

SECOND PARTY OPINION¹

ON THE SUSTAINABILITY OF SANTANDER'S GREEN BONDS FRAMEWORK²

May 2020

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Global Sustainable Bonds Framework (“Global Framework”), created by Banco Santander S.A (the “Bank” or “Santander”), and including its Special Purpose Vehicle (SPV) Santander International Products PLC³ (Santander and Santander International Products PLC together referred as “the Issuers”), to govern all potential Green, Social and Sustainable Bonds to be issued under the Global Framework (the “Bonds”).

As a complement to this SPO, Vigeo Eiris was commissioned to provide the hereby independent opinion on the sustainability credentials and management of the specific Green Bonds Framework (the “Framework”), created by the Issuers to specify the governance of all the potential Green Bonds to be issued (“Green Bonds”) (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).

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

- 1) **Issuers:** we assessed Santander’s ESG performance⁴, its management of potential stakeholder-related ESG controversies and its involvement in controversial activities⁵.
- 2) **Issuance:** we have assessed the coherence between the Green Bonds Framework to sustainability and its alignment with the four core components of the Green Bond Principles 2018 (the “GBP” 2018).

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 issuers through documents and from interviews with Issuers’ managers and stakeholders involved in the Green Bonds issuance, held *via* a telecommunication system.

We carried out due diligence assessment from March 10th to May 5th, 2020. We consider that we were provided with access to all the appropriate documents and people we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

VIGEO EIRIS’ OPINION

Vigeo Eiris is of the opinion that Santander’s Green Bonds Framework is aligned with the four core components of the Green Bond Principles voluntary guidelines, June 2018.

We express a reasonable⁶ level of assurance (our highest level of assurance) on the Issuers’ commitments and on the contribution of the contemplated Bond to sustainable development.

1) Issuers (see Part I)

- ▶ As of February 2020, Santander’s displays an advanced ESG performance: it achieves an advanced performance in the Environment, Social and Governance pillars.
- ▶ As of today, as commonly observed in the banking sector, Santander faces frequent allegations, regarding the Environment, Community Involvement, Business Behaviour and Corporate Governance domains. The severity of these controversies is overall 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.
- ▶ The Issuer appears to not be involved in any of the 17 controversial activities screened under our methodology.

¹ This opinion is to be considered as the “Second Party Opinion” described in the GBP voluntary guidelines (June 2018 Edition) edited by the International Capital Market Association (www.icmagroup.org).

² The “Green Bond” is to be considered as the bond to be potentially issued, subject to the discretion of the Issuer. The name “Green Bond” has been decided by the Issuers: it does not imply any opinion from Vigeo Eiris.

³ The Bonds issued by this SPV will be 100% guaranteed by Santander SA.

⁴ The Santander SA ESG performance was assessed in February 2020 by a complete process of rating and benchmark developed by Vigeo Eiris. All potential evolutions and data published after this date are not included in the rating.

⁵ The 17 controversial activities screened by Vigeo Eiris are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco

⁶ 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):

Santander has described the main characteristics of the Bonds within a formalised Global Sustainable Bonds Framework, which covers the four core components of the GBP 2018 (the last updated version was provided to Vigeo Eiris on April 27, 2020). In addition, the Santander has further formalised additional characteristics of the Bonds in a dedicated Green Bonds Framework on “Renewable Energies”, and has committed to making this document publicly accessible on its Website⁷ as well as the related Second Party Opinions on the date of the issuance, in line with good market practices.

We are of the opinion that the Green Bonds Framework is coherent with Santander’s main sector sustainability issues, with its publicly disclosed strategic sustainable development priorities, and that it contributes to achieve its sustainable development commitments.

Use of proceeds

- ▶ The net proceeds of the Bonds will exclusively finance or refinance in full or in part, Eligible assets under two categories: solar energy and wind energy (“Eligible Categories”). We consider that the Eligible Categories have been clearly defined in the Framework and internal documentation.
- ▶ The Eligible Categories are intended to contribute to two main environmental objectives, namely: climate change mitigation and energy transition. These objectives are formalised in the Framework and considered clearly defined and relevant.
- ▶ The Eligible Categories are considered to provide clear environmental benefits. The Issuer has committed to assess and, where feasible, quantify the expected environmental benefits of the Bonds. Santander has committed to quantify the expected environmental benefits prior to issue the Bonds.
- ▶ Santander has transparently communicated in its Bonds Framework that for its Bond issuance the estimated share of refinancing will not exceed 50%. In case of re-financing, Santander commits to respect a common look-back period of maximum 3-calendar years (from the issuance) for each Bond issued within its Global Sustainable Bonds Framework, in line with market practices.

