Pillar 3 - Prudential Relevance Report June 2024

Risks ESG

1

ESG RISKS

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:

Supporting our customers in the transition

Help our customers transition to a sustainable economy, with the target to raise or facilitate EUR 120 billion in green finance between 2019 and 2025 and EUR 220 billion by 2030; offer our customers guidance, advice and specific business solutions; and enable them to invest in a wide-range of products according to their sustainability preferences, with the target of reaching EUR 100 billion AUM in Socially Responsible Investment by 2025.

Embedding climate in risk management

Embed climate in risk management; understand and manage the sources of climate change risks in our portfolios.

Aligning our portfolio with the Paris Agreement goals

Align our portfolio with the Paris Agreement goals to help limit warming to a 1.5ºC rise above preindustrial levels; and set sector- portfolio alignment targets in line with the NZBA and with Net Zero Asset Management initiative (NZAMi).

Reducing our environmental impact

Reduce our impact on the environment, implementing efficiency measures, sourcing all our electricity from renewable sources by 2025[1].

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

		2018	2019	2020	2021	2022	2023	2025/2030 target
	Electricity from renewable sources[A]	43%	50%	57%	75%	88%	97%	100% by 2025
	Carbon neutral in our own operations[B]			✓	✓	✓	✓	Every year
	Green finance raised and facilitated (EUR bn)[C]		19	33.8	65.7	94.5	114.6	120 bn by 2025 220 bn by 2030
	AuMs in **Socially Responsible Investments** (SRI) (EUR bn)				27.1	53.2	67.7	100 bn by 2025
	Thermal **coal**-related power & mining phase out (EUR bn)				7	5.9	4.9	0 by 2030
	Emissions intensity of **power generation** portfolio		0.21	0.17	0.19			0.11 tCO_2e / MWh in 2030
	Absolute emissions of **energy (oil & gas)** portfolio		23.84	22.58	27.43			16.98 $mtCO_2e$ in 2030
	Emissions intensity of **aviation** portfolio		92.47	93.05	97.21			61.71 gCO_2e/ RPK in 2030
	Emissions intensity of **steel** portfolio		1.58	1.40	1.36			1.07 tCO_2e/ tS in 2030
New in 2023	Emissions intensity of **auto manufacturing** portfolio			149	138			103 gCO_2/vkm in 2030
New in 2023	Emissions intensity of **auto lending** portfolio[D]					137		75-89 gCO_2e/vkm in 2030

From...To · Cumulative target · ✓ Commitment Achieved

1. In countries where we can verify electricity from renewable sources at Banco Santander properties. It considers the 10 main countries in which we operate.

2. Includes Grupo Santander's contribution to green finance: project finance; syndicated loans; green bonds; capital finance; export finance, advisory services, structuring and other products, to help customers transition to a low-carbon economy.

3. The figures displayed are the latest available. Given limited data availability from customers to assess financed emission, we plan to provide target progress update in the upcoming disclosures. Banco Santander's internal calculation methodology has been used, based on

the Partnership for Carbon Accounting Financials (PCAF). See more information in section 6.Supporting the green transition.

4. In 2021 Annual report and Climate Finance report, we assessed the 2019 financed emissions of our power generation portfolio, including guarantees and other types of off-balance exposure to our customers that do not entail current funding. Because, according to the

PCAF standard, such exposure should not be calculated if its attribution factor is 'outstanding', we were over-attributed with our corporate customers' emissions. Therefore, the 2019 baseline emissions intensity has been restated from 0.23 to 0.21. The target and climate

ambition remains for this sector.

5. Consumer lending for acquisition of passenger cars in Europe, covering a significant majority of the exposure.

6. Scope 1 and 2 emissions and scope 3 emissions from employee commuting and business travel. It considers wholly owned companies in Argentina, Brazil, Chile, Germany, Mexico, Poland, Portugal, Spain, the United Kingdom and the United States.

Climate opportunities

Working with customers to support their transition and to reduce carbon emissions will be key to achieve our ambition to be net zero by 2050. To achieve this, our teams engage with customers, with support from specialist ESG teams in Santander Corporate & Investment Banking (CIB), Wealth Management & Insurance (Wealth) and Retail and Commercial Banking.

