Environmental Risk Management Policy

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CaixaBank

Environmental Risk Management Policy

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Introduction

CaixaBank carries out its business in strict compliance with the laws of the countries and regions in which it operates, while observing the most stringent standards when it comes to ethics and professional conduct.

The Bank works hard to optimise the risk-return tradeoff and does everything within its power to avoid, minimise and overcome any factors that may pose a significant risk or threat to the environment or the local community in accordance with the strictest standards of responsible conduct. In doing so, CaixaBank integrates social, environmental and good governance criteria into its business decisions with the aim of mitigating risks and championing projects that reflect its corporate values.

Certain sectors in which CaixaBank operates are capable of generating a significant environmental impact. With this in mind, CaixaBank ensures rigorous and responsible decision-making and feels it is essential to identify, assess and manage the environmental risk associated with its business activities.

This Environmental Risk Management Policy addresses the environmental repercussions of its lending activity to customers and aims to mitigate the impact of climate change, the potentially harmful effects on the environment in general (such as air and water pollution, depletion of natural resources and biodiversity) and the related risks (such as natural disasters).

Environmental risk management is an integral part of the ESG (*Environmental, Social and Governance*) risk management process and constitutes one of the main courses of action pursued by CaixaBank.

Meanwhile, environmental and social concerns are integrated directly into the Bank's general management framework and individual decision-making processes for both operational and business decisions, seeing as though any environmental impact can generate problems relating to inequality, inclusion, labour relations and investment in human capital and local communities. CaixaBank also pays close attention to social, employment and human rights issues in those sectors, in line with its social commitment and other internal policies and codes, including the Code of Ethics and Principles of Action and its Human Rights Policy.

This policy sets out the criteria and procedures to be followed in relation to the funding of certain activities that could have a relatively significant environmental and social impact in the following sectors:

- Mining
- Energy
- Infrastructure
- Agriculture, fishing, livestock and forestry

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Scope of application

This policy applies to CaixaBank, S.A. standalone. All material subsidiaries must define and approve, through their governing bodies, their own policies to be aligned with this individual policy, although they may and indeed should incorporate and reflect their own individual circumstances so as to ensure the best possible implementation of the risk management system and response to environmental opportunities on a local scale.

For the purposes of this policy, the following companies are considered material subsidiaries of the CaixaBank Group: BPI, VidaCaixa, MicroBank, CaixaBank Asset Management, CaixaBank Consumer Finance and CaixaBank Payments.

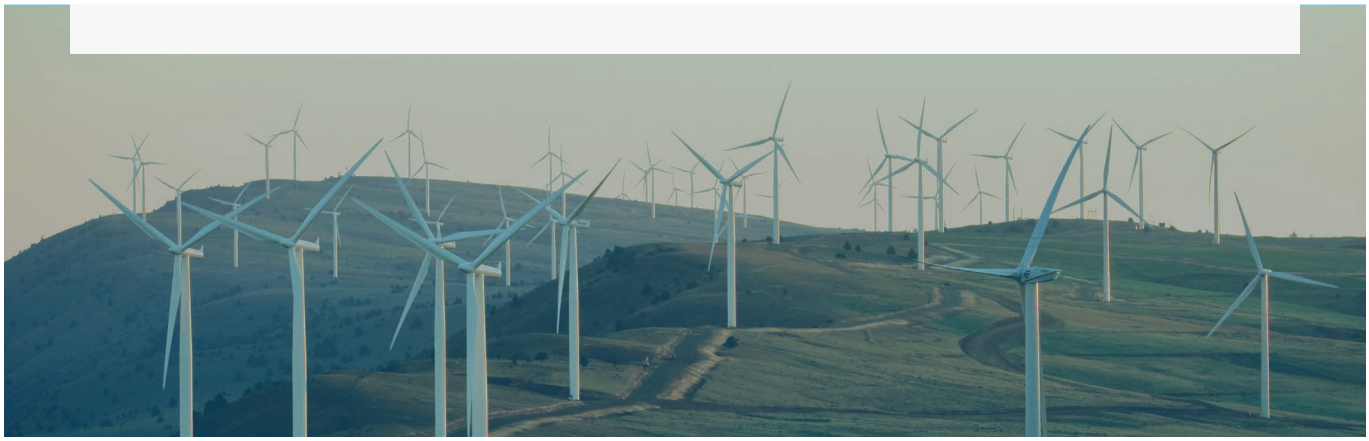
If, as a result of a corporate merger or acquisition, CaixaBank acquires a share or interest in some venture or customer that falls short of the requirements described in this policy, it shall take action to ensure such fulfilment in as short a time as possible, insofar as it is economically reasonable to do so.

