Materiality assessment: Identifying the issues that matter

Grupo Santander analyses the environmental, social and governance issues our stakeholders care about the most. Since the thorough materiality study we ran in 2017, we have been updating these issues through better analysis and new ways that reflect our stakeholders’ opinions.

The materiality analysis is part of our dialogue with stakeholders. It is consistent with the Global Reporting Initiative (GRI) standards and gives us valuable information to set priorities, generate positive impact on the society, minimize risk, reduce costs and generate revenues.

Identifying relevant factors

Our methodology includes both quantitative and qualitative analysis to make our assessment exhaustive and accurate.

Our quantitative analysis includes external inputs as 2020 WBCSD megatrends, public opinion (social media and digital press analysis), other banks’ reports, ESG analyst and index evaluations, customer surveys and regulatory and reporting frameworks, as well as internal ones like Santander goals, executives’ speeches, RBSCC agendas, employee surveys and Responsible Banking workshops. In 2020, we moved megatrends and social media analysis from the qualitative to the quantitative analysis. For megatrends, we changed the data source, from which we could obtain important quantitative information; for social media analysis, the data that the analysis tool gave us had improved in relation to previous years.

Our qualitative analysis concerns the impact of the material issues on the value chain and the UN Sustainable Development Goals, as well as possible controversies affecting the financial industry and posing a risk for the Bank.

We're also mindful of public opinion. We review over 7,500 online news articles and more than 694 million Tweets with the Datamaran tool. Its use of Natural Language Processing (NLP) helps us understand where Santander’s news flow is getting media attention as well as important trending topics on Twitter.

We weight quantitative inputs according to their relevance in defining material issues for the Bank. We review each weighting every year to adapt the analysis to the current landscape.

The qualitative-quantitative combination opens up to a global focus and a broader approach to the issues affecting the bank, enabling us to develop a matrix with the material aspects identified according to their internal and external relevance.

We also examine the results of more than 160,000 employees’ answers to the Global Engagement Survey and more than 11,500 answers to the pulse surveys. To include results, the materiality analysis links certain survey categories, areas of improvements and the reasons for feeling proud to work for Santander and measures the relative importance employees have indicated in their responses.
Process of identifying material concerns

Quantitative analysis

External

- ESG Indexes & analysts and investor roadshows: Analysis of aspects assessed by the DJSI, other analysts and ESG indexes, as well as the comments received at the most recent investor roadshows.
- Other banks’ materiality and reporting: Analysis and identification of the matters that other banks consider a priority and report in their annual and sustainability reports.
- Customers surveys: Analysis of the Net Promoter Score (NPS) surveys to customers that measure the customers’ willingness to recommend the Bank. By analysing why they recommend Santander, we can pinpoint the material aspects that customers deem most relevant.
- Media Analysis: Identification of matters appearing in the written media using Big Data tools.
- Regulatory framework: Analysis of issues covered under general regulations and, specifically, banking laws in the countries where we operate.
- Voluntary reporting frameworks: Issue frequency analysis from voluntary reporting frameworks such as GRI, SASB and Integrated Reporting.
- Reprisk: Identification, assessment and monitoring of ESG and conduct risks in business and investments.
- Megatrends 2020: World Business Council for Sustainable Development: Analysis of the Macrotrends and Disruptions shaping the 2020-2030 report to identify key demographic, environmental, economic, digital and political changes that will likely affect financial institutions in the coming years.
- Social Media: Analysis of media input through Twitter to get an outside view of issue trends.

Internal

- Santander’s goals: Analysis of our non-financial targets, including board remuneration objectives.
- Top Risks: Analysis of the Group’s top risks that trigger uncertainty in relation to the Bank’s activity.
- Responsible Banking, Sustainability and Culture Committee: Analysis of matters addressed in the committee and in the Culture and Inclusive and Sustainable Banking steering groups.
- Group executive chairman / CEO activity: Analysis of the Group executive chairman and CEO’s speeches at conferences and events over the last year.
- Employee’s view: Analysis of the Global Engagement Survey and pulse surveys to employees, to identify relevant issues for employees.
- Responsible Banking workshop: Survey and questions during the workshop with corporate responsible banking team, responsible banking network in the countries, and relevant areas to identify and debate about the issues that most influence in the responsible banking agenda.
- Santander Today: Identification of news items that have appeared on Santander Today, our intranet, throughout the year.
- Impact by business segment: Analysis of the link between material issues and the business segments to identify major impact areas.

Qualitative analysis

- Impact on United Nations SDGs: Sustainable Development Goals alignment with material topics and key metrics.
- Controversial events: Analysis of potential disputes identified in the financial sector.
- Value chain: Define the value chain using key stakeholders, the relationships between them and the issues identified as material as reference.
Continuous improvement

As a robust materiality analysis is crucial to the Group’s strategy, we’re always working to improve. In 2020, we added the findings of the *Macrotrends and Disruptions shaping 2020-2030* report of the World Business Council for Sustainable Development (WBCSD) to identify the most relevant demographic, environmental, economic, digital and political changes that will likely affect financial institutions in the coming years.