Sector / asset	Opportunities for CIB and Retail and Commercial Banking	Time horizon[C]
Mortgages	Green mortgages	ST
	Lending and advisory offering to help customers identify real estate retrofitting solutions	ST
Energy	Growth in wind and solar renewable energy financing and advisory	ST
	Financing and advisory to facilitate EV[A] charging infrastructure build-out	ST
Automotive	Financing and advisory to enable shift to EVs	ST
	Financing to establish and integrate battery supply chains	ST
	Financing of additional technologies that enable low-carbon mobility solutions	MT
Agriculture	Incentivize and support customers across the value chain to adopt more sustainable practices	MT
	Financing and advisory of on-farm emission reduction technologies	MT
Voluntary Carbon Markets	Provide solutions to enable customers to access carbon market opportunities	MT
Circular Economy - Waste & Water Management	Financing of water, waste and soil treatment, greater energy efficiency, lower emissions and conservation	MT
Cross sector	Growth in green bonds, green loans and sustainability-linked financing instruments	ST
	Financing for scaling of new technologies such as hydrogen, CCUS[B], biofuels as well as energy storage more broadly	MT
	Financing and advisory for early-stage companies focused on energy transition-enabling solutions	ST

A. EV = Electric Vehicles
B. CCUS = Carbon Capture, Utilisation and Storage
C. Short-term: up to 1 year; Medium-term: up to 3 years; Long-term: ≥ 5 years

Our net zero ambition

As per the annual report, 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.

Since 2021, 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 of 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).

Investment targets towards environmental objectives

As stated in section 6 'Financing the green transition' in the climate finance report, 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. According to the annual report, we raised and facilitated €20.2 bn in green finance in 2023, reaching €114.6 bn since 2019[1].

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.

The Green Finance main priorities are to establish a robust infrastructure by implementing the sustainable finance and investment classification system (SFICS) and to grow the green finance business.

Limits to assess and address environmental risk

Our Environmental, social and climate Change (ESCC) risk management policy (which we review every year) sets out the standards for investing in, and providing financial products and services[2] to companies and customers in oil & gas, power generation and distribution, mining and metals and soft commodities. These restrictions have been defined in a consistent way related to our internal policies of sustainability and human rights, based on the market practices and the meetings with NGOs and other external stakeholders.

We summarise some examples of the restrictions:

- Any **projects or activities** for oil & gas extraction, power generation or transmission, mining, manufacturing, plantations or other major infrastructure projects which **put areas classified as Ramsar Sites, World Heritage Sites or by the International Union for Conservation of Nature (IUCN) as categories I, II, III or IV at risk**.
- **Oil & Gas**: new oil exploration and production customers, except for specific financing operations for new renewable energy facilities. Also, project-related financing to oil upstream greenfield projects.
- **Power generation**: by 2030, any customer with more than 10% of revenue, on a consolidated basis, directly derived from coal fired power generation. New customers with more than 25% of revenues, on a consolidated basis, directly derived from coal fired power generation, except for transactions for the specific financing for new renewable energy facilities. In these exceptions, the client must not be developing new coal power plants and/or expanding existing ones, have a robust, credible plan, with verifiable targets, which show the client will reduce its revenues coming from coal power generation to 10% or below by 2030. Onboarding new clients with less than 25% of their revenues, on a consolidated basis, derived from coal-fired power generation is allowed, if they have a credible plan to reduce its revenues coming from coal power generation to 10% or below by 2030; and if they are not developing new coal power plants and/or expanding existing ones.
- **Mining & Metals**: by 2030 customers that own thermal coal mines worldwide. New clients that own thermal coal mining operations and projects worldwide, except for transactions for the specific financing for renewable energy. In these exceptions, the client must have a robust, credible plan, with verifiable targets, which show the client will have no thermal coal by 2030. Project-related financing for new, or the expansion of thermal coal mines.
- **Soft commodities**: any customer that extracts native tropical wood species not certified to forest stewardship council (FSC) or any palm oil processors not certified to roundtable on sustainable palm oil (RSPO). Also, projects for developments in forested peatlands in high-risk geographies.

This information is stated in the ESCC Policy.

Policies and procedures relating customer engagement on 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)

As discussed in the climate finance report, 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 requests that contain transition-focused elements designed to help us better understand companies' decarbonization strategies.

[1] Preliminary data as final League Tables for 2023 were not yet available at date of editorial closing. This information will be updated to year end in the next Climate Finance Report

[2] Transactions that entail credit risk, insurance, advisory services, equity and assessment.

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, and as part of the regular business and risk assessment review with each customer, which is performed at least once a year.

Assess

Our assessment consists of a two-step approach designed to categorize our customers according to their emissions 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+, TCFD, as well as other related initiatives including the UK's Transition Plan Taskforce (TPT).

Engage

Our customer climate tiering system seeks to facilitate tailored transition dialogue, to help lower tiered customers move up to higher tiers over time.

