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Guide to Sustainable Financing: The energy sector

Within its Risk Management and Control Framework, Bankinter approved its framework for financing in particularly controversial or risk sectors, and whose social and environmental impact may be significant. To this end, it has drafted "Sustainable financing Guides" that allow it to establish the measures and references that the Bank will follow in its decision-making, always considering, and when possible, the best international practices and standards.

These guidelines reflect Bankinter's commitment to sustainable development and the importance that the Bank attaches to the monitoring of good practices by its customers.

One of the most controversial or risk sectors is energy, not only because it generates a high environmental, economic and social impact but because it has a key role to play in the transition to a low-carbon economy.

Energy is one of the main resources that contribute to economic and social development in the world. While it is true that current efforts are focused on developing more eco-friendly technologies, the economic model is still highly dependent on energy generated from fossil fuels like coal, natural gas and oil, all of which have significant environmental impacts.

The Paris Agreement highlighted the need to move towards a low-carbon energy system driven by the increasing use of renewable energies to the detriment of fossil fuels as a means of reaching the target of keeping global warming to below 1.5° C above pre-industrial levels.

Bankinter has adopted the Paris Agreement commitments as well as the global goals for limiting climate change, and it adheres to the main international initiatives in this area. However, the Bank is aware that this transition to a low-carbon economy requires financial support for the research, development and rollout of new technologies that will gradually reduce the dependence on the current economic model based on fossil fuels.

The Bank recognises the importance of the risks and impacts associated with the energy sector (in the environmental, social, and governance realms) and therefore pays particular attention to the following:

- Operations and projects carried out in areas and countries with a history of weak regulatory frameworks, lack of transparency or high levels of corruption and/or human rights violations.
- The possible impacts on natural habitats and/or areas protected because of their biodiversity.
- The social impact arising from the possible displacement of vulnerable groups.
- The environmental impact of projects, in particular their contribution to climate change, and plans for transitioning to less carbon-intensive models.
- The use of large volumes of water that reduce its availability and/or quality, and

the possible contamination of surface and underground waters.
- The management of waste, spills and leaks with their possible impacts on the environment and the safety of people.
- The management of workers' health and safety, with a particular focus on accident rates.

As its benchmark for analysing these risks, Bankinter refers to international initiatives that support greater transparency and control of the sector, such as:

- The Environmental, Health, and Safety Guidelines for the energy sector published by the International Finance Corporation (IFC).
- The Extractive Industries Transparency Initiative (EITI)
- The recommendations of the International Petroleum Industry Environmental Conservation Association (IPIECA).
- The International Association of Oil and Gas Producers (IOGP).
- The Global Gas Flaring Reduction Partnership (GGFR).
- The sustainability assessments for hydroelectric projects included in the International Hydropower Association Sustainability Assessment Protocol.
- The World Commission on Dams Framework, which investigates the environmental, social and economic impacts of the development of large dams in different parts of the world.
- The initiatives related to Ramsar wetlands and Unesco world heritage sites, as well as areas classified by the International Union for Conservation of Nature (IUCN) as categories I, II, III or IV.[1]
- The Equator Principles.
- - The scenario presented by the IEA in May 2021, illustrating how the world could achieve carbon neutrality in the energy sector by mid-century, while ensuring temperatures do not exceed 1.5 degrees Celsius.
- The safety standards of the IAEA (International Atomic Energy Agency), the Convention on Nuclear Safety and the Treaty on the Non-Proliferation of nuclear weapons, in relation to nuclear energy.

Bankinter implements this policy with all the customers and projects it services. In particular, this sector includes operations that involve the following activities:

- Oil and gas exploration, production, transport and refining
- Thermal power plants (coal and combined cycles)
- Electricity transmission and distribution
- Major hydroelectric power plants
- Renewable energy projects
- Nuclear energy

1 *I: Nature Reserve and Wilderness Areas, II: National Parks, III: Natural Monuments or Features, IV: Habitats/Species Management Areas.*

In line with the principles and values at the core of Bankinter's growth, the Bank commits not to grant any form of financing to energy sector projects where there is concrete evidence that:

- The area or associated facilities are located in UNESCO world heritage sites or Ramsar wetlands.
- The activities carried out involve displacing vulnerable local populations, such as indigenous communities.
- The activities are carried out in areas of active armed conflict.
- The projects involve child or forced labour as defined in the International Labour Organisation (ILO) conventions.

- Projects related to:
  - New nuclear power plants
  - New coal-fired power plants or the expansion of existing plants
  - Oil and gas exploration and production in the Arctic
  - Oil sands exploration and production
  - Hydraulic fracturing extraction (fracking)
  - Exploration and production in ultra-deep waters (UDW)

- Customers who:
  - Cannot provide a proven track record or health and safety plan for their workers and activities.
  - Have a significant installed capacity of coal-fired power generation (over 45%) and do not have a diversification/decarbonisation strategy.

Furthermore, in line with the decarbonization goals of the Bank's financing portfolios, Bankinter commits to progressively reducing, by 2030, the provision of any form of financing to clients for whom coal-based energy generation directly represents more than 10% of their consolidated revenues.

Have significant activities in the field of unconventional oil and gas extraction (oil sands, hydraulic fracturing, and/or Arctic and ultra-deep water - UDW - exploration and production) representing more than 10% of their revenue and do not have a diversification/decarbonization strategy.

Bankinter pays particular attention to the management of social and environmental risks related to the following activities:

- Oil and gas exploration, production and refining projects such as off-shore drilling and unconventional gas resources.
- The development, construction or expansion of projects or infrastructure related

to liquefied natural gas.

- Existing customers when there are changes in their installed capacity of coal-based power generation.
- Operations at existing coal-fired power plants (which must improve their environmental impacts in terms of emissions or increased efficiency).
- Operations related to large dams.

However, Bankinter will facilitate financing for customers and activities that include the following characteristics:

- Promotion and development of renewable energy projects.
- Activities related to the energy efficiency of facilities.
- Projects associated with compliance with the Paris Agreement on Climate Change and greenhouse gas reduction initiatives.

Bankinter undertakes to monitor these guidelines and their effective implementation, and to continuously review them in light of new international recommendations and best practices. The ultimate aim of this policy is to encourage customers to transition towards social, economic and environmental best practices in the countries and communities in which they operate.