Process for Projects/Assets’ Evaluation and Selection

- ▶ The governance and the process for the Eligible Assets’ evaluation and selection are formalized in the specific Green Bonds Framework, and in the Global Sustainable Bonds Framework. We consider that the process is reasonably structured, transparent and relevant.
- ▶ The process is based on explicit and relevant eligibility (selection and exclusion) criteria.
- ▶ The identification and management of environmental and social (E&S) risks associated with the Eligible Projects/Assets are considered to be good.

Management of proceeds

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

Reporting

- ▶ The reporting process and commitments covering both the funds allocation and the environmental objectives and benefits of the Eligible Projects/Assets categories appear to be good.

⁷ www.santander.com

EXTERNAL REVIEW

Santander has committed that its Green Bonds will be supported by external reviews:

- **A pre-issuance consultant review:** the hereby Second Party Opinion delivered by Vigeo Eiris, covering all the features of the Bonds, based on pre-issuance assessment and commitments, to be made publicly available by the Issuer on its website⁸, at the date of issuance.
- **An annual verification** an external verification performed by a third-party auditor, covering the allocation of funds, the compliance in all material aspects, of (i) the actual allocation of proceeds to the Eligible Green Assets and their alignment with the eligibility criteria and (ii) the impact reporting, annually and until the Bond's maturity and in case of any material change.
- **Post-issuance consultant reviews:** ad-hoc Second Party Opinions in the event that additional Eligible Projects/Assets' categories are added to the existing Green Bonds Framework.

This Second Party Opinion is based on the review of the information provided by the Issuer, according to our exclusive assessment methodology and to the GBP voluntary guidelines (June 2018). Santander acknowledges that in case of changes of such standards and market practices and expectations, VIGEO EIRIS shall exclude any liability regarding the use of the concerned Second Party Opinion and its compliance with then-current standards and market practices and expectations.

Project team

Rebecca SMITH
Sustainability Consultant

Muriel CATON
*Senior Advisor
Supervisor*

For more information, contact:

Sustainable Finance Team

VEsustainablefinance@vigeo-eiris.com

Gonzalo MARAMBIO

*Senior Sustainability Consultant
Project Manager*

Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has executed three audit missions for Santander until so far. No established relation (financial or commercial) exists between Vigeo Eiris and the Issuer.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bonds, 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. 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.

Restriction on distribution and use of this opinion: The deliverables remain the property of Vigeo Eiris. The draft version of the Second Party Opinion by Vigeo Eiris is for information purpose only and shall not be disclosed by the client. Vigeo Eiris grants the Issuer all rights to use the final version of the Second Party Opinion delivered for external use via any media that the Issuer shall determine in a worldwide perimeter. The Issuer has the right to communicate to the outside only the Second Party Opinion complete and without any modification, that is to say without making selection, withdrawal or addition, without altering it in any way, either in substance or in the form and shall only be used in the frame of the contemplated concerned bond(s) issuance. The Issuer acknowledges and agrees that Vigeo Eiris reserves the right to publish the final version of the Second Party Opinion on Vigeo Eiris' website and on Vigeo Eiris' internal and external communication supporting documents.

⁸ <https://www.santander.com>

DETAILED RESULTS

Part I. ISSUERS

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 Santander's ESG performance

Santander's ESG performance was assessed through a complete process of rating and benchmark.

As of February 2020 (date of the last rating cycle for the company), Santander displays an advanced ESG performance. Santander ranks 5th in our Diversified Banks sector, which covers 31 banks.