In 2024, we plan to focus our customer engagement efforts on lower tiered customers. We are developing internal transition assessment dashboards for relationship managers. These dashboards are designed to aid the identification of customer-level priority areas, industry benchmarking, and opportunities to support our customers in financing their transition.

Review

The customer transition plan assessment is performed by relationship managers, in cooperation with ESCC risk analysts, followed by portfolio level reviews by ESG Solutions and Portfolio Alignment teams to determine final tierings. The portfolio level review is important to help identify key trends and challenges in each sector, as well as for future transition plan assessment methodology improvements.

Over the last year, the two-step climate tiering assessment process was expanded to include Energy, Steel and Aviation. Initial assessments were completed for both steps. Subsequently, transition plan quality assessments were reviewed and enhanced, drawing on updated reference methodologies and sector-specific research. This led to the inclusion of additional sector-specific questions for assessing transition plan quality. In 2024, we are planning to expand our customer climate tiering assessment process to include the Automotive sector as well.

1.1.2. Governance

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

Governance bodies and frequency

As per the annual report, **the board of directors** oversees our activity regarding climate change and the green transition. In 2023, the board discussed these topics at seven meetings, including the Climate-Net Zero ambition plan, the ESCC policy review and disclosure reports. Additionally, business units and global businesses report annually to the board on their main ESG initiatives.

The board of directors is responsible for approving the responsible banking agenda and set the strategy, approving the culture policy and related policies on responsible business and sustainability matters and, in particular, on environmental and social matters. It also ensures that the alignment of the responsible banking strategy is consistent with Group strategy, among others.

The **responsible banking, sustainability and culture committee (RBSCC)** is the highest governance body that oversees drawing up and implementing the Group's sustainability strategy and policies, supporting the board of directors. In 2023, the RBSCC met six times and reviewed items related to climate change at five sessions.

The RBSCC coordinates its activities with the other board committees, in particular with the risk supervision, regulation, and compliance committee, the board audit committee and the remuneration committee. The first one has assessed the ESG policies and ESG risk appetite, the second has supervised financial and non-financial reporting and disclosures, as well as related ESG processes and controls and the third has approved the sustainability incentives in reward schemes.

The **management meeting,** chaired by the CEO, discusses our progress on the responsible banking agenda, especially as regards to climate change, TCFD and ESG business opportunities. In 2023, the committee was informed 3 times on progress made with the responsible banking agenda.

The **Group responsible banking unit** with support from a senior adviser on responsible business practices who reports directly to the executive chair.

The **responsible banking network** consists of the corporate responsible banking unit and responsible banking teams that execute the sustainability agenda according to our corporate strategy and policies.

The **audit, remuneration and risk committees** also supported and reviewed sustainability topics.

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 2023 we continued to embed climate management in business-as-usual across CIB, Risk and Responsible Banking. For instance, CIB set up a dedicated team for portfolio alignment and strengthened its corresponding governance.

Beyond CIB, a number of local units are engaged in a process coordinated by Group Responsible Banking. The objective is to progress the decarbonization agenda, promote knowledge and expertise sharing among local teams, and seek out synergy to design reliable transition plans.

Other corporate-level initiatives and groups that support governance meet regularly to implement or advise on our climate change agenda. For example, our public policy sustainability working group advises on regulation; the environmental footprint working group measures our footprint and reviews ways to reduce it; and the sustainable bonds working group oversees sustainable bonds issues.

The 2023 internal audit plan, based on the annual risk assessment, continued to uphold the monitoring of ESG criteria and embedding of climate risk. In 2023, the Internal audit function monitored the progress of our key initiatives to meet ESG disclosure requirements and embed climate change in the bank's business processes and risk management.

Since 2020, Santander has assessed green finance and progress made on climate targets and other ESG targets for the Group's variable remuneration scheme.

Santander integrates short-term, medium-term 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.

ESG training and skills development

We have continued working to familiarize all employees with sustainability, the UN Sustainable Development Goals and climate change with training for global businesses and subsidiaries. The Group has designed a 3-level progressive learning journey to adapt to evolving business and employees needs. Each level encompasses a set of activities and modules:

- Awareness & knowledge
- Specialization
- Certification

In 2024, in collaboration with global and local teams, we will continue to identify and adapt to the evolving business needs by: developing mandatory training and personalized learning itineraries, expanding ESG talks and channel content to new topics, improving ESG website design.

Our different training programs include:

1. Employee Awareness: Departments send climate-related newsletters and reports, and frequently release news and articles on the intranet to raise employees' ESG awareness.

