

Santander and the Brazilian Amazon

In this section we explain how Santander Brazil applies the Group's global policies and its local procedures to its activities in the Amazon.

Protecting the Amazon rainforest is critical if we are to tackle climate change. Grupo Santander is committed to doing so, while helping promote sustainable development and practices. We need economic growth – but it must be green.

Deforestation in the Brazilian Amazon has been taking place over several decades, in part thanks to the spread of ranching, fuelled by increasing demand for meat. Deforestation, however, cannot be attributed to a single cause. Logging, mining, property speculation, lack of clear land titles, large infrastructure projects in the region have all played a role. Out of these, however, the key drivers have been speculation and undefined land ownership: speculators, after burning the forest, will often raise cattle on land whose ownership is not clear as a way of strengthening their claim. Given the growing concerns about climate change and biodiversity conservation, in addition to the information available about Santander's global policy on Environmental, Social & Climate Change Risk Management ([link](#)) (ESCC), and its commitment to the Equator Principles, we detail below the additional care Santander takes when lending to Brazilian clients with operations in the Amazon.

Our Global Policy

Santander's global ESCC policy applies to our activities in financing clients with operations in the Amazon. It requires our clients who are lumber companies to hold Forest Stewardship Certification (FSC); our conducting annual reviews of large companies involved in agribusiness; and places a special focus on the following activities:

- Industrial processes with an environmental impact on nearby areas classified as Ramsar Sites, World Heritage Sites or by the International Union for Conservation of Nature (IUCN) as categories I, II, III or IV.
- Extraction and sale of native tropical timber species.
- 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.
- Potential 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.

Santander's overall approach to the Brazilian Amazon

Santander finances meat processors, lumber companies, farmers and ranchers among many other business sectors in the Amazon and as a responsible bank we constantly seek to eliminate or minimize possible social and environmental impacts of our financing. Looking ahead we will expect beef processing clients in the Amazon to have a fully traceable supply chain that is deforestation-free by 2025, including indirect suppliers of cattle, as a prerequisite for granting credit.

For years, the bank has been working with our clients to promote sustainable development. Santander was the first bank in Brazil to require native species logging companies to have FSC as a condition for becoming a client. And it was the first private-sector Brazilian bank to develop, in 2002, credit analysis that looked at environmental and social risk and the first, in 2016, to formally incorporate a sustainability rating into the credit rating of its Corporate segment clients.

Since then, the bank has taken a number of further steps. There are more details below, but overall our framework ensures the following:

- All loan requests by farmers and ranchers to Santander in Brazil (not just those in the Amazon) are checked for embargoes issued by the government because of illegal deforestation, not only on the property financed but also on nearby properties. In addition, these requests are screened to make sure that the properties do not overlap with officially-recognized indigenous peoples' reserves and parks.
- Clients' practices are reviewed regularly: there are annual ESG reviews of more than 2,000 customers, including beef processors, soy traders and logging companies.

Santander Brasil has an E&S Risk department of seven professionals in São Paulo, all of whom have expertise in this area. The unit has analysts with degrees in agronomy, biology, geology, environmental management and chemical engineering.

Farmers and ranchers

A large part of the forest that is being burned is on land that does not have clear title or is government-owned property. To help prevent this, before lending money to farmers and ranchers, Santander verifies who has title to the land or has a lease on that property.

As part of its credit approval for loans to farmers and ranchers, Santander retains a leading-edge satellite-imaging firm that monitors 14,000 properties that it is financing or that are taken as collateral. This firm supplies us with daily information on embargoes issued by the government prohibiting production on specific illegally-deforested plots.

The satellite-imaging firm also supplies us with data on the clients about modern slave labour, as well as incursions into officially-recognized indigenous lands and parks and conservation areas. If there are problems, we will contact the client and require an explanation. If material breaches of environmental law and regulations are identified, under the terms of our standard contract the bank has power to take remedial action including, where applicable, declaring the early maturity of the debt and demanding its

payment. In addition to these tools, Santander also uses the internet-based satellite-imaging tools Global Forest Watch and MapBiomas. These tools allow us to see satellite images of possible tree cover loss over a specific time period and with good detail on client's farms and ranches.

