

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

Policy

Santander Bank Polska S.A.

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1. INTRODUCTION

1.1. Purpose and context

Santander Bank Polska S.A. ("Bank") is convinced that environmental and social issues represent challenges to the long-term prosperity of the global economy, societies, and the natural environment. Therefore, it is determined to work to achieve a fair and sustainable transition driven by growth. To this end, it adheres to the following principles related to the management of environmental and social risks:

- Compliance with international treaties and references.
- Support for the transition to a low-carbon economy, developing plans with the ambition of reaching net zero carbon emissions by 2050, while simultaneously fostering the necessary economic growth to finance this transition in an affordable and fair manner, for both developed and developing economies, in line with its sustainability commitments.
- Consideration of technological, economic, and geopolitical factors that impact the transition, from energy security to variability in approaches across different markets, to prevent communities and countries from being left behind as economies and societies decarbonize, and to ensure the fight against climate change is not jeopardized.
- Attention to human rights, taking into account social issues that may arise, such as involuntary displacement of local or indigenous populations, health, safety, and labour rights for those engaged in business activities, as well as impacts on local communities and other stakeholders affected by these activities.
- Contribution to biodiversity conservation, focusing on potential deforestation risks and the degradation of nature.

1.2. Definitions and scope

This document sets out Bank's criteria for (i) investing in entities, and/or (ii) providing financial products and/or services to clients¹ who develop the following activities:

- **Oil & gas:** Exploration, extraction, production and treatment including refining, transportation, storage and wholesale distribution².
- **Power³ generation and transmission:** All power plants regardless of energy source and the construction and maintenance of electricity transmission lines⁴.
- **Mining:** prospecting and mining research, mining development and exploitation, restoration and recovery of the exploited natural space.

¹ 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, the Bank might still provide products and services to the parent company (if they are unrelated to the restricted entity) and/or to other subsidiaries within the conglomerate.

² Excluding distribution to the final consumer

³ Electricity

⁴ Excluding distribution to the final consumer

- **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; biomass⁵ or biofuels, as well as beef production in High-Risk Geographies⁶. Including those Corporate and Investment Banking Division 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 derivatives, equity or advisory services.

For some client segments there may exist operational limitations to carry out an individualized review of the operations/clients/underlying subjects to this policy, for which periodic reviews of the availability of internal data or provided by external suppliers will be carried out, to comply with the criteria of this policy. Details of this approach are described in ESCC risk procedures for these clients segments.

1.3. Scope

This document is applicable to Bank Santander Bank Polska S.A. and its subsidiaries:

- Santander Factoring sp. z o.o.,
- Santander Leasing S.A.
- Santander Towarzystwo Funduszy Inwestycyjnych S.A.

The Bank's objective within consolidated risk management process is to ensure compliance with the risk management standards and best practice the Bank and its subsidiaries. However, while ensuring a uniform approach, the Bank's standards will be adapted by subsidiaries. In particular Santander Consumer Bank S.A. which is a separate entity subject to banking regulations and KNF (Polish Financial Supervision Authority) supervision will be the company where an independent decision-making process will be used, as mandated by the law, and specific solutions suitable for Santander Consumer Bank's risk profile and business model will be applied. The solutions presented in the document will be generally reflected in the Santander Consumer Bank's internal regulations, however more specific solutions may differ from the ones applied by the Bank. The remaining members of Santander Bank Polska Group are expected to use this document as a basis for developing their own relevant documents.

⁵ 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)".

⁶ 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".

2. CRITERIA⁷

2.1 Restriction criteria for financial products and services

Bank 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 Sites⁸, World Heritage Sites⁹ or by the International Union for Conservation of Nature¹⁰ (IUCN) as categories I, II, III or IV at risk.
- Projects that, in accordance with IFC Performance Standard 7 - Indigenous Peoples¹¹, 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 rights¹² or international human rights law.

Oil & Gas:

- Clients involved in exploration and production for whom the activities derived from the combination of fracking¹³, tar sands, coalbed methane and Arctic oil & gas represent a significant part of their reserves, or account for more than 30% of their activity.
- Project-related financing to Oil upstream greenfield¹⁴ 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, fracking¹³ or coal bed methane.

⁷ 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.

⁸ 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/>)

⁹ World Heritage Sites: <http://whc.unesco.org/en/list>

¹⁰ 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

¹¹ <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standard-7>

¹² Considering child labour, forced labour, discrimination at work, issues related to freedom of association, working conditions, grievance mechanisms for workers and/or occupational health and safety, impacts on communities and land grabbing.

