

IMPLEMENTATION OF ESG STANDARDS IN OPERATIONS

1. Standard risk agreement

Risk management is a core component to Bankinter's competitive strategy. The Bank has a model of proven effectiveness that is in line with regulatory standards and best international practices, in proportion to the scale and complexity of its business activities. The board of directors annually approves the risk strategy and is ultimately responsible for managing risks.

Bankinter's risk management and control framework is a document in which the board of directors sets out the basic principles regarding its risk policy for each of the business segments on a yearly basis.

It provides certain 'investment sustainability principles' that address financing in particularly controversial or risky sectors that could have a significant social and environmental impact. It defines Bankinter Group's complementary policies (human rights, sustainability and environment), exclusion criteria (obligation not to finance or invest) and certain sectors that should be analysed in-depth due to their social and/or environmental impacts.

2. Investment sustainability principles/Sectoral policies

Bankinter is aware that the financial sector's contribution is essential to economic development and that its role is fundamental in its transition to a sustainable model.

The bank understands its duty and aims to operate in a responsible manner and encourage its customers to move toward a transition committed to future challenges and sustainable and inclusive development.

The core principle governing the Group's sustainability strategy is that its business objectives should be compatible with the company's prosperous and sustainable development, preserving environmental and cultural resources for future generations, respecting diversity and promoting education and the recognition of social groups in need of special support.

In order to prevent the financing of activities that may run counter to the Group's sustainability principles, it has created a set of exclusion criteria in terms of sectors that should be analysed in-depth regarding social, environmental and human rights related impact; in addition to policies and guidelines for financing certain sectors:

- **Defence**: defence and weapons manufacturing are identified as one of the most controversial sectors in the world, and we recognise the importance of the risks and impacts of related activities.

- **Mining**: mining is identified as one of the sectors that has the greatest impact on the environment, the economy and society. Bankinter expects companies to implement and develop their projects in accordance with existing local laws and international agreements ratified by countries where mining exists.

- **Agriculture**: it is also identified as a sector that has major environmental and social impacts. Therefore, Bankinter supports and refers to international initiatives that push for greater transparency and control in the sector.

- **Energy**: 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 ecofriendly 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.

3. Procedure for implementing ESG principles and policies.

Investment sustainability – due diligence

Corporate Banking's risk committee is in charge of supervising:

- the bank's compliance with sustainable investment principles and sectoral guidelines.
- the regular review of sustainable investment principles and sustainable investment guidelines to adapt them to new market trends, regulations, international best practices and the bank's risk appetite.

Business units and risk units will be in charge of determining whether a transaction contains potential environmental or social risks. In their analysis, they check that activities to be financed are not mentioned in the bank's exclusion policy or in the exclusion lists of the various sectoral guidelines.

Their analysis should also highlight activities that contain greater potential risks due to the distinctive nature of a given transaction or sector in which they are carried out.

3.1 For the initial analysis, business units will be in charge of verifying whether a project or a company are included within the bank's exclusion policy or if an activity could be fit into sectors that are controversial to the bank. If not, the bank can finance the company/activity.

3.2 If a company or project's activity is included within the exclusion policy, the bank will not finance it.

3.3 If a company or project's activity is carried out in what the bank defines as a risky or controversial sector, the bank will analyse the related impact and run a

check on the company and its operations. The committee in charge of this is Corporate Banking's risk committee.

3.4 After this analysis, risks levels will be assigned according to activity. Furthermore, the appropriate measures and safeguards will be requested, and the necessary contractual clauses will be drawn up to ensure that the impact/risk does not increase and can be mitigated. The committee in charge of this is Corporate Banking's risk committee.

4. Staff training

Once the sustainability principles and sectoral policies were approved and included within Bankinter's risk framework, training courses were held for the bank's risk analysts. Therefore, the bank ensures that staff assessing the risks of transactions has sufficient knowledge to analysis any related ESG risks.

5. 2018/2019 indicators

Since these environmental, social human rights and good governance-related policies were enacted, 10% in 2018 and 14% in 2019 of analysed transactions from these sectors have not been financed by the bank because they have not met the extra-financial standards set out in the policies.