

SECOND PARTY OPINION¹

ON THE SUSTAINABILITY OF SANTANDER'S GLOBAL SUSTAINABLE BOND PROGRAMME²

July 10th, 2019

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (hereafter the "Second Party Opinion" or "SPO") on the sustainability credentials and management of the Global Sustainable Bond Programme (hereafter the "Programme" or "Framework"), created by Banco Santander S.A (the "Issuer" or the "Bank" or "Santander"), as a global framework to govern all the potential Green, Social and Sustainable Bonds to be issued under the Programme (the "Bonds").

Our opinion is established according to our Environmental, Social and Governance ("ESG") exclusive assessment methodology, and to the International Capital Market Association's Green Bond Principles and Social Bond Principles voluntary guidelines, edited in June 2018 (the "GBP 2018" and the "SBP 2018", or the "Principles").

Our opinion is based on the review of the following components:

- 1) **Issuer:** we assessed the Issuer's ESG performance as evaluated by Vigeo Eiris in December 2018, its management of potential stakeholders-related ESG controversies and its involvement in controversial activities³.
- 2) **Programme:** we assessed the coherence between the Programme and the Issuer's environmental and social commitments, and its alignment with the four core components of the Principles.

Our sources of information are multichannel, combining data from (i) public information, gathered from public sources, press content providers and stakeholders; (ii) information from Vigeo Eiris' exclusive ESG rating database, and (iii) information provided by the Issuer through documents and from interviews with Issuer's managers and stakeholders involved in the Bonds issuance, held via a telecommunication system.

We carried out due diligence assessment from May 10th to July 10th, 2019. We consider that we were provided with access to all the appropriate documents and people we solicited. We consider that the information provided enables us to establish our opinion with a reasonable level of assurance on its completeness, precision and reliability.

VIGEO EIRIS' OPINION

Vigeo Eiris is of the opinion that Santander's Global Sustainable Bond Programme is aligned with the assessed elements of the four components of the Green Bond Principles (GBP) 2018 and the Social Bond Principles (GBP) 2018 (i.e. elements corresponding to the Process for Evaluation and Selection and Management of Proceeds, and some aspects of the Use of Proceeds and Reporting). This opinion will be complemented with a Second Party Opinion on the alignment of Santander's specific Bond Frameworks with this Programme and with the GBP and/or SBP.

We express a reasonable⁴ level of assurance (our highest level of assurance) on the Issuer's commitments and on the contribution of the contemplated Bonds to sustainable development. This opinion is conditioned to the review of Santander's specific Bond Frameworks.

1) Issuer (see Part I)

- ▶ As of December 2018, Santander's displays an overall good ESG performance: it achieves an advanced performance in the Environment pillar and a good close to advanced performance in both the Social and Governance pillars.
- ▶ As of today, as commonly observed in the banking sector, Santander faces frequent allegations, regarding the Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. The severity of these controversies ranges from minor to high, based on the analysis of their impact on the company and its stakeholders. The company is overall reactive: it reports in a detailed way on its position on most cases.
- ▶ Regarding the 15 controversial activities analysed by Vigeo Eiris, Santander shows no involvement in any of them.

¹ This opinion is to be considered as the "Second Party Opinion" described by the Green Bond Principles (www.icmagroup.org).

² The "Green Bond" is to be considered as the potential forthcoming bond, which issuance is subject to Issuer's discretion.

³ The 15 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear power, Pornography, Reproductive medicine, and Tobacco.

⁴ Definition of Vigeo Eiris' scales of assessment (as detailed in the Methodology section)

Level of Performance evaluation: Advanced, Good, Limited, Weak.

Level of Assurance: Reasonable, Moderate, Weak.

2) **Issuance (see part II):**

The Issuer has described and formalized the main characteristics of the Bonds within its Global Sustainable Bond Programme, which last version was provided to Vigeo Eiris on July 10th, 2019. The Issuer has committed to make this document publicly accessible on its Website⁵ as well as the related Second Party Opinion before any issuance, in line with good market practices.

We are of the opinion that the Programme is coherent with Santander's publicly disclosed strategic sustainability priorities and with the main sector's sustainability issues, and that it contributes to achieve its sustainability commitments.