Domain	Comments	Opinion
Environment	<p>Santander's performance in the Environment pillar is advanced.</p> <p>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". Santander has set targets for the 2018-2021 period, such as: Purchase 60% of its electricity from renewable sources in all countries where it is possible to do so, reduce total emission by 1.8%, reduce energy consumption by 3.3% taking 2018 as baseline. Also, Santander plans to raise EUR 120 billion funding by 2025 and EUR 220 billion by 2030 in green finance to help tackling climate issues.</p>	Advanced
	<p>The Bank also has 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 (defence, 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. The corporate risk units are responsible for reviewing and approving the environmental risks of the projects in accordance to the Group's policies and the Equator Principles. Santander SA is a signatory of the United Nations Principles for Responsible Investment and the Equator Principles III.</p>	Good
	<p>Santander has participated in the Paris Agreement Capital Transition Assessment (PACTA) pilot lead by the 2^o Investment Initiative, along with 16 other international banks. The PACTA pilot is in line with Santander becoming signatory to the Collective Commitment on Climate Action (CCCA) in the frame of the United Nations Environmental Programme for Financial Institutions (UNEP-FI) Principles for Responsible Banking. In addition, Santander is part of the Banking Environmental Initiative (BEI) project, "Bank 2030", that aims to uncover what opportunities there are for banks to accelerate the financing of the reduction in greenhouse gas emissions.</p>	Limited
	<p>Santander has 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 CO₂ emissions of its portfolio. Santander developed a methodology to annually calculate the emissions avoided through its financing activity. Also, Santander participates in the UNEP-FI initiative to develop a pilot project to implement the recommendations of the TCFD (Task Force on Climate-Related Financial Disclosure).</p>	Weak
Social	<p>Santander's performance in the Social pillar is advanced.</p> <p>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, Santander has created a Global Executive Working Group and a global network of experts to manage and promote diversity & inclusion and has set targets such as eliminating the gender pay gaps by 2025 and increasing the percentage of women in executive position to 30% by 2025. 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</p>	Advanced

	<p>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. Santander has established a European Works Council and signed a joint declaration aiming at ensuring responsible labour relations and sustainable sale of financial products. Regarding management of restructurings, the Bank reports having implemented significant measures such as early retirement, outplacement services, internal mobility programmes and financial compensation measures to limit the impact of reorganisations, but has not been able to avoid layoffs. In merger processes, merger protocols are negotiated with trade union representatives to ensure dialogue with workers during the different stages of a restructuring process. 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 good. 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, however, the Bank provides limited information on actions to mitigate the potential negative effects on local development from client tax advisory services. 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, preventing financial distress.</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 created. As for the Banks' commitment to inform customers responsibly, the Bank address its main responsibilities in its General Code of Conduct and in its General Sustainability Policy, setting up some measures for customers to be informed properly at the moment of taking financial decisions. Also, the Products and Services Commercialisation Committee is in charge of preventing the inappropriate distribution of products and services and to ensure the protection of customers by validating products and services.</p>	<p>Good</p> <p>Limited</p> <p>Weak</p>
<p>Governance</p>	<p>Santander's performance in the Governance pillar is advanced.</p> <p>Most Board members are considered independent (66%) and the roles of Chairman and CEO are separated. Its diversity is considered advanced with 40% female directors. Furthermore, Santander SA 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 cover the standard issues related to financial, operational, and legal risks. Its internal control system covers most of the CSR risks inherent to the company's business operations: Business ethics, Data security, Environmental & Climate Change risks, Social & Human Rights risks. Moreover, measures for the supervision of material risk-takers are in place and disclosed. Santander appears to have strong processes dedicated to managing ESG risks.</p> <p>The Bank communicates on systems in place to prevent corruption and money laundering. It is a founding member of the Wolfsburg Group, whose 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 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>

Stakeholder-related ESG controversies

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

As of today, Santander is involved in 21 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”, “Corruption and money laundering”, and “Prevention of anti-competitive practices”.
- Corporate Governance, namely “Internal controls & risk management”.

Frequency: On average, the controversies are considered frequent, ranging from isolated to persistent, in line with the sector average.

Severity: The severity of their impact on both the company and its stakeholders is considered overall high, ranging from minor to high, in line with the sector average.

Responsiveness: Santander is overall reactive to the controversies, in line with the sector average.

Involvement in controversial activities

Santander is not involved in any of the other 17 controversial activities analysed by Vigeo Eiris namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, 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. ISSUANCE

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.

We are of the opinion that the Green Bonds Framework is coherent with the Issuers' publicly disclosed strategic sustainability priorities and with its main sector environmental issues, and that it contributes to achieve its sustainability commitments.

