wide range of hedging products, which mainly include the hedging instruments created by Santander Group entities.

In the one-off advisory service, the recommendations made by the Bank to the Customer do not have a set frequency. The Bank will make recommendations when the Customer requests or when it considers it necessary in the framework of its activity.

The Bank is not required to monitor or propose investments to the Customer, even if they arise from advice given.

The Bank will inform the Customer of the value of the hedging instrument contracted at least once a quarter. The Customer will be responsible for maintaining the hedge or not and for monitoring its evolution.

#### **5 One-off advice**

The Bank offers the Customer a non-independent advice service on investments in financial instruments in which it will make recommendations to it on a one-off basis.

This service is available to all Customers of the Bank, except private banking Customers. The service is provided on a portfolio of the Customer merely under custody.

For this service, the Bank has put in place controls to ensure that the recommendations it makes to the Customer are appropriate for it. As part of this, it will take into account the outcome of the Customer's current MiFID Test and all its positions in liability, savings and investment products, whether as sole Holder or Primary Holder, if there are multiple holders, except the positions it has in independent advice portfolios.

In this service, the Bank offers the Customer access to a wide variety of investment products, such as shares and units in Collective Investment Undertakings, both national and foreign. These products are issued, endorsed and managed by Santander Group companies. It also includes financial instruments issued, endorsed or managed by entities connected to the Bank, such as Santander Group companies or entities with which the Bank has a contract.

In this one-off advisory service, the recommendations made by the Bank to the Customer do not have a set frequency.

The Bank will make recommendations when the Customer requests or when it considers it necessary based on its activity.

The Bank is not required to monitor or propose investments to the Customer, even if they arise from advice given.

The Bank will review the investments it holds with the Customer at least once a year to check if they are still appropriate for it based on its current MiFID Test. Furthermore, it will notify the Customer of the outcome of this review.

## 6 Recurrent advice for private banking Customers – “Asesoramiento Activo”

The Bank offers the Customer a continuous non-independent advice service on investments in financial instruments in which it will routinely make recommendations to it. This service is called “Asesoramiento Activo” and it is only available to private banking Customers.

The service is provided on the Customer’s portfolio under advice, in accordance with the Basic Contract and the Specific Contract of the “Asesoramiento Activo” service.

The Customer pays the Bank an advisory fee for this service.

For this service, the Bank has put in place controls to ensure that the recommendations it makes to the Customer are appropriate for it. As part of this, it will take into account the outcome of its current MiFID Test and all its positions in liability, savings and investment products at the Bank, provided that the Customer is the sole Holder or Primary Holder, if there are multiple holders. This does not include the Customer’s positions in independent advice portfolios.

The Bank offers the Customer a wide variety of investment products, such as shares in Exchange Traded Funds (ETFs), shares and units in Collective Investment Undertakings, among others. These products can be national or foreign, and fixed income or equities. They can also be listed or not on official secondary markets, Multilateral Trading Facilities (MTFs) or Organised Trading Facilities (OTFs), whether regulated or not. The range of products includes entities and Collective Investment Undertakings of third-party suppliers, such as financial instruments issued, endorsed or managed by entities of the Santander Group or entities connected to the Bank by contract or otherwise.

In relation to the Customer’s portfolio under advice, the Bank:

- Monitors the Customer’s investments.
- Will advise the Customer on the measures it must take to align its

investments with its investor profile and its economic or financial position.

Informs the Customer on a monthly basis on the performance of these investments.

The Bank will send the Customer a monthly monitoring report with personalised information on the investments in its portfolio under advice. This report will include up-to-date information on whether the investments it has in its advice portfolio are appropriate based on the outcome of its current MiFID Test, as well as other information on the financial markets.

## Transactions without advice

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The Customer may order transactions without advice as it considers appropriate under its initiative and responsibility. In this case, the Bank provides the Customer with the order receipt, transfer and execution services, as appropriate for each transaction. The Bank is not required to assess whether the transaction is appropriate for the Customer or not except in the terms and with the scope envisaged in the Basic Contract and the Specific Contracts that the Customer signs, in accordance with the applicable legislation. The Customer will be responsible for result of the decisions taken to invest or divest and for maintaining the investments or not and monitoring their evolution. For transactions without advice on investment products, the Bank offers the Customer a series of tools that will assist it in making investment decisions and monitoring and adapting them:

- The Bank has some controls in its trading systems that generate the appropriate notices to the Customer on its investments.
- The tools allow the Customer to access full and detailed information on the products and know the situation in the markets.
- The Bank offers the Customer analysis tools to help it look for products, as well as create simulations and comparisons.



The Bank offers the Customer access to a wide variety of investment products, such as shares and units in Collective Investment Undertakings and other collective investment entities, both national and foreign. It also includes any financial instrument or fixed income marketable security or equity, whether listed or not on official secondary markets, Multilateral Trading Facilities (MTFs) or Organised Trading Facilities (OTFs), regulated or not, whether national or foreign.

Depending on the commercial segment that the Bank assigns to the Customer (i.e. whether or not it belongs to private banking), the range of products may include Collective Investment Undertakings of third-party suppliers, such as financial instruments issued, endorsed or managed by entities belonging to the Santander Group or entities connected to the Bank by contract or otherwise.

Regardless of the segment assigned to the Customer, it can execute transactions without advice via the investment platforms that the Bank has available at any given time in remote channels. The range of products on which the Customer can transact via those platforms includes Collective Investment Undertakings of third-party suppliers, such as financial instruments issued, endorsed or managed by entities belonging to the Santander Group or entities connected to the Bank by contract or otherwise.

The Bank will send the Customer a summary with the value of the products it has at least every 3 months.

The Bank will advise the Customer if the transaction it wants to complete is not appropriate for it.

However, the Customer may proceed with at its own risk, if the legislation allows it to do so.

## Portfolio Management

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In the portfolio management service, the Customer orders the Bank in writing to manage the investment and/or cash products contained in an investment portfolio of which it is the Holder, in accordance with the investment criteria indicated by the Customer. The Bank will assess the suitability for the Customer, based on the outcome of its MiFID Test.

This service is only available to retail or professional Customers.

The service is provided on the Customer's managed portfolio, as set out in the Basic Contract and the Specific Contract of the portfolio management service. This Specific Contract establishes, among other points, the risk of the managed portfolio, the financial assets in which the Bank can invest on the Customer's instructions and a benchmark to allow the Customer to compare the evolution of the investments in its managed portfolio.

This means the management will be performed following the instructions that the Customer has given the Bank and based on the information that the Customer has provided on its knowledge and experience, financial position (including its capacity to bear losses), investment objectives (including its risk tolerance) and sustainability preferences.

To comply with the Customer's instructions, the Bank may execute all types of transactions, such as sales, subscriptions, repayments, redemptions, swaps, conversions or any other that is necessary for the administration and management of the managed portfolio. The Customer pays the Bank a management fee for this service.

In portfolio management services, the Bank will not receive or, where appropriate, will not keep incentives from third parties, unless they are minor non-cash benefits that are reasonable and proportionate, do not impair the Bank's independence and may increase the quality of the service provided to the Customer. If the

Bank receives incentives in the framework of this service, the amounts owed to the Customer will be paid into a cash account in its name.

For this service, the Bank has defined controls for the suitability of the managed portfolio, which will be performed taking the result of the Customer's current MiFID Test as a reference. These controls will take into account its overall positions in liability, savings and investment products at the Bank as sole Holder or Primary Holder (if there are several holders), except the positions held by the Customers in independent advice portfolios.

The Bank will provide the Customer with pre-contractual information on sustainability of the managed portfolio that the Customer wishes to contract, before contracting the service.

At least every 3 months, the Bank will review the appropriateness of the investment products that the Customer has in its managed portfolio during the reported period. The Bank will notify the Customer of the outcome of this review.

This report includes, among other aspects:

- Information on the management activities carried out.
- A statement of positions.
- A breakdown of the transactions executed.
- Up-to-date information on the appropriateness of the positions that it holds in accordance with the outcome of its current MiFID Test.

Each managed portfolio will have a benchmark to allow the Customer to compare the evolution of its investment.

Furthermore, the Bank will notify the Customer if its investment falls by 10% or more, or if it falls in multiples of 10%, compared with the value of the investment in each reporting period.

In this service, the Bank is not required to provide the Customer with the relevant information on the product or transaction in question with sufficient notice before each investment decision on the managed portfolio taken by the Bank.

The managed portfolios are subject to constant monitoring of the risk they assume, both in general terms and by type of assets or level of concentration.

The assets that can be included in the managed portfolios are: securities traded on securities markets or organised trading facilities, shares or units in Collective Investment Undertakings, money market instruments, financial liabilities (in Banco Santander), fixed income financial assets and listed hybrid instruments with a verifiable market value, and derivative financial instruments.

The way in which these assets are valued will depend on the type of asset and will be outlined in the managed portfolio contract.

As part of its portfolio management activity, the Bank will perform all types of transactions relating to purchases, sales, subscriptions and redemptions (direct or by transfer), repayments, swaps and conversions on the above categories of securities, and, in general, all transactions necessary for the administration and management of the entrusted portfolio. In no case will the transactions exceed the value of the managed portfolio, particularly due to the possible use of derivative financial instruments.

The Bank will not engage in securities lending on assets included in the managed portfolio or execute transactions with derivative financial instruments on commodities with settlement by delivery. The Bank will not make investments on behalf of the Customer in financial instruments of companies and entities that do not meet the Bank's ethical, social and environmental criteria.

Furthermore, the investments will be aligned with the sustainability characteristics established for each managed portfolio, in accordance with the applicable legislation.

All the above will apply in accordance with the investment portfolios management and administration contract that the Customer signs with the Bank.

The Bank may delegate the management of the managed portfolios to other entities, although this will not limit the Bank's liability to the Customer for the delegated activity.



## Custody and administration of financial instruments

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The Bank offers the Customer the service of custody and administration of the investment products in which the Customer invests through the investment services regulated in the Basic Contract. The Bank will keep the Customer's investment products represented by physical certificates, certificates, book entries, systems based on distributed ledger technology or any other means of representation or registration admitted in the applicable legislation, whose deposit, custody, registration and administration has been entrusted to the Bank..

The Customer must have a portfolio of financial instruments for the Bank to be able to offer it the custody and administration service. The service is provided on the Customer's portfolio of financial instruments, in accordance with this Contract and the Specific Contract of the portfolio of financial instruments.

The Bank will register in the Customer's portfolio of financial instruments the investment products of which it is the Holder. To do this, the Customer must sufficiently demonstrate its right on them. The Bank will keep the physical certificates of the investment products and, if they are represented in a different form, will enter them or secure their entry in the accounting records, unit-holder register/register of members or corresponding distributed ledger system, and will maintain their entry and registration, in accordance with the applicable legislation.

If the Customer does not agree with any transaction, settlement or amount notified by the Bank, it must communicate this within

Information on provision of investment services at Banco Santander, S.A.

