ENVIRONMENTAL, SOCIAL & CLIMATE CHANGE RISK MANAGEMENT

Policy

Santander Group

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1 INTRODUCTION

1.1 Purpose and context

Banco Santander, S.A. and its Group ("Santander" or "Santander Group") recognises that Environmental and Social (E&S) issues pose some of the most significant challenges to the long-term prosperity of the global economy, the well-being of people and communities, and the natural environmental ability to support life. Furthermore, the correlation that exists between the responsible management of E&S risks and the mitigation of the long-term impacts on climate has been well established by science and the work conducted by the Intergovernmental Panel for Climate Change has been the foundation for international agreements, such as the Paris Accord, to combat the effects of climate change and spur the transition to a low carbon society.

Santander is committed to supporting clients and economies in their transition to a low carbon economy, providing financial products and/or services to business activities that are environmentally and socially responsible in line with its sustainability commitments and its support of the goals of the Paris Accord. This is a continuous endeavour, at different speeds for different countries, and with multiple external dependencies across public policy, technological developments and consumer needs amongst other factors, requiring ongoing engagement with clients in their transition to a low carbon economy. Attention must also be paid to the social problems that may arise such as the involuntary displacement of the local and/or indigenous population, the health, safety and human rights of the workers who carry out the business activities, and the impacts on local communities and other stakeholders affected by these activities.

Supporting the Bank's ambition to become net zero carbon emissions by 2050 in their fight against climate change, it will set decarbonisation targets in those activities and sectors that pollute the most. To do so, the Group will also engage with the customers to help them in their transition to a green economy.

This Environmental, Social and Climate Change Risk policy sets out Santander's criteria for the identification, assessment, monitoring and management of Environmental and Social (E&S) risks and other climate change related activities, in the Oil & Gas, Power Generation and Mining & Metals sectors and those arising from businesses engaged in soft commodities. It is aligned to, and must be applied in conjunction with, Santander Group's Sustainability and Human Rights Policies.

These criteria take into account the contribution that each of these sectors makes to the progress and economic growth and, to the wellbeing of people around the world. For example, the Power Generation industry provides environmentally friendly energy solutions from sustainable sources such as wind, sun or hydro and Santander is a leading international lender to the renewable energy sector, thereby contributing to low-carbon economic growth, "green" job creation and sustainable economic activities. However, there is still great dependence on energy generated from fossil fuels such as coal, natural gas and oil, which can have significant environmental impacts. Additionally, energy transmission requires the building and maintenance of appropriate wholesale networks that can affect the natural environment.

Specific to power generation from coal, Santander Group has committed that, from 2030, it will stop investing in, and/or providing financial services to clients for whom coal fired generation represents directly more than 10% of revenues on a consolidated basis.

The mining and metals sector contributes to the industrial and economic development of society by extracting and processing minerals that are necessary for many of our basic needs and for the continued growth in the electrification of economies. The sector encompasses activities as diverse as the exploration for, and mining of, minerals such as coal (thermal and metallurgical), iron, nickel or lithium, to the complex industrial processes required to extract and process ore and produce metals such as steel. This sector is currently facing a number of environmental challenges that call for more sophisticated management and new technologies. Examples are: obtaining ore in remote areas, extraction from greater depths, ever lower concentration of ore in rock samples, high consumption of energy and scarce natural resources such as water, as well as the issue of how to manage ever-larger stores of tailings. In the search for more environmentally friendly solutions, the industry aims to reduce the consumption of natural resources through measures such as recycling and the development of a circular economy. However, the current dependency on the extraction and processing of new metals and minerals from the soil and subsoil continues to be high and therefore involves significant environmental and social impacts.

In the mining sector, Santander Group has committed to have no exposure to thermal coal mining worldwide by 2030.

The rapid growth in demand for foodstuffs, paper products and wood-based building materials, among other products, is changing the landscape of many countries, especially in tropical regions. While this demand brings much-needed income to rural areas, it does so sometimes at the expense of natural habitats, usually forests. This change in land use, often accompanied by loss of trees and vegetation, can harm biodiversity through the loss of habitat for species of plants and animals, desertification, soil erosion, fewer crops, flooding, increased greenhouse gases in the atmosphere, as well as possibly generate difficult conditions for workers and impact indigenous people through displacement and/or loss of homelands.