The Issuers appear to acknowledge its key role in providing solutions to support society's transition to a low carbon and sustainable economy. Its Group Sustainability Policy is based on several international Conventions, such as the Equator Principles (signatory since 2009), the United Nations Global Compact, the Principles of Responsible Banking (from the United Nations Environmental Programme for Financial Institutions), the Paris Climate Agreement, and various conventions for environmental protection. Santander has developed products and services to minimize the impact of its investments on climate change and help financing environmental projects, and offers accessible banking products to its customers. More specifically:

- 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)⁹. 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 Issuers' exclusion activities, and has been updated in 2019 to include additional restrictions and clarification.
- Santander has formalised a Climate Change Policy, which is integrated in the Sustainability Policy. This Policy has been converted into action with the creation of two specific task forces:
 - Climate Finance Task Force which objective is to identify the business' risks and opportunities of climate change and the 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 risk stemming from any financial transaction with a social or environmental impact and issues non-binding recommendations to the relevant decision-making body.
- In July 2019, Santander launched ten responsible banking commitments, including commitments for green finance. The specific targets include:
 - To raise or facilitate the mobilization of 120Bn euros between 2019 and 2025, and 220Bn euros between 2019 and 2030 in green finance to help tackle climate change
 - To purchase 100% of their electricity from renewable sources in all countries where it is possible to do so by 2025.
 - To eliminate unnecessary single use plastic in branches and corporate buildings by 2021

By creating a Framework to issue Green Bonds intended to finance or refinance projects related to renewable energy, the Issuers coherently aligns with its sustainability strategy and commitments, and addresses the main issues of the sector in terms of sustainable development.

⁹ General Sustainability Policy and Sectorial Policies (defence, energy and soft commodities) available on Santander's website <https://www.santander.com/en/our-approach>

Use of proceeds

The net proceeds of the Bonds will exclusively finance or refinance in full or in part, Eligible assets under two categories: solar energy and wind energy (“Eligible Categories”). We consider that the Eligible Categories have been clearly defined in the Framework and internal documentation.

The Eligible Categories are intended to contribute to two main environmental objectives, namely: climate change mitigation and energy transition. These objectives are formalised in the Framework and considered clearly defined and relevant.

The Eligible Categories are considered to provide clear environmental benefits. The Issuer has committed to assess and, where feasible, quantify the expected environmental benefits of the Bonds. Santander has committed to quantify the expected environmental benefits prior to issue the Bonds.

Santander has transparently communicated in its Bonds Framework that for its Bonds issuance the estimated share of refinancing will not exceed 50%. In case of re-financing, Santander commits to respect a common look-back period of maximum 3-calendar years¹⁰ (from the issuance) for each Bond issued within its Global Sustainable Bonds Framework, in line with market practices.

The net proceeds will finance existing or future loans granted to Eligible Assets.

- “Existing” meaning assets for which the operation starting date is between the year of the issuance (N) and the three previous years (N-3).
- “Future” meaning assets to be in operation within 36 months after the Bond’s issuance date.

Eligible Assets will contribute to defined environmental objectives, and have expected environmental benefits:

Eligible Projects/Assets’ categories	Definitions	Objectives and benefits	Vigeo Eiris’ Analysis
Solar projects	Project finance loans related to, and including ancillary infrastructure of: <ul style="list-style-type: none"> - Photovoltaic power plants - Concentrated Solar Power plants, mostly parabolic through solar thermal plants 	Climate change mitigation and energy transition. -- Avoidance of GHG emissions Increase of renewable energy installed capacity and generation.	The definition of the category is clear. The Environmental objectives are clearly defined and relevant.
Wind projects	Project finance loans related to, and including ancillary infrastructure of: <ul style="list-style-type: none"> - Onshore wind farms - Offshore wind farms, with ground-mounted foundations 		The Eligible assets categories are considered to provide clear environmental benefits. The expected benefits are assessed and quantified.

¹⁰Santander considers for refinancing its existing loans of Eligible Green Projects/Assets on Santander’s balance sheet at the date of issuance (loans signed from 1st January of the year “N-3” to 31st December of year “N-1”, for any Green Bond issued in the year of issuance (N))

In addition, Eligible Assets categories are likely to contribute to two of the United Nations' Sustainable Development Goals ("SDGs"), namely: Goal 7. Affordable and clean energy and Goal 13. Climate action.

Eligible Projects/Assets	UN SDGs identified	UN SDGs targets
Renewable Energy	SDG 7. Affordable and Clean Energy	7.2
	SDG 13. Climate Action	NA



UN SDG 7 consist in ensuring universal access to affordable, reliable, sustainable and modern energy for all. SDG 7 targets by 2030 include:

- 7.2 Increase substantially the share of renewable energy in the global energy mix



UN SDG 13 consists in taking urgent action to combat climate change and its impacts. More precisely, SDG 13 target by 2030 includes:

- Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.