2. ESG Talks: One-hour seminars by ESG teams cover various topics such as Circular Economy, ESG Equity Research, and Green Washing to enhance understanding of Santander's ESG commitments and projects.

3. Training Pills' Embedding ESCC: An initiative sharing best practices and expert knowledge on embedding processes like materiality and climate sector assessment into ESCC management.

4. Climate Training for Board Members: Board members completed training on climate change, covering the Paris Agreement, net zero, climate risk management, and ESG risks, with additional sessions for subsidiary board members in 2023.

5. ESG Training in CIB: Senior CIB staff receive training on transition topics, including climate regulations, greenwashing, and frameworks for assessing customer transition plans, through sessions with external experts.

6. ESG Training in Commercial Banking: Specific ESG training is provided to Commercial Banking teams, with extensive hours dedicated to economic sectors, exemplified by the ESCC Competence Center's 750+ hours of training in Spain.

7. ESG Training in Wealth Management & Insurance: Increased ESG training for employees at Santander Asset Management, Private Banking, and Insurance through internal and CESGA/CFA certifications, ranging from 16 to 150 hours.

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)

In 2023, our reward schemes included ESG as a lever to make Santander teams' actions consistent with our goals. Variable remuneration (which applies to all units) has included ESG since 2020 and long-term incentives (which apply to senior executives) since 2022. In both cases, the scorecards leverage on Santander ESG public targets, including climate, green finance, financial inclusion, diversity, equity and inclusion (DE&I) and socially responsible investment.

The executive directors' variable remuneration consists of a single incentive scheme, linked to the achievement of short- and long term objectives. It is structured as follows:

- The final amount of variable remuneration will be set at the start of the following year (2025) based on the benchmark amount and subject to compliance with the annual objectives described in the annual report.
- 40% of the incentive will be paid immediately once the final amount has been set, and 60% will be deferred in equal parts paid out over five years and subject to long-term metrics:
  - The amount deferred over the first two years (24% of the total) will be paid in 2026 and 2027 on the condition that no malus clauses are triggered.
  - The amount deferred over the next three years (36% of the total) will be paid in 2028, 2029 and 2030, on the condition that no malus clauses are triggered and long-term targets are met. The long-term targets, as described in the annual report, are:
    A. Banco Santander's consolidated return on tangible equity

B. Relative performance of Banco Santander's total shareholder return (TSR)

C. ESG metrics.

In relation to ESG metrics, achievement will depend on the progress made on the Group's Responsible Banking actions lines and associated targets: (1) percentage of women in senior executive positions, (2) financial inclusion, (3) socially responsible investment and (4) supporting transition.

Regarding environmental aspects, these targets cover:

- **Socially responsible investment in 2026 as a percentage of total assets under management:**

Socially responsible investment[B] (%)	Coefficient
≥ 21%	1.25
≥ 18% but < 21%	1 – 1.25[A]
≥ 15% but < 18%	0 – 1[A]
< 15%	0

A. Increase of the coefficient is proportional to its position on this line of the scale.
B. Assets under management that meet the criteria of Santander's Sustainable Finance and Investment Classification System (SFICS).

- **Supporting transition.** This goal includes how we support our customers' transition, and the fulfilment of a transition plan:

Business raised and facilitated[B] between 2024 and 2026 (EUR Bn)	Coefficient
≥ 180	1.25
≥ 150 but < 180	1 – 1.25[A]
≥ 110 but < 150	1
< 110	0

A. Increase of the coefficient is proportional to its position on this line of the scale.
B. Grupo Santander's contribution to our customers' transition (2024-2026): CIB green finance raised and facilitated (public target), Retail & Commercial banking green finance and sustainable linked-loans, and Digital Consumer Bank green finance.

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.

Each ESG goal has a different weighting:

- Women in senior executive positions: 20%
- Financial inclusion: 20%
- Socially responsible investment: 10%
- Supporting transition: 50%

This information can be found in the '6.4 Directors' remuneration policy for 2024, 2025 and 2026' section in the annual report.

Access 2023 Annual Report available on the Santander Group website

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

Managing climate and environmental risk factors is crucial to implementing our strategy, aiding the transition to a low-carbon economy, and fulfilling our ambition to be net zero by 2050.

As part of our climate and environmental risk factors management, we are gradually introducing decarbonization targets in sectors that are considered 'highly polluting', as well as embedding climate and environmental factors in our risk management and cross-cutting enterprise risk management processes, such as our risk appetite and in the emerging risks identification exercise. One of the elements that has contributed to integrating these factors into our strategy is their inclusion in the credit granting and monitoring process.

We identify and assess the factors that are most material to each risk type.