Use of proceeds

- ▶ The net proceeds of the Bonds will be exclusively used to finance and refinance, in full or in part, Eligible Projects and/or Assets falling under Green, Social and Sustainable categories ("Eligible Categories"). We consider that the Eligible Categories are partially defined in the Global Sustainable Bond Programme. However, the Issuer has committed that its Eligible Categories will be clearly defined before each Issuance in specific Bond Frameworks (or "Annex"). The Issuer commits to obtaining a dedicated Second Party Opinion for each of the new categories issued within its Global Sustainable Bond Programme.

The environmental and social benefits of the Eligible Categories will also be defined, assessed and quantified by Santander before each issuance in specific Bond Frameworks, and will be subject to an external verification. In the case of Social or Sustainable Bonds, the Issuer commits to define the target population of social projects before each issuance.

The Issuer commits that the refinancing share of the Eligible Projects/Assets will not exceed 50% of the funds during the term of the bonds that will be issued. The Issuer will provide further information before each issuance in the specific Bond Frameworks. The Issuer commits to respect a common look-back period of maximum 36 months for each Bond issued within its Global Sustainable Bond Programme.

The Eligible Categories are likely to contribute to the United Nations Sustainable Development Goals ("SDGs"). These contributions will be assessed by the Issuer for each of the dedicated Bond Frameworks included in Santander's Sustainable Bond Programme.

Process for Projects/Assets Evaluation and Selection

- ▶ The governance and the process for the Projects/Assets' evaluation and selection are formalized in the Global Sustainable Bond Programme. We consider that the process is reasonably structured, transparent and relevant.

The process is based on explicit and relevant eligibility (selection and exclusion) criteria, although the exclusion criteria is partially defined.

The process for the identification and management of environmental and social risks associated at Programme level is good. The Issuer will include additional selection criteria and due diligence processes depending on the nature and typology of the new project categories and sub-categories under the Programme, and these will be assessed before each issuance.

Management of Proceeds

- ▶ The rules for the management of proceeds are clearly defined. We consider that they would enable a documented and overall transparent allocation process.

Monitoring & Reporting

- ▶ The reporting process and commitments appear to be good regarding the funds allocation and limited regarding environmental and social benefits. However, the Issuer commits to define and report on dedicated indicators for each new issuance, as well as to obtain an external assessment.

⁵ www.santander.com

EXTERNAL REVIEW

Santander has committed that its Global Sustainable Bond Programme is supported by external reviews:

- A pre-issuance consultant review: the hereby Second Party Opinion performed by Vigeo Eiris, based on pre-issuance commitments and covering the defined features of the Bonds to be issued under this Programme. In addition, the Issuer commits to obtain a Second Party Opinion for each Bond issuance concerning a new category and/or subcategory under this Programme.
- An annual verification: an annual external review until the maturity date of the note performed by a third-party auditor, covering the compliance; in all material aspects, of (i) the actual allocation of proceeds to Eligible Projects/Assets and their alignment with the eligibility criteria, (ii) the pending cash allocation and (iii) review of the environmental and/or social indicators.
- Post-issuance consultant reviews: ad-hoc Second Party Opinions, in the event that additional Eligible Categories are added to the existing Global Sustainable Bond Programme.

This Opinion is based on the review of the Santander's Global Sustainable Bond Programme, according to the GBP and the SBP 2018.

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DETAILED RESULTS

Part I. ISSUER

Banco Santander S.A., founded in 1856, together with its subsidiaries, provides various retail and commercial banking products and services for individual and corporate clients worldwide. The Bank is headquartered in Madrid, Spain.

Level of ESG performance

Vigeo Eiris has assessed the Issuer's ESG performance, based on our exclusive ESG rating database.

As of December 2018 (date of the last rating cycle for the company), Santander's displays an overall good ESG performance, almost advanced. The issuer ranks 9th in our Diversified Banks sector, which covers 31 banks.