1.2 Definition

This document sets out Santander Group's criteria for (i) investing in entities, and/or (ii) providing financial products and/or services to customers involved in the following activities:

- **Oil & gas:** Exploration, extraction, production and treatment including refining, transportation, storage and wholesale distribution[1].
- **Power generation and transmission:** All power plants regardless of energy source and the construction and maintenance of electricity transmission lines[2].
- **Mining**: prospecting and mining research, mining development and exploitation, restoration and recovery of the exploited natural space.
- **Metals:** processing of ores to extract the metal they contain, production of alloys from ingots, processing of by-products: scree, gangue, slag and sand.

[1] Excluding distribution to the final consumer
[2] Excluding distribution to the final consumer

- **Soft Commodities:** production and wholesale distribution of timber products for processing into lumber, wood-based cellulose, paper and textiles; soy; palm oil; rubber; cocoa; coffee; cotton; sugarcane; biomass[3] or biofuels, as well as beef production in High-Risk Geographies.

For the purpose of this policy, financial products and/or services are defined as: transactions giving rise to credit risk, insurance, asset management, equity and advisory services.

Assessments of the relevant environmental social and climate change risk impacts will be required for Santander Corporate and Investment Banking clients whose business activities relate to this policy. This assessment shall be more detailed when directly providing financial products and/or services to the special attention activities set out in section 3 of this policy.

This assessment of impacts should also be conducted in investment decisions for asset management and insurance products.

1.3 External references, regulations, standards and best practices:

When establishing this policy, Santander is committed to follow best practices, international standards, treaties and references including:

- The Equator Principles.
- The standards for social and environmental performance and the explanatory notes of the International Finance Corporation (IFC).
- The United Nations Global Compact, the Universal Declaration of Human Rights; the International Labour Organization Declaration; the Convention on the Rights of the Child; the Rio Declaration on Environment and the United Nations Convention against corruption.

Oil & Gas:

- The International Petroleum Industry Environmental Conservation Association (IPIECA).
- The International Association of Oil & Gas Producers (IOGP).

Power generation:

- The Recommendations of the World Commission on Dams (WCD).
- The International Hydropower Association (IHA).
- The International Atomic Energy Agency (IAEA) and, more specifically:
    - The IAEA Safety Standards (i.e., the Safety Fundamentals, the General Safety Requirements and the General Safety Guides).
    - The Convention on Nuclear Safety.
    - The Convention on the Physical Protection of Nuclear Materials, the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management.

[3] Biomass is defined as “the biodegradable fraction of biological products, residues and waste from agriculture (including vegetable and animal substances), forestry and similar industries (including fisheries and aquaculture)”.

- The Non-Proliferation Treaty (NPT).

Mining & Metals:

- The EU Conflict Minerals Regulation.
- UN Environmental Programme and GRID Arendal report on Mine Tailings Storage.
- International Council on Mining and Metals Review of Tailings Management Guidelines and Recommendations for Improvement.
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.
- The Kimberley process in the mining and trade of diamonds.
- International Cyanide Management Code for the Manufacture, Transport, and Use of Cyanide in the Production of Gold.

Soft commodities:

- The Forest Stewardship Council (FSC).
- The Programme for the Endorsement of Forest Certification (PEFC).
- The Roundtable on Sustainable Palm Oil (RSPO).
- The Round Table on Responsible Soy (RTRS).
- Bonsucro.
- The Better Cotton Initiative.
- The Common Code for the Coffee Community (4C).

1.4 Scope

This policy is prepared by Banco Santander, S.A., as parent company of Santander Group, establishing the rules to be applied to the entire Group.

Group entities are responsible for their own internal regulations, and for developing and approving in their respective governing bodies their own internal regulation that allows the application within its scope of the provisions contained in the Group regulation, with the absolutely essential adjustments, if any, to make them compatible and meet regulatory and management requirements or the expectations of their supervisors.

