

SANTANDER GROUP GENERAL POLICY

MINING AND METALS SECTOR



November 2018

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I. Introduction

The mining and metals sector contributes to the industrial and economic development of society by extracting and processing minerals that are necessary for many of our basic needs. The sector encompasses activities as diverse as the exploration for, and mining of, minerals such as coal or iron, to the complex industrial processes required to extract and process ore and produce metals such as steel.

This sector is currently facing a number of environmental challenges, such as obtaining ore in remote areas, extraction from greater depths, ever lower concentration of ore in rock samples and high consumption of energy and scarce natural resources such as water. It also faces social problems such as the involuntary displacement of the local and/or indigenous population, and the health, safety and human rights of the workers who carry out the activity. Mining and metals activity is also increasingly present in developing countries with less developed legislation which, in the transition process to an economy with a lower carbon footprint, identifies this as one of the sectors that most contributes to climate change risk.

In the search for more environmentally friendly solutions, the industry aims to reduce the consumption of natural resources through measures such as recycling and the development of a circular economy. However, the current dependency on the extraction and processing of new metals and minerals from the soil and subsoil continues to be high and therefore involves significant environmental and social impacts.

The Santander Group promotes the protection, conservation and recovery of the environment through sustainable activities. When analysing financial products and/or services for customers and projects in the mining and metals sector, the Santander Group gives consideration to the social and environmental risks that may arise through the activities it is supporting.

The purpose of this policy is to set out Santander's criteria for the Mining & Metals sector, always taking into consideration the best international practices and standards such as:

- The United Nations Global Compact, the Universal Declaration of Human Rights; the International Labour Organisation Declaration; the Convention on the Rights of the Child; the Rio Declaration on Environment and the United Nations Convention against Corruption.
- The standards for social and environmental performance and the explanatory notes of the International Finance Corporation as well as the Guidelines on Environment, Health and Safety in the Mining Sector (IFC).
- 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.
- The Equator Principles

This policy is aligned to, and must be read in conjunction with, Santander Group's Sustainability Policy and Climate Change and Environmental Management Policy. For any cases not mentioned in this policy, Santander Group's general policies on sustainability will apply when appropriate.

II. Policy Objective

This document sets out Santander Group's policy on providing financial products and/or services (these will include debt, insurance, asset management, equity and advisory services), to mining and metals customers and mining and metals related projects and especially those involving the following activities¹:

A) Mining activities:

- Prospecting and mining research.
- Mining development and exploitation.
- Restoration and recovery of the exploited natural space.

B) Metallurgical activity:

- Obtaining the metal contained in the extracted mineral ore and its subsequent processing.
- Processing of by-products: scree, gangue, slag and sand.
- Production and marketing of minerals excluding the production of finished products.

III. Scope of Application

As part of Santander Group's consideration of the environmental and social impacts of its business activities, the exclusion criteria described as prohibited activities in Section V of this policy will apply to Santander Group's activities and clients regarding involvement of debt, insurance, asset management, equity and advisory services.

Detailed assessments of the relevant environmental and social risk impacts will be required, in particular, from Santander Corporate and Investment Banking when engaging with the restricted activity subsectors set out in Section V.

IV. Transposition by subsidiaries

This policy was drawn up by Banco Santander S.A. as the parent of the Santander Group, and is made available to the subsidiaries comprising the Group as a reference document, establishing the regime to be applied in the matters referred to.

¹ See Annex: Definitions for each type of activity.

The governance bodies of the Group's subsidiaries are responsible for drawing up and approving their own internal regulations to enable the stipulations of Group regulations to be applied in their respective areas, with any adaptations, where applicable, which may be strictly essential to make them compatible and enable them to comply with legal and regulatory requirements or with the expectations of their supervisors.

This approval must be validated at corporate level, so as to guarantee coherence with the regulatory system and the internal system of governance operated by the Group.

