

Analysis of social and environmental risk - Equator Principles Reporting 2017 -

Banco Santander considers social and environmental issues to be key in risk analysis and decision-making processes for its financing operations. It therefore avails of several policies in sustainability(*), codes and internal rules inspired by the best practices, international conventions and protocols, codes of conduct and guides that are applicable in every area.

Also, the Bank has implemented processes to identify, analyse and evaluate credit operations with socio-environmental risk governed by Group policies that are based on the Ecuador Principles, to which the Bank has been a signatory since 2009.

Santander is really committed with the Equator Principles requirements and, in order to guarantee its rigor and accuracy, implemented policies and procedures are audited once a year by internal/external auditors.

Starting at the early stages of origination of the projects, business and risk units are engaged to analyse the social and environmental risks according to the Bank's policies and Equator Principles requirements.

The financial products subject to the Equator Principles are:

1. Project Finance Advisory Services where total Project capital costs are US\$10 million or more.
2. Project Finance with total Project capital costs of US\$10 million or more.
3. Project-Related Corporate Loans (including Export Finance in the form of Buyer Credit) where all four of the following criteria are met:
 - i. The majority of the loan is related to a single Project over which the client has Effective Operational Control (either direct or indirect).
 - ii. The total aggregate loan amount is at least US\$100 million.
 - iii. The EPFI's individual commitment (before syndication or sell down) is at least US\$50 million.
 - iv. The loan tenor is at least two years.
4. Bridge Loans with a tenor of less than two years that are intended to be refinanced by Project Finance or a Project-Related Corporate Loan that is anticipated to meet the relevant criteria.

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The analysis process for operations subject to the Equator Principles is as follows:

- A preliminary generic questionnaire is completed. The questionnaire is designed to gauge the social and environmental risk of the project (rated A, B, or C, with A presenting the greatest risk).
- For projects classified as being of the greatest risk (categories A and B), a further and more detailed questionnaire must be filled out specific to the sector in question. These projects must also undergo a social and environmental audit (conducted by independent external advisors).

The Bank's migration in 2014 towards the new obligations arising under the updated Equator Principles III (EPIII) has required to redefine its internal detection and analysis processes for the transactions. In addition, and as a direct result of the broader universe of transactions now subject to EPIII, the Bank has imparted an e-learning course, which more than 3,000 employees must complete.

CATEGORY	Project Finance		
	A	B	C
TOTAL	0	26	1
Sector			
Mining	0	0	0
Infrastructure	0	1	0
Oil & Gas	0	0	0
Power	0	25	0
Others	0	0	1
Region			
Americas	0	19	1
United States	0	13	0
Mexico	0	1	1
Brazil	0	1	0
Chile	0	1	0
British Virgin Islands	0	3	0
Europe	0	7	0
United Kingdom	0	3	0
Spain	0	2	0
Germany	0	2	0
Type			
Designated countries*	0	21	0
Non-designated countries	0	5	1
Independent review			
Yes	0	26	1
No	0	0	0

* In accordance with the definition of designated countries included in the Equator Principles, i.e., those countries considered to have a solid framework of environmental and social governance, legislation and institutional capacity to protect their inhabitants and the environment.