Domain	Comments	Opinion
Environment	Santander's performance in the Environment pillar is considered as advanced. The Bank has made a formalised commitment to environmental protection that addresses all its responsibilities in its "General Sustainability Policy and Climate Change and Environmental Management Policy". It developed an energy efficiency plan (2016-2018), which was approved by the Sustainability Committee. The targets were all achieved in 2017 and were as follows: 9% reduction in electricity consumption in buildings, 9% fall in CO ₂ emissions and 4% decrease in paper consumption.	Advanced
	The Bank has also a formal commitment to support a low carbon economy and to integrate environmental issues in its financing activities and discloses policies on sensitive sectors. The Bank has sectorial policies (defense, energy –including nuclear energy-, soft commodities, mining and metals) that apply to all transactions concerning lending, equity and wholesale banking advisory services, insurance and asset management. It also considers environmental risks in its activities such as biodiversity protection & sustainable resources management and prevention of pollution and toxic waste emissions. The Issuer is a signatory of the United Nations Principles for Responsible Investment and the Equator Principles III and is a member of the Green Bond Principles. Moreover, the Issuer is committed to financing renewable energy and energy efficiency projects.	Good
	The Bank has implemented processes to identify, analyse and evaluate the environmental risks of its credit operations governed by the Group policies and based on the Equator Principles (its application is audited regularly by external/internal auditors). Furthermore, the Bank belongs to the Round table on Responsible Soy and to the Working Group on Sustainable Livestock and has committed to refrain from participating in any activity carried out in or affecting areas included on the United Nations' List of Protected Areas; activities concerning endangered species of wild fauna and flora or when customers refuse to provide information and/or required documentation on these subjects.	Limited
	Santander has also implemented processes to systematically consider the climate risks of its financed projects. In addition, it monitors and publicly reports on the climate related risks it faces and/or on the CO ₂ emissions of its portfolio. In 2017, the Bank progressed on calculating the exposure of lending activity to climate change in sensitive sectors to better adapt its strategy. Also, together with other major banks, Santander joined the UNEP FI initiative to develop a pilot project to implement the recommendation of the Task Force on Climate-related Financial Disclosures (TCDF), committing to develop specific analytical tools to value and assess the possible impact of climate change.	Weak
Social	Santander's performance in the Social pillar is considered as good. Santander's performance in the Human Rights domain is advanced, with formalized commitments to respect and promote human rights, freedom of association, the right to collective bargaining and non-discrimination included in its Human Rights Policy and in its General Code of Conduct. To prevent discrimination and promote diversity, significant measures such as affirmative action programmes, maternity/paternity pay and flexitime initiatives are in place. With the assistance of the Responsible Banking, Sustainability and Culture (RBSCC) committee, the Board of Directors fulfils its responsibilities with respect to culture issues and inclusion. In addition, the company has created a Global Executive Working Group and a global network of experts to manage and promote diversity and has set targets such as eliminating the gender pay gaps by 2025 and increasing the percentage of women in executive execution positions from 18.3% in 2018 to 24% in 2019.	Advanced

