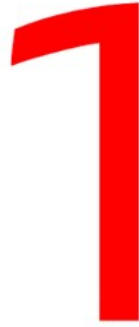




Pillar 3 - Disclosure Report June 2023

ESG risks

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ESG risks

1.1. Environmental risk	4
1.1.1. Business strategy and processes	4
1.1.2. Governance	6
1.1.3. Risk management	9
1.2. Social risk	16
1.2.1. Business strategy and processes	16
1.2.2. Governance	18
1.2.3. Risk management	20
1.3. Governance risk	22

1. ESG risk

1.1. Environmental risks

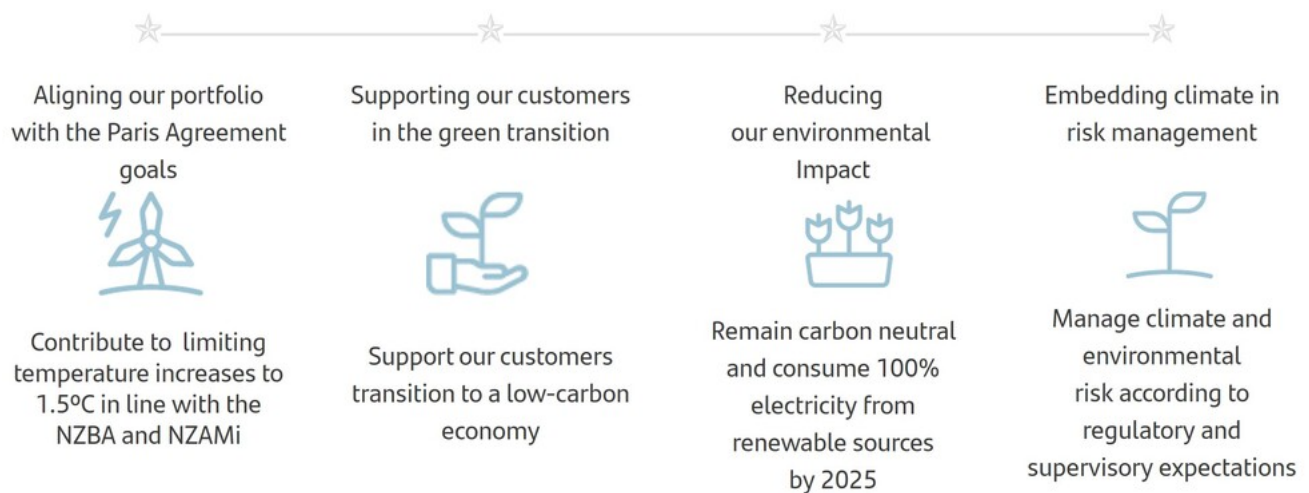
1.1.1. Business strategy and processes

This section covers the requirement on qualitative information on environmental risk, specifically, the point on business strategy and processes, for questions (a), (b) and (c)

This is a summary of our overall climate strategy. For further detail, please refer to our annual report and climate finance report, available in our corporate website.

Our approach

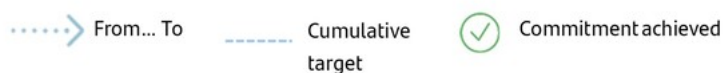
Within our broader ESG strategy, tackling climate change is a key priority at Santander. We support the Paris Agreement goals. Our ambition is to achieve zero carbon emissions by 2050. We intend to do this and support the green transition in four ways:



For fulfilling those purposes, within a broader set of ESG objectives, the Group has set some climate-related and environmental goals:

	2018	2019	2020	2021	2022	H1 2023	2025/ 2030 target
Electricity from renewable sources ¹	43%	50%	57%	75%	88%		100% by 2025
Carbon neutral in our own operations ²			✓	✓	✓		Every year
Green finance raised and facilitated (EUR)		19 bn	33.8 bn	65.7 bn	94.5 bn	98.6 bn	120 bn by 2025 220 bn by 2030
AuMs in Socially Responsible Investments (EUR)				27.1 bn	53.2 bn	58.6 bn	100 bn by 2025
Thermal coal-related power & mining phase out (EUR)				7.0 bn	5.9 bn		0 by 2030
Emissions intensity of power generation portfolio		0.21	0.17				0.11 tCO ₂ e / MWh in 2030
Absolute emissions of energy (oil and gas) portfolio		23.84	22.58				16.98 mtCO ₂ e in 2030
Emissions intensity of aviation portfolio		92.47	93.05				61.71 grCO ₂ e / RPK in 2030
Emissions intensity of steel portfolio		1.58	1.40				1.07 tCO ₂ e / tCS in 2030

Update on this report



¹ In countries where we can verify electricity from renewable sources at Banco Santander properties.

² In our core markets (G.10)

Our net zero ambition

Santander aims to be net-zero in carbon emissions by 2050. This applies to the Group's operations and emissions from our lending, advisory and investment services.

We are a founding member of the Net Zero Banking Alliance (NZBA, under the United Nations Environment Programme Finance Initiative), committing the Group to:

- Support the transition operational and attributable greenhouse gas (GHG) emissions from lending and investment portfolios towards pathways to net-zero by 2050.
- Set intermediate targets for priority GHG emitting sectors for 2030 (or sooner).
- Prioritize client engagement with products and services that facilitate the necessary transition in the real economy.

Investment targets towards environmental objectives

To achieve our ambition to become sustainable finance leaders in our markets, we are mobilizing EUR 120 billion in green finance by 2025 and EUR 220 bn by 2030.

We redoubled efforts to reach our goal of EUR 100 billion of AUM in socially responsible investments (SRI) by 2025.

We have the goal of providing our clients with global and local green solutions in SCIB, retail and commercial banking and raising awareness in our local communities.

For more detail on our green finance products, services and partnerships see section 6 'Financing the green transition' in the climate finance report.

Policies and procedures relating customer engagement in their strategies to mitigate and reduce environmental risks

This section covers the requirement on qualitative information on environmental risk, specifically, the point on business strategy and processes, for question (d)

Our customer engagement approach aims to facilitate the achievement of our emissions targets and to develop a strong understanding of our customers' transition strategies towards low carbon business models.

The approach is supported by governance processes, involving various internal stakeholders, such as front office teams, the risk reporting functions, as well as senior management to guide the potential portfolio steering actions.

Collect

We collect relevant information as part of regular customer dialogue and engagement. In addition, we source specific climate related information through tailored information requests that contain transition focused elements designed to help us better understand companies' decarbonization strategies. Furthermore, we also seek to source reliable and consistent information from credible third parties to complement our understanding.

This information will be collected and updated both at the customer onboarding stage, but also as part of the regular

business and risk assessment review with each customer, which is performed at least on an annual basis.

Assess

Assessment consists of a two-step approach designed to categorize our customers according to their emissions intensity pathway and perceived quality of their transition strategy.

The first step involves assessing how our customers' emissions trajectory aligns with our current sectoral portfolio baseline and future sectoral portfolio targets. The second step assesses the quality of each customer's transition plan. Our transition plan assessment methodology focuses on four pillars: targets, action plan, disclosure and governance. We draw on established transition plan assessment methodologies, such as TPI (Transition Pathway Initiative), CDP, ACT (Assessing Low Carbon Transition), Climate Action 100+, as well as other climate risk disclosure frameworks such as the TCFD.

More detail of the assessment performed can be found in [1.3 'Governance risk'](#) section.

Engage

Our objective is to engage our customers through offering sustainable financing solutions and advisory that enable the energy transition.

Our sustainable finance offering includes, among others, leading expertise in renewable energies, as demonstrated by our long-standing leadership in this field.

For more detail about our customer's engagement see section 6 'Supporting our customers' in the transition in the climate finance report.

Training

We implemented a client engagement training programme for SCIB, in collaboration with external expert providers, specifically designed to educate on transition topics. Over the last year, multiple sessions took place involving 300 senior bankers on topics including: climate regulations and taxonomies; greenwashing; climate pathways to net zero; and frameworks to enable evaluation of client transition plans.