15 days. If the Customer does not do so, the Bank will consider that the Customer agrees and it will be bound by that information.

The Customer authorises the Bank to perform all the actions and transactions within the normal management of the administration of the deposit, custody or registration of investment products, so that those instruments retain the rights corresponding to them, in accordance with the applicable legislation. The Bank will ask the Customer, where appropriate, for specific instructions.

### Associated cash account

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financial instruments, in which the payments related to the trades and transactions on investment products will be made, with the express acceptance of the holders of those cash accounts.

The Bank will deposit in the associated account the amounts of the sales, redemptions, interest, cash dividends, repayments of initial investment, rounding on contributions or any other income deriving from the investments held.

The Bank will charge the following amounts in the associated account:

- The subscription of entities and Collective Investment Undertakings (CIUs), the purchase of shares, bonds, subscription rights or other financial products in which the Customer invests.
- Subscriptions, swaps and conversions of investment Products.
- Fees, expenses and taxes generated by the Customer's investments.

### Sub-custodians

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The Bank may use sub-custodians to provide the custody and administration service, provided that it is necessary to offer an effective service.

The Bank can engage other companies ("third parties") to perform the service of custody and administration of instruments or the individualised registration of investment products. However, the Bank will remain liable to the Customer for the custody and administration, in accordance

with the applicable legislation, as set out in the Basic Contract and the Specific Contracts. The Bank will select the sub-custodians with the same care as it would take if it were going to deposit its own financial assets and will ensure they are financial entities of prestige and with a good reputation.

The Bank provides its Customers with all the information on the sub-custodians on the Bank's website [www.bancosantander.es/es/espacio-mifid](http://www.bancosantander.es/es/espacio-mifid).

## Information

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The Bank will provide the Customer with the information on the investment products under custody, registered, deposited or administered: At least every 3 months, the Bank will send the Customer information on the status of its positions.

The Bank will also inform the Customer of the transactions that change or affect its position, including the costs and expenses of the transaction executed. If the Customer needs it, it may request a detailed breakdown of these costs and expenses. The Bank will provide the Customer with the information required by law, which is officially published by the issuers or managers of the deposited investment products. This information will include the rights, obligations and transactions related to the ownership of the investment products and exercising or retaining the incorporated rights. This will be done provided that this information has been communicated to the Bank or the Bank has knowledge of it in its capacity as depository of the investment products.

The Bank may provide this information to the Customer along with the information on other services provided by the Customer.

## Receipt, transfer and execution of orders:

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As outlined in the Orders Execution Policy, the Bank offers its Customers:

- The service of receipt and transfer of orders with regard to the financial instruments traded in the execution venues to which the Bank does not have direct access. In these cases, the Bank receives the orders given by the Customers and transfers them to the brokers it uses to execute them. . This service includes transactions with different types of financial instruments, such as shares and units in CIUs, some fixed-income instruments, warrants and certificates, Exchange Traded Products (ETPs) and derivatives in organised markets.
- The order execution service is performed on financial instruments traded in the execution venues to which the Bank has direct access and also regarding over-the-counter (OTC) products (i.e. products external to the stock exchange) in which the Bank directly executes the orders of its Customers against its own portfolio. This service includes transactions on: listed equities and shares in CIUs traded on the Spanish stock exchange or other trading venues, fixed-income instruments, warrants and certificates, Exchange Traded Products (ETPs), derivatives in organised markets and OTC products.

These services are provided in accordance with the Basic Contract and the Specific Contracts that the Customer signs for that purpose.

The Customer must pay the costs and expenses related to the services of receipt, transfer and execution of orders.

## Customer orders

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The Customer's orders are its own responsibility. They must be clear and precise to allow the Bank to execute them correctly. The Bank will execute the orders as soon as possible. If, to execute an order, it is necessary to transport physical certificates, the transportation will be at the Customer's cost and risk. If it is necessary due to market practices or because the market conditions so require, the Bank may group orders of the Customer with those of other



Customers or its own. In these cases, the Bank has procedures and mechanisms to ensure that the Customer does not suffer any economic loss.

If the Customer wishes to change or cancel an order that it has already sent, the Bank will take the actions necessary to achieve this, provided that the order has not been executed. However, it will not be responsible if the order is executed on the terms prior to the modification or cancellation request, particularly when the execution is dependent on entities other than the Bank.

The Bank will execute or issue an execution order to another entity following the Customer's instructions and observing the Bank's Order Execution Policy and Code of Conduct in Securities Markets. The orders that must be executed through a regulated market, a Multilateral Trading Facility (MTF) or an Organised Trading Facility (OTF), or other types of execution venues, must be aligned with the rules of the market or system where they are executed.

The Bank advises the Customer that, although it will follow these instructions and guidelines, this does not guarantee that the best result will always be obtained for all its orders on a mandatory basis. This is because, in some cases, obtaining the best price is not the best result, as there are other important factors that can influence some transactions.

The Customer can issue specific orders outside the Bank's Order Execution Policy. However, if it issues an order outside this Policy, it is possible that the Customer will not obtain the best possible result.

The Bank may decline to accept the Customer's specific orders. If it accepts them, the Bank will execute the specific orders following its instructions. In these cases, the requirements of the Order Execution Policy with regard to the factors of the order affected by the Customer's specific instruction will be considered met.

## Rights of the Bank in the Customer's orders

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The Bank is entitled to:

- Accept the orders with specific instructions or not.
- Decline to sell financial instruments on behalf of the Customer if they are not deposited in a portfolio of financial instruments that the Customer has open at the Bank before executing the sale.
- Execute an order to purchase financial instruments exceeding the funds available in the cash accounts associated with the portfolio of financial instruments.
- Execute an order or not, when one or several of the following situations arise(s):
  - If the order breaches the Bank's requirements.
  - If the order is not signed by the Customer.
  - If the Customer issues an order by means not available at the Bank at that time.

The Customer must confirm to the Bank that the order meets these requirements for it to execute it.

- Repurchase financial instruments on behalf and at the cost of the Customer where it has issued a sale order but the sale has not been made because:
  - The instruments have a formal defect upon delivery.
  - The instruments are inadmissible under the rules of the clearing and settlement system where the order is executed.
  - The Customer has not delivered the instruments to the Bank in sufficient time for the buyer to receive them.
- Execute orders on credit or with instalments for the sale and purchase of financial instruments or not.

## Other investment and ancillary services

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The Bank can offer its Customers other investment and/or ancillary services, such as insurance and placement of financial instruments, preparation of investment reports and financial analyses, and participation in public and private sector entity bond issue schemes.

The Bank can also perform the following transactions for its Customers:

- stock market flotation (by sale of existing shares, capital increase share offering or a combination of the two),
- accelerated bookbuilds (ABBs),
- capital increases and other transactions linked to advice to issuers on all activities related to strategic actions on the capital of companies (takeover bids, spin-offs, etc.).

## Services: Investment reports and financial analyses

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The Bank provides the Customer with the ancillary service of investment reports and financial analyses. This includes preparing, publishing and disclosing investment reports identified as such. This service is provided in accordance with this Document.

Through the investment reports, the Bank issues general, non-personalised, explicit or implicit recommendations on investments, transactions and strategies related to investment products, their issuers, their current or future value or price, or certain sectors or markets, as well as on the value of currencies. These recommendations can support the valuations of investment products and offer a grounded opinion on those investment products and strategies.

The opinions expressed in the investment reports and analyses reflect the personal opinions of the analysis teams that prepare them at the time of issuing them and they can be amended. The Bank shares the investment reports with its Customers.

The preparation, publication and disclosure of investment reports and financial analyses does not constitute an investment advice service and must not be considered an offer to sell or an offer to purchase.

To provide this service, the Bank has appropriate procedures and measures to comply with its obligations on conflicts of interest and other requirements, in accordance with the applicable legislation.

## INFORMATION ON THE SAFEGUARDING OF FINANCIAL INSTRUMENTS HELD ON BEHALF OF CUSTOMERS

The Bank takes appropriate measures to protect the investment products and funds of its Customers and avoid their unauthorised use on behalf of the Bank or any person other than the Customer.

The Bank will take the necessary measures to ensure that the investment products are identified correctly as belonging to the Customer and that those financial assets are separate from those of the Bank, other Customers of the Bank and, if necessary, those of the sub-custodians/nominees and those of other customers of the sub-custodians/nominees.

To do so, the Bank will keep precise records and accounts, ensuring that the data are accurate and coincide with the Customer's investment products and funds. Furthermore, where necessary, the Bank will regularly compare its records and accounts with those of third parties (such as the sub-custodians) that have the Customer's assets.

When the Bank uses sub-custodians and/or pooled accounts for the deposit, custody, registration and administration of the Customer's investment products, the Bank will take due care in assessing, selecting, contracting, maintaining and controlling

the sub-custodians, and must keep the records necessary to know the situation of its investment products and the transactions on them.

Furthermore, the Bank has signed agreements with entities of recognised prestige and solvency outside the Santander Group to transfer the assets held and the funds of its Customers if the Bank has financial problems or there are doubts regarding its viability or the protection of the investors.

### **Pooled accounts (or “omnibus accounts”)**

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In transactions with financial assets, in national or international markets, in which the usual practice so requires, the financial assets will be deposited in pooled accounts (also known as “omnibus accounts”). These accounts are opened in the name of the Bank (or of a third party designated for this case) at a sub-custodian and are used to keep the financial assets of several Customers.

Although the account is opened in the Bank’s name, the Bank and the sub-custodians will take the necessary measures so that the Customers’ financial assets are correctly identified, i.e. as belonging to the Customer, which is the holder of them, and kept separate from the assets of the Bank and the sub-custodians. The Bank and the sub-custodians will also keep a record to know the situation of the financial assets and transactions of each Customer.

The Customer may ask for its financial assets to be in a separate account opened in its name at the sub-custodian, instead of in a pooled account opened in the Bank’s name. To do so, the Bank and, if necessary, the sub-custodians must be able to offer this service and the Customer must pay the additional costs generated.

The shares and units in Collective Investment Undertakings (CIUs), venture capital funds and other collective investment entities, national and foreign, may also be registered in a pooled account opened at the institution responsible for registering the unit-holders/shareholders in the name of the Bank, or in the name of a third party designated for this case (the “nominee”) on behalf of the Customer, or in a pooled account opened at a sub-custodian in the name of the Bank, or in the name of a third party designated for this case.

The nominee/sub-custodian will be required to:

- Keep a record of the Customer’s shares and units, and their value.
- Take measures so that the shares or units:
  - Are correctly identified as belonging to the Customer, which is their holder.



- Are kept separate from the assets of the nominee/sub-custodian and the shares or units that the nominee/sub-custodian has registered in its name on behalf of other Customers (e.g. other banks that also have accounts open in their name).