	<p>The Bank has also developed policies determining the requirements for providing finance to sectors, activities or potential clients that pose special social or human rights risks and excluding business relations with sectors violating human rights. In its Sustainability Policy, Santander refers to the rights of Indigenous people and its mining and metals policy gives special attention to activities that involve the resettlement of indigenous people and/or other vulnerable groups.</p> <p>The Bank's performance in the Human Resources domain is good. The company has established a European Works Council and signed a joint declaration aiming at ensuring responsible labour relations and sustainable sale of financial products.</p> <p>Regarding management of restructurings, the Bank reports having implemented significant measures to limit the impact of reorganisations but has not been able to avoid layoffs. Employees benefit from early retirement, outplacement services, internal mobility programmes and financial compensation measures. In merger processes, merger protocols are negotiated with trade union representatives to ensure dialogue with workers during the different stages of a restructuring process.</p> <p>In terms of career management, Santander has issued a formal commitment although it is not publicly available. Individual development plans, training programs and performance assessments are available to all the company's employees. To improve the health and safety of its personnel, the Bank has established in its General Sustainability Policy and its Occupational Risk Policy, measures to prevent occupational disease and address issues such as stress at work and absenteeism, a situation that has decreased over the past year.</p> <p>Santander's performance in the Community Involvement domain is limited. Although the Bank has formalised its commitment to local social and economic development in its General Sustainability Policy, which is monitored by its Sustainability Committee and includes actions to support SMEs, micro-credits, sustainable investments and cooperation with NGOs, the Bank provides limited information on actions to mitigate the potential negative effects on local development from client tax advisory services.</p> <p>Santander discloses relevant commitments and some measures to inform and manage customers' relations responsibly and there is a plan, budget and training to ensure cyber security and to protect key information assets. A Cyber Security Committee and a global CISO that reports directly to the CEO and to the Board has been recently created and a target to rank among the top 3 financial institutions in terms of customer satisfaction has been set.</p> <p>The Bank also cooperates with stakeholders to spread accessibility on financial literacy and has implemented additional efforts to increase financial inclusion such as a micro-credit programme for disadvantaged communities, ensuring its presence where is difficult to have branches and preventing over-indebtedness.</p> <p>As for the Banks' relationship with its suppliers and subcontractors, Santander requires most contract suppliers to commit to the UN Global Compact. Furthermore, the Bank has recently proceeded to modify the Policy for Approval of Suppliers as far as sustainability aspects are concerned and extended the existence of certification related to environmental management, labour and social responsibility.</p>	<p>Good</p> <p>Limited</p> <p>Weak</p>
<p>Governance</p>	<p>Santander's performance in the Governance pillar is considered as good.</p> <p>Most Board members are considered independent (60%) and the roles of the Chairman and the CEO are separated. Its diversity is considered advanced with 1/3 being female directors. Furthermore, the Issuer has a Responsible Banking, Sustainability and Culture Committee chaired by the CEO that assists the Board on CSR issues. ESG issues are integrated at governance level, in terms of Board responsibilities, internal controls and remuneration policies. ESG performance objectives are considered in the determination of variable remuneration of senior executives, but information on performance targets is not disclosed.</p> <p>The audit and internal control system in place covers the standard issues related to financial, operational, and legal risks. Its internal control system covers some of the CSR risks inherent to the company's business operations: business ethics (non-compliance, tax avoidance, corruption), consumer privacy & data security, environmental & climate change risks as well as social & human risks in credit decisions & other banking activities. Moreover, measures for the supervision of material risk-takers are in place and disclosed.</p> <p>The Issuer communicates on systems in place to prevent corruption and money laundering. It is a founder member of the Wolfsburg Group; which purpose is to establish international standards that increase the effectiveness of programmes to combat money laundering and the financing of terrorism in the financial community. Santander's relationship with the public authorities is limited to the registration on the EU Transparency Register and to information on lobbying activities and approval procedures for gifts.</p>	<p>Advanced</p> <p>Good</p> <p>Limited</p> <p>Weak</p>

Stakeholders-related ESG controversies

The banking sector is particularly subject to ESG controversies, especially regarding business ethics issues.

As of today, the Issuer is involved in frequent ESG controversies, related to four of the six domains analysed by Vigeo Eiris:

- Environment, namely “Green products and SRI” and “Climate change”.
- Community Involvement, namely “Social and economic development”.
- Business Behaviour, namely “Information to customers”, “Responsible Customer Relations” and “Corruption and money laundering”.
- Corporate Governance, namely “Internal controls & risk management”.

Severity: The severity of these events is considered high on average - in line with the sector average - ranging from significant to high, based on the analysis of their impact on both the company and its stakeholders.

Responsiveness: Santander is overall reactive to the controversies, in line with the sector average: The Issuer reports in a detailed way on its position on six cases and is non-communicative on one case of significant severity.

Involvement in controversial activities

Santander is not involved in any of the other 15 controversial activities analysed by Vigeo Eiris namely: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

Part II. PROGRAMME

Coherence of the issuance

Context note: As the global economy's largest sector by market capitalization, banks have a great potential to support society's transition to a low carbon and sustainable economy. Their actions are key in the promotion of effective solutions for the development of sustainable finance products and services, and the minimization of the negative impact of their investments and activities on the environment, people and society. The banking sector can effectively contribute to these challenges by integrating ESG factors in their financing operations and by mobilizing the resources needed to close the financial gap, estimated around USD 1.5 trillion per year, to meet the objective of the Paris Agreement to limit global temperature increase to below 2°C.

