

Sector guide - Energy

The purpose of this document is to serve as a guide for the identification and management of the environmental and social risks and opportunities of the services provided to the customers participating in the energy sector.

Purpose

Access to energy is directly related to well-being and the development of people and communities. Progress in developing countries and greater technological capitalisation in developed countries demands greater consumption. Customers operating in the energy sector face the challenge of meeting the increasing energy demand, while minimising its environmental impact, and ensuring a reliable and safe supply that is accessible to society.

Furthermore, the Paris Agreement has revealed the need to progress towards a low carbon energy system, driven by growth in renewable energies, to the detriment of the use of fossil fuels, and with the aim of complying with the target of keeping global warming under the limit of 2°C with respect to pre-industrial levels. In the case of Europe, for 2030 the target for greenhouse effect gas emissions is a 40% reduction on the levels seen in 1990¹.

These challenges involve risks and opportunities, not only for companies promoting energy projects but also for those by which they are financed. The most significant risks are related to the reputation of the financial entity as being responsible for the impact of the financed project, or those associated with the project's viability which can affect the performance of the financing.

In this regard, Bankia has designed this guide to serve as an instrument to identify and prevent risks associated with financing in the energy sector, as well as to identify and seize opportunities.

¹ Frameworks for climate and energy 2030, adopted by EU leaders in October 2014, and based on the package of measures for climate and energy up to 2020. European Commission, April 2014.

Scope

This guide covers all operations and projects in the energy sector, involving an amount equal to or greater than 10 million Euro and within the following activities:

- Petrol & Gas
- Thermal energy
- Nuclear energy
- Large hydro-electrical plants
- Energy transmission and distribution
- Renewable energies

General standards

The purpose of the energy sector guide is to champion strict compliance with national and international legislation and standards. In this regard, when evaluating the services provided in the energy sector, the bank will be guided by the standards resulting from the following world-renowned international conventions, initiatives or institutions, among others.

- UN Global Compact
- IFC sector guidelines – International Finance Corporation - and World Bank
- Universal Declaration of Human Rights
- Conventions of the International Labour Organisation
- Paris Agreement of the United Nations Framework Convention on Climate Change
- Objectives of Sustainable Development and United Nations Agenda 2030

Purpose

Bankia creates this guide with the purpose of minimising the environmental and social risks and impacts of the operations in which it participates, as well as to influence the transition to a low-carbon economy, in line with the Paris Agreement of the United Nations Framework Convention on Climate Change. In this regard, Bankia undertakes the following commitments to investment in the energy sector:

Bankia will not grant financing to customers or activities that involve the following characteristics:

- Construction of new carbon thermal plants.
- Customers with a carbon mix exceeding 45%, without a de-carbonisation plan.
- Projects for the exploration and production of tar sands.
- Projects in general that threaten the protection of the natural characteristics in areas categorised as:
 - Locations declared as UNESCO world heritage sites
 - Critical natural habitats registered by the International Union for Nature Conservation
 - High conservation value forests listed by the Forest Stewardship Council
 - Wetlands declared as having international significance under the RAMSAR Convention
- Furthermore, Bankia will grant financing to customers or activities that involve the following characteristics:
 - Promotion and development of renewable energy.
 - Activity related to energy efficiency.
 - Loans related to sustainable products.
 - Initiatives related to the reduction of greenhouse gas emissions.
 - Initiatives associated with compliance with the Paris Agreement of the United Nations Framework Convention on Climate Change

Management by activity

Thermal generation

Electricity thermal generation results in the following environmental impacts:

High emission of greenhouse gases that involve risks associated with climate change;

Leaks associated with the storage and capture of carbon (CCS);

Large volumes of water extraction for water for cooling operations that affect water flow and quality;

Public debate and controversies about the participation in internationally recognised carbon business frameworks (voluntary or regulatory)

Faced with international commitments to reduce emissions, thermal generation is one of the sectors whose business model may be most effected, being an activity with a greater volume of emissions, and therefore more sensitive to this transformation.

However, thermal generation from carbon and gas holds an important place in the mix of electrical generation on a worldwide scale. Carbon plants suggest a viable alternative in emerging countries, and gas technology is a more efficient environmental solution while potential renewable energies are developed.

In both cases, Bankia will support projects that show their rationale through prior analysis of alternatives, make an effort to develop the most efficient technologies, and are developed according to applicable legal standards and also following the best practices set out in international standards.

Petrol & Gas

Although petrol is likely to remain one of the main energy sources on a worldwide scale, and the participation of gas in the worldwide energy mix must continue to increase, the characteristics of operations of the Petrol & Gas industry involve increasing complexity due to the singularity of the environment in which they are developed, as well as the institutional weakness of certain producing companies and the development of new technologies which associated with certain critical risks such as:

- Adverse impacts on natural habitats and protected areas, including marine habitats in open seas;
- Emissions to the air, including the generation of greenhouse gases and the release of toxic gases such as sulphur and nitrogen oxides;
- Contamination of water and the use of water in areas where it is scarce;
- Petrol spills and leaks, as well as fires and explosions;
- Unknown effects of new practices such as unconventional gas extraction.