### **Risks of the sub-custodians and the pooled accounts**

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The Customer is informed that:

- In the European Union, the securities deposits of Customers opened at banks are protected by guarantee systems under the terms established in each Member State. Outside the European Union, the country may not have a guarantee system or, if it does, it may be different to the system of a European country.
- If the sub-custodian collapses or is insolvent (i.e. it does not have ability to pay), the Bank does not guarantee the financial assets and is not obliged to return them to the Customer, pursuant to Spanish law.

- When the Bank uses sub-custodians and pooled accounts, it agrees to assess, select, contract, maintain and control the sub-custodians, applying demanding solvency, operational or legal risk and service quality requirements and criteria.
- The Bank is also responsible for informing the Customer in a clear, complete and understandable manner on the risks of using sub-custodians.

The use of pooled accounts entails risks:

- The availability of the assets or the exercise of rights incorporated in those assets can have a time restriction.
- Furthermore, financial assets can lose value or disappear due to the risks associated with this type of account and the fact that their custody may be regulated by the laws of other countries.

If the Customer does not wish to assume these possible risks or the use of the pooled accounts, it must not execute transactions that require the financial assets to be deposited or registered in pooled accounts.

### **Rights of guarantee, retention or set-off**

In securities transactions, in accordance with the legislation on the Securities Market, in the event of a breach or default by Customers in meeting the settlements corresponding to the transactions that they have ordered, there is a right of financial guarantee in favour of the exchange members, the central counterparties and the participants of the central securities depositories after the settlement of the transactions, when they have advanced the cash or securities to meet that settlement. This guarantee extends to the price of the investment products, the cash and the amount of possible sanctions or penalties.

Moreover, within the custody of financial instruments, it is common practice and a condition required by sub-custodians to accept the provision of their services that, in the relevant contracts, they are recognised rights of retention, guarantee, realisation or disposal on the securities as a means of securing their risk in view of the breach of the economic obligations under the contract.

The Bank will debit the amounts owed by the Customer arising from fees, expenses and taxes due to the custody in the account associated with the portfolio or in the securities account, and, if the associated account does not have sufficient funds, they will be charged from any of the current or savings accounts opened at the Bank in the Customer's name. If those accounts do not have sufficient funds, the Bank may sell the financial instruments deposited, registered or managed and apply the appropriate set-off against the proceeds.

The above does not affect the rights of retention assigned to the Bank by law on the Customer's financial instruments, to secure the fee due.

The Bank will take the same action in case of default by the Customer when it has advanced the capital or the financial instruments for the settlement of investments.



# INCENTIVES

Incentives are fees, commissions and non-cash benefits that the Bank receives or pays other entities in providing investment or ancillary services to its Customers.

This does not mean that the Bank acts contrary to the interests of its Customers. The Bank will always act in the best interest of the Customer and the collection or payment of incentives must comply with the applicable legislation in force.

When the legislation requires it, the Bank has designed the investment and ancillary services that it provides to its Customers in such a way that the collection or payment of incentives improves the quality of the service provided and does not adversely impact the Bank's obligation to act with honesty, impartiality and professionalism, in the best interest of its Customers. As part of this, the Bank includes in its services additional or higher level elements that allow the Customers to benefit from a higher quality in the services. Among other elements, the Bank makes available to its Customers value-added tools with the information necessary to allow them to make their decisions to invest or not and to monitor the investments.

The Bank will notify the Customer of the incentives it receives or pays or a specific service or product.

# ASSOCIATED COSTS AND EXPENSES

The Customer must pay the Bank the costs and expenses related to:

- The investment and ancillary services provided, as well as the transactions performed and the investment products contracted.
- The taxes corresponding to it for the investment products and services it contracts, in accordance with the regulations in force.
- The expenses of correspondent banks, brokers, clearing and settlement systems and any other entity necessary to execute its orders or instructions, and provide the services to it.
- Where appropriate, the expenses incurred in sending the paper documentation related to the investment products and services that it has contracted.

The Customer must also pay the amount invested in the contracted investment product.

The conditions, tariffs, frequency, calculation basis and payment method of the fees and the costs and expenses related to the investment services and the ancillary services are established in the Basic Contract, in the Specific Contracts that the Customer signs, in the legal documentation issued by the issuer of the investment instrument and in the document on maximum tariffs in Securities Market transactions and services (the "Tariffs Document"), which is available on the Bank's website:

[www.bancosantander.es/tablon-anuncios](http://www.bancosantander.es/tablon-anuncios)

The terms of the Tariffs Document will apply unless otherwise indicated in the Basic Contract and the Specific Contracts. The Bank will notify the Customer of any change relating to these fees and expenses, in accordance with the Basic Contract.

The terms, tariffs, frequency, calculation basis and payment method of the fees, costs and expenses related to the investment products are established in the Specific Contract and/or the legal documentation issued by the producer or issuer, in accordance with the applicable legislation.



## Information on costs, expenses and incentives

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The Bank will inform the Customer of the costs, expenses and incentives relating to the investment services and products, in accordance with the applicable legislation.

The Bank will notify the Customer:

- With sufficient notice before making an investment, of the costs, expenses and incentives associated with it. If the Bank cannot give the Customer an estimate of the costs, expenses and incentives, it will provide a reasonable estimate of them.
- With the frequency established in the applicable legislation of the costs, expenses and incentives associated with the services provided and the investment products it maintains or has maintained in its positions during the reported period.
- Where appropriate, it must provide information on the amount of the incentives that the Bank receives for the portfolio management and independent advice services and that are transferred to the Customer.

The information on costs, expenses and incentives will include:

- The costs and expenses associated with the investment and ancillary services provided in relation to the investment.
- The costs and expenses of the investment products in which the Customer invests. The Bank can take as a basis the information on the costs and expenses of the product that the producer or issuer provides or provide an estimate of these.
- The incentives associated with the investment.
- In transactions with currencies other than the euro, the Bank will also notify the currency, the exchange rate applied and the associated costs.

The Customer can request detailed information from the Bank on the costs, expenses and incentives.

The Bank informs the Customer that the costs and expenses will be collected as follows:

- by collection in the cash accounts associated with the Specific Contracts; and/or
- by a cost included in the price of the investment product. In accordance with the terms of the investment product, this cost may be applied once (at the time of its purchase or sale), or recurrently.



# EXECUTION OF ORDERS

## INFORMATION ON THE ORDER EXECUTION POLICY

The legislation on the Securities Markets and Investment Services and the other applicable legislation requires the entities that provide investment services, where they execute or transfer orders of Customers for their subsequent execution (whether they provide these services individually or alongside other services), to take sufficient measures to obtain the best possible result for their Customers. To do so, they must take the following factors into account: the price, costs, speed and likelihood of the execution and settlement, the volume, the nature of the transaction and/or any other element relevant to the execution of the order.

To comply with this obligation, the Bank has an Order Execution Policy, which Customers can consult at any time on its website: [www.bancosantander.es/es/espacio-mifid](http://www.bancosantander.es/es/espacio-mifid).

This Policy establishes the procedures that the Bank follows to execute an order and obtain the best result for retail and professional Customers. The Order Execution Policy applies to the orders of the Bank's Customers who are classified as retail or professional Customers, but not to those categorised as eligible counterparties.

By determining the importance of each of the factors mentioned above, the Bank will take into account:

- The classification of the Customer as a retail or professional Customer.
- The characteristics of the order issued by the Customer.
- The characteristics of the financial product subject to the order.
- The characteristics of the execution venues to which the order may be issued.
- The characteristics of the brokers to whom the order may be issued for its subsequent.

In the case of orders of retail Customers that have not issued specific instructions, the best possible result will be determined in terms of total consideration. This is composed of the price of the financial instrument and the costs and expenses related to the execution, including the fees and expenses of the execution venue, the clearing and settlement fees and other fees and taxes paid to third parties who are involved in the execution of the order.

The Order Execution Policy applies to the following services that the Bank provides to its Customers, based on the instrument to which the orders refer:

— **Receipt and transfer of orders (RTO):** the Bank provides to its Customers the service of receipt and transfer of orders on the financial instruments traded in the execution venues to which the Bank does not have direct access. To execute these orders, it uses brokers who do have access to these venues.

The Bank offers its Customers the RTO service for the following instruments: listed equities, shares in CIUs, some fixed-income instruments, warrants and certificates, Exchange Traded Products (ETPs) and derivatives in organised markets.

El Banco ofrece a sus Clientes el servicio de RTO para los siguientes instrumentos: renta variable cotizada, acciones IIC, algunos instrumentos de renta fija, warrants y certificados, Exchange Traded Products (ETP) y derivados en mercados organizados.

— **Execution of orders:** the Bank offers the order execution service for the financial instruments traded in the execution venues to which the Bank has direct access to its Customers directly. Furthermore, the Bank provides the execution service for OTC products, in which it executes the orders of the Customers directly against its own portfolio, acting as a counterparty in the transaction. In the case of certain financial instruments, the Bank acts as systematic internaliser.

The Bank offers the execution service to its Customers for the following instruments: listed equities and shares in CIUs traded on the Spanish stock exchange or other trading venues, fixed-



income instruments, warrants and certificates, Exchange Traded Products (ETPs), derivatives in organised markets and OTC products.

In the order execution service distinction must be drawn between two types of transactions that, along with the type of financial instrument, will determine the process by which the Bank will check the fairness of the price:

- a) If the Customers' orders are executed directly at the execution venue, or
- b) If the Customers' orders are executed against the Bank's own portfolio.

If the Bank executes orders against its own portfolio with OTC products ("OTC transactions"), including bespoke products, it will check the fairness of the price proposed to the Customer based on the type of financial instrument to which the transaction relates, as indicated below:

— Transactions with marketable securities (such as fixed-income OTC). The fair price verification will be based on the orders that the Customers issue within the price ranges available in the market at the time the transaction is executed. This includes the established costs and margins, when they are included in the final price for the Customer.

If there is a lack of sufficient information on the market prices, market comparables

with similar characteristics will be sought for comparison. If comparables are not found, the price will be set based on the market reference parameters, in accordance with the price-setting processes that the Bank has approved.

- Bespoke Customer transactions and transactions with financial instruments that, while not a bespoke transaction, are not classified as marketable securities. The fair price verification will be performed applying internal pricing processes. These are based on internal valuation models pre-approved by the Bank. When there is a lack of information available, market comparables with similar characteristics will be sought for comparison. This process will mainly apply to the transactions with OTC derivatives and structured products.

The fact that these transactions are performed outside execution venues poses a counterparty risk in the transaction for the Customer if the Bank ceases to meet its contractual obligations to the Customer.

The list of execution venues and brokers that the Bank can access to execute its Customers' orders, as well as the criteria to select them, is provided in the Order Execution Policy and its appendix. It is available to Customers on the Bank's website [www.bancosantander.es/es/espacio-mifid](http://www.bancosantander.es/es/espacio-mifid).

The Bank will not receive any type of remuneration, discount or non-monetary benefit for sending the Customer's orders to a specific execution venue or broker. However, it may receive payments from certain trading venues for applying the relevant tariffs. Those payments will be returned to the Customer where the tariff contracted with the Bank so indicates. Otherwise, the Customer is informed of the existence of these incentives, remaining at its disposal to receive detailed information in this regard. The Bank will not receive brokerage fees that unjustifiably distinguish some execution venues from others.