Moreover, the banking sector can effectively contribute to financial inclusion and the reduction of inequalities by ensuring the accessibility of its products and services to a large majority of customers including the most vulnerable ones (low income population, young people etc.).

We are of the opinion that the Global Sustainable Bond Programme is coherent with Santander's publicly disclosed strategic sustainability priorities and with its main sector's sustainability issues, and that it contributes to achieve its sustainability commitments.

Santander appears to acknowledge its key role in providing solutions to support society's transition to a low carbon and sustainable economy. It has developed sustainable products and services to minimize the impact of its investments on climate change and society and offers accessible banking products to its customers. In addition:

- Santander has created sectorial policies formalizing its approach to social and environmental risks in the following sectors: defence, energy, mining & metals, and soft commodities (e.g. palm oil, soil and timber)⁶. Each sectorial policy describes prohibited or restricted financing activities. The Energy Sector Policy regulates energy customers and projects financing, particularly regarding oil & natural gas, coal, nuclear, hydroelectric and bioenergy. The Policy explicitly sets the list of Santander's exclusion activities.
- Santander has also formalized a Climate Change and Management Policy explaining its commitment, and has created two specific task forces:
 - Climate Finance Task Force, which objective is to identify the business' risks and opportunities of climate change and low-carbon economy, and to define the Bank's strategy and position regarding climate change.
 - Social, Environmental and Reputational Risk Task Force, which objective is to assess the reputational risks stemming from any financial transaction with a social or environmental impact and to issue non-binding recommendations to the relevant decision-making body.
- Finally, Santander is a signatory of the Equator Principles since 2009 and a founding member of the Banking Environment Initiative, which objective is to redirect capital to sustainable development. In 2017, the Santander helped to finance new renewable energy projects in Brazil, Germany, Mexico, the United Kingdom and the United States, equivalent to a total installed capacity of 3,390 megawatts.

By creating a Programme to issue Green, Social and Sustainable Bonds aiming to finance and refinance green, social and sustainable projects and assets, Santander coherently responds to its commitment to facilitate the transition to a low-carbon economy, fight against climate change and promote inclusive economy, as well as it aligns to the main issues of its sector in terms of environmental and social responsibility.

⁶ General Sustainability Policy, Climate Change and Environmental Management Policy and Sectorial Policies (defence, energy and soft commodities) available on Santander's website www.santander.com

Use of proceeds

The net proceeds of the Bonds will be exclusively used to finance and refinance, in full or in part, Eligible Projects and/or Assets falling under Green, Social and Sustainable categories (“Eligible Categories”). We consider that the Eligible Categories are partially defined in the Global Sustainable Bond Programme. However, the Issuer has committed that its Eligible Categories will be clearly defined before each Issuance in specific Bond Frameworks (or “Annex”). The Issuer commits to obtaining a dedicated Second Party Opinion for each of the new categories issued within its Global Sustainable Bond Programme.

The net proceeds will finance the following types of bonds:

- **Green Bonds:** loans aimed at addressing environmental challenges, including categories such as Energy efficiency; Renewable energy; Sustainable Water Management and Sustainable Waste Management.
- **Social Bonds:** loans aimed at addressing social challenges, including categories such as Healthcare, Education, SME financing and Affordable housing.
- **Sustainable Bonds instruments:** where the proceeds will be exclusively applied to finance or re-finance new or existing Green or Social projects.

Santander’s eligible assets are or will be located in countries where the Bank operates within Europe, the United States and Latin America.

The environmental and social benefits of the Eligible Categories will also be defined, assessed and quantified by Santander before each issuance in specific Bond Frameworks, and will be subject to an external verification. In the case of Social or Sustainable Bonds, the Issuer commits to define the target population of social projects before each issuance.