Process for Projects/Assets' evaluation and selection

The governance and the process for the Eligible Assets' evaluation and selection are formalized in the specific Green Bonds Framework, and in the Global Sustainable Bonds Framework. 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 Framework and Programme.

The process for evaluation and selection of Eligible Projects/Assets is reasonably structured, and based on relevant internal and external expertise with well-defined roles and responsibilities:

- Santander has established a Sustainable Bond 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 Sustainable Bonds Framework, validating the annual reporting and related documents, reviewing the appropriate external independent auditors' report and monitoring on-going evolution of the market practices.
- The Banks have a Project Finance department with a specialized team in Renewable Energy projects. This team is responsible for selecting assets within Santander, including commissioning the elaboration of the relevant due diligence reports, preparing the credit applications, financial model, 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 Sustainable Bond Steering Group will decide compliance of the project with Santander's Sustainability Framework and Green Bonds Framework 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, ensure the compliance of all assets with the due diligence process, Equator Principles and Santander's sustainability policies.

The traceability and verification of the selection and evaluation of Eligible Assets is ensured throughout the process:

- The Steering Group will meet at least twice per year to verify if all assets continue to comply with the eligibility criteria, and meeting minutes of each meeting will be created to ensure decision traceability. In case a Project/Asset fails to comply with the Framework, 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 relies on explicit eligibility criteria (selection and exclusion), relevant to the environmental objectives defined for the Eligible categories.

- The eligibility requirements are based on the Eligible Categories defined in the Use of Proceeds section of the Framework.
- Eligible Assets must comply with Santander's Sustainability and Sectoral Policies such as Defence, Energy, Soft Commodities and Mining and Metal policies; required local environmental regulations and permits, and with the Equator Principles. Only projects designated under categories B and C of the Equator Principles will be eligible. In the case of "B" projects, Santander commits to carry out an independent assessment to determine its compliance with the Equator Principles. In the case of "C" projects the banks will evaluate compliance with the principles through its internal Equator Principles screening process.
- For all transactions approved under the scope of each policy, the appropriate monitoring, control and information mechanisms are established in accordance with the Santander's internal frameworks and processes. A declaration of conformity with the policies must be signed by clients as part of the clauses contract agreement.
- In accordance with Santander's Energy Policy, all projects related to the following activities are excluded from any type of financing:
 - o i. New coal-fired Power Plants, that are not designed to reach levels established by the Santander S.A. of thermal efficiency or emissions, setting different criteria for designated countries¹¹;
 - o ii. Revamping of any existing coal-fired Power Plants being already in operation (Brownfield projects) if the project does not provide a significant improvement in CO2 emissions or in its average thermal efficiency compared to the current situation and
 - o iii. Nuclear Power Plants in countries that have not ratified the Convention on Nuclear Safety.
- Santander' Sustainable Bonds Steering Group may exclude any Eligible Project/Asset involved in social and/or environmental controversies, 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 Bonds Framework.

The identification and management of environmental and social risks associated with the selected Eligible Projects/Assets are considered to be good.

Santander has formalized due diligence processes, structured in a three lines of defence model, to assess and control some of the environmental and social (E&S) risks associated with the Eligible Assets categories:

- Compliance with the Equator Principles (EP) is the guiding standard of the E&S analysis and embedded in Santander's credit transaction process.
- Santander 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 Santander is involved in or adheres 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.
- An area of improvement is involving external experts in the process for EP classification of all assets, including those categorized as low risk (C).
- Santander may include other asset selection criteria and due diligence processes if new green assets categories are added to its Green Bonds Framework, in which case the Framework will be subject to an external party evaluation.

¹¹ It is understood as designated countries those that have a solid environmental and social governance framework, legislation and institutional capacity to protect its inhabitants and the natural environment. <http://www.equator-principles.com/index.php/designated-countries>.

Management of proceeds

The rules for the management of proceeds are clearly defined and will be verified. We consider that they would enable a documented and 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. Santander reports that it will ensure that an amount of funding equivalent to that raised through the Bonds will 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.¹²
- Unallocated proceeds will be kept in the Banks' 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 Banks' regular lending policies. An area of improvement is committing that the temporary placements and instruments for unallocated proceeds do not finance GHG intensive activities, controversial activities, or activities facing material ESG issues.
- In case of divestment, if an asset fails to ensure continued compliance with the eligibility criteria, or if early repayment of a loan occurs, Santander has committed to replace the Project/Asset with another one respecting the eligibility criteria within 12 months.