In addition, internally organized sessions were delivered to sector-specific relationship managers and Environmental Social Climate Change Risk (ESCC) analysts. These focused on the gathering of information in order to complete the transition plan quality assessment. These sessions were delivered by senior experts representing ESCC, Portfolio Alignment and ESG Solutions teams.

These complement our global training we're developing to familiarize all employees with sustainability at different levels.

Additionally, there have been different climate trainings for board members on responsible banking, green finance, and ESG risks, both at global and subsidiary boards and key positions.

1.1.2. Governance

This section covers the requirement on qualitative information on environmental risk, specifically, the point on governance, for questions (e), (h), and (g)

Governance bodies and frequency

Governance bodies involved in ESG management and how often climate change is discussed:



The **board of directors** and the executive committees review and discuss the Group's climate change and green transition initiatives. In 2022, they discussed disclosure reports, new alignment targets, the climate risk stress test update and other climate change and green transition matters. Additionally, main subsidiaries and global businesses report on their ESG initiatives to the Group board committees every year.

The **responsible banking, sustainability and culture committee (RBSCC)** supports the board of directors in supervising the Group's responsible banking agenda and strategy. The RBSCC has five independent board members.

At the time of this report's release, the RBSCC discussed climate change in the five meetings it held in 2022, and in the three meetings it held in 2023. It reviewed the following topics (among others): progress on power generation and thermal coal portfolio alignment targets; latest targets for disclosure of energy (oil and gas), steel and aviation and progress on other sectors and countries; the organizational model, resources, key priorities, and next steps of the Green Finance unit and the progress of its main initiatives and plans; main results, lessons learnt and expected developments in supervisory activity (including the ECB's 2022 Climate Stress Test and Thematic Review); data disclosure on the Green Bond Report; ESG regulatory & supervisory developments; ESG policy updates; ESG ratings and results; and future developments and ideas on better climate reporting.

Other relevant areas of ESG were supervised under the roles and responsibilities of the RBSCC, as the main committee that provides support to the board of directors in ESG related matters.

Regarding climate finance, the risk supervision, regulation and compliance committee, also known as **board risk committee (BRC)** reviews the proposals for the Risk Appetite Statement (RAS) prior board approval. The BRC also monitors the RAS every quarter, including climate finance metrics and limits. The BRC works with the RBSCC to review ESG-related conduct risk, data protection risk, customer vulnerability, reputational issues, risk policies and how business units adopted these policies.

The RBSCC interacts with the **board remuneration committee** to draw up responsible banking metrics for variable remuneration schemes. The RBSCC also exchanges information and interacts with the board audit committee to review ESG reports (such as this climate finance report) prior to publication.

The **board audit committee** oversees the internal control system, processes and methodologies we use to prepare financial and non-financial ESG information.

The **board nomination committee** works with the RBSCC to review Santander's corporate behaviours, culture and talent in relation to the ESG agenda.

The **responsible banking forum (RBF)**, is the executive governance body that reviews implementation of the Group's responsible banking agenda and presents its findings to the RBSCC. The RBF drives decision-making on responsible banking issues. It enforces mandates from the RBSCC, the BRC, the board audit committee, other committees and the board of directors. Prior to the release of this report, it discussed climate change and green finance at five of its six meetings in 2022 and at the four it had held in 2023.

As this body ensures alignment on key issues, it reviewed and escalated these topics to the RBSCC, along with environmental risk policy revision, carbon footprint and offsetting.

The Forum's 11 permanent executive members are the regional head of Europe (rotating chair); the regional head of North America (rotating chair); the regional head of South America (rotating chair); global head of Strategy and Exec. Chairman's office; Group Chief Accounting Officer; group head of Human Resources; Group Chief Risk Officer; Group Chief Compliance Officer; global head of Wealth Management & Insurance; global head of Santander Corporate and Investment Banking; Group head of Communications, Corporate Marketing and Research; and the Senior Advisor to the Executive Chair on responsible banking practices.

The **CEO management meeting**, chaired by the CEO, received four status reports on the responsible banking agenda regarding climate change and green finance. In addition to the aforementioned bodies, other executive governance bodies also discuss climate-related matters that stem from the work carried out by the Group's divisions and businesses.

Management body's integration of environmental risks, organizational structure both within business lines and internal control functions

This section covers the requirement on qualitative information on environmental risk, specifically, the point on governance, for question (f)

In 2022, we continued to embed climate management in business-as-usual across SCIB, Risk and Responsible Banking. We created two new positions: Risks head of ESG & New Business (who reports directly to the CRO), and global head of ESG & Sustainable Tech and global head of Green finance (who reports directly to the CEO). For more details, please see Global Green Finance unit in Retail and Commercial Banking in section 6 of the climate finance report.

Corporate working groups meet regularly to implement or advise on our climate change agenda and inform on regulation updates: a public policy sustainability working group updates on upcoming climate and sustainability; a regulatory radar governance working group which meets quarterly to monitor the status of implementation of sustainability regulations and to assign responsibility for the implementation of regulatory initiatives to the Group's areas; an environmental footprint working group measures our footprint and reviews ways to reduce it; and a sustainable bonds working group oversees sustainable bonds issues.

SCIB set up a dedicated team for portfolio alignment and strengthened its corresponding governance. Beyond SCIB, a number of local units are involved in a governance structure coordinated by Group Responsible Banking. The objective is to progress on the decarbonization agenda, to promote knowledge and expertise sharing by local teams; and to seek for synergies for the design of reliable transition plans.

A new ESG Reporting & Internal Control team, set up in the second quarter of 2023, in the Financial Accounting & Management Control division oversees the disclosure, supervision and control of the ESG information the Group uses to meet regulatory requirements and stakeholder expectations. This year, the team has been designing and implementing data control and validation capacities. It has also made strides in automating its reporting to boost the quality and traceability of disclosures.

As part of our green transaction assessments, we created global, regional and local panels to provide additional scrutiny and validation, and to enhance consistency across the Group.

Our annual risk assessment and internal audit planning includes climate risk. In 2022, our Internal Audit area audited climate risk management to check that the Group's initiatives were progressing according to plan. It also suggested ways to strengthen governance and controls, and to roll out initiatives in subsidiaries, which it will continue to monitor in 2023.

Santander integrates short-, medium- and long-term effects of environmental risks for the purposes of risk management through the integration of climate-related and environmental risk in our main strategic financial planning, that comprises annual budgeting, our three-year financial plan and the Group's long-term strategic plan.

These core strategic financial processes; with different time horizons, enable us to identify threats and changing conditions that could hinder our ability to achieve our targets. Such processes are reviewing climate-related and environmental risk and the transition to a low carbon economy more extensively, in keeping with our risk appetite and policies.

Climate-related time horizons have been defined and embedded into our strategic process. We define short term as 1 year aligned with budget; medium term as 3 years aligned with financial planning; long term as 5 years aligned with strategic planning; and, for ad hoc analysis, we define longer term as beyond 5 years.

Alignment of the remuneration policy with environmental risk-related objectives

This section covers the requirement on qualitative information on environmental risk, specifically, the point on governance, for questions (i)

The executive director remuneration policy for 2022 included variable, multi-year remuneration (2023-2025) based on relative total shareholder return, return on tangible equity and ESG metrics. We measure our progress in ESG against these four lines of action and their related metrics : (1) percentage of women in senior positions, (2) financial inclusion, (3) green finance and socially responsible investment, and (4) exposure to thermal coal.

Regarding environmental aspects, these targets cover:

- **Green finance and socially responsible investment**

Green finance raised and facilitated ^B (EUR bn)	Coefficient
≥ 240	1.25
≥ 220 but < 240	1 – 1.25 ^A
≥ 160 but < 220	0 – 1 ^A
< 160	0

A. Increase of the coefficient is proportional to its position on this line of the scale

B. Grupo Santander's contribution to green business: SCIB, Retail & Commercial banking and Digital Consumer Bank. It is measured with cumulative data since 2019

Socially responsible investments ^B (EUR bn)	Coefficient
≥ 102	1.25
≥ 100 but < 102	1 – 1.25 ^A
≥ 53 but < 100	0 – 1 ^A
< 53	0

A. Increase of the coefficient is proportional to its position on this line of the scale.

B. Funds registered under article 8 and 9 (SFDR) in the EU, including third-party funds and SAM's Latin American funds that meet equivalent criteria.