The Issuer commits that the refinancing share of the Eligible Projects/Assets will not exceed 50% of the funds during the term of the bonds that will be issued. The Issuer will provide further information before each issuance in the specific Bond Frameworks. The Issuer commits to respect a common look-back period of maximum 36 months for each Bond issued within its Global Sustainable Bond Programme.

The Eligible Categories are likely to contribute to the United Nations Sustainable Development Goals (“SDGs”). These contributions will be assessed by the Issuer for each of the dedicated Bond Frameworks included in Santander’s Sustainable Bond Programme.

Process for Projects/Assets evaluation and selection

The governance and the process for the Projects/Assets’ evaluation and selection are formalized in the Global Sustainable Bond Programme. We consider that the process is reasonably structured, transparent and relevant.

The process for the evaluation and selection of Eligible Projects/Assets is clearly defined and formalized in Santander’s Global Sustainable Bond Programme.

- The process for evaluation and selection of Eligible Projects/Assets is based on relevant internal and external expertise with well-defined roles and responsibilities:
 - Santander has established a Sustainable Bond Steering Group (“Steering Group”), integrated by senior directors and managers from the Financial Management (IR and Funding), Sustainability, Risk and Corporate and Investment Banking business units. The Steering Group is responsible for the review and validation of the Eligible Projects/Assets, for assuring their compliance with the Global Sustainable Bond Programme and Green Bond Frameworks, validating the annual reporting and related documents, reviewing the appropriate external independent auditors’ report and monitoring on-going evolution of the market practices.
 - Once a project is identified, based on internal guidelines and policies, business units perform relevant due diligences reports, credit applications, financial models, information memorandum and feasibility reports. The technical, legal, insurance, model audit and tax and market due diligences are carried out by external consultants. After approval from risk departments, the Steering Group will decide the green, social or sustainable nature of the project and its compliance with the Programme and the dedicated Bonds Frameworks and the project/asset will be included in Santander’s portfolio.
 - Social, Environmental and Reputational Risk and task forces have been created in the main geographies where Santander operates. Their responsibility is to undergo environmental and social (E&S) analysis, to ensure the compliance of all Projects/Assets with the due diligence process, Equator Principles and Santander’s sustainability policies.

- The traceability and verification are ensured throughout the process:
 - The Steering Group will meet twice per year, to verify if all Eligible Projects/Assets continue to comply with the eligibility criteria. Minutes of each meeting will be created to ensure decision traceability. In case an asset fails to comply with the specific Bond Framework or with the Global Sustainable Bond Programme, the Steering Group will be responsible for replacing it for an alternative Eligible Project/Asset.
 - An independent third party will verify the compliance with the selection process and criteria.

The process is based on explicit and relevant eligibility (selection and exclusion) criteria, although the exclusion criteria is partially defined.

- The eligibility requirements are based on the Eligible Categories' definitions specified in the Programme, which will be further specified in each dedicated Bond Framework.
- Eligible Projects/Assets must comply with Santander's General Sustainability Policies, the Equator Principles and the UN Global Compact.
- Eligible Projects/Assets are only located in countries where the Bank operates within Europe, the United States and Latin America.
- Santander' Sustainable Bond Steering Group may exclude any Eligible Project/Asset involved in social and/or environmental controversy, which can include topics such as corruption allegations or violations of environmental and social requirements within projects. An area of improvement is to further define what would qualify as a social and environmental controversy in the Global Sustainable Bond Programme.

The process for the identification and management of environmental and social risks associated at Programme level is good. The Issuer will include additional selection criteria and due diligence processes depending on the nature and typology of the new project categories and sub-categories under the Programme, and these will be assessed before each issuance.

- Santander has a formalized due diligence processes, structured in a three lines defence model, to assess and control E&S risks associated with the Eligible Assets categories:
 - The compliance to the Equator Principles (EP) is the guiding standard of the E&S analysis and embedded in Santander's credit transaction process.
 - The Bank has a multidisciplinary working group, in charge of the issues related to E&S criteria integration into credit transaction processes, monitoring of Equator Principles implementation and fostering and monitoring of the working groups and international initiatives in which the Bank is involved or adhered to.
 - A preliminary EP generic questionnaire is completed by the Project Finance business units to establish the project's E&S risks and present it to the risk units. Assets classified as being of the greatest risk (categories A and B) are required to fill out sector-specific questionnaires, and E&S due diligence is performed by independent external advisors (except for projects in high-income OECD countries).
 - For some operations, Santander reports that action and E&S impact mitigation plans are demanded and the monitoring and compliance during the construction of the financed projects is reinforced.
- Santander will include new projects selection criteria and due diligence process depending on the nature and typology of the new project categories and sub-categories, which will be defined under specific Bond Frameworks.