¹³ 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.

¹⁴ Defining Greenfield as those fields whose approval for development is after May 2021.

Power¹⁵ Generation:

The electricity sector is critical to the progress of economies, dependent on technologies with varying difficulties of implementation and with geographies at very different levels of maturity.

- By 2030, any client with more than 10% of revenues, on a consolidated basis, directly derived from coal fired electric power generation, except for sustainable finance and products to finance the transition.¹⁶
- New clients with more than 25% of revenues, on a consolidated basis, directly derived from coal-fired power generation, except for non-recourse¹⁷ and/or ECA transactions if sustainable and/or finance the transition¹⁷. In these exceptions, the client must not be developing new coal power plants and/or expanding existing ones.
- Nuclear Power Plants if:
 - The host country¹⁸ 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.
- 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.

¹⁵ Electricity

¹⁶ The flag of sustainable finance or transition finance needs to be certified before the credit decision, in accordance with Greenwashing Guidelines

¹⁷ Guarantee operations linked to non-recourse financing may be carried out where strictly necessary.

¹⁸ 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.

Mining & Metals:

The energy transition depends on the efficient access and scaling up of several critical minerals. In this sector certain mining companies may be active in the exploration and production of these critical materials, but also in fossil fuels.

- By 2030 legal entities that own thermal coal mines worldwide, except for sustainable finance and products to finance the transition¹⁷. Financing at parent level is still possible if the funds are not used to finance thermal coal assets and/or to any subsidiary that directly engages with thermal coal activities.
- New legal entities of Groups with which Santander has no relationship that own thermal coal mining operations and projects worldwide, except for non-recourse¹⁹ and/or ECA transactions if sustainable finance and/or products to finance the transition¹⁷. In these exceptions, the group must not be organically developing additional thermal coal capacity.
- Extraction, processing or wholesale distribution of asbestos.
- Extraction or wholesale distribution of rough diamonds not certified by the Kimberley process²⁰.
- Mining activities relating to the so-called "conflict minerals" extracted from conflict areas and not included in the corresponding certification processes²¹.
- 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 thermal coal mining-related activities will be more than 30% of the project's revenues in the first five years.

Soft Commodities:

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

2.2 Special attention criteria

A detailed analysis will be carried out on clients, projects or transactions from Corporate and Investment Banking Division belonging to the oil and gas, energy generation and transportation,

¹⁹ Guarantee operations linked to non-recourse financing may be carried out where strictly necessary.

²⁰ 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

²¹ <https://ec.europa.eu/trade/policy/in-focus/conflict-minerals-regulation/regulation-explained/> -

mining and metallurgy, and "soft commodities" sectors, whose business is related to the following activities:

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

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 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 Uranium²².
- 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.
- Deforestation risk with agribusiness clients in the Amazon biome.

Activities potentially exposed to risks of Human Rights violations:

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

²² Must also meet the criteria included in the Defence Sector Policy.

3. GOVERNANCE AND DELEGATED AUTHORITIES

Environmental and social risk analysis is carried out in accordance with established procedures²³.

This analysis must be integrated into the workflow and governance circuits established for risk management and control, such as credit approval or investment decisions. The bodies that sanction these risks (collegiate body or individual authorizer) are responsible for ensuring that decisions are made considering environmental and social risks as well as the criteria defined in this policy.

Transactions that present doubts about compliance with the criteria defined in the section of criteria in this policy may be analysed under specific conditions, as long as they are aligned with principles related to the management of environmental and social risks of the policy.

Likewise, exceptions that are not aligned with principles related to the management of the environmental and social risks of the policy and do not have enhanced due diligence will not be considered. These exceptions require opinion by Banco Santander Group and must be sanctioned by the Risk Management Committee.

4. GOVERNANCE OF THE POLICY

4.1. Ownership of the policy

ESG Risk Management Office function is responsible for drawing up this policy.

The owner of this policy is ESG Risk Management Office. The document is approved by the Management Board.

4.2. Interpretation

ESG Risk Management Office is responsible for interpreting this policy.

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

4.3. Effective date and review of the policy

This policy will come into force on the date indicated in the Management Board Resolution adopting it.

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

²³ Procedures for analysing environmental, social, and climate change risks for CIB and BCB, as well as the procedure for managing these risks in projects

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).