- **Exposure in thermal coal-related power and mining portfolios:**

Thermal coal-related power & mining ^B (EUR bn)	Coefficient
≤ 3.8	1.25
< 5.8 but > 3.8	1 – 1.25 ^A
=5.8	1
> 5.8	0

A. Increase of the coefficient is proportional to its position on this line of the scale.

B. Credit risk exposure with customers affected by the thermal coal 2030 phase-out target: power generation customers with more than 10% of revenues coming from thermal coal and thermal coal-mining customers.

As regards the overall assessment of these ESG metrics, they will be measured jointly with the social risk commitments set out in the section on Remuneration policy for social aspects objectives. In the joint assessment, these metrics are weighted equally.

More detail can be found in the '[Directors' remuneration policy for 2023, 2024 and 2025 submitted to a binding shareholder vote](#)' section in the annual report.

1.1.3. Risk management

This section covers the requirement on qualitative information on environmental risk, specifically, the point on risk management, for questions (j), (l), (m), (n) and (q)

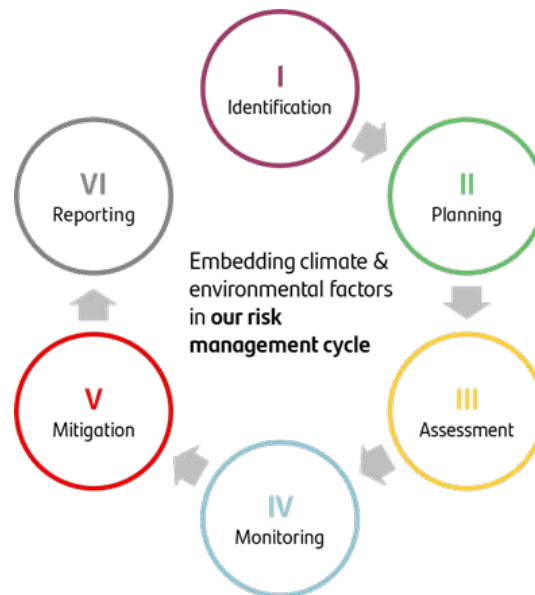
Integration of environmental factors in the risk framework: management, setting of limits and tools

Climate-related and environmental risk management is key if we are to deliver our strategy and meet our commitments, particularly to be net-zero carbon emissions by 2050. By

embedding climate aspects in risk management practices, we can implement our sustainability strategy to contribute to the transition to a low-carbon economy.

We have made progress to embed both climate and environmental aspects in our risk management cycle, as regulatory and supervisory demands, like the ECB's climate stress test (successfully completed in 2022), the Thematic Review and the Pillar 3 ESG report.

The chart below explains how our risk management cycle accounts for climate change and environmental risk:



The risk management cycle consists of these phases:

I. Identification

Risk identification includes the top risk exercise to analyse potential events that would threaten the Group's three-year plan and long-term strategic plan. Our methodology consists of a risk event taxonomy, an impact and likelihood matrix, time horizons, sponsorship, action and mitigation plans, early warning indicators, consolidation and standard top risk templates.

Risk identification helps us understand the internal and external threats posed by the environment and climate change to our business model, profitability, solvency and strategy.

In the top risk exercise, there has been a "climate" subcategory since 2018 and, more recently, a "biodiversity" section. Risk taxonomy, heatmaps and materiality assessment exercises (detailed in section 4 'Risk management' of the climate finance report) form the basis for classifying and identifying environmental material and climate related risks of our portfolios.

Also, the risk function's core strategic exercises identify threats to our targets and support the transition to a low-carbon economy more extensively according to our policies and risk appetite statement.

II. Planning

Our strategic planning includes decarbonization targets in line with our public commitments on sustainability. Our core planning and strategic processes have different time horizons: short-term (one year) for budgeting; medium-term (three years) for financial planning; and long-term (≥ 5 years) for strategy and ad hoc analyses.

They allow us to identify threats to our objectives and to low-carbon transition more accurately, according to our policies and risk appetite.

In addition, these processes are supported by decarbonization objectives, financed emissions metrics, analysis of risk exposures to a climate and environmental risks related to our clients and their collaterals, and analysis of climate scenarios that allows for a prospective vision of risks and their financial impacts.

Budget Short term 12 months	Budgeting, the first part of strategic planning, provides inputs for the three-year plan. It includes tasks to quantify annual objectives in the Group subsidiaries' business plans within the Group's risk appetite and liquidity, capital and efficiency plans.
3-year planning process Medium term 3 years	The three-year plan is a key process for medium-term planning in the Group and subsidiaries. Its bottom-up approach and facilitates a consistent, aggregate view of our processes. It is also a basis for preparing the annual budget, the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).
Strategic plan Long term ≥ 5 years	The strategic plan sets out long-term objectives for the main subsidiaries and businesses in Grupo Santander. It covers the Group's vision and priorities in terms of capital allocation, organic and inorganic opportunities in each region and business unit.

III. Assessment

Grupo Santander has materiality assessments, qualitative and quantitative heatmaps, scenario analysis and other tools to analyse the potential impacts of climate change related risks in our portfolios. This determines how we categorize portfolios based on exposure to physical and transition risks.

Materiality assessment

Our quarterly materiality assessments help us determine climate and environmentally material credit risk and proves essential to decision-making and setting out our strategic priorities for selected sectors, sub-sectors, industries, customers and regions. It covers climate and environmental risk in the Group's markets over different time horizons.

This helps us to address these risks in our risk appetite, top risk identification, credit analysis, stress testing and other management processes.

The materiality assessment follows the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD) and the United Nations Environmental Programme Finance Initiative (UNEP-FI).

We also enhanced our materiality assessment with an updated in-house Klima tool. Klima enables us to spot, assess and manage climate and environmental risk. The common standards it applies help manage physical and transition risks. Klima also includes our risk taxonomy and heatmaps to measure 2030, 2040 and 2050 exposure, drawing on the same calculation methodology used for all business lines.

IV. Monitoring

We use the Group's risk appetite, which is the aggregate level and types of risk we deem prudent for our business strategy, to monitor climate and environmental-related factors.

The Group follows a three lines of defence model for constant monitoring and oversight, with specialized control functions that report to the board and its committees every month regarding risk profile and our compliance with risk appetite limits.

The time horizons of our risk appetite framework are aligned with the horizons of the commitments made, both in the medium (2030) and long term (2050).

We announced our first decarbonization target for the thermal coal sector in February 2021 in line with our ambition to be net zero by 2050. Accordingly, by 2030 we intend to cease to provide financial services to power generation customers with a revenue dependency on coal of over 10% and eliminate our exposure to thermal coal mining worldwide.

In 2022, the Risk, SCIB and Responsible Banking areas launched initiatives to achieve our first decarbonization target for power generation, which has been included in 2023 risk appetite statement.

Santander continues to set alignment targets for key climate-related industries to meet our objectives. In this sense, we are making progress over 2023 to include new quantitative metrics in the risk appetite statement regarding oil and gas,

steel and aviation sectors for effective implementation and follow-up in 2024.

V. Mitigation

Policies are a key element in mitigating risks. We updated our environmental, social and climate change (ESCC) policy, which sets out our public commitments and aims to support our strategy for sensitive, special-attention and prohibited activities in the oil and gas, power generation and transmission, mining and metals sectors, and those arising from businesses engaged in soft commodities.

It is aligned with our policies on sustainability and human rights. Together with the ESCC risk management policy, Grupo Santander has various internal policies, frameworks and procedures in place for integrating climate and environmental risks into our core risk management processes.