An area of improvement includes to involve external experts in the process for EP classification of all assets, including those categorized as low risk (C).

Management of proceeds

The rules for the management of proceeds are clearly defined. We consider that they would enable a documented and overall transparent allocation process.

The allocation and tracking processes are clearly defined.

- The net proceeds of the Bonds will be credited to the bank's treasury account, and incorporated into its liquidity pool, in accordance with Santander's normal liquidity management policy. The Issuer reports that it will ensure that an equivalent amount of funding to that raised through the Bonds be used to fund outstanding qualifying projects.
- Santander has committed to allocate all the proceeds to Eligible Assets at settlement or, within 36 months thereof.

- Unallocated proceeds will be kept in the Bank's liquidity reserve, composed of cash and Spanish Government securities, securitizations and covered bonds, and will not be invested in loans to clients who participate in activities explicitly excluded from the Bank's regular lending policies. An area of improvement includes to commit to exclude the temporary placement of unallocated on GHG intensive activities or on controversial activities.
- In case of divestment, if an asset fails to ensure continued compliance with the eligibility criteria, or if early repayment of a loan occurs, the Issuer has committed to replace the Project/Asset with another one respecting the eligibility criteria within 12 months. An area of improvement is to formalize this commitment within the Framework.

The traceability and verification are ensured throughout the process:

- The allocation of funds to Eligible Projects/Assets will be appropriately tracked by the Sustainable Bond Steering Group twice a year, using a relevant internal system. The Sustainable Bond Steering Group will ensure that a portfolio of Eligible Assets is equivalent to the Bond's outstanding amounts is maintained all the time.
- An ad hoc report regarding eventual changes in the Bond will be made available to investors and there will be external verification of compliance with this Global Sustainable Bond Programme.
- In addition, an independent third party will verify the tracking and allocation of funds from the Bond proceeds once a year until full allocation. Moreover, depending on the level of changes within the management of proceeds, the Issuer commits to conduct a yearly evaluation by an independent second party opinion provider.

Monitoring & Reporting

The reporting process and commitments appear to be good regarding the funds allocation and limited regarding environmental and social benefits. However, the Issuer commits to define and reports on dedicated indicators for each new issuance, as well as to obtain an external assessment.

The process for monitoring, data collection, consolidation and reporting is defined in the Framework and internal documentation. The issuer is committed to provide further information on this process in specific Bond Frameworks, when pertinent.

The process is structured and based on relevant internal expertise and involves relevant departments of the Issuer:

- Relevant employees across Santander's Project Finance business units will be responsible for collecting and transmitting environmental and social information to the Sustainable Bond Steering Group, who will be responsible for monitoring the Eligible Projects/Assets.
- Santander's Funding business unit will track and report on proceeds disbursements to the Sustainable Bond Steering Group, until all net proceeds are allocated.
- The Sustainable Bond Steering Group will consolidate all the data and transfer it to the Sustainability business unit, who will be responsible for creating the Sustainable Bond's impact reporting, which will be included in the annual corporate Sustainability Report.

The Issuer commits to annually and transparently report on the Bonds through the Sustainability Report ("Report"), until maturity date and later in the case of any material change. The Report will be publicly available in Santander's Website⁷.

- The reporting indicators related to the funds allocation are relevant. The Issuer commits to report on:

Allocation indicators (common to all Bonds)	
-	List of assets (Green, Social, Sustainable).
-	Main characteristics of Eligible Projects/Assets (date of entry into service, location, outstanding loan)
-	Aggregate amount of funds allocated
-	Unallocated proceeds
-	Share of re-financing vs. new financing

- The issuer is committed to report information on the environmental and social benefits (outputs and impacts) of the Eligible categories and sub-categories, to be defined in the specific Bond Frameworks, which will be subject to an external review and to separate Second Party Opinions. Santander has committed to report on the environmental and social benefits for each of the Bonds issuances.