Below are the main new inputs we have incorporated into our systematic analysis in recent years, which may vary as it evolves:

**Materiality study timeline – Inputs incorporated each year**

- **2006** Sector benchmark, press, online opinion makers
- **2007 y 2008** Sectorial and social opinion makers
- **2009** ESG analysts
- **2010** Updated analyst list
- **2011** Sustainability performance
- **2012** Social networks (Twitter)
- **2013** Sustainability Committee, internal valuation, value chain, external opinion makers, interviews
- **2014** SASB, country assessments, intranet, Santander Today
- **2015** Benchmark of other banks’ targets, Sustainable Development Goals
- **2016** Big data and artificial intelligence. Other analysts, other banks’ materiality
- **2017** Global trends, WEF risk map, roadshows, internal assessment and country surveys
- **2018** Responsible banking surveys to customers and employees; Impact analysis by business segment; Impact analysis on SDGs; Reprisk insights on environmental and social issues
- **2019** SPF surveys to our stakeholders and assessment of group top risks
- **2020** Megatrends from the World Business Council for Sustainable Development (WBCSD), Net Promoter Score (NPS) drivers for customers

**International standards**

The materiality analysis takes on board such voluntary reporting frameworks as the GRI Standards, Sustainability Accounting Standards Board framework (SASB) and the International Integrated Reporting Framework.

When drawing up the list of issues, we take into account the information requirements under Act 11/2018 on non-financial and diversity information, which transposes into Spanish law Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information.

As in previous materiality analyses, we also factored in the findings of the WBCSD’s Reporting Matters.

To understand the extent to which issues feature in reporting frameworks (GRI, SASB & TFCD), the study incorporates information obtained through the Datamaran tool that indicates the areas covered in each framework.
Matrix for identifying material concerns

The materiality matrix is one of the main outputs of the materiality analysis. Combining internal and external inputs gives us a table of results that shows the important subject areas to the bank and our stakeholders, and helps us focus the Group’s priorities, initiatives and programmes.

In 2020, we identified 15 topics our stakeholders consider most relevant for Santander, and addressed them by strengthening our responsible business practices and ethical behaviour; tackling climate change and supporting the transition to a low-carbon economy; promoting financial inclusion; and creating a talented and diverse team. Consistently, Santander 2020 Annual Report reflects progress on those areas.
Integrating key ESG issues into our strategy to meet challenges

Like every business, Santander operates in a fast-changing world that brings new challenges and opportunities. In 2018, the materiality assessment revealed two core challenges we must address.

**Challenge 1**
**New business environment**
**Adapting to an evolving world**
The economy is changing fast. Digital technology is transforming markets as well as business models. In this highly competitive environment, companies must work in new ways to ensure responsible business practices.

**Challenge 2**
**Inclusive and sustainable growth**
**Helping society achieve its goals**
Growth should satisfy the needs of today without hampering future generations’ ability to meet their own. A balance should always be struck between economic growth, social welfare and environmental protection. Financial institutions can contribute to this by managing their operations responsibly, and lending responsibly to help society achieve its goals.
To meet this two challenges we integrate ESG issues that matter into our strategy:

<table>
<thead>
<tr>
<th>Material issues</th>
<th>Impact on our value chain</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Challenge 1</strong>&lt;br&gt;New business environment</td>
<td></td>
</tr>
<tr>
<td>Corporate governance</td>
<td>Robust, diverse and transparent corporate governance leads to more responsible and sustainable strategies.</td>
</tr>
<tr>
<td>Ethical behaviour</td>
<td>A strong corporate culture and policies and procedures ensure we behave ethically and safeguard all our stakeholders’ interests.</td>
</tr>
<tr>
<td>Compliance and risk management</td>
<td>Well-defined compliance and risk management procedures help reduce the risks an organization faces. The participation of all employees in risk management is crucial and reinforces the risk culture (Risk Pro).</td>
</tr>
<tr>
<td>Talent management and career development</td>
<td>The right talent management and career development programmes inspire loyalty and cement responsible banking practices.</td>
</tr>
<tr>
<td>Diversity, inclusion and wellbeing</td>
<td>A diverse workforce that reflects the make-up of society is critical to success in an ever-changing environment. Our employees’ wellbeing must be a priority.</td>
</tr>
<tr>
<td>Innovation and digitalization</td>
<td>Investing in technology puts us at the cutting edge of our industry and strengthens our value proposition.</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>Focus on customer experience drives us to improve our services and builds loyalty.</td>
</tr>
<tr>
<td>SPF products and services</td>
<td>Responsible products and services tailored to customers in a way that is Simple, Personal and Fair promote inclusiveness and lasting loyalty.</td>
</tr>
<tr>
<td>Cybersecurity and data protection</td>
<td>Innovative and robust cybersecurity mechanisms protect customer data and boost confidence in our business.</td>
</tr>
<tr>
<td>Human rights</td>
<td>Preventing the risk of our activities having a negative impact on human rights is key to the development of a responsible business model.</td>
</tr>
<tr>
<td><strong>Challenge 2</strong>&lt;br&gt;Inclusive and sustainable growth</td>
<td></td>
</tr>
<tr>
<td>Financial inclusion and empowerment</td>
<td>A financial system that is accessible and understandable to all builds trust, bolsters the economy and creates new business opportunities, helping communities prosper.</td>
</tr>
<tr>
<td>Climate strategy</td>
<td>Banks play a key role in the transition to a low-carbon economy by managing their financial risks and helping finance the green agenda. Our contribution is vital under the Paris Agreement framework.</td>
</tr>
<tr>
<td>ESG products and services</td>
<td>Financial products and services with social and environmental value added criteria help us do business responsibly. Funding renewable energy and green initiatives better positions our bank and society to counter the effects of climate change.</td>
</tr>
<tr>
<td>Environmental footprint</td>
<td>Environmental footprint reduction helps us lead the transition towards a low-carbon economy.</td>
</tr>
<tr>
<td>Community investment</td>
<td>Our commitment to education and the wellbeing of the communities we serve contributes to growth and progress across broader society.</td>
</tr>
</tbody>
</table>