With regard to the transactions in the primary securities market, i.e. the first purchase of an instrument after its issue, the Bank may provide its Customers with the service of receipt and transfer of orders, sending the orders directly to the issuer, or the execution service, using its own account. In both cases, the Bank will send or execute the

orders following the instructions specified by the Customer and applying the terms of the issue.

The Order Execution Policy will not apply to the transactions that the Bank executes to manage its own investments or to the transactions it performs as market maker.

If the Bank delegates the management of the investment portfolios to management companies that belong to the Santander Group, they will make the investment and divestment decisions applying their own policies, but always observing the Bank's Order Execution Policy.

If the Customer issues a specific instruction, the Bank will execute the order following the instruction given by the Customer. In these cases, the factors of the order that are affected by any of the requirements established in the Order Execution Policy will be considered to meet the requirements set in this Policy.

The Bank will regularly check the effectiveness of the Order Execution policy and will review it annually and whenever there are important changes that might affect it.

In any case, the Bank can show the Customer, if it so requests, that it has executed its orders in accordance with the Order Execution Policy.

# INFORMATION ON FINANCIAL INSTRUMENTS AND THE INVESTMENT RISKS ASSOCIATED WITH THEM

The Bank provides information on the characteristics and most common risks of the financial instruments included in Securities Markets and Investment Services legislation. The investment services that the Bank offers its Customers can cover these instruments.

The information contained in this document does not mean that the Bank will not provide specific information on other products or services that may be of interest to the Customer.

In any case, the Bank will provide its Customers with the information required by law in each case. If there are official prospectuses registered with the supervisory authorities on an issue of financial instruments offered to the Customer, we will notify it of their availability.

Acquiring any financial instrument entails financial risks. Before contracting it, the Customer must assess those risks. A single financial instrument can have various risks, which vary depending on its characteristics. Risk is always present in financial instruments.

This implies uncertainty, which means that not only can higher or lower returns than expected be obtained but also that, in the worst-case scenario, all or part of the money invested can be lost.

**Risk and return are related.**  
**As a general rule,**  
**the higher the expected returns,**  
**the greater the risk.**



## 1 Fixed income and hybrid instruments

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**Fixed income assets** are a broad series of marketable securities issued by private companies and public institutions.

Economically speaking, they represent loans that the entities issuing these financial instruments receive from investors. Unlike equities, the holder of fixed income securities has economic but not ownership rights, as they do not own the shares of the company that issues the financial instrument. The most important right is the right to receive the remuneration agreed and the reimbursement of all or part of the money invested on one or several specified dates.

**Hybrid instruments** are financial assets that constitute a means of financing for the issuing entities that combines characteristics of debt (degree of subordination in settlement) and capital (share in the profits of the issuing entity at different levels).

### Risk factors

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Fixed income assets and hybrid instruments to a greater extent present risks that can involve the total or partial loss of the investment.

We outline the main risk sources that can affect these financial assets below.

#### — Risk due to changes in interest rates Term

Price risk means it is possible that, when the investor wants to sell the asset before the maturity date, its sale price is lower than the purchase price. In fixed income, this risk is essentially linked to changes in interest rates.

When an investor acquires an asset with a longer maturity than its own investment period, it will have to sell it in the secondary market when the maturity date arrives. If interest rates have risen during that period, it could have obtained a lower return than envisaged at the time of contracting the bond, and it could even suffer losses.

The term measures the sensitivity of the price of an asset to changes in interest rates. It is a tool that makes it possible to estimate the interest rate risk of a fixed income security.

The term is a very important concept to calculate the risk of a security. The longer the term, the greater the risk, as, if interest rates rise or fall, the price of the product will change more.

#### — Credit or insolvency risk

This is the risk that the issuer of a security will not be able to meet its payments, of both coupons and repayment of the initial investment. The issuer can be a company, financial institution, state or public authority.

When the issuer of the (fixed income) securities is a state, the credit risk is called "country risk". In some cases, some countries have stopped paying interest on external public debt that they had issued.

Historically, and in a normal market context, it is considered that issues by the most important states of the OECD are risk-free assets, provided that they are held until maturity (if the securities are sold in the secondary market before redemption, the price that the market is prepared to pay at that time will be obtained). Any private issuer, regardless of its solvency, presents a risk that is usually higher than that of public issuers; therefore, higher returns are also usually demanded.

Before investing, it is important to take the issuer's creditworthiness into account. This can be done by consulting the ratings provided by specialist agencies on creditworthiness and financial strength of the issuing companies, states and public authorities.

These ratings can be on the issuer or, in the case of private issuers, on them and/or each of their issues. It should be remembered that a credit rating is not a recommendation to buy, sell or subscribe securities, and that it can be suspended, modified or withdrawn by the relevant rating agency at any time.

The essential criterion to assess the solvency of an issuer is its capacity to generate profits in the future and, therefore, to meet its payment commitments. Sometimes, the solvency of a specific issue can depend on the existence of additional guarantees (such as with securitisations).

If the issuer cannot pay, it is important to know how the different types of issues are considered and the order of priority of the credits. If the issuer or the guarantor enters insolvency proceedings or is declared insolvent, the order of priority of credits will not be the same as the order of recovery in the collection established in the issue prospectus. Holders of subordinated debt and preference shares would not recover their investment until all the other non-subordinated credits have been paid, and will do so before ordinary shareholders.

Therefore, in the case of subordinated debt and preference shares, the risk of total or partial loss of the investment increases.

There are special rules for fixed income instruments, including those that are not subordinated, issued by credit institutions and investment funds. The Spanish Recovery and Resolution of Credit Institutions and Investment Services Companies Law [Ley 11/2015 de 18 de junio, de recuperación y resolución de entidades de crédito y empresas de servicios de inversión] provides, in certain cases, for the possibility of writing down and converting those instruments, which could entail the loss of the investment in view of a resolution of the credit institution or investment services company.

Normally, issuers with a lower credit rating are asked for higher returns to compensate for the greater risk assumed by investors.

### — Risk that there might be no market to purchase or sell the securities and lack of liquidity

The risk of lack of liquidity is the difficulty that an investor may encounter if it wants to convert the financial instrument that it has purchased into cash. This can happen if there is no market in which it can easily sell it or if there is no demand for that instrument in the period in which it wants to sell it. As a general rule, financial instruments traded in organised markets are easier to sell than those not traded in these markets.

The issuer of the securities cannot assure that it will be possible to create or maintain a market to trade these securities or to establish



a regular price or value for them. Therefore, it is possible that these securities will not have liquidity, which would complicate their sale and make it necessary to hold the investment until maturity, if there is one. Therefore, if there is a third party interested in purchasing these securities, the price may not reflect the market value of the product and may be lower than the nominal value and/or the purchase price paid by the investor. Therefore, the risk of lack of liquidity can result in a penalty in the price obtained in unwinding the investment, if it is necessary to sell it quickly.

### — Risk due to limits on remuneration

There are risks that can affect the remuneration that the holders must receive in the form of coupons. These risks will be more relevant in accordance with the type of issue in question.

The collection of returns in an issue can be limited by several factors, including:

1. lack of sufficient distributable profits of the issuer to pay remuneration to investors,
2. existence of regulatory restrictions,
3. the need to previously meet the payment of other higher ranking debts,
4. when investor remuneration is at the free choice of the issuer and it is not obliged

to pay it if it believes it might affect its financial and solvency position, and/or

5. the terms of the issue.

If the return is not paid in full on one of the agreed dates, it is possible that the part that has not been received will not be recovered, even if the issuer generates profits in the future..

### — Risk of no redemption or conditional redemption

Some fixed income issues are perpetual, i.e. they do not have a maturity date. There are also issues in which a possible early redemption date is envisaged. In this case, it must be taken into account that normally only the issuer can exercise this right, in accordance with the terms and conditions of the issuer. Therefore, it is possible that the investor will have to hold their investment for a long time.

Exchangeable or convertible bonds give the owner a right to exchange them for shares on a specific date. When that date arrives, the investor has two options: convert them into shares if the price of the shares offered in the exchange is lower than their market price or hold the bonds until the next conversion date or until they mature. In practice, this means that the investor is exposed to equities market risk.

With "mandatory convertible" bonds, the holder cannot waive the exchange, which will take place on the date or dates envisaged in the prospectus using the established exchange equation. Ultimately, it is an agreement to purchase a specific number of shares in the future, and so the value of the bonds will vary based on the fluctuations in the prices of the shares into which they will be converted. Accordingly, based on the share price at the time of the in.

### — Other circumstances that can affect the price

El precio de los títulos de renta fija puede  
The price of fixed income securities can be affected by other factors, in addition to those listed above, which can increase the risks of the product and cause losses. Some of these factors are: decline in the issuer's credit rating, negative performance of the issuer's business, non-payment of the returns on the issue on the agreed dates, and changes in exchange rates in issues denominated in a foreign currency.

### — Reinvestment risk

If the asset purchased generates coupons or cash flows before maturity, we do not know at what interest rate they may be reinvested until the asset matures. The initial return will have to be calculated supposing a reinvestment of those coupons at the same interest rate. If the reinvestment is made at a lower interest rate, the total return will also be lower.

## Fixed income financial instruments

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### — Public debt

These are **fixed income** securities issued by the state, Autonomous Regions and other public bodies. In general, they are liquid securities with lower credit risk than private fixed income instruments.



Depending on the periods and characteristics, there are different types of public debt, which in the case of the Spanish Treasury are:

- **Notes and Bonds of the Spanish State.**

These are the main medium-term (Notes) and long-term (Bonds) fixed income instruments issued by the State. They are explicit return issues. Notes are currently issued at 3 and 5 years and bonds at 10, 15, 30 and 50 years. They are securities with periodic interest, in the form of a coupon, unlike Treasury Bills, which pay interest at maturity.

- **Treasury Bills.**

These are short-term fixed income securities issued by the Kingdom of Spain through the Public Treasury. Treasury Bills do not pay periodic interest in the form of a coupon, and so their return derives from the difference between the purchase price and the nominal value on the redemption date. Their period is, generally, 3 to 12 months.

Some long-term public debt issues are performed under the modality of separated securities or "strips", in which the principal and each of the coupons to which the original bond gives a right can be acquired separately.

- **Regional debt and other public bodies.**

Autonomous regions, local authorities and other public entities issue short-term (promissory notes) and long-term securities. Their characteristics are similar to Treasury Bills and State Notes and Bonds, respectively.

## — Mortgage-backed bonds

These are fixed income securities that are only issued by credit institutions (banks and savings banks) or building societies. They are backed by the issuer's portfolio of mortgage loans.

They are usually long-term issues and have various forms in terms of interest rate and redemption terms.

## — Territorial bonds

These are similar instruments to mortgage-backed bonds. They are fixed income securities issued by credit institutions, whose capital and interest are secured by the loans and credits granted by the issuer to public authorities and public bodies.

