

**ENVIRONMENTAL, SOCIAL & CLIMATE  
CHANGE RISK MANAGEMENT:  
ACTIVITIES THAT REQUIRE SPECIAL  
ATTENTION AND PROHIBITED  
ACTIVITIES**

**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 significant challenges to the long-term prosperity of the global economy, people and communities, and the natural environment.

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<sup>1</sup>. 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.

To support our fight against climate change, the Group will promote supporting customers navigate the transition to a low carbon economy.

Santander Group has committed to:

- By 2030, 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.
- No exposure to thermal coal mining worldwide by 2030.
- Support international standards and treaties<sup>2</sup>.

This policy sets out certain activities that are prohibited and those that require special attention from an environmental, social and climate change perspective in the Oil & Gas, Power Generation and transmission and Mining & Metals sectors and those arising from businesses specifically engaged in soft commodities.

### 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 clients<sup>3</sup> who develop the following activities:

- **Oil & gas:** Exploration, extraction, production and treatment including refining, transportation, storage and wholesale distribution<sup>4</sup>.

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For the sake of clarity, any reference to a year will be considered as of 31 of December of that year.

<sup>1</sup> Support the goals of the Paris Accord

<sup>2</sup> See annex with non-exhaustive list of external references, regulations, standards and best practices

<sup>3</sup> Defining clients as corporate entities (last parent company) hence not including funds. In the case of multi-industry conglomerates with independent business entities across different industries, the Policy will apply at subsidiary level. Should a subsidiary be prohibited, Santander might still provide products and services to the parent company (if they are unrelated to the prohibited entity) and/or to other subsidiaries within the conglomerate.

<sup>4</sup> Excluding distribution to the final consumer

- **Power generation and transmission:** All power plants regardless of energy source and the construction and maintenance of electricity transmission lines<sup>5</sup>.
- **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.
- **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<sup>6</sup> or biofuels, as well as beef production in High-Risk Geographies<sup>7</sup>. Including those Santander Corporate and Investment Banking clients who acquire these commodities directly from plantations or ranches, and they represent over 10% of their total purchases.

For the purpose of this policy, financial products and/or services are defined as: transactions giving rise to credit risk, insurance, asset management<sup>8</sup>, 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 of impacts should also be conducted in investment decisions for asset management and insurance products.

### 1.3 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.

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<sup>5</sup> Excluding distribution to the final consumer

<sup>6</sup> 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)”.

<sup>7</sup> 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”.

<sup>8</sup> For asset management activities, the application of these prohibition is subject to the availability of information by the providers.

## 2 PROHIBITED ACTIVITIES<sup>9</sup>

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 which put areas classified as Ramsar Sites<sup>10</sup>, World Heritage Sites<sup>11</sup> or by the International Union for Conservation of Nature<sup>12</sup> (IUCN) as categories I, II, III or IV at risk.
- Projects that, in accordance with IFC Performance Standard 7 - Indigenous Peoples<sup>13</sup>, require Free, Prior and Informed Consent (FPIC) and do not meet IFC Performance Standard 7 and there is not a credible action plan to achieve compliance.
- Client activities, business relationships or facilitation of transactions that are or can be proven to be linked to the commission of serious or gross violations of human rights<sup>14</sup> or international human rights law.

### Oil & Gas:

#### **Clients:**

- New oil upstream clients, except for transactions for the specific financing for new renewable energy facilities.
- Clients involved in exploration and production for whom the activities derived from the combination of fracking<sup>15</sup>, tar sands, coalbed methane and Arctic oil & gas represent a significant part of their reserves, or account for more than 30% of their activity.

#### **Projects:**

- Project-related financing to Oil upstream greenfield projects<sup>16</sup>.
- 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<sup>15</sup> or coal bed methane.

<sup>9</sup> To the extent required by applicable law, customers and transactions involving activities enumerated in this section will be subject to an enhanced due diligence process to determine the unique risks presented prior to decisioning.

<sup>10</sup> 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. (<https://www.ramsar.org/>)

<sup>11</sup> World Heritage Sites: <http://whc.unesco.org/en/list>

<sup>12</sup> The International Union for Conservation of Nature (IUCN) (<https://www.iucn.org>) 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

<sup>13</sup> <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standard-7>

<sup>14</sup> Considering child labour, forced labour, discrimination at work, freedom of association, working conditions, grievance mechanisms for workers, occupational health and safety issues, impacts on communities and land grabbing.