Key methodologies and assumptions used to calculate the environmental and social benefits (outputs and impacts) will be based on international standards, and disclosed by the Issuer in its annual Sustainable Bond's reports.

The financial, environmental and social data included in the Reports will be annually verified by an external auditor:

⁷ www.santander.com

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the objectives, management and reporting of the projects to be (re)financed by this transaction.

Vigeo Eiris' methodology to define and to assess corporate's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behavior and Corporate Governance. The evaluation framework has been customized regarding material issues, based on our Diversified Banks' assessment framework, projects specificities and emerging issues.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources will be considered as long as they are public, documented and traceable..

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, including three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council. All collaborators are signatories of Vigeo Eiris' Code of Ethics.

Part I. ISSUER

NB: The Issuer performance, i.e., commitments, processes, results of the Issuer, related to ESG issues have been assessed through a complete process of rating and benchmark developed by Vigeo Eiris Rating.

Level of the Issuer's ESG performance

The Issuer has been evaluated by Vigeo Eiris on its Corporate Social Responsibility (CSR) performance, based on 21 relevant ESG drivers organized in the 6 sustainability domains. Santander's performance has been assessed by Vigeo Eiris on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership).
 - Implementation: coherence of the implementation (process, means, control/reporting).
 - Results: indicators, stakeholders' feedbacks and controversies.
- Scale for assessment of ESG performance: Advanced, Good, Limited, Weak.

Stakeholders-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation on unproven facts.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- Frequency: reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- Severity: the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- Responsiveness: ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non-Communicative).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

In addition, 15 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The precise nature of the controversial products or services provided by the company.

Part II. PROGRAMME

The Global Sustainable Bond Programme, being a global framework, has been evaluated by Vigeo Eiris according to the Green Bond Principles and the Social Bond Principles (both edited in June 2018) and to our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of proceeds

The use of proceeds guidelines is defined to ensure that the funds raised are used to finance and/or refinance Eligible Projects/Assets and are traceable within the issuing organisation. Each Project/Asset endorsed shall comply with at least one of the Eligible Project/Assets categories definition in order to be considered as Eligible. Vigeo Eiris evaluates the relevance, visibility, and measurability of the associated environmental and/or social objectives. The contribution of Eligible Projects/Assets to sustainable development is evaluated based on the 17 United Nations 'Sustainable Development Goals.

Process for Projects/Assets evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and efficiency. The relevance and exhaustiveness of selection criteria and associated supporting elements integrated in the Global Sustainable Bond Programme and the coherence of the process are analysed based on material issues considered in Vigeo Eiris' methodology.

Management of proceeds

The rules for the management of proceeds and the allocation process have been evaluated by Vigeo Eiris regarding their transparency, coherence and efficiency.

Reporting

Reporting indicators, processes and methodologies are defined by the Issuer to enable annual reporting on fund allocation, environmental and social benefits (output and impact indicators) and on the responsible management of the Eligible Projects/Assets financed by the Sustainable Bonds proceeds, collected at project level and potentially aggregated at Bond level. Vigeo Eiris has evaluated the relevance of the reporting process and commitments, according to three principles: transparency, exhaustiveness and effectiveness.

VIGEO EIRIS' ASSESSMENT SCALES

Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.		



Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Rabat, Santiago and Stockholm.

The Vigeo Eiris Global Network, comprising 5 exclusive research partners, is present in Brazil, Germany, Israel, Japan and Mexico.

For more information: www.vigeo-eiris.com

Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has carried 2 audit mission, in 2018, for Santander until so far. No established relationship (financial or other) exists between Vigeo Eiris and Santander.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bonds Programme, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this opinion does not mean that Vigeo Eiris certifies the effectiveness, the excellence or the irreversibility of the assets to be financed by the Bonds. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on the financial performance of the Bonds, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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