Furthermore, the first line of defence runs due diligence with special questionnaires for credit approval. Reputational risk assessment is also included for the decision making. In due diligence, SCIB's project finance transactions must be evaluated according to the Equator Principles.

Grupo Santander considers insurance another key mitigant in climate risk management. We continue to adapt our use of insurance to changes in the risk environment.

Any significant threat to the group is escalated to senior management in accordance with established governance so that proper mitigating measures can be taken.

VI. Reporting

Our disclosure of climate and environmental risk is aligned with regulations and supervisory expectations. In addition, we integrate disclosure into key processes and the board is fully apprised of climate and environmental risk.

Our annual report and climate finance report highlight our progress with climate and environmental risk management.

For more detail see section 4 '[Risk management](#)' in the climate finance report.

International standards on which the environmental risk management framework is based

This section covers the requirement on qualitative information on environmental risk, specifically, the point on risk management, for questions (k)

The environmental, social and climate change risk policy sets the criteria for investing in, and/or providing financial products and services to, companies and customers who engage in sensitive activities in oil and gas, power generation and transmission, mining and metals and soft commodities. The policy sets out which activities are prohibited and those that require special attention from an environmental, social and climate change perspective.

We are part of the main and most important local and global initiatives to support the inclusive and sustainable growth. Some examples are:

- UNEP FI. We are a founding signatory to the United Nations Principles for Responsible Banking.
- World Business Council for Sustainable Development (WBCSD).
- Banking Environment Initiative (BEI).
- UN Global Compact.
- Equator Principles.

More detail about the standards on which the environmental risk management framework is based by sector can be found in the environmental, social and climate change risk policy in our corporate website.

The Group's corporate Responsible Banking framework was approved by the Group board of directors in December 2021 and then by subsidiaries' boards. It sets out the Group's highest-level principles, processes, and responsibilities for managing ESG across Grupo Santander.

The Group establishes ESG policies, procedures and guidelines on ESG that adapt to local regulation and apply to all units. We systematically review the scope of policies for adopting ESG standards according to international best practice.

Additionally, the sustainable finance classification system (SFCS) in the aspects related to environmental risks, draws on such international industry guidelines, standards and principles as the EU taxonomy and International capital market association (ICMA), Loan market association (LMA) principles, UN environment programme's finance initiative (UNEP FI) framework and climate bond standards of Climate bonds initiative (CBI).

Impact of environmental risk on capital and liquidity risk

This section covers the requirement on qualitative information on environmental risk, specifically, the point on risk management, for question (o)

Santander incorporates climate risk in its ICAAP; in 2022, it included a full climate stress scenario, whose main trigger was an increase in carbon taxes, to assess the impacts on P&L, credit losses, capital requirements and solvency over a 3-year time horizon in the main regions in which Santander operates.

In addition, Grupo Santander has increased the focus on the impact of climate risk in relation to market, structural and liquidity risk, which arise from the possibility that changes in the climate may adversely affect the value of a financial instrument, a portfolio or the Group as a whole. This risk can have an impact both on the value of financial instruments or portfolios and on Santander's liquidity. Grupo Santander measures this risk through stress scenarios for both market risk and liquidity risk.

We perform materiality assessments every quarter. In addition to analysing residual value, strategic, market and liquidity risk, we identify credit portfolios on our balance sheet that are most relevant in terms of climate and environmental risk.

Moreover, climate change and environmental risk could affect other risks over different time horizons due to physical damage, as well as factors related to the transition to a more sustainable economy, such as changes in regulations, technology and market preferences. Given the nature of its operations, the Group has no environment-related liabilities, expenses, assets or contingencies of material significance to its consolidated net worth, financial position and results.

The majority of exposures in the sectors most affected by climate change risk are with wholesale customers, whose reviews, credit approvals and credit ratings take into account such risk. The clients' ratings determine the parameters for calculating their losses (usually in terms of probability of default or "PD"). Thus, when weather factors are relevant, in conjunction with other elements of analysis, they have an impact on the loss calculations that support capital and provisions.

The Group has also participated in various regulatory climate stress tests, which are considered learning exercises for the sector. The results showed that the Group's coverage for potential losses would be sufficient taking into account the different time maturities of the portfolio.

Therefore, based on the best available information, the Group does not see any additional environmental or climate change risks that would have a material impact on its assets, financial position and results. Even so, this issue is constantly evolving and, together with the rest of the financial industry, the Group is working on the development of methodologies to improve the measurement of potential losses, in line with new management needs, best practices and the requirements of regulators and supervisors.

Data availability, quality and accuracy

This section covers the requirement on qualitative information on environmental risk, specifically, the point on risk management, for question (p)

As stated by the EBA in the Report on management and supervision of ESG risks for credit institutions and investment firms, one of the main challenges faced by financial institutions in the integration of ESG risks is insufficient data. Grupo Santander, together with the rest of the industry, is therefore working to increase the granularity and quality of the ESG data necessary for management, including, among others:

- The availability of energy efficiency certificates, especially in those geographies where there is no specific regulation or requirement.
- The collection and availability of customers' financed emissions, information that will improve in Europe with the entry into force of the CSRD regulation.
- Improving the granularity and accuracy of the information needed to assess physical risks.

In order to achieve the above, the following lines of work are being carried out:

- Enhance the internal ESG information available.
- Strengthen the customer registration and risk admission process.
- Supplement the information available through external providers.
- Assess the development of models and proxies to be able to estimate the information not available once the other three previous initiatives have been applied.

Link between environmental risks with other risks in the management framework

This section covers the requirement on qualitative information on environmental risk, specifically, the point on risk management, for questions (r)

Environmental and climate-related risk drivers are considered as factors that could impact the existing risks, such as credit, market, liquidity, operational, reputational and strategic risks, among others, in different time horizons.

We continue improving how we identify climate and environmental risk drivers taking into account potential effects, our response, and next steps for each risk type. The following chart summarizes the implications that these exposures may have in terms of credit, market, operational, reputational and liquidity risks, among others, for the reporting institutions:

Risk factor	Main climate drivers ¹	Main time horizon ²	Potential impact on climate risk factors	What we're doing to manage climate risk	Next steps
Credit	<ul style="list-style-type: none"> – Chronic – Acute – Policy action – Market sentiment – Technology Risk 	Medium - Long term	<ul style="list-style-type: none"> – Extreme weather leading to higher retail and corporate loan default and lower collateral value. It may lower revenue and cause agricultural damage, as well as raise insurance premiums and coverages. Also, wind pattern shifts that decrease energy production may cause higher operating costs and hinder productivity. Increase of write-offs and early retirement of assets owing to property damage and 'high-risk' locations. – If borrowers do not transition their business models to a low-carbon economy it could increase credit risk, and consequently greater risk of revenue decline and business discontinuity, leading to higher default or a loss of business value. – Severe weather causing significant economic losses, hazards for the local population and environmental damage, affecting also collaterals valuation. – Market sentiment affecting the demand, technological systems obsolescence, customer preferences, etc. – Higher operating costs for carbon-intensive customers; reporting obligations (data collection), especially on emissions (e.g. scope 3) and green taxonomy disclosures; and new EU directives on financial reporting derived from government policy action. 	<ul style="list-style-type: none"> – Materiality assessment to spot physical and transition risk in the Group's credit portfolios. – Analysis of short-, medium- and long-term risk concentration per sector and region. – Heatmaps that follow orderly, disorderly and Hot House World scenarios up to 2050. – Application of mitigating measures such as policies, thresholds and insurance to cover the risks and their impacts. – Scenario analysis and sensitivities to forecast changes in ratings, PD and LGD in view of physical and transition risk. – Credit risk metrics definition to monitor and manage the E&CC³ risks in BAU processes. – E&CC factor analyses to be embedded in the assessment of transactions and clients and their ratings. – Risk appetite limit alerts to manage climate-related sectors. 	<ul style="list-style-type: none"> – Launching 'The climate race' Environmental & Climate change credit risk TOM to integrate E&CC risks as decision drivers for credit approval and to identify and mitigate transition and physical risks. – Embedding into the credit strategy (admission and monitoring) the E&CC factors to identify, manage and mitigate transition and physical risks. – Including climate factors in internal physical and transition risk models, and developing tools to monitor physical risk in all the Group's markets.
Market risk	<ul style="list-style-type: none"> – Acute – Chronic – Market sentiment 	Short-term Long-term Short-Medium-term	<ul style="list-style-type: none"> – Higher volatility in market factors under stress scenarios. – Changes in market perception leading to wider credit spreads for business in impacted sectors. 	<ul style="list-style-type: none"> – Regular reviews of climate stress scenarios and units. – Stress testing using physical and transition risk scenarios. – Portfolio analysis of current exposure to climate-sensitive business activities. 	<ul style="list-style-type: none"> – Enhancing analysis of material climate impact on trading portfolios to help with future sector-based stress testing. – Enriching stress testing and reviewing new scenarios to be included. – Adapting stress testing to best market practices.