<sup>15</sup> Due to the necessity to support the energy transition, energy security and affordability, and in situations where there can be exceptional social and economic implications, that could ultimately enable the transition and may play a crucial role in the economic and social local development (developing countries/emerging economies), exceptions in relation to fracking may be considered in jurisdictions where these activities are permissible under local regulation, subject to enhanced due diligence and appropriate approval.

<sup>16</sup> Defining Greenfield as those fields whose approval for development is after May 2021.

**Power generation:****Clients:**

- By 2030, any client with more than 10% of revenues, on a consolidated basis, directly derived from coal fired power generation.
- New clients with more than 25% of revenues, on a consolidated basis, directly derived from coal fired power generation, except for transactions for the specific financing for new renewable energy facilities. In these exceptions, the client must not be developing new coal power plants and/or expanding existing ones, 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. Onboarding new clients with less than 25% of their revenues, on a consolidated basis, derived from coal-fired power generation is allowed, if they have a credible plan to reduce its revenues coming from coal power generation to 10% or below by 2030; and if they are not developing new coal power plants and/or expanding existing ones.
- Nuclear Power Plants if:
  - The host country<sup>17</sup> 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).
  - 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.

**Projects:**

- 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.

**Mining & Metals:****Clients:**

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<sup>17</sup> 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.

- By 2030 clients that own thermal coal mines worldwide.
- 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.
- Extraction, processing or wholesale distribution of asbestos.
- Extraction or wholesale distribution of rough diamonds not certified by the Kimberley process<sup>18</sup>.
- Mining activities without a specific treatment to avoid tailings disposal in riverine or shallow sea environments (such as tailings storage facilities or dry stack).

**Projects:**

- 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 thermal coal mining-related activities will be more than 30% of the project's revenues in the first five years.
- Mining activities relating to the so-called "conflict minerals" extracted from conflict areas and not included in the corresponding certification processes<sup>19</sup>.

**Soft commodities:****Clients:**

- Extraction of native tropical wood species not certified to FSC.
- Palm oil processors that are not member or certified to RSPO.

**Projects:**

- Developments in forested peatlands in High-Risk Geographies.

### **3 ACTIVITIES REQUIRING SPECIAL ATTENTION**

The sectors included in this policy (oil and gas, power generation and transmission, mining and metals, and "soft commodities") have been selected based on their potential environmental, social, and climate change impact and they require special attention. For Santander Corporate and Investment Banking clients whose business activities relate to these sectors, a detailed analysis is performed, including the following relevant activities:

- Any activities that involve the resettlement of indigenous people and/or other vulnerable groups.

**Oil & Gas:**

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<sup>18</sup> 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

<sup>19</sup> <https://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/regulation-explained/>

- Exploration, development, and production (including drilling activities).
- Midstream and downstream activities<sup>3</sup>.
- 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 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.
- Activities related to Uranium<sup>20</sup>.
- Those activities involving the removal of mountain tops.

**Soft commodities:**

- 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.
- Activities with an impact on tropical forests, tropical savannahs, and savannah biomes or located in High-Risk Geographies<sup>6</sup>.
- Deforestation risk with agribusiness clients in the Amazon biome.

**Activities potentially exposed to risks of Human Rights violations:**

Santander promotes respect for human rights in its relationship with clients, and therefore pays special attention to these risks within and beyond the sectors included in this policy.

Should human rights risk concerns be identified throughout customer and/or transaction lifecycle, enhanced due diligence must be performed.

## 4 GOVERNANCE AND DELEGATED AUTHORITIES

Environmental, social and climate change risk analysis is carried out in accordance with established procedures.<sup>21</sup>

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<sup>20</sup> Must also meet the criteria included in the Santander Defence Sector Policy.

<sup>21</sup> Environmental, social and climate change risk screening procedure, procedure of environmental, social and climate change risk management in projects



This analysis must be integrated into the workflow and governance structures established for the management and control of risks such as credit admission or investment decision. 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 ESG 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 Interpretation**

The ESG Risk function is responsible for interpreting this policy.

In the event of conflict between the Spanish version and the English version, the Spanish version shall prevail.

### **5.3 Effective date and review of the policy**

This policy will come into force on the date it is published and it replaces the previous version.

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

**ANNEX: Non-exhaustive list of external references, regulations, standards and best practices:**

- 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.
- Task Force on Climate-related Financial Disclosure (TCFD).

**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.
- The Non-Proliferation Treaty (NPT).

**Mining & Metals:**

- The EU Conflict Minerals Regulation (EU 2017/821).
- 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).