Plano Amazônia

In July 2020, Santander Brasil announced a plan to promote sustainable development in the Amazon, in collaboration with the two other largest private-sector banks in Brazil. Part of this plan, called Plano Amazônia, aims to eliminate deforestation in the supply chain of cattle for beef processors in the Amazon and is being implemented by Santander Brasil.

The *Plano Amazônia* also prioritizes other objectives: understanding the land ownership issue, which is one of the main drivers of deforestation, and promoting the cultivation of local crops such as açaí, Brazil nuts and cocoa. Regarding the financing for sustainable crops and bioeconomy, we announced a goal of allocating R\$ 100 million (roughly 15.800.000 euros) in credit to cooperatives and agro-industries for the sustainable production of crops in the region, such as açaí, Brazil nuts, cocoa, among others. Santander alone has already allocated R\$ 260 MM (roughly 41.080.000 euros) to these clients.

In bioeconomy, we decided to support a study that will provide possible solutions for the low market share of Amazonian products, which is US\$ 300 million per year and represents only 0.17% of the corresponding global markets. We see here a potential for sustainable economic development. It is critical to develop adequate models to address logistical, energy, and connectivity challenges that threaten sustainable activities in the region, especially the bioeconomy. We need to design enterprises that establish a direct dialogue with the possibility of building a new economic development paradigm that fosters maintenance of standing forests and socio-biodiversity resources.

Environmental and social reviews of companies

For corporate clients across Brazil, not just in the Amazon, Santander has a set of ESCC processes and controls that take into consideration not only if our clients are legally compliant but also have good practices. Over the past decade, Santander Brasil has conducted reviews of more than 2,000 corporate client groups a year. Details of these numbers are available on the Santander Brasil website. This covers companies in every region of Brazil, including those that have operations in the Amazon such as large soy producers, soy traders, beef processors, mining and logging companies. **Scope.** These procedures require that the bank conducts periodic ESCC reviews in the Wholesale and Large Retail (E3) segments, that:

- operate in certain economic sectors, including agribusiness, forestry, mining, energy, oil & gas and industry in general; and
- have annual sales revenues of at least R\$ 20 million (roughly 3.5 million euros); and
- have a debt exposure with Santander of at least R\$ 5 million (almost 1 million euros).

Methodology. Santander Brasil uses an ESCC rating system for the companies it reviews. It directly affects the credit rating for clients in the Corporate segment. This ESCC model includes an assessment of supply chain practices, fines, degraded land and profile of E&S management. The model also includes climate factors in two ways: (1) a water stress calculator that considers the client's economic activity, the river basin(s) in which it is located, as well as the measures adopted to save water and (2) an assessment of the customer's resilience to climate change in general, such as new weather patterns, legislation or consumer preferences.

Furthermore, in Cerrado Biome, our clients must maintain between 20 and 35% of the land as native vegetation, which is a higher percentage than what is required in some countries like USA or in Europe.

Supply chain. A key part of the analysis of agribusiness clients in the Amazon is a thorough check of their supply chain. For this, Santander uses internet-based tools such as Trase and government data on fines or audits,

as well as news reports. If the bank discovers problems, it questions clients on their practices and specific incidents. If material breaches of environmental law and regulations are identified, under the terms of our standard contract the bank has power to take remedial action including, where applicable, declaring the early maturity of the debt and demanding its payment. Specifically, regarding reviews of beef producers, over the past years Santander has closely followed the implementation of their practices regarding their suppliers. The E&S Risk analysts hold calls with them at least once a year to discuss their progress.

Certification. Santander Brasil was the first bank in Brazil to require that native-species lumber companies, which are all in the Amazon, have the Forest Stewardship Certification (FSC) or equivalent certification to be a client.

Working with others to stop deforestation. Santander Brasil participates in three external initiatives that propose solutions to stop deforestation. It is a founder of The Round Table on Responsible Soy (RTRS), and was its first president from 2006 to 2009, during the crucial phase of creating its first sustainability standard. The bank is also a founder and board member of the Brazilian Roundtable on Sustainable Livestock (GTPS, in Portuguese), a multi-stakeholder initiative founded in 2008 to promote better ranching practices in Brazil. The bank is active in the banking association's (Febraban) committee on forestry/agribusiness issues. Committee members exchange experiences with new ways to curb deforestation among bank clients.

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