Such approval must contain the validation of the Corporation.

2 PROHIBITED ACTIVITIES

Santander Group will not directly invest in and/or provide financial products and/or services to the following activities in any client segment:

- Any projects or activities for oil & gas extraction, power generation or transmission, mining, manufacturing, plantations or other major infrastructure projects located in areas classified as

Ramsar Sites[4], World Heritage Sites or by the International Union for Conservation of Nature[5] (IUCN) as categories I, II, III or IV.

Oil & Gas:

- New oil upstream clients, except for transactions for the specific financing for renewable energy.
- Project-related financing to Oil upstream greenfield projects.
- Any projects, or expansion of existing facilities, north of the Arctic Circle.
- Projects involved in the exploration, development, construction or expansion of oil & gas extraction from tar sands, fracking or coal bed methane.
- Companies involved in exploration and production for whom the activities derived from the combination of fracking, tar sands, coalbed methane and Arctic oil & gas represent a significant part of their reserves, or account for more than 30% of their activity.

Power generation:

- From 2030, any entities with more than 10% of revenues, on a consolidated basis, directly derived from coal fired power generation.
- Project-related financing for new coal-fired power plants projects worldwide, or for the upgrade and/or expansion of existing coal-fired plants.
- Project-related financing for the construction or development of infrastructure projects whose expected revenues from coal power generation-related activities will be more than 30% of the project's revenues in the first five years.
- New clients with coal-fired power plants, except for transactions for the specific financing for renewable energy. In these exceptions, the client must have a robust, credible plan, with verifiable targets, which show the client will reduce its revenues coming from coal power generation to 10% or below by 2030.
- Nuclear Power Plants if:
    - The host country[6] is not a member of the International Atomic Energy Agency (IAEA).
    - The host country has not ratified the Convention on Nuclear Safety, the Convention on the Physical Protection of Nuclear Materials or the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management (or has not taken the appropriate measures to be aligned with the requirements included in these conventions).

[4] The Convention on Wetlands, called the Ramsar Convention, is the intergovernmental treaty that provides the framework for the conservation and wise use of wetlands and their resources.

[5] The International Union for Conservation of Nature (IUCN) classifies protected areas according to their environmental management objectives: Category I: Nature Reserve and Wilderness Areas, Category II: National Park, Category III: Natural Monument or Feature, Category IV: Habitat/Species Management Area

[6] The Host Country is the country/ies where the facility/reactor/nuclear activities are located and where the client company (and its parent if different) is incorporated.

- The host country has not ratified the Non-Proliferation Treaty (NPT) and the International Convention for the Suppression of Acts of Nuclear Terrorism.
- The host country does not have a national safety agency (NSA) for nuclear activities that:
  - Is established, independent and capable (in terms of creating a regulatory environment that requires good environmental and social performance throughout the life cycle of the facility).
  - Is authorised to conduct inspections and impose sanctions if required.
  - Has rules in line with the recommendations of the IAEA.

Mining & Metals:

- Extraction, processing or wholesale distribution of asbestos.
- Extraction or wholesale distribution of rough diamonds not certified by the Kimberley process[7].
- Mining activities relating to the so-called "conflict minerals" extracted from conflict areas and not included in the corresponding certification processes[8].
- Mining activities without a specific treatment to avoid tailings disposal in riverine or shallow sea environments (such as tailings storage facilities or dry stack).
- Project-related financing for new, or the expansion of thermal coal mines.
- Project-related financing for the construction or development of infrastructure projects whose expected revenues from coal mining-related activities will be more than 30% of the project's revenues in the first five years.
- New clients that own thermal coal mining operations and projects worldwide, except for transactions for the specific financing for renewable energy. In these exceptions, the client must have a robust, credible plan, with verifiable targets, which show the client will have no thermal coal by 2030.
- From 2030 clients that own thermal coal mines worldwide.

Soft commodities:

- Extraction of native tropical wood species not certified to FSC.
- Palm oil processors that are not certified to RSPO.
- Developments in forested peatlands in High-Risk Geographies[9].