## — Corporate or Private Fixed Income (Notes and Bonds)

The notes and bonds issued by companies are medium- and long-term fixed income securities. The characteristics of the bonds can vary greatly from one issuer to another, and even for various issues of a single company. These differences can be the maturity date, interest rate, coupon frequency, issue and redemption prices, redemption clauses and other terms of the issue, as well as any conversion options, the priority of rights in case of liquidation or the guarantees offered, among others.

- **Securitisation bonds**

These are fixed income securities issued by a securitisation fund. These securities are only backed by the assets of the fund.

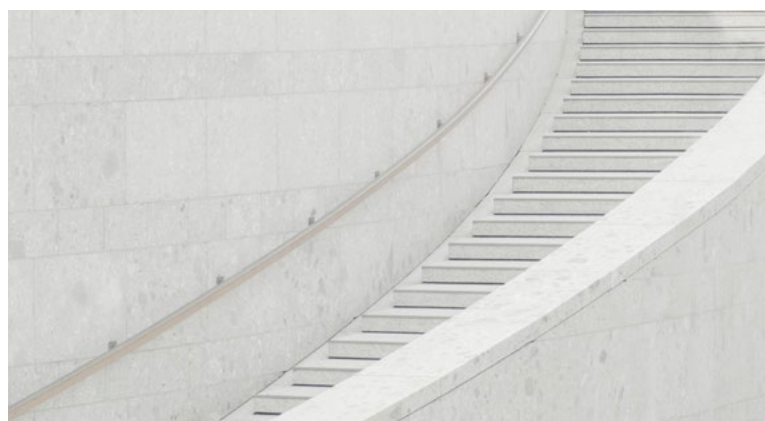
They can be both medium- and long-term issues and have different forms in terms of interest rate and redemption terms.

## Hybrid instruments

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### — Preference shares

These are securities issued by a company that do not give a right to a share in their capital or voting rights. They are perpetual (i.e. they last forever) and returns, which are generally variable, are not guaranteed.



They are a complex, high-risk instrument. Since these issues are subordinated and in view of the order of priority they hold in case of insolvency proceedings, there is a risk of total loss of the investment if the issuing company enters insolvency proceedings.

### — Contingent convertibles (CoCos)

These are a type of hybrid debt and capital issue with a defined coupon that can be cancelled at the issuer's discretion, where there is an option for conversion into shares of the issuing entity in pre-established conditions, usually if its capital ratio falls below a certain level. They are a complex and risky product where the whole investment can be at risk. Therefore, they are not appropriate for inexperienced investors.

### — Convertible and/or exchangeable notes and bonds

These are notes or bonds that can be converted into a share or another type of debt security. The difference between exchange and conversion is that, with exchanges, the transformation into shares is performed by delivering old shares that are in the issuer's possession while, with conversions, new shares are delivered.

Up to the conversion date, the holder receives the interest by collecting the periodic coupons. The number of shares that will be delivered for each note or bond, how the prices are determined and the exchange or conversion dates are specified in the issue prospectus.

### Relevant characteristics to analyse fixed income assets and hybrid instruments

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Some of these characteristics, which directly influence the level of complexity and risk of the instrument are set out below.

- Category of the issue in case of insolvency: secured, senior or subordinated bonds;
- Credit rating of the issuer, the issue and the guarantor, if there is one;
- Term and maturity period;

- Type of coupon: no coupon, fixed, floating or index-linked coupon.
- Type of redemption: at maturity, perpetual, exchangeable or convertible or mandatory convertible bonds.
- Whether it is listed or not; indicate in which market if it is.

Hybrid instruments and complex fixed income instruments, in which the amount repayable to the investor is subject to variations due to exposure to certain reference values or to the performance of one or several assets not directly acquired by that investor, are considered products subject to the PRIIPs Regulation<sup>1</sup>. This legislation requires the delivery of a standardised pre-contractual information document (KID, Key Investor Document) when these financial instruments are sold to retail Customers.

### Regulatory classification of fixed income

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Under transparency legislation,<sup>2</sup> fixed income instruments<sup>3</sup> are classified based on their risk level, liquidity and complexity in accordance with the following characteristics:

#### Risk level:

the Order classifies products in 6 risk levels based on whether they are subordinated, their currency, percentage of the commitment to repay the principal invested, term and credit rating of the originator, issuer or guarantor.

<sup>1</sup>Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

<sup>2</sup>Order ECC/2316/2015, of 4 November, on reporting obligations and classification of financial products (the "Financial Products Classification Order").

<sup>3</sup> This Order does not apply to financial products subject to the PRIIPs Regulation.

**Tier 1:**

- unstructured bank deposits (current and savings accounts and fixed-term deposits) in euros and savings insurance products (including insured pension plans).

**Tier 2:**

- Non-subordinated financial instruments in euros.
- 100% principal secured.
- Term  $\leq 3$  years.
- Level 1 BBB+ or higher credit rating.

**Tier 3:**

- Non-subordinated financial instruments in euros.
- 100% principal secured.
- Term  $>3$  and  $\leq 5$  years
- Level 2 BBB- or BBB credit rating.

**Tier 4:**

- Non-subordinated financial instruments in euros.
- 100% principal secured.
- Term  $>5$  and  $\leq 10$  years.
- Level 2 BBB- or BBB credit rating.

**Tier 5 - 1:**

- Non-subordinated financial instruments in euros.
- 100% principal secured.
- Term  $> 10$  years.
- Level 2 BBB- or BBB credit rating.

**Tier 5 - 2:**

- Non-subordinated financial instruments in euros.
- At least 90% principal secured.
- Term  $\leq 3$  years.
- Level 2 BBB- or BBB credit rating.

**Tier 6:**

Resto de productos no contemplados en ninguna otra clase. Other products not included in any other tier.

**Liquidity:**

Alerts on possible liquidity constraints and risks of early sale of the financial product.

**Complexity:**

Under securities legislation, fixed income instruments with an embedded derivative and perpetual issues are considered

Information on provision of investment services at Banco Santander, S.A.

complex products. Therefore, it is necessary to assess their appropriateness for retail Customers if they are marketed.

Furthermore, fixed income financial instruments that are eligible for internal recapitalisation, such as bonds whose issuers are EU credit institutions with senior or unsecured or lower ranking, are considered complex products. Therefore, it is necessary to assess their appropriateness for retail Customers if they are marketed.

In fixed income products considered non-complex, it is not necessary to assess whether they are appropriate for the Customer when it contracts them on its own initiative. In that case, the Bank will notify the Customer or potential customer that it is not required to assess the appropriateness of the financial instrument offered and that, therefore, the Customer is not protected by the rules of conduct established in securities legislation.

In the case of fixed income assets not subject to the PRIIPs Regulation, the general description of the nature and risks of the fixed income asset will be communicated to the Customer before contracting the product through the following warnings:

**• Risk indicator:**

A number is shown indicating the risk level of the product, where 1/6 is the lowest risk and 6/6 is the highest risk.

**• Liquidity indication:**

One or two padlocks will be included based on the repayment commitment at maturity of the product, possible liquidity constraints and the risks of early sale of the financial product (existence of fees or penalties due to early cancellation, notice periods).

**• Complexity indication:**

It will be indicated that it is not a simple financial product and that it can be difficult to understand.

**Regulatory classification of hybrid instruments**

Under securities legislation, hybrid instruments are considered complex products. Therefore, it is necessary to assess their appropriateness for retail Customers if they are marketed.

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## Scenarios of possible performance of non-complex fixed income

In the possible positive and negative performance scenarios of a fixed income investment, it is necessary to consider:

— If the investment is held to maturity: the nominal of the securities will be repaid, which would be compared with their purchase price.

The change in the asset value, before the redemption date, based on interest rates and the term of the instrument in question, as well as other risk factors indicated above, taking as a basis the price at which the investor purchased those securities.

The amount of the coupons that may be received.

The worst-case scenario for a fixed income investment is losses for the investor. This can happen if interest rates constantly rise and if there are other negative events related to the entity that issued the securities and/or its market. This can happen if there is a need to sell the securities before the maturity date.

The longer the term of the securities, the greater the effect will be on their price. The best-case scenario is when the value of the instrument exceeds the nominal value due to a fall in interest rates, which means an additional income on the coupons to be received if it is sold before maturity.

The neutral scenario for an investor is receiving the coupons and the repayment at maturity for the nominal amount of the securities.



## 2 Money market instruments

Money market instruments are short-term fixed income securities traded in the money market and that mature in a period of 25 months or less.

### Risk factors

The risk factors associated with money market instruments are the same as those described in the previous section.

### Money market financial instruments

#### • Spanish Treasury Bills

These are short-term (maximum 12 months) fixed income securities issued by the State through the Directorate General of the Treasury and Financial Policy. The minimum amount of each request is EUR 1,000, and requests for higher amounts must be multiples of EUR 1,000. They are securities issued at discount or at premium, and so their purchase price can be lower or higher than the amount you will receive at redemption. The difference between the repayment value of the Bill (EUR 1,000) and its purchase price will be the return generated by the Treasury Bill (implicit return) and they are exclusively represented by book entries, as there is no physical certificate.

The Treasury regularly issues these securities through competitive auctions, as a State financing method. The Treasury currently issues Bills with the following maturity periods: at 3, 6, 9 and 12 months

- **Promissory notes**

These are zero-coupon fixed income securities issued at a discount, and so the return on them is obtained by the difference between the purchase price and the nominal value of the promissory note received on the redemption date. They are short term and usually have maturities between 3 days and 25 months. Promissory notes are issued in the primary market through competitive auctions, in which the purchase price is determined, or by direct negotiation between the investor and the financial entity. In the Spanish market, they can be traded in the AIAF and MARF markets. Although they are an appropriate investment for retail Customers, it is important to consult the information that the markets publish on issues, prices, volumes and back-to-back transactions. It must always be analysed whether the liquidity of the security is appropriate for the specific needs of the investor.

- **European Commercial Paper (ECP)**

Son instrumentos de deuda que se emiten a corto plazo en el mercado internacional de capitales. No son líquidos, es decir, no se pueden convertir en dinero fácilmente, y no tienen un mercado secundario de negociación. Habitualmente se emiten al descuento sobre su valor nominal. Pueden ser emitidos en diferentes divisas, en cuyo caso incorporan el riesgo de evolución de la divisa.

## **Regulatory classification of money market instruments**

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Promissory notes and ECPs are subject to the Financial Products Classification Order. They are classified based on their risk level, liquidity and complexity, as outlined in the Regulatory classification of fixed income section above. These factors are communicated to the Customer in the general description of the nature and risks

of the product delivered before contracting the product through the following warnings: risk indicator and liquidity and complexity alerts.