This policy governs the admission and acceptance of new lending arrangements and guarantees and the purchase of fixed-income securities, equity instruments and other similar securities in companies or groups whose consolidated turnover exceeds 50 million euros and where such arrangements involve:

1. **Project financing**
2. **Long-term transactions** (more than two years) where the amount exceeds 5 million euros (such as syndicated credit facilities, loans and guarantees)

Social awareness of environmental issues is on the rise and international rules and regulations governing environmental risk management are constantly having to evolve and respond to global environmental challenges. For this reason, the strategy and standards of the CaixaBank Group must be regularly reviewed to bring them in line with new recommendations and legal requirements as and when these arise and to respond to the concerns raised by stakeholders. Accordingly, CaixaBank shall review this policy at least once a year to ensure that it remains suitably aligned with international regulations and best practices.

This policy will apply from the date of authorisation for issue by CaixaBank's Board of Directors and will exclude any pre-existing activities or customers.



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International standards

The Bank has a set of mandatory internal standards and policies in place, including the Code of Ethics and Principles of Action, the Corporate Social Responsibility Policy and the Human Rights Policy, all of which enshrine the fundamental principles of action governing its business activities. CaixaBank also has a Crime Prevention Model, which tracks and assesses the risk of criminal activity in connection with natural resources and the environment in a bid to prevent those risks from materialising and to detect them if they do.

These policies illustrate CaixaBank's firm commitment to carrying out its business in strict compliance with applicable law and regulations and in accordance with the highest standards of ethics and professional conduct.

CaixaBank is also adhered to various global initiatives relating to social and environmental matters, notably:

- The UN Global Compact
- Principles for Responsible Banking of the United Nations Environment Programme – Finance Initiative (UNEP FI)
- Equator Principles

In line with those commitments and undertakings, CaixaBank considers it essential to properly assess and manage the social and environmental risks and impacts of its business activities. For this reason, it expects its customers to comply with all applicable law and to meet the highest standards of governance, transparency and social and environmental awareness and protection. Therefore, CaixaBank recognises and embraces the following initiatives, conventions and institutions:

- The International Bill of Human Rights of the United Nations
- The Guiding Principles on Business and Human Rights of the United Nations
- The conventions of the International Labor Organization (ILO)
- The latest Performance Standards on Environmental and Social Sustainability of the International Finance Corporation (IFC) attached to the World Bank
- Environmental, Health and Safety guidelines of the International Finance Corporation (CFI) attached to the World Bank

Meanwhile, in the realm of environmental risk management, CaixaBank embraces other related initiatives, such as:

- Paris Agreement (COP21) and Katowice Agreement (COP24)
- Sustainable Development Goals (SDGs) of the United Nations (UN)
- The energy transition scenario adopted by the Government of Spain
- The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board

CaixaBank has also undertaken to align itself with any new standards and regulations that may apply, including those that derive from the aforementioned Action Plan of the European Commission and from the Spanish Strategy on Climate Change and Energy Transition.

Last but not least, CaixaBank is subject to the rules on international sanctions and financial countermeasures of the United Nations, the European Union and the various Member States in which the Group operates, and also the lists kept by Her Majesty's Treasury of the United Kingdom and, partially, by the US Government.

I. General principles

CaixaBank seeks to ensure that procedures and tools used to identify, assess and monitor the environmental risks deriving from its activities with customers and transactions are fully applied and integrated within its standard risk processes, compliance function and operations.

To achieve this, environmental risk management includes the following **lines of action**:

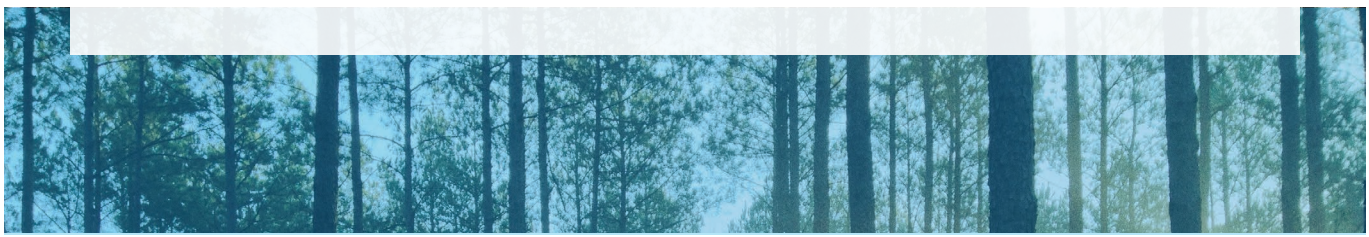
- Defining and managing an internal environmental risk management **plan** in line with the Group's strategy.
- Defining and implementing a framework of industry-specific **policies** for lending and management purposes that allows the Group to maintain a risk profile that accurately reflects its strategy.
- **Monitoring** all activities and operations that could pose a significant risk to the environment.
- Fostering practices that help **mitigate** the environmental risks associated with our portfolios and activities as a whole (such as by issuing green bonds).
- Seeking to develop systems to **identify and measure** our exposure to environmental risk, in response to regulatory changes, growing social awareness of these risks and best market practices.

II. Effectiveness of this policy

Client registration

When accepting new customers, CaixaBank will rely on available public information and on the information provided by the customer to ensure that its business activities do not violate the principles set out in this policy and also to verify its performance, commitment and progress in relation to environmental matters. These controls supplement the existing general controls in place for other internal policies and regulations.

CaixaBank also scours international databases to detect companies that are based in countries subject to financial sanctions.



Recording transactions

Additionally, when originating new transactions for the sectors covered by this policy, CaixaBank's Business area shall check to see whether any exclusion criteria apply. In doing so, it will rely on available public information and on the information provided by the customer and during the due diligence process (where such a process must be performed due to the nature of the transaction).

If in doubt as to whether the aforementioned exclusion perimeter applies, the environmental risk experts attached to the Bank's Business units shall conduct a preliminary verification and diagnosis. If still in doubt, the query must be escalated to the Transaction Analysis and Appraisal Unit defined in this policy, which will issue a report on the level of environmental risk, including a recommendation on the desirability of recording the transaction. The final decision will be down to the Environmental Risk Management Committee defined in this policy.

Transaction Appraisal Unit

This unit specialises in environmental risk and supports the Bank in daily decision-making processes in connection with ordinary risk acceptance activities. It reports to the Environmental Risk Management Committee.

The unit comprises environmental risk experts acting on behalf of the Business, Risks and Corporate Responsibility areas.

The unit's main function is to run analyses and issue reports or explanations with respect to potential levels of environmental risk whenever required of it and especially when granting new loans in relation to the activities and sectors covered by this policy. Any decision by the Environmental Risk Management Committee to approve an exception to the general and industry-specific exclusions will require a preliminary report from this unit supporting that exception.

Environmental Risk Management Committee

Broadly speaking, the Environmental Risk Management Committee (which reports to the Management Committee) is the most senior specialised executive body at CaixaBank when it comes to environmental risk management. It is therefore responsible for analysing and, where necessary, approving the proposals received from the different functional areas concerning the Bank's strategy and approach, while also identifying, managing and controlling the associated risks as a first line of defence.

All environmental risk management initiatives are supervised by this committee. It may also seek, at any time, the advice of the environmental risk experts attached to the Bank's various business areas involved in environmental risk acceptance, management, monitoring or control activities. The committee may also authorise exceptions to the general and industry-specific exclusions set out in this policy, although any such decision may need to be reported to the bodies responsible for approving the new lending transaction or project.

The committee shall regularly report to the Bank's Global Risks Committee.