¹ All climate drivers have an effect in risk factors, although in this table only the main ones have been considered.

² Short-term: up to 1 year; Medium-term: up to 3 years; Long-term: ≥ 5 years

³ E&CC: Environmental and Climate Change

Risk factor	Main climate drivers ¹	Main time horizon ²	Potential impact on climate risk factors	What we're doing to manage climate risk	Next steps
Liquidity risk	<ul style="list-style-type: none"> – Chronic – Market sentiment 	<ul style="list-style-type: none"> Long-term Short-Medium-term 	<ul style="list-style-type: none"> – Market impacts on the value of high quality liquid assets in Santander's liquidity buffer. – More frequent extreme weather stifling economic growth in countries susceptible to climate change, causing sovereign debt to rise and limiting access to capital markets. – Cash outflows from companies trying to boost their reputation in the market or solve problems with <u>climate scenarios</u>. 	<ul style="list-style-type: none"> – Qualitative and quantitative climate scenario analyses of impacts on highly liquid assets and financing of exposed companies. – Analysis of higher outflows due to changes in market perception of corporations in climate-sensitive business activities. 	<ul style="list-style-type: none"> – Enhancing stress testing and reviewing new scenarios to be included. – Adapting stress testing to best market practices. – Including new liquidity scenarios to measure their impact.
Operational risk	<ul style="list-style-type: none"> – Acute – Policy action – Market sentiment 	<ul style="list-style-type: none"> Medium-Long term 	<ul style="list-style-type: none"> – Severe weather events can cause damage to our assets, including branch networks, offices and data centres. It can also affect business continuity, including processes and staff. – Climate-related financial risks can also cause operational risk losses from litigation, for example, if a bank is perceived to misrepresent sustainability-related practices. 	<ul style="list-style-type: none"> – The operational risk & control self-assessment includes ESG reference risks in order to evaluate exposure. – Mandatory operational risk scenario analysis covering physical or transition risk events. – The ESG risk flag in the operational risk events database allows to classify climate & environmental related incidents and losses. – The business continuity plan guidelines are updated to include more detail on climate risk threats. 	<ul style="list-style-type: none"> – Provide enhanced reporting of operational risk related to climate risk. – Evaluate external sources of information and best practices.
Reputational risk	<ul style="list-style-type: none"> – Chronic – Acute – Policy action – Market sentiment 	<ul style="list-style-type: none"> Short - Medium -Long-term 	<ul style="list-style-type: none"> – Customers, investors and other stakeholders who perceive banks aren't doing enough to meet low carbon targets or their own public commitments can pose reputational risk. – Misrepresenting or misleading to customers, investors or other stakeholders, the declarations, actions, communications, policies or sustainability characteristics of products or practices (greenwashing) of an entity. 	<ul style="list-style-type: none"> – Updated climate and environmental risk policies and procedures. – Corporate credit committees address reputational risk when assessing sensitive transactions that involve climate and environmental risk. – Formal meetings scheduled to review reputational issues (including climate matters), involving the legal, responsible banking, investor relations, risk and other teams. – Proactive measures that show Santander supports companies' green transition and decarbonization. 	<ul style="list-style-type: none"> – Continuous involvement of reputational risk function with other areas to address reputational impacts. – Methodology to quantify the reputational impact of climate and environmental risk.
Strategic risk	<ul style="list-style-type: none"> – Acute – Chronic – Market sentiment – Policy action – Technology 	<ul style="list-style-type: none"> Short - Medium - Long-term 	<ul style="list-style-type: none"> – Our strategy could be affected if we fail to achieve our net-zero targets, including those related to the activities that we finance as well as those concerning our own operation. 	<ul style="list-style-type: none"> – Monitoring of the Group's strategic 'Climate change' project, with net-zero KPIs. – Top risk identification with an ESG risk event and analyses of how low-probability stressed scenarios impact on strategic targets to draw up appropriate action plans. – Monitoring of ESG-related proposals for Products (CPGF) and Investment forums. – Reviewing ESG factors and KPIs for business model performance. 	<ul style="list-style-type: none"> – Increasing granularity of ESG stressed event impacts in top risk identification exercise. – Regularly updating ESG KPIs to ensure full alignment with the Group's strategy. – Continuing to review ESG factors in business model performance.

¹ All climate drivers have an effect in risk factors, although in this table only the main ones have been considered.

² Short-term: up to 1 year; Medium-term: up to 3 years; Long-term: ≥ 5 years

³ E&CC: environmental and climate change

Santander uses scenario analyses with different approaches to measure transition and physical risk to our portfolios, considering our business diversification and the geographical characteristics.

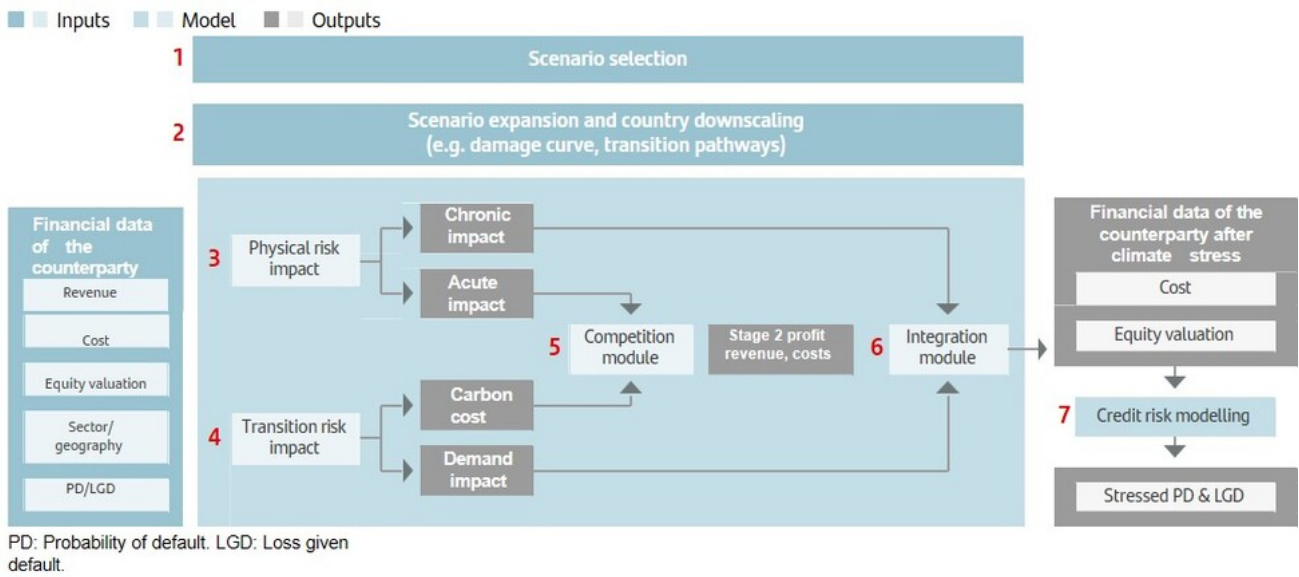
For commercial banking and corporate portfolios, Santander applies an integrated vendor model (Planetrics) to quantify the financial impact of transition and physical risks. Planetrics' modelling, based on core credit risk metrics (PD, LGD), estimates the direct and indirect impact of macroeconomic and climate variables, market trends and policy actions.