Under securities legislation, money market instruments are considered non-complex, excluding those that include derivatives or incorporate a structure that complicates the understanding of the risks. For money market instruments that are considered non-complex products, it is not necessary to assess whether they are appropriate for the Customer when it contracts them on its own initiative. In that case, the Bank will notify the Customer or potential Customer that it is not required to assess the appropriateness of the financial instrument offered and that, therefore, the Customer is not protected by the rules of conduct established in securities legislation. Money market financial instruments that



are eligible for internal recapitalisation, whose issuers are EU credit institutions with senior or unsecured or lower ranking, are considered complex products. Therefore, it is necessary to assess their appropriateness for retail Customers if they are marketed. The performance scenarios of money market instruments are similar to those for non-complex fixed income, with a lesser impact of possible changes in expected returns for the following reasons:

- the shorter term of these instruments, meaning the possible changes in their value are reduced;
- they are zero-coupon instruments acquired at a discount and, therefore, do not have periodic coupons.

### 3 Equities

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The main equity instrument is stocks. In this case, it is not possible to know with certainty the return on the investment that will be obtained, as both the price at which shares may be sold and the dividends that may be received while holding those shares are uncertain.

Changes in a share's value do not depend solely on the company itself but also on external factors such as the economic situation, the performance of other markets, interest rates, inflation, etc.

Other equity instruments include as preemptive subscription rights.

#### Risk factors

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Risk is a characteristic of equities. This means that there is uncertainty, i.e. it is not possible to predict with certainty what is going to happen. This means that, although it is possible to obtain lower returns than expected, it is also possible to earn more. In other words, there is a risk of losing all or part of the money invested in stocks.

#### — Risk due to changes in share price

The share price depends on how the participants in the market value the company issuing it. This value is based on various factors, such as the prospects of future profits for the company and its rate of growth.

Other factors independent from the business activity also play a role, such as expectations regarding different macroeconomic indicators, investor confidence, changes in exchange rates for shares traded in other currencies, etc., as well as economic, political and any other news affecting the financial instruments market, the financial system and the economy in general.

As you might expect, the current value of those expectations changes constantly and, as a result, so do the volumes of securities supplied and demanded at each price. The result is that the prices at which the orders cross are modified throughout the trading session, and from one session to another.

Furthermore, certain events in the company can also affect the share price, such as the payment of dividends, takeover bids and public offerings, capital increases or any other type of structural change by the company.

Downgrading of a company's credit rating can also have a negative impact on its share price.

In general, when we speak about the risk of a company listed on the stock exchange, only the share price risk is usually considered, as it is understood that the other risks are already included within it.

In this regard, it is possible to calculate the past risk of a security or an index by measuring volatility.

Furthermore, if a listed company is facing a critical situation, the value of its shares can fall so much that it can end up losing all its value, meaning the loss of the whole investment made in those shares.

#### — Risk due to changes in interest rates

In general, when interest rates are expected to rise, share prices fall because:

- Fixed income securities, which generally present less uncertainty for investors (i.e. lower risk), offer higher returns, which can trigger a transfer of positions in equities towards fixed income.
- This makes it more expensive for companies to finance themselves, which can reduce their future profits.

#### — Risk of lack of liquidity

Stocks can be distinguished based on the trading market. Regulated markets facilitate the trading of securities and, therefore, their liquidity, allowing shareholders to easily unwind their positions.

However, there are situations that can limit liquidity, such as when a company suspend listing of its shares for a period or ceases listing.

In these cases, shareholders can lose the capacity to sell their shares in the market. In general, it is considered that “thinly traded” securities are those with lower liquidity. This can depend on different factors, such as a company’s market capitalisation (number of shares in circulation multiplied by their price) and its liquidity (supply and demand of shares of a company traded on a specific market).

Due to the variety of equities markets, whether regulated or not, and possible multilateral trading facilities, it is possible that the liquidity of the securities will be affected. In any case, it should be reminded that the risk of lack of liquidity can imply a reduction in the price when selling the investment.

#### — Returns risk:

Returns in equities can be understood based on two concepts:

- one, by the difference between the purchase price and the sale price (gain), which, therefore, is exposed to the risks described above in changes in share prices, and
- two, by the company’s dividend remuneration policy. The dividends that each company pays will be subject to the approval of the general shareholders’ meeting, which will decide based on its profits and growth prospects.

### Regulatory classification of equities

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Under the Financial Products Classification Order, equity instruments are classified based on their risk level, liquidity and complexity in accordance with the following characteristics:

#### — Risk level:

The Order classifies products in 6 risk levels based on whether they are subordinated, their currency, percentage of the commitment to repay the principal invested, term and credit rating of the originator, issuer or guarantor. The classification of these 6 levels is contained in the “Classification of fixed income” section above.

#### — Liquidity:

alerts on possible liquidity constraints and risks of early sale of the financial product.

#### — Complexity:

Under securities legislation, stocks admitted to trading on a regulated or equivalent market of a third country are considered non-complex products. Therefore, it is not necessary to assess whether they are appropriate for the Customer when it contracts them on its own initiative.

Preemptive subscription rights can be either complex or non-complex:

- When those needed to complete the rounding in a capital increase are acquired, they are considered non-complex products.
- However, when they are acquired to participate in a capital increase and they do not correspond to previously obtained securities and are not necessary to complete the number of securities for rounding, they will be considered complex products.

Unlisted stocks or stocks listed in unregulated markets are considered complex products. Therefore, it is necessary to assess their appropriateness for retail Customers if they are marketed.

In financial events, these factors (risk level, liquidity and complexity) are communicated to the Customer in the general description of the nature and risks of the products (scrip dividend, capital increases, exchange of shares, etc.) delivered before contracting the product through the following notices.

### — Risk indicator:

A number is shown indicating the risk level of the product, where 1/6 is the lowest risk and 6/6 is the highest risk. In the case of shares and preemptive rights listed on secondary markets, the risk indicator is as follows:



### — Liquidity indication:

One or two padlocks will be included based on the repayment commitment at maturity of the product, possible liquidity constraints and the risks of early sale of the financial product (existence of fees or penalties due to early cancellation, notice periods).

### — Complexity indication:

It will be indicated that it is not a simple financial product and that it can be difficult to understand.

## Scenarios of possible performance of equities

In the possible positive and negative performance scenarios of investment in stocks, it is necessary to consider:

- the positive or negative change in the purchase price of the securities from the moment the investor purchases,
- the amount of the dividends that may be received,
- the impact of possible financial events (share premiums, sale of preemptive rights in capital increases, scrip dividends, etc.) that involve an income for the Customer but which can affect the value of the share.

The worst-case scenario in an equity investment is losing the whole investment if the share price reaches zero. This extreme situation can



occur in view of insolvency proceedings or if the entity that issued the shares is wound up.

The best-case scenario is when the share price rises constantly and the company regularly pays dividends. However, it must be considered that share prices rise and fall all the time. Therefore, it is important to have a clear time frame for the investment to see whether the investment has performed as the investor expected.

Between the worst- and best-case scenarios there are intermediate situations based on the variable behaviour of the market. These are characterised by high volatility, with rises and falls in share prices that can vary in frequency and intensity based on macroeconomic, sectoral and specific factors of the entity issuing the share.

## 4 Collective Investment Undertakings (CIUs)

There is a very wide variety of collective investment undertakings due to the markets in which their investments are made, sectors, geographical areas, asset types, currencies, etc. in which they invest. Their results will depend on the management performed, as well as the performance of markets, and can result in losses of the investment made.

The characteristics of the CIU in question and its management style are set out in the prospectus that must be deposited with the national supervisor of the manager (in Spain, the National Securities Market Commission). The Key Investor Document (KID) helps to understand the essential characteristics, nature and risks of the CIU so that the Customer

can make informed investment decisions. Collective investment undertakings (classification performed based on its legal form) are:

- Investment funds.
- SICAVs (publicly traded open-end investment fund structures).

### **Risk factors in Collective Investment Undertakings**

The nature and scope of the risks will depend on the type of CIU, its individual characteristics (defined in the prospectus) and the assets in which it invests. Therefore, the specific risks of the different types of assets contained in this document will apply.

When choosing between the different types of CIUs, the saver's capacity and desire to assume risks and its investment time frame must be taken into account.

In addition to the risks inherent to the assets in which the CIU's investments are made, we must take into account the following risks:

#### **— Risk due to changes in the net asset value**

It is essential to know the make-up of the portfolio and the fund's investment mission, as these give an idea of the risk assumed. The make-up of the portfolio refers to the percentages of investment in each type of financial asset, in euros or in other currencies, in one geographical zone or another, etc. The performance of the portfolio is what will determine the net asset value at which the Customer can redeem the investment in the fund. In general, the following observations can be made:

- Investment in equities, due its very nature, generally has more risk than investment in fixed income, but losses can also occur in fixed income and investors must be conscious of this fact. For more detail, see the "Fixed income risk factors" and "Equities risk factors" section of this Document.
- Some CIUs, due to their investment policy, can hold in their portfolio securities that present higher credit or counterparty risk. Also, investment in securities in emerging countries, both fixed income and

equities, can add risk to the fund, as they are highly volatile, less stable and deep markets. Investment in assets expressed in currencies other than the euro involves a risk, known as currency risk, arising from possible changes in exchange rates.

- Another situation to consider is when the CIU invests in securities that are not traded on regulated markets, as it assumes an additional risk because there is less control on their issuers. Furthermore, the valuation of these assets is complicated, as there is no objective market price.

#### **— Leverage risk (risk due to investment in derivative financial instruments) de apalancamiento**

CIUs that invest in derivative financial instruments (futures, options) can present higher risk due to the characteristics of these products (e.g. leverage). Therefore, it is possible that the portfolio's losses may be multiplied, although earnings could also be multiplied.

However, it must be taken into account that some CIUs use derivatives to reduce the risks of the cash portfolio (hedging). The description of the investment policy, contained in the fund's prospectus, must indicate whether the derivatives will be used for investment or hedging.

The use of OTC derivatives also entails a counterparty risk, as it depends on the solvency and capacity of the other party to comply with the terms of the derivative contract.



## — Risk of lack of liquidity

To assess the liquidity risk it is essential to consider the frequency of the publication of the net asset value, the possible existence of notice periods for requesting redemptions and the possible existence of settlement periods for the requested redemptions. All this information is contained in the fund's prospectus.

Most CIUs that are considered European Union UCITS (undertakings for collective investment in transferable securities) (UCITS III/IV) have a daily net asset value, have not established notice periods for redemptions and settlement is quite flexible, and so they are not affected by this situation.

Other aspects to be taken into account in relation to liquidity is the possibility that the fund might "close". In that case, the unit holder will have to hold its investment in the fund until redemptions are available again.

In the case of SICAVs, the obligation to maintain a minimum level of capital can mean that, sometimes, the completion of redemptions requested by investors is delayed.

## — Currency risk

It can be considered in two ways:

- If the investments made by the CIU are denominated in a currency other than the one used to calculate the net asset value, the fluctuation in its quoted exchange rate will directly influence the value.

- Moreover, in the case of CIUs whose net asset value is denominated in a currency other than the investor's reference currency, it assumes an additional risk in case of a decline in that currency.