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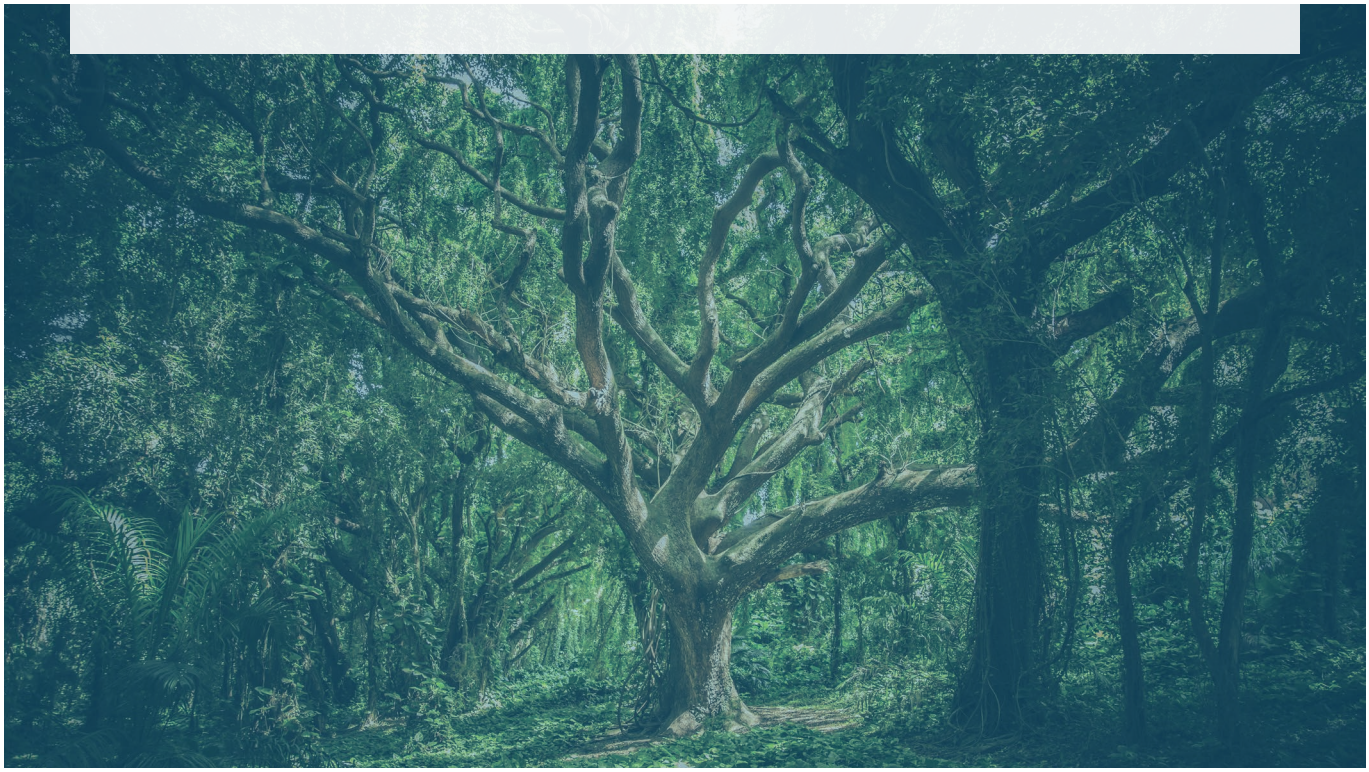
General exclusions

As general exclusions, CaixaBank announces its intention not to finance transactions:

- Requested by companies in relation to which there is strong evidence that they employ child labour or forced labour, as defined under ILO conventions, or that they have been party to human rights abuses;
- Involving the resettlement of indigenous and/or vulnerable groups without first obtaining their free and informed consent;
- That generate a negative impact on areas included on the UNESCO world heritage list, wetlands registered by the ramsar convention, alliance for zero extinction sites, protected areas under categories I-IV of the international union for conservation of nature (IUCN, marine protected areas, primary tropical rainforests, primary or high conservation value forests or old-growth forests, as defined by the world resource institute;
- With a significant environmental impact, when the company concerned fails to provide enough information on its environmental risk mitigation policy during the due diligence process [1];
- Received from companies that do not have health and safety policies to protect their workers (such as OHSAS 18001), or that are unable to provide a health and safety log for their workers.

[1] Where they fall short of the relevant Equator Principles



Industry - specific exclusions

I. Mining

These rules apply to companies involved in the mining sector, including exploration, planning and development, operation, the closure and rehabilitation of mines, and the processing in situ of the extracted minerals (but excluding oil & gas, which is governed under the section on energy).