We capture effects related to carbon cost, physical risk and change patterns in demand, to assess changes in companies' finances such as costs, revenues, and profits, considering also general aspects referred to sector/sub-sector and country.

This approach follows a bottom-up analysis of each customer's drivers, financial situation, and technology; in addition, a top-down approach by sector and country can also be used when customer information is not available.

The climate model comprises seven modules, which are set out in the following table.

For more detail about of our scenario analysis tool modules see section 4 'Risk management' in our climate finance report.



1.2. Social risk

1.2.1. Business strategy and processes

This section covers the requirement on qualitative information on social risk, specifically, the point on business strategy and processes, for question (a)

Integration of social factors on the business strategy

The Group materiality matrix reflects the ESG topics we should focus on according to our strategy.

In the development of the materiality matrix, following the proposed Corporate Sustainability Reporting Directive (CSRD) and leading ESG reporting standards, we applied the principle of double materiality: (1) financial materiality (how ESG issues impact financial performance); and (2) environmental and social materiality (how ESG action impacts society and the environment).

Regarding social topics, according to the materiality assessment, we have identified the following aspects to focus on:

- **Crucial topics:**
 - **Customer experience and satisfaction:** be the bank of choice for our customers with products, process and services that meet their needs and treat them in a simple, personal and fair way. Innovation & usage of digital technologies to maximise access to products and services and enhance customer experience.
 - **Financial health:** financially support our stakeholders to help with any potential challenges (e.g., rising cost of living) that might emerge through tailored products and solutions, including financial education.
- **Major topics:**
 - **Diversity, equity and inclusion:** ensuring fairness and respect among employees in an inclusive environment, with zero tolerance of harassment and discrimination in a psychological safety environment.
 - **Talent management:** have a talented and motivated workforce, offering development opportunities; and ensuring meritocracy.
 - **Financial inclusion:** developing and providing products and services promoting access to basic financial services, including finance that meet their needs.

- **Relevant topics:**
 - **Education and support to communities:** Santander Universities focus on providing education, employability and entrepreneurship opportunities, connecting startups and SMEs, clients, training and other resources. We also support community well-being and improve the lives of people at risk of exclusion through our community programmes.

Additionally, our internal taxonomy, the Sustainable finance classification system (SFCS), is our guide on green and social financing. With regards to the latter, our social eligibility standards outline the business activities that address or mitigate specific social issues or seek to achieve positive social outcomes.

Currently, Grupo Santander is addressing 9 business activities: education, healthcare, transport, energy, water and waste management, real estate, finance and insurance, IT and communications, and non-profit organizations. All of which have an “impact metric” that measures its social contribution and a “target population” that is eligible for this social financing.

In addition, the Group's social ambition and strategic pillars are incorporated into its financial planning exercises (e.g. contribution to society / community, financial inclusion...)

For more details, see the “Sustainable finance classification system” in our corporate website.

Objectives, targets and limits to assess and address social risk

This section covers the requirement on qualitative information on social risk, specifically, the point on business strategy and processes, for question (b)

Our activity and investments contribute to several United Nations' Sustainable Development Goals (SDG) and support the Paris Agreement, and other international and local initiatives such as UN Women's Empowerment Principles.

We analysed our agenda's contribution to the SDGs and determined the most relevant goals to Banco Santander's business, commitments and strategy. For more details, see the 'Banco Santander and the SDGs' brochure on our corporate website.

Following UN Principles for Responsible Banking, we have set social targets in those areas where we have the greatest potential impact (additional to the environmental targets listed under Environmental risk).

	2018	2019	2020	2021	2022	Target
Women in senior positions^A (%)	20% →	22.7%	23.7%	26.3%	29.3%	→ 30% by 2025
Equal pay gap^B	3% →	2%	2%	1%	1%	→ ~0% by 2025
Financially empowered people^C (cumulative)	—	2mn	5mn	7mn	11.8mn	— 10mn by 2025

— Cumulative target → From... to...

A. Senior positions make up 1% of the total workforce

B. Equal pay gap based on same jobs, levels and functions

C. Unbanked, underbanked and financially vulnerable individuals who receive tailored finance solutions and become more aware and resilient through financial education

Policies and procedures to manage social risks

This section covers the requirement on qualitative information on social risk, specifically, the point on business strategy and processes, for question (c)

Grupo Santander ensures ethical factors are properly considered when conducting business.

We therefore adhere to several policies, codes and internal rules inspired by the best practices, international conventions and protocols, codes of conduct and guides that are applicable in every area.

Our compliance with these policies is a process of continuous improvement. Santander undertakes an annual review of its corporate sustainability policies, which apply to the whole Group.

Among the most relevant policies relating to social aspects, are the following:

- **Responsible banking and sustainability policy**

It defines Santander's general principles for responsible banking and sustainability, as well as the objectives that the Group voluntarily undertakes with its main stakeholders, including Santander's position on the protection of human rights. This policy includes the main recommendations of the CNMV's Code of Corporate Governance. The responsible banking and sustainability policy also includes the main processes to ensure the management and monitoring of the objectives in this area.

The policy approved by the board of directors merges the general sustainability policy and the human rights policy to better integrate the objectives of both policies into existing processes. It also facilitates implementation and understanding in a single, simpler and more operational document.

- **Environmental, social and climate change risk policy**

This policy sets out Grupo Santander's criteria for investing in entities, and/or providing financial products and/or services to customers involved in the oil & gas, power generation and mining & metals sectors and those arising from businesses engaged in soft commodities. The policy sets out which activities are prohibited and those that require special attention from an environmental, social and climate change perspective. This policy is a substitute to the previous energy, mining and metals, and soft commodities policies.

- **Policy on donations**

The purpose of this policy is to set out the criteria that regulate the treatment of donations as well as the process for making donations (proposal, assessment, decision, control and monitoring) that the Grupo Santander considers making for social purposes.

- **Principles of responsible behaviour for suppliers**

This document establishes the minimum principles of ethical, social and environmental conduct that Banco Santander expects from all its suppliers; these are aligned with the ten principles of the Global Compact.

The complete list of policies can be found on the Group's corporate website.

1.2.2. Governance

This section covers the requirement on qualitative information on social risk, specifically, the point on governance, for questions (d), (e) and (f)

Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of social risk management

The Group's board of directors is responsible of the approval of the general policies and strategies of the Company, and the supervision of their application, including strategy and policies on responsible business and sustainability and, in particular, on environmental and social matters and corporate sustainability policies, additional detail on ESG Governance in section 1.1 '[Environmental Risk](#)'.

In the management of the social objectives and strategies, the following initiatives, among others, are considered:

- **Activities towards the community and society**
 - **Conduct and ethical behaviour:** our business complies with the highest standards of conduct and ethical behaviour.
 - **Support for higher education and other local initiatives:** we support the communities where we operate, with a special focus on higher education, through our Santander Universities programme.
 - **Financial inclusion and empowerment:** we help people access the financial system, set up and grow micro-businesses, and learn how to manage their finances.
- **Employee relationships and labour standards:** we want to be an employer of choice. Our approach strategy is based on three pillars:
 - Ensuring that we have the best culture, and a great employee experience – delivered through initiatives such as diversity, equity & inclusion, culture, health and wellbeing.
 - Ensuring to have the right talent and skills in place to ensure the Bank's transformation: attracting and retaining the best talent and encouraging our people to learn through great leadership, a strong focus on development and having a strong employee value proposition.
 - Aligning with the business to ensure we add value proactively and help deliver the strategic objectives: having the best organization design, making data driven decisions, and, utilizing new ways of working to drive value for all stakeholders.