## Types of Collective Investment Undertaking

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There is a wide variety of CIUs; however, we refer in particular to some based on their greater importance or special characteristics.

### — UCITS Collective Investment Undertakings

UCITS are Collective Investment Undertakings (CIUs) harmonised at European level, and so they are subject to regulations that establish limits and obligations on the management and control of the investments. The aim of these measures is to offer greater protection to investors.

Most of the CIUs marketed by the Bank are UCITS.

### — Hedge funds

They are characterised by:

- i) Greater flexibility when making investments that is sometimes coupled with less transparency.
- ii) Their capacity to take on debt, which, if it is not duly controlled, can become high.
- iii) Lower liquidity by establishing pre-determined notice periods for subscriptions and redemptions, and settlement periods.

They are subject to risks of different natures and degrees from ordinary collective investment undertakings. Their performance may not be in line with trends in the fixed income or equities markets.

Distinction can be made between those that take positions directly based on the alternative management strategy or strategies they want to apply, and those that invest in other hedge funds. The latter are what are known as funds of hedge funds or FoHFs.



Due to the specific nature of how it works, this type of CIU is not advisable for Customers who do not have sufficient knowledge and financial experience to properly understand its characteristics and risks.

### — **Property funds**

These are collective investment undertakings whose money is invested in property, and so their value depends on how the property market performs.

As this market is less liquid than the financial markets, the fund's value is calculated and published less frequently and there are also fewer possible redemption dates.

### — **Private equity or venture-capital funds**

These are undertakings that invest directly in businesses or companies with a long-term investment mission. They have limited liquidity until certain scheduled redemption dates and, sometimes, investors must make additional contributions to their initial investment.

### — **Exchange-traded funds (ETFs)**

These are investment funds that are traded on secondary securities markets. They can invest in different markets and types of asset, such as other CIUs.

The Fund Investment Policy is to replicate the make-up and behaviour of the benchmark index such as the IBEX 35 or the S&P 500, for example.

### **MiFID classification of CIUs**

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In general, UCITS are considered non-complex products. Therefore, it is not necessary to assess whether they are appropriate for the Customer when it contracts them on its own initiative.

Units and shares in structured CIUs are considered a complex product.

Non-European and non-UCITS CIUs will always be considered complex.

Hedge funds, property funds and venture-capital/private equity funds are considered complex products. Therefore, it is necessary

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to assess their appropriateness for retail Customers if they are marketed.

## **5 Derivatives**

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These are sophisticated products that, in some cases, can present the risk of losing the whole investment or assuming commitments that can bring losses. Therefore, to invest in them, it is necessary to have specific knowledge of the products and how the trading systems work, to be prepared to assume high risks and to have the capacity to cope with them.

Investing in derivative products requires financial knowledge and constant monitoring of the position. Derivative products can be used for different purposes. On the one hand, they can be used to completely or partially limit interest rate or foreign exchange risk, among others; on the other hand, they also make it possible to add risk to an investment, to achieve higher returns.

The leverage effect is a characteristic common to all derivative products, which defines the relationship between the capital invested and the result obtained. In other words, for a single amount, the possible losses or gains obtained in operating with derivatives can be higher than would be obtained trading directly on the underlying assets.

The main difference between derivatives is whether they are traded on an organised market or not. If they are not traded on an organised market, they are called OTC (over the counter). OTC derivatives are considered products subject to the PRIIPs Regulation (packaged retail and insurance-based investment products).

The characteristics of the derivative, its risks, the possible scenarios of positive or negative performance, as well as the audience at which they are aimed, are contained in the documentation with the key information for the investor (the KID, Key Information Document). This document is delivered to retail Customers before executing transactions on those instruments.

For Customers classified as professional, the Bank will provide the necessary information before the contracting takes place, adapted to its classification and to the type of derivative instrument to be traded with. This information will include a description of its characteristics and risks.

### **Derivatives risk factors**

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All derivative products present high risk. Even if the objective is to hedge another position, the derivative in itself presents risk.

There are multiple risk factors and, therefore, derivatives require constant monitoring of the position. We explain some of these risks briefly below:

#### **— Interest rate risk**

Changing interest rates is one of the variables that directly affects the value of derivatives. Therefore, changes in interest rates can mean the price or value of derivatives will vary.

#### **— Risk of performance of the underlyings and their volatility, and other factors**

A derivative is related to an underlying asset, which can be an index, rate of inflation, stocks, exchange rates, interest rates, commodities, etc. The performance of this asset in its trading market affects the price or value of the derivative and its result on the expiration date, which can mean the loss of all or part of the investment.

The volatility of the underlying asset is vital in calculating the price or value of derivatives. The greater the volatility, the greater the possibility for gains, but this also brings greater risk of loss.

In addition to the performance of the underlyings, changes in volatility and interest rates, discussed above, other factors such as the passing of time and/or exchange rates

also influence the value of derivatives. The effect of these factors must be analysed jointly. This means that, even if the underlying performs positively, it is possible that the value of the financial derivative on a given date will fall due to the negative performance of one or several of the other factors.

#### **— Credit/counterparty risk**

In OTC derivatives where the other party assumes obligations at the expiration of the derivative, there is a risk that it will fail to comply with its obligations and cause the Customer to suffer a financial loss.

In the case of derivatives traded on an organised market, there is a clearing house that interposes itself between the contracting parties and takes responsibility for the obligations of the parties, limiting this risk, which therefore lies with that clearing house.

#### **— Liquidity risk**

For derivatives traded on an organised market, they are traded so that a position can be unwound at public prices, which gives liquidity to that position.

With OTC derivatives, the possibility of unwinding the position lies with the counterparty with which the derivative has been executed and depends on the agreement that has been reached.

#### **— Leverage risk**

As explained above, leverage is an inherent concept in derivatives. It makes it possible to multiply gains but this also applies to potential losses, when they are not limited based on the type of derivative in question.

#### **— Risk due to assuming additional financial commitments**

Depending on the type of derivative, the position to be taken can involve assuming financial commitments on the expiration date. In that case, the holder must meet those commitments.

Therefore, in organised markets, collateral is requested that must be deposited in



accounts opened for this purpose, when the position taken implies obligations.

#### — Risk of number of days to expiration

The value of options reduces over time. Therefore, as the expiration date approaches, the value of the option can be lower.

### Types of derivatives

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There are many types of derivatives, whose possible underlyings, complexities and characteristics are very different. This means it is not possible to explain all the possibilities in this document, and so we will focus on some of the most common ones.

#### — Futures

A future is a contract in which the parties agree the sale and purchase of a specific amount of a security (underlying asset) on a pre-determined future date, at a pre-agreed price. In other words, they are fixed-term contracts on instruments of a financial nature (securities, indexes, loans or deposits, etc.) or commodities (i.e. goods; these can be agricultural products, raw materials, etc.).

Futures are traded on organised markets but this type of contract can also be traded outside organised markets. When they are traded over the counter (OTC), they are known as forwards.

Futures and forwards can be settled by physical delivery of the underlying asset or in cash based on the difference in price.

Trading futures and forwards requires constant monitoring of the position. They present high risk if they are not appropriately managed. In certain circumstances, they can bring losses in the Customer's portfolio.

The forward sale and purchase of foreign currency or **currency forward** should be highlighted; these are agreements between two parties to purchase or sell a specific amount of a currency at a set price on a specified future date.

There is no exchange of funds at closing; this only happens on the expiration or settlement date.

#### — Options

An option is a contract that gives a party the right to purchase or sell and the other party the obligation to purchase or sell a certain amount of the underlying asset, at a pre-determined price (strike price) and in the agreed period.

Options be traded on organised markets or not. In the latter case, they are referred to as OTC (over the counter).

Options can be settled by physical delivery of the underlying asset or in cash based on the difference in price.

Trading options requires constant monitoring of the position and they present high risk if they are not appropriately managed. The value of the losses or earnings can be subject to strong variations in a short period of time. In certain circumstances, it is possible to lose all or part of the investment.

The price of the option depends on various factors: the market price of the underlying at any given time (share, index, interest rate, currency, etc.), the option strike price, the volatility of the underlying, the risk-free interest rate, the time remaining until expiration and other factors that depend on the nature of the underlying (the dividend in the case of options on shares or indexes, or the interest rate differential between currencies for currency options).

With options it is essential to distinguish between the position of the buyer and the seller. The buyer has the right, but not the obligation, to buy or sell at expiration (based on the type of option), while the seller (or issuer) of the option is obliged to buy or sell if the buyer decides to exercise its right. The option price is what the buyer pays to obtain that right. This price is called the premium. At the expiration date, the buyer will want to exercise its right or not depending on the difference between the price set for the transaction (strike price) and the price of the underlying in the spot market at that moment.

In exceptional cases, if the options are American-style options, the option can be exercised at any point of the product's life. Meanwhile, Bermuda options may be exercised at certain points throughout the life of the product.

When buying options, losses are limited to the total amount of the premium paid. When selling options, losses can be unlimited if the buyer exercises their purchase option.

## — Swaps

These are agreements between two parties in which they agree to exchange assets or cash flows on pre-agreed dates and terms, and where the performance of one of the variables is uncertain.

Swaps can be distinguished as follows:

- Interest Rate Swaps (IRS).
- Currency Swaps.
- Inflation Swaps.
- Credit Default Swaps.
- Cross-Currency Rate Swaps.
- Commodity Swaps.
- Equity Swaps/Equity Index Swaps.
- Any type traded on the financial markets.

Due to the obligations they involve, they present a real credit risk for the other party, and so collateral can be requested from the parties.

## — Warrants

A warrant is a marketable security that gives a right to purchase or sell an asset (underlying) at a specified strike price. Therefore, it is a derivative product.

Trading warrants requires constant monitoring of the position and they present high risk if they are not appropriately managed. The value of the premiums can change greatly in a short period of time. In certain circumstances, it is possible to lose all or part of the investment.

As with options, the buyer of the warrant has the right, but not the obligation, to buy or sell the underlying on the expiration date. Whether or not it will exercise this right will depend on what the price of the underlying is at that moment (settlement price) in relation to the strike price.

Normally they are settled in cash, delivering the difference between both prices to the holder.

The price of the warrant depends on various factors, as indicated in the case of options.

The main advantage of investing in warrants, and at the same time the biggest risk, is the leverage effect, which generally characterises derivative products, as variations in the price of the underlying cause percentage changes above the value of the premium. On the other hand, a price performance that does not match expectations can lead to a loss of the whole investment.

Furthermore, the leverage indicates the number of purchase rights (call warrants) or sale rights (put warrants) that it is possible to acquire for the price of one unit of underlying asset.

Within the family of warrants, we can distinguish other instruments that incorporate options structures with greater complexity, such as:

- Turbo warrants, que permiten posicionarse tanto al alza como a la baja de un activo subyacente, con un apalancamiento mayor.
- Multi warrants, which track the performance of indexes with multiple levels of leverage.