Applicable standards

In drawing up this policy, we have taken into account internationally recognised standards and initiatives, notably:

- The International Council on Mining and Metals (ICMM)
- C176 - Safety and Health in Mines Convention of the ILO (1995)
- The Extractive Industries Transparency Initiative (EITI)
- Environmental, health and safety guidelines for the mining sector of the International Finance Corporation (CFI) attached to the World Bank
- Voluntary Principles on Security and Human Rights
- The Energy and Biodiversity Initiative (EBI)
- Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal
- International Cyanide Management Code (gold mining)
- Minamata Convention on Mercury (gold)
- The Kimberley Process (diamond trade)
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (tin, tantalum, tungsten and gold)
- ITRI Tin Supply Chain Initiative (tin)
- Fair Stone International Standard (natural stone)
- Bettercoal Code (coal)
- Recommendations of the International Commission on Radiological Protection
- Treaty on the Non-Proliferation of Nuclear Weapons (New York, 1968)
- Safety standards of the International Atomic Energy Agency (IAEA)

Exclusions

CaixaBank will assume no credit risk in new **projects**:

- That involve the mining of:
  - Coal: new mines or expansion of existing mines
  - Asbestos
  - Gold, with the exception of certified gold under the International Cyanide Management Code (ICMC)
  - Rough diamonds or rough diamond trade, with the exception of certified diamonds under the Kimberley Process
- That apply the following extraction/mining methods:
  - Mountaintop Removal (MTR)
- Located in areas actively embroiled in armed conflict
- That dump waste into coastal or other shallow waters
- Where no soil recovery plan exists

CaixaBank will assume no credit risk in new long-term transactions or arrangements requested by **companies** with the following characteristics:

- Companies at which coal extraction accounts for over 40% of their consolidated revenue. In exceptional cases, the Bank may finance companies whose revenue from coal mining accounts for a significant part of their consolidated revenue, provided they are located in countries that are heavily reliant on coal as an energy source or that do not have other viable sources of alternative energy, and provided also such companies have a diversification strategy in place.
- Companies at which asbestos mining or mountaintop removal accounts for more than 10% of their consolidated revenue.
- Companies that extract gold but are not certified under the International Cyanide Management Code (ICMC).
- Rough diamond mining companies if their operations are not certified or undergoing certification in accordance with the Kimberley Process.

Projects or companies that are involved in the extraction of uranium or other radioactive materials may be financed in exceptional cases, provided the materials are intended for civil uses and the projects or companies meet the strictest international standards with regard to health, security and the environment.

II. Energy

Companies engaged in oil and gas exploration and production and energy generation (including the construction/expansion/maintenance of power plants), whether thermal, nuclear or renewable, account for a significant part of total economic activity within this sector.

Applicable standards

In drawing up this policy, we have taken into account internationally recognised standards and initiatives, notably:

- Guide to operating in areas of conflict of the International Petroleum Industry Environmental Conservation Association (IPIECA)
- Global Gas Flaring Reduction Partnership of the World Bank
- Extractive Industries Transparency Initiative
- Convention on Nuclear Safety (Vienna, 1994)
- Treaty on the Non-Proliferation of Nuclear Weapons (New York, 1968)
- Convention on Civil Liability for Nuclear Damage (Vienna, 1963)
- Safety standards of the International Atomic Energy Agency (IAEA)
- Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management (Vienna, 1997)

Exclusions

CaixaBank will assume no credit risk in new **projects**:

- Involving the exploration or production of bituminous sands
- Involving oil and gas exploration or production in the arctic region
- Involving extraction through hydraulic fracturing (fracking)
- Specific to the construction, development or expansion of coal-fired power plants
- Involving the construction, development or expansion of nuclear power plants or uranium enrichment facilities

CaixaBank will assume no credit risk under new long-term transactions requested by **companies** that meet the following characteristics:

- Where coal-fired power generation accounts for over 40% of the company's turnover. In exceptional cases, the bank may finance companies whose revenue from coal-fired power generation represents a significant part of their consolidated revenue but only when: a) the company is located in a country that is heavily reliant on coal or does not have other viable alternative energy sources; b) the company employs the most efficient technologies to limit CO_2 emissions; and c) has a diversification strategy in place;
- Where bituminous sand exploration or production accounts for more than 10% of the group's consolidated turnover at level of parent company.

In exceptional cases, CaixaBank may finance projects related to the generation of nuclear power but only when the relevant safety requirements and international standards are duly met. These rules may differ depending on the jurisdiction in question, as well as the reliability and experience of the parties involved and the specific requirements governing the technological safety and security of the nuclear power stations.

III. Infrastructure

In this sector, companies engaged in construction, the operation and dismantling of transport facilities, water and waste management and telecommunications represent a significant part of total economic activity within the sector.