The traceability and verification are ensured throughout the process:

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

Monitoring & Reporting

The reporting process and commitments appear to be good, covering both the funds allocation and the environmental benefits of the Eligible Projects/Assets' categories.

The process for monitoring, data collection, consolidation and reporting is defined and formalized in Santander's Sustainable Bond Framework, Green Bonds Framework and in internal documentation.

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

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

Santander commits to annually and transparently report on the Bonds through the Sustainability Report, until maturity date and later in the case of any material change. The Report will be publicly available in Santander's Website¹³. The reporting will be at Category Level earmarked to each Bond. Santander has committed to transparently communicate on:

¹² Santander considers for look forward period its loans of Eligible Green Projects/Assets portfolio signed between 1st January of year "N"(year of issuance) until 31st December of year "N+2"

¹³ www.santander.com

- Allocation of proceeds: the selected reporting indicators are relevant

Allocation indicators
<ul style="list-style-type: none"> - Main characteristics of Eligible Projects/Assets such as technology (solar and/or wind), location, operational status, outstanding exposure. - Amount of proceeds allocated to each Eligible project/Assets (earmarked to each bond). - Unallocated proceeds - Share of re-financing vs. new financing

- Environmental benefits: the selected reporting indicators are relevant

Eligible Assets	Environmental output and impact indicators	
Renewable Energy (solar and wind energy projects)	<u>Output:</u> <ul style="list-style-type: none"> - Installed capacity (MW) - Electricity produced (GWh) 	<u>Impact:</u> <ul style="list-style-type: none"> - Annual CO2 and other GHG emissions avoided (tCO2e)

On an annual basis, Santander will estimate the CO2 emissions avoided by the Eligible Projects/Assets financed or refinanced with the proceeds of the Green Bonds. The methodology used to that purpose is based on an internal estimation methodology based on the GHG Protocol.

Avoided emissions are estimated considering that the estimated generation attributable to Santander would be otherwise produced with the technology mix of associated national electricity grids of the countries in which each of the eligible assets were located, using latest available data from the International Energy Agency emission factors (tCO2/MWh). The initial refinanced eligible assets are located in Continental Europe. Under this methodology, Electricity generation (MWh) is based on average production reported by project promoters or, when not available, the installed capacity (MW) and an adequate technology-specific load factor.

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

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 process and commitments applying to the intended issuance.

Vigeo Eiris' methodology for the definition and assessment of the corporation's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and is organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. Our evaluation framework of the material ESG issues have been adapted, based on the specificities of the Issuer's business activity.

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 Director of Methods. Our SPO are also subject to internal quality control at three levels (consultants in charge of the mission, Production Manager, and final review and validation by the Director of Sustainable Finance and/or the Director of Methods. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company, then the Director of Methods, and finally Vigeo Eiris' Scientific Council.

All employees are signatories of Vigeo Eiris' Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

Part I. ISSUER

NB: The Issuer's level of ESG performance (i.e. commitments, processes, results of the Issuer related to ESG issues), has been assessed through a complete process of rating and benchmarking developed by Vigeo Eiris.

Level of the Issuer's ESG performance

Santander's ESG 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.

Management of stakeholder-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 based on unproven facts.

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 is considered as long as it is public, documented and traceable.

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

17 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 specific nature of the controversial products or services provided by the company.

Part II. ISSUANCE

The Green Bonds Framework has been evaluated by Vigeo Eiris according to the Green Bond Principles 2018 and our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of proceeds

The definition of the Eligible Projects and of their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds or Loans standards. Vigeo Eiris evaluates the definition of the Eligible Categories, as well as the definition and the relevance of the aimed sustainability objectives. We evaluate the definition of the expected benefits in terms of assessment and quantification. In addition, we evaluate the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

Process for evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris on its transparency, governance and relevance. The eligibility criteria have been assessed on their explicitness and relevance vs. the intended objectives of the Eligible Projects. The identification and management of the ESG risks associated with the Eligible Projects are analysed based Vigeo Eiris' ESG assessment methodology, international standards and sector guidelines applying in terms of ESG management and assessment.

Management of proceeds

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

Reporting

Monitoring process and commitments, reporting commitments, reporting indicators and methodologies are defined by the Issuer to enable transparent reporting on the proceeds allocation and tracking, on the sustainable benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed. Vigeo Eiris has evaluated the reporting based on its transparency and relevance.

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, Brussels, Casablanca, Hong Kong, Milan, New York, Rabat and Santiago de Chile.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: www.vigeo-eiris.com