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[7] The Kimberley Process Certification Scheme (KPCS) is the process established in 2003 by the UN General Assembly to prevent "conflict diamonds" that may be used to finance war or human rights abuses, from entering the mainstream rough diamond market

[8] https://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/regulation-explained/ -

[9] High Risk Geographies are defined as: Any country in Africa, Argentina (only the Provinces of: Chaco, Formosa, Santiago del Estero, Salta and Tucumán) Bolivia; Brazil (only the Legal Amazon and Northeast regions); Cambodia; China; Colombia; Ecuador; Estonia; Guatemala; Guyana; Honduras; India; Indonesia; Laos; Latvia; Lithuania; Madagascar; Malaysia; Mexico; Myanmar; Nicaragua; Panama; Paraguay; Papua New Guinea; Peru; Russia; Solomon Islands; Thailand; Vietnam; and any customer stating "unknown". The High-Risk Geographies will be reviewed in light of expansion of agribusiness in new regions.

3 ACTIVITIES REQUIRING SPECIAL ATTENTION:

When investing in, and/or providing financial products and/or services, Santander Group will pay particular attention to[10] the environmental, social and climate change risks arising from the following activities:

Oil & Gas:

- Exploration, development, and production (including drilling activities).
- Midstream and downstream activities.
- Any other activities in the O&G sectors that are not prohibited activities.

Power Generation:

- Transactions involving nuclear power generation.
- Transactions involving solid and gaseous biomass[11] power plant for heat and electricity generation in order to assess the sustainable use of biomass.
- Transactions relating to large dams, as defined by International Commission of Large Dams.

Mining:

- Management of tailings.
- Precious minerals and metals.
- Uranium[12].
- Those activities involving the removal of mountain tops.
- Any activities that involve the resettlement of indigenous people and/or other vulnerable groups.

Soft commodities:

- Industrial processes in High-Risk Geographies with an environmental impact on nearby areas classified as Ramsar Sites, World Heritage Sites or by the International Union for Conservation of Nature (IUCN) as categories I, II, III or IV.
- Forestry plantations in forests listed as protected by official bodies. Developments in any forested areas that have suffered forest fires or mass deforestation in the last five years.
- Financing of activities that create the expansion of the agricultural/plantations frontier to the detriment of natural forest.

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[10] Please refer to section 1.2: *Assessments of the relevant environmental, social and climate change risk impacts will be required for Santander Corporate and Investment Banking customers. This assessment shall be more detailed when directly providing financial products and/or services to the special attention activities set out in section 3 of this policy. […] This assessment of impacts should also be conducted in investment decisions for asset management and insurance products.*

[11] For purposes of the Environmental, Social and Climate Change Policy, biomass is defined as "the biodegradable fraction of biological products, residues and waste from agriculture (including vegetable and animal substances), forestry and similar industries (including fisheries and aquaculture); and the biodegradable fraction of industrial and municipal waste".

[12] Must also meet the criteria included in the Defense policy.

- Activities with an impact on tropical forests, tropical savannahs, and savannah biomes or located in High-Risk Geographies.
- Particular attention to potential deforestation risk with agribusiness clients in the Amazon biome.

4 GOVERNANCE AND DELEGATED AUTHORITIES

Environmental, social and climate change risk analysis is carried out in accordance with established procedures.

This analysis must be integrated into the workflow and governance structures established for the management and control of risks. It is the responsibility of the risk approver (committee or individual authorizer) to ensure that decisions are made taking into account the environmental, social and climate change risks, and the criteria defined in this policy.

5 GOVERNANCE OF THE POLICY

5.1 Ownership of the policy

The Credit Risk function is responsible for drawing up this policy.

The owner of this policy is the Board of Directors of Banco Santander, S.A.

5.2 Effective date and review of the policy

This policy was approved in February 2022, including the Bank's ambition to become net zero carbon emissions by 2050; regarding oil upstream clients, new prohibitions for new clients and direct financing to greenfield projects; particular attention to potential deforestation risk with agribusiness clients in the Amazon biome. This policy will come into force on the date it is published.

Its contents will be reviewed on a regular basis, and any changes or modifications considered appropriate will be made.