Applicable standards

When drawing up this policy, CaixaBank has paid close attention to internationally recognised standards and initiatives, notably:

- OECD Framework for the Governance of Infrastructure
- World Commission on Dams (WCD)
- Dams and Development Project (DDP) of the United Nations Environment Programme (UNEP)
- Building Research Establishment Environmental Assessment Method (BREEAM)
- Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management (Vienna, 1997)

- Requirements of the International Maritime Organization
- Industry-specific reference guidelines of the International Finance Corporation (IFC)

Exclusions

CaixaBank will assume no credit risk in new **projects**:

- Involving the construction of oil pipelines where there is strong evidence that a significant percentage of the oil to be transported will have come from bituminous sands;
- Involving the transportation of energy where there are no procedures in place —based on available best practices— to mitigate the risk of leakage or dumping (such as ISO 13623, the pipeline security guidelines of the US Transportation security administration (TSA) and other reference guidelines);
- Involving the construction of dams that breach the framework of the world commission on dams;
- Involving the construction of new desalination plants in which no measures are envisaged to mitigate the adverse impacts arising from the disposal of brine and/or of the capture of seawater[2].

IV. Agriculture, fishing, livestock and forestry

Companies are considered to operate within this sector when their activity in the primary production and processing of crops, livestock breeding, fishing and forestry accounts for a significant part of their total business. Conversely, companies engaged in activities such as the production of processed food and beverages and the manufacture of agricultural machinery, pesticides or fertilizers fall outside the scope of this sector.

Applicable standards

In drawing up this policy, we have taken into account internationally recognised standards and initiatives, notably:

- Principles for Responsible Investment in Agriculture and Food Systems (FAO, IFAD, UNCTAD and World Bank)
- The World Wildlife Fund (WWF) 2050 Key Performance Criteria (Guide to Responsible Investment in Agricultural, Forest, and Seafood Commodities)
- The UN Convention on Biological Diversity (1992) and the Nagoya Protocol (2010)

[2] In accordance with the Water and Sanitation Environmental, Health and Safety Guidelines of the International Finance Corporation.

- The Cartagena Protocol on Biosafety in relation to Genetically Modified Organisms (GMOs)
- Stockholm Convention on Persistent Organic Pollutants (POPs)
- International Code of Conduct on the Distribution and Use of Pesticides of the FAO
- OECD-FAO Guidance for Responsible Agricultural Supply Chains
- The Aquaculture Stewardship Council
- The UN Resolutions on sustainable fisheries
- The Forest Stewardship Council (FSC) Principles and Criteria
- The Program for the Endorsement of Forest Certification (PEFC)
- The Alliance for Zero Extinction
- Global Good Agricultural Practice (GAP)
- Rainforest Alliance Sustainable Agriculture Standard (SAN)
- The IFC Good Practice Note on Animal Welfare in Livestock Operations
- The Global Roundtable for Sustainable Beef (GRSB) and Standard for Sustainable Cattle Production Systems (SCPS)
- The World Organisation for Animal Health
- Framework Convention on Tobacco Control (FCTC) of the World Health Organization
- On the cultivation of soy:
    - Roundtable on Responsible Soy (RTRS)
    - Basel Criteria for Responsible Soy Production
    - CGF Responsible Soy Sourcing Guidelines
- Palm oil:
    - Roundtable on Sustainable Palm Oil (RSPO)
    - Principles and Criteria for Responsible Palm Oil Production
- Cotton, coffee, tea, coconut and sugar:
    - Fairtrade
    - Rainforest Alliance Certified
    - UTZ Certified
    - Better Cotton Initiative
    - World Cocoa Foundation
    - Ethical Tea Partnership
    - 4C membership (coffee)

- Wood and rubber:
  - Forest Stewardship Council (FSC) standard
  - Programme for the Endorsement of Forest Certification (PEFC)
  - Rainforest Alliance or equivalent certification