- **Customer protection and product responsibility**

- **Customer conduct risk model:** being responsible means offering our customers products and services that are simple, personal and fair (SPF). Our customer conduct risk model sets out the lines of action and standards for managing and mitigating conduct risk in service design, sales, post-sales and execution.

The Product Governance & Consumer Protection area pinpoints risk from banking regulation and good practice. It also conducts thematic reviews to avoid problems that might affect our customers. 2022 thematic reviews have been focused on pricing, account closure, services for elderly customers, care for victims of fraud, and payment protection insurance.

- **Product governance:** Santander's governance structure enables it to safeguard customers' interests. Our product governance forum ensures the products and services we market meet the needs of specific target segments and are reasonably and clearly priced.

- **Human rights:** our board-approved responsible banking and sustainability policy illustrates ESG Santander's commitments including human rights protection of our employees, customers, suppliers and the communities we serve.

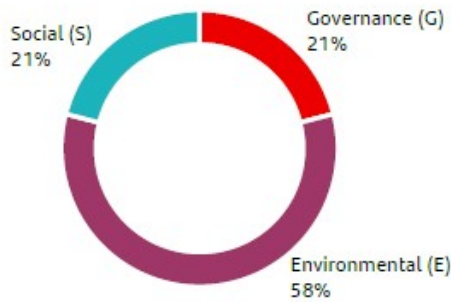
- We run initiatives to combat discrimination, forced labour, child exploitation and other affronts to people's dignity, as well as to preserve freedom of association and collective bargaining, our employees' health, and decent employment.

- We protect our customers' human rights through responsible business practices, and granting their data protection.

- We improved our vendors questionnaires to ensure respect for human rights along our supply chain under environmental, social, and climate change risk management policy. As a result, a strengthened analysis of customer's exposure to social risks was achieved.

- We assess human rights impacts over transactions under the scope of Equator Principles.

In 2022, the responsible banking, sustainability and culture committee held five meetings. Section 3.4 '[Board and committee attendance](#)' of the annual report provides information on members' attendance and the estimated average time each one spent on preparing for and participating in meetings. The chart below shows the committee's approximate time allocation to each ESG criteria in 2022.



For more detail of our social initiatives, see section '[Building a more responsible bank](#)' in our annual report.

Alignment of the remuneration policy with social risk-related objectives

This section covers the requirement on qualitative information on social risk, specifically, the points on governance, for question (g)

To align the remuneration policy with the institution's social risk-related objectives, Santander applies the equal pay principle in the corporate remuneration policy of Grupo Santander for executive directors and employees alike, which forbids any type of differential treatment that is not exclusively based on an assessment of performance results and corporate behaviours, and promotes equal pay for men and women.

Furthermore, Santander's remuneration framework rewards employees for their contribution based on principles like, among others:

- **Meritocracy:** non-discrimination based on sex, age, culture, religion or ethnicity.
- **Consistency:** remuneration consistent with the level of responsibility, leadership and performance within the Group, to promote retention of key professionals and attract the best talent.
- **Social responsibility:** in order to give our social responsibility prominence in remuneration, the Group's Responsible banking objectives for employee remuneration include the people financially empowered metric.

Also, performance objectives for annual variable remuneration have included ESG components aligned with our Responsible banking goals since 2020.

Remuneration policy for executive directors in 2022 included 2023-2025 pluriannual variable pay assessing the following social aspects:

- **Women in senior leadership positions by the end of 2025**

Women in senior leadership positions ^B (%)	Coefficient
≥ 36%	1.25
≥ 35% but < 36%	1 – 1.25 ^A
≥ 29.3% but < 35%	0 – 1 ^A
< 29.3%	0

A. Increase of the coefficient is proportional to its position on this line of the scale.

B. Senior leadership positions make up 1% of the total workforce.

- **Financial inclusion between 2023 and 2025**

Financial inclusion ^B (million)	Coefficient
≥ 6	1.25
≥ 5 but < 6	1 – 1.25 ^A
≥ 3 but < 5	0 – 1 ^A
< 3	0

A. Increase of the coefficient is proportional to its position on this line of the scale.

B. Banking proposals for unbanked and underbanked regarding access to basic financial services (i.e.: cash-in/cash-out services in remote locations) or tailored finance (i.e.: for micro-entrepreneurs to set up or grow a business or customers in financial distress).

More detail can be found in the '[Directors' remuneration policy for 2023, 2024 and 2025 submitted to a binding shareholder vote](#)' section in the annual report.

1.2.3. Risk management

This section covers the requirement on qualitative information on social risk, specifically, the point on risk management, for question (h)

International standards on which the social risk management framework is based

Our social risk management framework draws up on international industry guidelines and principles. Thus, the four policies covered previously on "Policies and procedures to manage social risks", have been established in accordance with international standards:

- The **responsible banking and sustainability policy** is based on standards such as the Agreements reached at the 2015 COP21 summit on climate change in Paris, or the UNESCO World Heritage list, the 2011 United Nations Guiding Principles on Business and Human Rights, the Universal Declaration of Human Rights, Fundamental conventions of the International Labour Organization, United Nations Guiding Principles on Business and Human Rights, among others.
- Our **environmental, social & climate change risk management policy**, follows the Equator Principles, the standards for social and environmental performance and the explanatory notes of the International Finance Corporation (IFC), the United Nations Global Compact, the Universal Declaration of Human Rights, the International Labour Organization Declaration, the Convention on the Rights of the Child, the Rio Declaration on Environment and the United Nations Convention against corruption.
- In the **policy of donations**, contributions must have, among other purposes, the defence of human rights, as proclaimed by the UN's Universal Declaration of Human Rights.
- **Principles of responsible behaviour for suppliers:** Banco Santander expects its suppliers to work to support and respect the protection of human rights in accordance with the United Nations Universal Declaration of Human Rights, the Fundamental Conventions of the International Labour Organization (ILO) and the United Nations Guiding Principles on Business and Human Rights.

An exhaustive list of the standards that each policy follows is available on the Group's corporate website.

In addition, the sustainable finance classification system (SFCS). in the aspects related to social risk, draws on international industry guidelines, standards and principles such as the ICMA's social and green bond principles, LMA's principles or the UNEP FI framework among others.

Integration of social factors in the risk framework: management, setting of limits, tools and link with other risks

This section covers the requirement on qualitative information on social risk, specifically, the point on risk management, for question (i), (j), (k), (l) and (m)

The integration of social factors into the risk framework can be summarised as follows:

- The first line of defense runs due diligence with several specific questionnaires for credit approvals. Reputational risk assessment is also included for the decision making. In due diligence, SCIB's project finance transactions must be evaluated according to the Equator Principles.

In this regard and as indicated in the ESCC risk policy, the questionnaires that are evaluated at client intake include ethical considerations and inclusiveness assessment (considering, among others, actions and policies on non-discrimination at work, working conditions, populations in need of special attention, human rights, etc.).

We apply our environmental, social and climate change risk management policy in conjunction with our responsible banking and sustainability policy. In addition, the environmental, social and climate change risk and compliance departments carry out extra due diligence on cases with red flags. The findings, which provide further input for decision-making, are submitted to risk approval committees.

Regarding this last point, the objective of this criterion is to add a social component to the environmental dimension, so that potentially green financing to clients must also be aligned with:

- OECD Guidelines for Multinational Enterprises
- ILO Declaration on Fundamental Principles and Rights at Work
- Universal Declaration of Human Rights
- UN Guiding Principles on Business and Human Rights
- Furthermore, in 2022, we updated our policy on preventing bribery and corruption. This was transposed in the subsidiaries, with guidelines and special training to manage the risks of occurrence.
- Among the tools for integrating social factors, we run surveys and "speak-up" channels for employees, plus interactive platforms for customers. We assess externalities to identify risks and opportunities and to appraise our impact on the community. We respond to demands from top analysts, investors and indices interested in ESG matters.
- We keep up to date of new regulations and best practices around the world. To this end, we engage in consultations with authorities, industry associations and other organisations involved in sustainable development policy-making.
- Additionally, in 2022, the remuneration committee continued prioritizing gender pay measurement and trends in the Group to set targets; and checked that the methodology to calculate gender equality metrics was accurate and action plans effectively narrowed the gender pay gap in the Group and its subsidiaries.
- Social risks are indirectly included in the Group's stress testing exercises, both in the measurement of transition and physical risk in our portfolios, and through the assumptions and triggers used to develop our scenarios developed for the Group's strategic financial processes (e.g. ICAAP, Strategic Plan, Budget...), including social factors, such as labor force change, technological change and demographic trends.