V. Prohibited and restricted activities

Prohibited activities:

Santander Group will not provide financial products and/or services to any of the following activities:

- Extraction, processing and marketing of asbestos;
- Extraction and marketing of rough diamonds from producer countries involved in war conflicts, or not certified by the Kimberley process;
- Mining activities relating to the so-called "conflict minerals"² which are extracted from conflict areas, which are not included in the corresponding certification processes;
- Those activities that violate the United Nations Guiding Principles on Business and Human Rights laid down in Santander Group's Human Rights Policy;
- Mining activities without a specific treatment to avoid tailings disposal in riverine or shallow sea environments (as tailings dam);
- Any new thermal coal mine projects worldwide;
- New clients with thermal coal mine projects worldwide.

Restricted activities:

When providing financial products and/or services, Santander Group will pay particular attention to the environmental and social risks arising from the development of mines and activities related to:

- Precious minerals and metals.
- Uranium, notwithstanding the provisions of the Energy and Defence Policy.
- Mining activities with tailing dams.
- Those activities involving the removal of mountain tops.
- Any other activities that involve the resettlement of indigenous people and/or other vulnerable groups without their prior free and informed consent.

² See Annex: Definitions for each type of activity

In any case, for projects/funding and other products in non-designated countries³, the guidelines laid down by the IFC⁴ will be applied.

VI. Assessment, control and reporting

Units, as defined in the internal procedures, are responsible for the assessment of the environmental and social impacts in relation to client activities/transactions before submitting them for consideration to the risk committees. This will include, where applicable, compliance with Equator Principles or other international standards on environmental and social risk management. The units will also be responsible for monitoring, controlling and reporting on the client risk exposures and transactions assessed.

VII. Relationship with other policies

This policy shall be construed in accordance with the Risk, Compliance & Conduct, Brand, Sustainability, Communication and Anti-money Laundering and Terrorism Financing corporate frameworks, as well as other general Santander Group policies regarding sustainability and other policies which the Group may develop regarding Reputational Risk.

However, if any conflict arises among those policies, this policy will prevail in the specific matters it covers.

VIII. Policy owner and review process

The owner of this policy is the Board of Directors of Banco Santander S.A. Any significant material changes must also be approved by this body.

This policy will also be reviewed by the Executive Risk Committee and the Responsible Banking, Sustainability and Culture Committee, so that all areas represented in this committee are fully aware of and take the necessary decisions to implement it.

The content of this policy constitutes an ongoing improvement process, which will be reflected in the annual review of this policy.

This policy was last reviewed in November 2018.

³In accordance with Equator Principles definition on designated countries (those countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment.)

<http://www.equator-principles.com/index.php/designated-countries>

⁴International Finance Corporation

ANNEX: Definitions for each type of activity

The following are considered mining activities:

- **Mining prospecting:** includes all preliminary activities undertaken to identify deposits of economic interest (these activities are neither non-intrusive nor aggressive).
- **Mining research:** any activity required to establish the mineral resources available in a deposit (aggressive activities are required).
- **Mining development:** includes engineering activities, obtaining licences, concessions and the construction of facilities.
- **Mining exploitation:** any activity required for the extraction of metallic or non-metallic minerals or fossil fuels.

Minerals are classified by their characteristics:

- **Metallic:** Ferrous (iron, manganese, molybdenum, tungsten), Basic (copper, lead, zinc, tin), Precious metals (gold, silver, platinum), Radioactive (Uranium, and other compound minerals such as Coltan, Wolframite, and Cassiterite as well as their derivatives (Tin, Tungsten, and Tantalum), defined as "**conflict minerals**" when they originate from areas of conflict and high risk and do not comply with OECD Due Diligence Guidelines.
- **Non-metallic minerals** are classified by their end use: Industrial (Phosphate, Potash, Halite, Sulphur, Magnesite) and civil works (gravels, sands, gypsum, ornamental rocks).
- **Fossil fuels:** coal, petroleum and gas

Mineral processing will be carried out by:

- Physically reducing the size of the mineral (crushing, grinding and screening).
- Amalgamation for gold and silver using mercury.
- Pyrometallurgy (heat treatment): smelting and refining processes (lead, iron, copper, precious metals) and others such as calcination, roasting, and liquation.
- Hydrometallurgy (using water and chemical solutions): mineral flotation process, leaching (oxidised and sulphurised ores, copper...), cyanidation (dissolving gold and silver with cyanide solutions).
- Electrometallurgy (electrical process): electroplating or extraction using solvents and the Hall Héroult process.