

Santander Holdings USA

Type of Engagement: Methodology Review

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Introduction

In 2022, Santander Holdings USA, Inc. (“SHUSA”) issued its inaugural sustainability note in which SHUSA allocated an amount equal to the net proceeds from the offering specifically for earmarked assets that meet the Eligibility Criteria in the Santander Group Green, Social & Sustainability Funding Global Framework (the “Framework”). In 2023, Banco Santander, S.A. (“Santander Group”), SHUSA’s parent company, updated the Framework, which supersedes and replaces the prior version created in 2022. Sustainalytics provided a Second-Party Opinion on the Santander Group Green, Social & Sustainability Funding Global Framework, evaluating it as credible, impactful, and aligned with the four core components of the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, Social Bond Principles 2021, Green Loan Principles 2021, and Social Loan Principles 2021 (the “Use of Proceeds Principles”).^{1,2,3}

In 2023, SHUSA engaged Sustainalytics to perform the following reviews with limited assurance:

- 1) Allocation Review with limited assurance
 - a. For both green and social earmarked assets, Sustainalytics reviewed the assets financed by the sustainability note and provided an assessment as to whether the assets met the use of proceeds criteria outlined in the Framework, such as category of Eligible Asset(s), location of Eligible Asset(s), and Outstanding drawn amount.
 - b. For both green and social earmarked assets, Sustainalytics reported on the key performance indicators (KPIs) as provided by SHUSA.
- 2) Santander Green Bond Calculation Methodology Review with limited assurance
 - a. For green earmarked assets, Sustainalytics reviewed the Santander internal green methodology for calculating GHG avoidance for the Renewable Energy projects financed, in comparison with Sustainalytics’ understanding of best practices for reporting GHG avoidance.

In 2023, SHUSA engaged Sustainalytics to perform the following Impact Report:

- 3) Impact Report
 - a. For social earmarked assets, Sustainalytics calculated the estimated impact achieved by the projects financed with the proceeds from the SHUSA offering in alignment with the Santander Group Green, Social & Sustainability Funding Global Framework.

This Methodology Review covers the green assets that were earmarked for the 2022 sustainability notes in the amount of USD 279 million. Sustainalytics has reviewed the methodology used to calculate the GHG avoidance.

Evaluation Criteria

Santander Group has developed a methodology to quantify the GHG emissions from its renewable energy investments. Santander Group uses the methodology it developed to estimate the comparative GHG avoided between its own renewable energy projects and the national grid. To review this methodology, Sustainalytics

¹ The Santander Green Bond Framework Second Party Opinion is available at: <https://www.santander.com/content/dam/santander-com/en/contenido-paginas/nuestro-compromiso/financiaci%C3%B3n-de-proyectos-sostenibles/prf-santander-green-bond-funding-framework-february-2022-en.pdf>

² The bond-related principles, guidelines and handbooks are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbook>

³ The loan-related principles and guidelines are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: https://www.lsta.org/content/?_industry_sector=guidelines-memos-primary-market

is leveraging the GHG Protocol for Project Accounting⁴, PCAF,⁵ and Sustainalytics' understanding of best practice.

Client's Responsibility

SHUSA is responsible for providing accurate information and documentation relating to the methodology. This includes scope, definitions, geographic scope, assumptions and data sources provided in the documentation provided by SHUSA.⁶

Independence and Quality Control

Sustainalytics conducted the review of the methodology developed by Santander Group. The work undertaken as part of this engagement included reviewing the methodology's documentation. Sustainalytics reviewed Santander Group's methodology based on its own understanding of best practice for calculating the comparative GHG emission avoided between SHUSA's renewable energy generation and the national grid.

Sustainalytics relied on the information and the data prepared by SHUSA. Sustainalytics is not responsible, nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by SHUSA.

Conclusion

Based on the limited assurance procedures conducted,⁷ it is Sustainalytics' opinion that the reviewed methodology conforms with Sustainalytics' understanding of good practice for impact reporting.

⁴ "Protocol for Project Accounting", The Greenhouse Gas Protocol, at: https://ghgprotocol.org/sites/default/files/standards/ghg_project_accounting.pdf

⁵ Financed Emissions, the global GHG Accounting & Reporting standard, PCAF, at: <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

⁶ The methodology reviewed was described in the following documents: SHUSA Renewable Energy Calculation Template as of 06.30.2023_Sustainalytics Review 8.17.2023

⁷ Sustainalytics' limited assurance process includes reviewing the documentation relating to the details of the methodology, including description of the methodology, data and data sources as provided by SHUSA, which is responsible for providing accurate information.

Appendix 1: Detailed Review of GHG Avoidance by Renewable Energy

Evaluation Category	Comment
Scope	<ul style="list-style-type: none"> ✓ All emissions are measured in CO₂. Sustainalytics considers this good practice as it captures most of the relevant GHG emissions; however, Sustainalytics considers best practice to include all relevant GHG emissions expressed in CO₂e, which includes methane and nitrous oxide. ✓ Baseline emissions are based on the national grid average for the USA, which is in line with good practice; however, in the case of the USA, which has a fragmented grid, a local emission factor would be considered best practice. ✓ Emissions are estimated for direct generation emissions only, or scope 1, which is in line with good practice but could be improved by including indirect, or scope 3 emissions.
Units	<ul style="list-style-type: none"> ✓ SHUSA consistently uses International System of Units (SI units) throughout its calculations and reporting, which Sustainalytics considers best practice.
Data Quality	<ul style="list-style-type: none"> ✓ An emission factor from the IEA (International Energy Agency) is used, which is considered a credible source.
Assumptions	<ul style="list-style-type: none"> ✓ It is assumed that renewable energy replaces energy from the grid for the current calendar year, meaning avoidance is estimated per current calendar year. ICMA recommends estimating avoidance for a representative year in the lifetime of the bond, which would include a projection of grid energy emissions into the future and would be considered best practice. Since the bond in this case has a tenor of only 4 years where significant changes are not anticipated, Sustainalytics considers this good practice.

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