Thus, the evaluation is carried out as described in section 1.1.3 Risk Management, under different time horizons, both in the Group's strategic exercises (1 year for the budget, 3 years for financial planning and 5 years for strategic planning) and in management for monitoring purposes (short, medium and long term, from 2020 to 2050).

With regard to methodologies for the direct incorporation of social aspects in scenario analysis, Grupo Santander closely follows regulatory developments related to these aspects.

- Lastly, the interaction of social risks with the other risks is carried out on the basis of the aforementioned questionnaires. These are carried out during the process of analysis and granting of financing, but are also taken into account for the management of market, operational and reputational risks associated with these customers. However, the connection between these factors and the market and operational risks is being analysed.

1.3. Governance risk

This section covers the requirement on qualitative information on risks derived from governance, specifically questions (a), (b), (c) and (d)

The management of risks derived from governance is a relevant aspect in two facets: on the one hand, in the internal governance of the Santander Group, and on the other, in the evaluation we make of the governance of our clients.

Our internal governance is described in the Group's Annual Report, which also covers, among other things, the committees responsible for ESG matters, the management of ethical issues, including conduct, inclusivity, transparency, conflicts of interest, and of internal communication on critical concerns, as described in section 9.1 'Environmental risk'.

In relation to the analysis of our clients' governance, it is assessed in:

1. The elaboration of our clients' credit ratings.

In the development of CIB's client credit ratings, we assess aspects of our clients' governance such as the application of good governance codes on our stakeholders like Sarbanes-Oxley and their involvement in management issues.

2. In customer tiering: phasing it progressively in accordance with our decarbonisation targets, beginning with power generation (more detail in the climate finance report, section 5 'Metrics and targets').

3. In the screening and assessment process of the environmental, social and climate change risk ("ESCC") of Santander Corporate and Investment Banking (SCIB) clients' activities in committed sectors (subject to the ESCC Policy) such as oil and gas, power, soft commodities, mining and metals.

Throughout this process, questionnaires are developed to assess aspects of our clients' governance and risk management:

- The **ethical considerations and inclusiveness** assessment includes, among others, actions and policies on non-discrimination at work, working conditions, populations requiring special attention, human rights, and how internal client communication works, for example, in terms of grievance mechanisms for workers.
- The **strategy and risk management assessment** includes the analysis of the quality and ambition of the customer's quantitative GHG emissions targets and the credibility of the customer's decarbonization strategy to achieve their emissions reduction targets (e.g. policies on climate change action; business strategy consideration of climate change risks and opportunities; and action plans to achieve their decarbonization targets).
- The disclosure assessment focuses on the **transparency** of the customer's reporting on past emissions performance across all relevant scopes, the level of assurance, as well as the degree of reporting alignment with the TCFD. Where possible, it may also include assessment as to whether or not previous GHG emission targets were achieved.

- The **governance assessment** focuses on the level of management oversight and governance of a customer's transition strategy. We assess the level of seniority of executives accountable for climate strategy; board committee oversight of climate change issues; and how executive remuneration is aligned with climate change performance.
- Our clients' relationship with their **suppliers**, for example, assessing **potential conflicts** that could arise in the event of non-compliance with government policies or regulations.

As a result of the evaluation of the questionnaires, as a preventive measure, key decisions can be escalated to the Reputational Risk Forum and even to the board of directors.

With the entry into force of the Corporate Sustainability Reporting Directive (CSRD), additional aspects of governance risk assessment for our clients will be incorporated.

Additionally, compliance area will continue to deepen its analysis of our clients' governance, particularly in the context of our ongoing client due diligence analysis in accordance with our policies and procedures and ESG labelling, in order to broaden the focus on aspects such as ethics and integrity, board diversity and equality and customer protection.



Appendix I -Glossary

Alignment metrics: decarbonization targets to align a portfolio's emissions with the Paris Agreement targets.

COP 21: United Nations Climate Change Conference held in 2015.

CSRD (Corporate Sustainability Reporting Directive): EU directive that require large companies and listed companies to publish regular reports on the social and environmental risks they face and the impact of their activities.

Energy efficiency: energy consumption of a collateral in kWh/m².

Equator Principles: common baseline and risk management framework for financial institutions to identify, assess and manage environmental and social risks when financing projects.

ESCC Policy (Environmental, Social & Climate Change): Santander Group's criteria for (i) investing in entities, and/or (ii) providing financial products and/or services to customers involved in oil & gas, power generation and transmission, mining, metals and soft commodities activities.

ESG (Environmental, Social and Governance): is an evaluation of a firm's collective conscientiousness for social and environmental factors. It is typically a score that is compiled from data collected surrounding specific metrics related to intangible assets within the enterprise. It can be considered a form of corporate social credit score.

ESG risks: environmental, social and governance risks.

EU Taxonomy: Classification system, developed by the European Commission, that establishes a list of sustainable economic activities from an environmental point of view available to companies and investors.

Financed emissions: greenhouse gas emissions that are associated with a given loan or provision of financial services to a counterparty. It breaks down by three scopes:

- **Scope 1:** direct GHG emissions that occur from sources owned or controlled by the reporting company, such as emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.
- **Scope 2:** indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company.
- **Scope 3:** all other indirect GHG emissions (not included in Scope 2) that occur in the value chain of the company.

GHG: greenhouse gas.

Greenwashing: the practice of gaining an unfair competitive advantage by marketing a financial product as environmentally friendly when, in fact, it does not meet basic environmental requirements.

ICAAP: internal capital adequacy assessment process.

NZAMi (Net Zero Asset Management initiative): international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050.

NZBA (Net-Zero Banking Alliance): group of 43 of the world's leading banks with a focus on delivering the banking sector's ambition to align its climate commitments with the Paris Agreement goals.

Paris Agreement: international treaty on climate change. It stipulates that the involved parties will take the necessary actions to limit further increases in global average temperatures to well below 2°C and ideally to below 1.5°C.

PCAF (Partnership for Carbon Accounting Financials): initiative created in 2019 that aims to establish an international methodology for measuring and disclosing financed greenhouse gas emissions to financial institutions.

Physical risk: risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of the physical effects of environmental factors on the institution's counterparties or invested assets.

- **Acute:** physical risks that include harsh meteorological events such as cyclones, hurricanes or floods, as well as the increased severity of these.
- **Chronic:** physical risks that include longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves.

Pillar 3 - Market Discipline: this pillar is designed to complete the minimum capital requirements and the supervisory review process and, accordingly, enhance market discipline through the regulation of public disclosure by the entities.

Risk appetite: the amount and type of risks considered reasonable to assume in the execution of its business strategy, so that Santander can maintain its ordinary activity in the event of unexpected circumstances. Severe scenarios are taken into account that could have a negative impact on the levels of capital, liquidity, profitability and/or the share price.

Sustainable Finance Classification System (SFCS): internal guide with harmonized criteria to classify green, social and sustainable assets in all the Group's units and businesses.

TCFD (Task Force on Climate-related Financial Disclosures): created by the Financial Stability Board to improve and increase reporting of climate-related financial information.

TPI (Transition Pathway Initiative): global initiative led by asset owners and supported by asset managers that assess the progress that companies are making on the transition to a low-carbon economy.

Transition risks: risk arising from political, legal, technological and market changes generated by the transition to a lower carbon economy.

UNEP FI: United Nations Environment Programme Finance Initiative.