With the aim of managing these environmental and social impacts of the industry, Bankia urges its customers to apply internationally accepted best practices.

Distribution

The transport of energy involves the installation and maintenance of infrastructures needed for the correct development and evolution of society. Bankia will assess whether its customers comply with current standards, and evaluate and mitigate the impact of their activity. The main impact generated in the distribution of energy is environmental and social including:

- Emissions to the atmosphere as a result of usual activities, and wear and tear;
- Segmentation and disturbance of habitats during construction activities;
- Project viability and social risks, associated with the dispossession of lands or changes in territorial occupation.

Bankia will promote that its customers apply best practices based on international standards.

Nuclear

Nuclear energy involves a large part of the world's energy production, generating approximately 11% of global energy². This energy is a major breakthrough in competing with fossil energy, and also in combating global warming.

However, this energy practice generates great social unrest and controversy due to its potential risk to cause accidents which are catastrophic to the world's population.

Bankia will ensure that its customers carry out these practices while strictly following international legal standards, as well as adapting their activities to different incentives to which the entity abides, such as:

- **Non Proliferation Treaty**, where through its safeguard system, the International Atomic Energy Agency verifies that states comply with their international obligations to use science and nuclear technology exclusively for pacific goals. Bankia demands that the customer and project are developed in a country that has signed the agreement.
- Be a member of the **International Atomic Energy Agency**.

Bankia undertakes to assess its customers according to the **Euratom Treaty**, that provides the legal framework for the majority of European actions in the area of nuclear energy. The main missions of this treaty which are of application are associated with:

- Establish and ensure the application of uniform safety standards for the health protection of the population and workers;
- Facilitate investments and ensure the establishment of basic facilities needed for the development of nuclear energy in the EU;
- Ensure the regular and fair supply of radioactive minerals and fuel to all users in the EU;
- Ensure that civil nuclear materials are not destined for other purposes (particularly military).

² International Atomic Energy Agency, September 2016.

Renewable

Renewable energies are of vital importance when pursuing the goal of sustainable development, and especially the reduction of CO2 emissions. Bankia undertakes to bet strongly on the financing of projects and customers that present alternatives to fossil fuels, and contribute to reducing greenhouse gas emissions, diversify the energy supply, and decrease the dependency on fossil fuel markets.

Furthermore, the development and production of renewable energies involves social and environmental risks to which Bankia will pay special attention, including:

Wind energy: noise pollution; visual impact; dispossession of lands.

Geo-thermal energy: water contamination with toxic substances; CO2 and hydrogen sulphide emissions.

Hydro-electrical and dams

Hydro-electrical energy is a renewable energy source that is low in carbon, with a favourable potential for the development of competitive financial costs. As such, it can cover the energy needs of a significant part of the world, while contributing to the fight against global warming.

However, some hydro-electrical plants require large reservoirs located in natural habitats or close to human settlements, which could have significant negative impacts in social and environmental terms. The main related risks are:

Physical and financial displacement of people who inhabit the towns close to the reservoir; Elimination of lands, access to water use rights and damage to local fishing activity; Ecological damage, reduction in water quality and interruption to river flow patterns; Safety questions related to faults or bad operation of the dam.

In this regards, Bankia reviews the projects and their location to mitigate risks or where applicable, does not finance said activities, based on the following world-recognised initiatives:

International Hydropower Association Sustainability Assessment Protocol, that offers a way to evaluate the performance of a hydro-electrical project regarding more than 20 sustainability issues.

Evaluations are based on objective evidence and the results are presented in a standardised manner

World Commission on Dams Framework, that investigates the environmental, social and financial impacts of large dams on a global level.

Mitigation

Bankia undertakes to interact with customers with the aim of achieving the development of best practices in the sector. When necessary, Bankia can establish contractual clauses with its customers, where the provision of services is subject to compliance with the ASG Action Plan developed by the customer with the aim of eliminating or minimising the ASG impacts of the project.

Exceptions

Transactions that show uncertainty regarding compliance with the statements established in this document, will be forwarded to an internal committee for its recommendation. If the committee considers that the transaction does not meet the guidelines, said transaction will be subject to a final decision made by management.

Exemption from responsibility

With the aim of complying with national and international standards, as well as the principles defined in this sector guide, Bankia undertakes to make special effort in obtaining information on the sustainability practices and principles of all energy companies with which it maintains a commercial relationship.

In this regard, Bankia is not responsible regarding the updating, quality or precision of the information transferred by its customers when managing their sustainability performance.