### — Certificates

These are derivative products and as such present high risk. They contain a bet on the performance of the price of an underlying asset. They can generate positive returns, but if that asset does not perform as expected, it is possible not to obtain any profit at all or even to lose part or all of the money invested.

Their essential characteristics vary based on the terms and conditions established by each issuer: the underlying on which they are issued and, as applicable, the practical rules for replacement of it, the term, the issue price, the returns calculation mechanism. Since they are very different securities, to know the specific product it is necessary to consult the prospectus, which is registered with the relevant supervisory body (the National Securities Market Commission in Spain).

They can be issued perpetually, in which case the subscribers have early redemption options.

The return for the investor consists in the gain or loss resulting from the difference between the issue or acquisition price of the certificate and its price at the time it is exercised, sold or redeemed early.

### MiFID classification of derivatives

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Under securities legislation, all types of derivatives are considered complex products. Therefore, it is necessary to assess whether they are appropriate for retail Customers if they are marketed.

## 6 Structured or referenced products

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These are products that offer investors, on pre-determined dates, remuneration linked to the performance of financial assets, indexes, etc. Normally, in their construction, they combine a position in a fixed income financial instrument or deposit with a derivative referenced to different underlying assets, such as interest rates, exchange rates, stocks or indexes.



Therefore, returns will depend on the structure used, which is determined by combining both positions and by the type of derivative used.

This makes it possible to reduce the risks of an investment by combining derivatives products and/or fixed income instruments, designing investment and financing transactions adapted to the risk/return profile of the investor or issuer.

Given the variety of these instruments and the large number of factors that influence changes in the value of the structured product, as well as its final result, it is important to know the content of the prospectuses of these products. The prospectus provides greater detail on the characteristics and possible risks that could affect the products. We refer to the base prospectus in the case of structured bond issue schemes and the final terms of each issue, and to the structured investment funds prospectuses that are registered with the supervisory entity in the manager's country (in Spain, the National Securities Market Commission).

In addition, structured products are considered products subject to the PRIIPs Regulation (packaged retail and insurance-based investment products). The characteristics of the product, its risks, possible positive or negative performance scenarios, costs, as well as the audience at which they are aimed are set out in the KID (Key Information Document) delivered to retail Customers before executing transactions on those instruments.

For Customers classified as professional, the Bank will provide the necessary information before the contracting takes place, adapted to its classification and to the type of structured product to be traded with. This will include a description of its characteristics and risks.

### **Risk factors in structured or referenced products**

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These are products where the risk level depends on the specific structure used, and the risk can be high. These products can generate higher returns than lower risk assets over the same term but they can also produce partial or total losses of the principal invested.

Since there is a derivative in the structured product, when investing in these types of assets the

risks mentioned in the "Derivatives risk factors" section above must be taken into account.

By also including a fixed income asset in its structure, it is also affected by the possible risks mentioned in the "Fixed income risk factors" section above.

For example, and without being an exhaustive list, the main risks would be:

- Risk of performance of the underlying.
- Risk due to insolvency of the issuer or guarantor.
- Economic and political risks and risks of any nature that affect the financial instruments market, the financial system and the economy in general.

Any of these factors are situations that can occur and could negatively impact the investment.

The following risks, which are not expressly set out in the previous sections, should be highlighted:

#### **— Risk due to insolvency of the issuer or guarantor**

With structured products and structured bonds or notes, where the issuer's and, where appropriate, the guarantor's activities are related to the financial sector, the issuer's and/or, where appropriate, the guarantor's capacity to comply with and meet its obligations can be affected by the following:

- 1.** The incapacity of third parties to meet their obligations to the issuer and/or, as appropriate, the guarantor, including the risks related to the creditworthiness of the borrowers.
- 2.** The behaviour of the group to which they belong and the risks associated with it.
- 3.** The risks associated with liquidity and financing.
- 4.** Changes in interest rates, exchange rates, prices of bonds and stocks.

**5.** Operational risks (related to the data processing, financial and accounting systems, faults in electricity networks, telecommunications or IT systems, among others).

**6.** The risks associated with the increased competition in the financial services sector, as well as possible conflicts of interest that may arise if the issuer and/or the guarantor are also simultaneously calculation agents and/or distributors of the investment made.

The credit ratings of the issuer and the guarantor may not reflect all the risks. It is possible that one or more credit rating agencies will assign a rating to the issue of which a bond or note is part. However, these ratings may not reflect the potential impact of all the risks related to the structure, the market and other factors that can affect the value of the financial product. A credit rating is not a recommendation to buy, sell or hold an investment, and it can be reviewed or withdrawn by the rating agency at any time.

The issuer and/or the guarantor can be parties to contracts with third parties that provide services in relation to the structured financial product (such as, for example, paying agents and settlement and clearing entities). If the third parties do not comply with their obligations, the issuer and/or the guarantor may not be able to meet their own in relation to the financial product acquired.



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### — Risk in case of early sale

If the principal of the product is secured at maturity by the issuer and/or the guarantor, the investor must assume that if it is sold before the maturity date, it is possible that it will not recover the principal invested or obtain any return. The guarantee of recovery of the principal only exists on the maturity date, provided that the issuer and, where appropriate, the guarantor make the payment.

The same applies to guaranteed investment funds, where the guarantee is only available on the maturity date, on the terms established in the fund's prospectus.

### — Hedging risk

In issues of this type of financial products, the issuer, the guarantor and/or any of their respective subsidiaries or other parties can perform one or several hedging transactions related to the underlyings. This could affect the market price, liquidity of value of the financial product, which could be considered negative for the interests of the Customers.

## Types of structured or referenced products

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We can classify these products based on the relevant investment vehicle:

- Investment fund
- Bond or note
- Financial contracts
- Structured financial products

They can also be classified based on the type of structure applied. Based on their structure and the principal repayment percentage, they can be:

### — Principal-protected or partially protected products

These establish guarantees for the total or partial recovery of the capital invested: at maturity, the investor will receive at least the investment made or the percentage of it that has been guaranteed.

This guarantee can be affected if the terms established in the issue prospectus,

where appropriate, are not met or if the issuer or guarantor collapse in the case of structured notes or bonds. However, they do not necessarily guarantee additional returns, as this depends on how the underlying product performs and on the specific terms of each structure.

### — Products with no principal protection

These can involve losses of the principal invested. They are products designed considering the risk-return trade-off and that respond to specific market expectations. These include, among many others:

- Coupon products: these offer attractive coupons in specific market situations and can even benefit from sideways or bear markets.
- Participation products: their result is directly linked to the behaviour of an underlying (indexes, securities, etc.) in a more efficient way than a separate investment in the underlyings.
- Leverage products: These make it possible to obtain returns similar to or higher than the underlying without the need to pay the cost of it, as it is possible to contribute a lower amount thanks to combinations of options, financing, etc.

### MiFID classification of structured products

In general, structured and referenced products are considered complex products because they contain derivatives. Therefore, it is necessary to assess their appropriateness for retail Customers if they are marketed.

The exception is structured funds with the UCITS III/IV classification, which, since they are subject to the rules of control under the European harmonisation framework, are considered non-complex products.

Structured funds that are subject to supervision by the National Securities Market Commission and have the characteristics indicated in the CIUs section can also be considered non-complex.



## 7 ETPs: ETFs, ETNs and ETCs

ETPs (Exchange Traded Products) are a type of financial product that includes ETFs (Exchange-Traded Funds), ETNs (Exchange-Traded Notes) and ETCs (Exchange Traded Commodities). They are funds, notes and products traded on a stock market.

Due to their diversity and the possible applications of derivatives, they can be very complex, and so they require broad financial knowledge and special care on the part of the investor.

An ETF is a fund that can invest in different markets and types of assets, such as other CIUs. It offers many possibilities for diversification in sectors, geographical zones, underlying assets and strategies, but with some characteristics of traded stocks.

The main characteristics of ETFs are:

1. liquidity: since they are traded on a secondary market and have market makers that offer a price;
2. diversification: they offer access to a wide range of types of assets and strategies, including short bets against an index or asset (inverse) and leverage;

3. flexibility: they can be traded provided that the market is open, with a quoted market price at all times and with price limits.

ETNs and ETCs are similar to ETFs in terms of their characteristics but they add complexity with regard to the types of assets in which the investment is made.

In general, we can say that ETNs are notes or structured products traded on a stock market.

There is a wide variety of ETCs and they use other diverse legal structures to make their investment, including baskets of commodities. Accordingly, an important difference compared with ETFs is the different tax and legal treatment that ETCs and ETNs can have in different jurisdictions.

ETPs are subject to the PRIIPs Regulation (packaged retail and insurance-based investment products). The characteristics of the product, its risks, the possible scenarios of positive or negative performance, as well as the audience at which they are aimed, are contained in the documentation with the key information for the investor (the KID, Key Information Document). This document will be available to Customers before they issue orders on these instruments to be executed in the market where they are traded.

## ETFs, ETNs and ETCs risk factors

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### — Liquidity and trade price risks

The speed of the sale will depend on the supply and demand for the ETF at any given time. This can mean significant discounts on their net asset value.

Discounts and premiums on the net asset value of the fund can arise in the trading of the ETFs in the market. This means that, in case of sale, it can be made below that value.

In ETFs, ETCs or ETNs that include derivatives, particularly in commodities, the lack of liquidity of these positions can affect the liquidity of the ETP.

### — Risk of different performance than the reference asset

This is particularly relevant in the case of ETFs that replicate indexes, as the deviations in their behaviour with regard to the reference index may not be as expected. The management costs of the ETF lead to a deviation in their price in comparison with the behaviour of the index it replicates.

With ETCs and ETNs on commodities that replicate the behaviour of a future, the daily value adjustments can lead to detachment from the performance of the future they replicate.

### — Leverage risk

Some ETFs are leveraged, which can increase both gains and the losses, which can be high. Furthermore, the internal functioning of the ETF, with the adjustments of the positions in derivatives, can cause additional losses.

The complexity of these instruments means they are not recommended for investors who do not have vast financial experience and literacy.

### — Counterparty risk due to the use of derivatives

Due to the use of derivatives traded with a credit institution, ETFs, ETCs and ETNs will be exposed to counterparty risk due to breach of their obligations when the positions in derivatives expire.

### — Other risks

The risks mentioned in the Equities and Fixed Income sections of this Document should be taken into account, depending on the market in which the ETF invests.

## MiFID classification of ETFs, ETCs and ETNs

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In general, ETFs, ETCs and ETNs are considered complex products. Therefore, it is necessary to assess their appropriateness for retail Customers if they are marketed.

The exception is ETFs with the UCITS classification, which, since they are subject to the rules of control under the European harmonisation framework, can be considered non-complex products when they are not inverse or leveraged.

## **8 Other considerations**

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It is possible to acquire other financial commitments as a result of transactions with certain financial instruments.

Furthermore, by investing in a financial instrument that combines two or more different instruments, there is a possibility that the risks will be greater than those of each of its components.