Exclusions

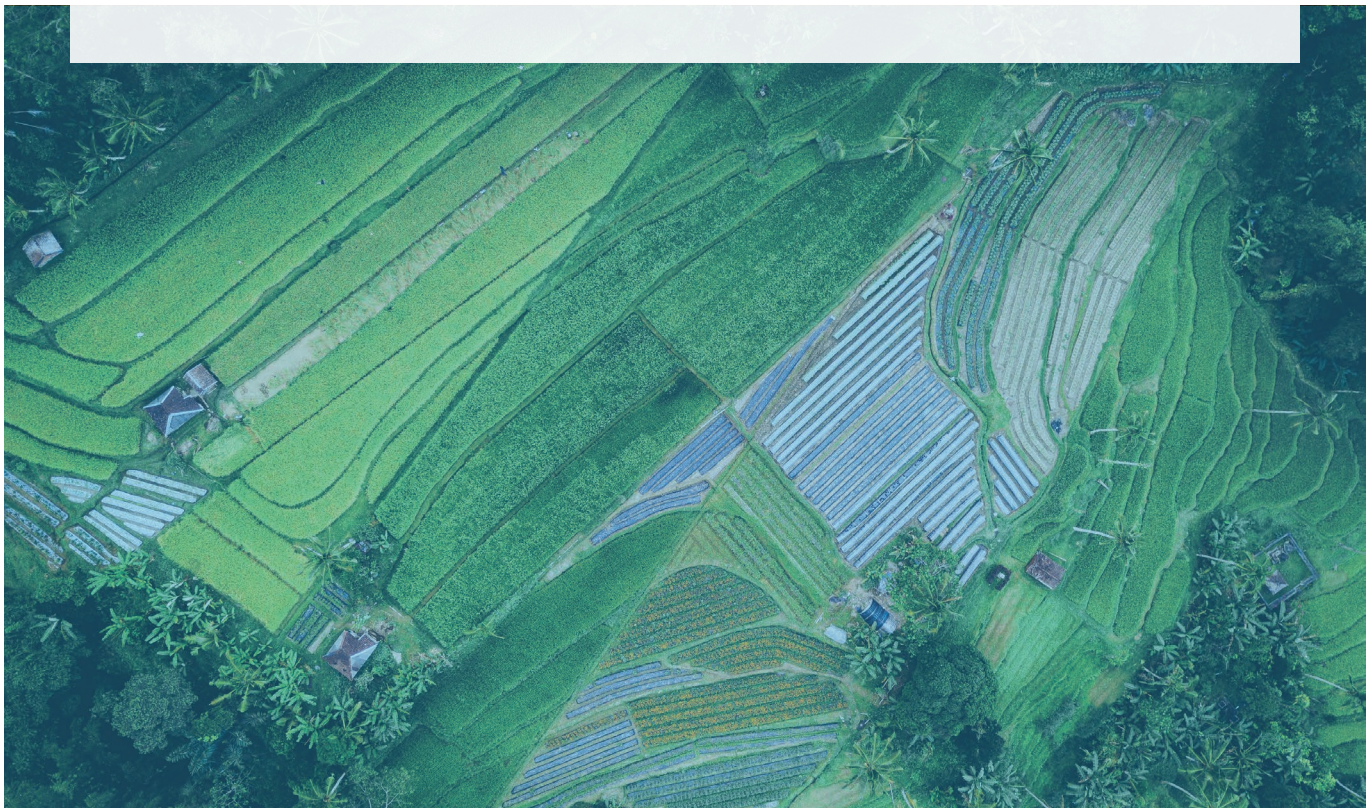
CaixaBank will assume no credit risk in new **projects**:

- Located in non-designated[3] countries according to the Equator Principles and directly related to:
  - The use or production of wood sourced from or located at illegal operations
  - Land clearing by burning
- That use substances banned under the stockholm convention, as listed under annex III of the Rotterdam convention, as well as who category 1a or 1b chemicals;
- For commercial palm oil plantations, if swamps or peat-rich areas are drained and do not have a peat management system in place;
- Involving the production of first generation biofuels, meaning those obtained from crop biomass that can be used for human or cattle consumption.

[3] The list of designated countries is published and updated at https://equator-principles.com/designated-countries/

CaixaBank will assume no credit risk in new long-term lending arrangements requested by **companies** that meet one or more of the following characteristics:

- Where they produce or process products regulated by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
- Palm oil producers that are not members of the Roundtable on Sustainable Palm Oil or equivalent association (unless they have requested membership or undertaken to do so).
- Soy producers that are not members of the Roundtable on Sustainable Soy or other similar initiative/programme that champions responsible production (unless they have requested membership or undertaken to do so).
- Where they fish with explosives, poison or drift nets measuring more than 2.5 km or used for the capture of the species listed under Annex VIII of EU Regulation 1239/98.
- Where they are directly engaged in the fishing of shark fins or illegal commercial whaling or fishing (Illegal, Unreported and Unregulated, IUU, fishing activities).

In exceptional cases involving countries that are heavily reliant on energy imports or have no viable alternatives, CaixaBank may finance the production of first generation biofuel.

Policy approved by the Board of Directors on 21 February 2019