The following chart describes how we are integrating climate and environmental factors into the risk management cycle:

Risk management cycle

As detailed in the annual report, the risk management cycle consists of these phases:

1. Identification

To pinpoint and manage material risks, we conduct risk identification exercises periodically to assess potential events that could threaten the Group's strategic plan, in which ESG risk factors are considered, with special attention to greenwashing, the environmental risks beyond climate (nature & biodiversity) and social risks, among others.

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 addition, risk taxonomy, heatmaps and materiality assessment exercises form the basis for classifying and identifying material environmental and climate related risks of our portfolios.

2. Planning

Aspart of our public sustainability commitments, we included decarbonization targets in our core strategic planning: short term for budgeting; medium-term for financial planning; long-term for strategic plan; along with *ad hoc* analysis:

→ Budget (1 year): it provides inputs for the three-year plan and includes tasks to quantify annual objectives in the Santander's subsidiaries' business plans within the Group's risk appetite and liquidity, capital and efficiency plans.

→ Financial Planning (3 years): it is a key process for medium-term planning in the Group and subsidiaries. It relies on a bottom up approach that facilitates a consistent, aggregate view of our processes. It is also the basis for preparing the annual budget, the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

→ Strategic Plan (≥ 5 years): it 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 business unit and region.

The aforementioned core strategic plans allow us to identify threats to our targets, according to our policies and risk appetite statement, and provide a prospective vision of risks and their financial impacts.

3. Assessment

In Grupo Santander, environmental, social and governance aspects are considered factors that may impact existing risk types in different time horizons according to our Risk Corporate Framework. Therefore, such factors are identified and periodically assessed, consistently with the level of development of applicable regulatory framework and practices. The materiality analysis is the process of identifying and evaluating those environmental, social and governance factors that can be relevant for their potential impact on the bank's risk profile. Conceptually, the process takes place in the following stages, albeit some of these conceptual phases take place simultaneously and not sequentially:

- Identification of ESG drivers
- Analysis of the transmission channels
- Assessment of the materiality of the potential impact on the main risk types
- Aggregation of the consolidated view of materiality

We use various assessment tools that help us analyse the potential impacts of climate and environmental factors on the management of financial and non-financial risks, such as, materiality assessments, quantitative and qualitative heatmaps, scenario analyses and other tools and techniques to analyse the potential impact of climate and environmental factors on our portfolios. For instance, we run a quarterly materiality assessment to pinpoint the loan portfolios with the highest physical and transition risk.

The main aspects considered for the materiality assessment by risk type are:

- Identification of ESG drivers (see details in the Risk Factor Table) and evaluation of risk factors through impact and probability;
- Country assessment based on the degree of adoption of urgent measures to combat climate change;
- Portfolio exposure in Santander with potential reputational impact and sensitive sectors related to material climate and environmental risks;
- Climate scenarios according to NGFS and different time horizons.

The following table provides a detailed assessment of the institution's exposure to physical and transition risks. This categorization and quantification of exposures enable Santander Group to identify, monitor, and manage environmental risks effectively, aligning with regulatory requirements.

Our physical and transition risk assessments rate each sector on a 5-point scale from 'Low' to 'Very high'.

	Transition Risk			Physical Risk		
	ST	MT	LT	ST	MT	LT
Credit risk						
CIB	Medium	Medium	Medium	Moderately low	Moderately low	Moderately low
Corporate & SME	Moderately low	Moderately low	Moderately low	Moderately low	Moderately low	Moderately low
Individuals	Moderately low	Medium	Medium	Moderately low	Moderately low	Moderately low
Auto Consumer	Moderately low	Moderately low	Moderately low	Low	Moderately low	Moderately low
Operational risk	Low	Moderately low	Low	Low	Moderately low	Moderately low
Market risk	Moderately low	Low	Low	Moderately low	Low	Low
Liquidity risk	Moderately low	Low	Low	Moderately low	Low	Low
Reputational risk	Medium	High	Medium	Medium	Medium	Moderately low

● Low ● Moderately low ● Medium ● High ● Very high
Short term (ST): 2025 | Medium term (MT): >2030 | Long term (LT): >2050

On the other hand, for the assessment of credit risks materiality, the corporate tool 'Klima' is used. This enables us to monitor the Group's loan portfolios. This tool includes forward-looking analysis of companies' performance by sector and geography, using orderly, disorderly and hot house world scenario analyses to calculate physical and transition risk impact across several time horizons. In 2023, we added a physical risk assessment module for collateral and customer portfolios, which we break down by economic activity.

The following table shows the latest materiality analysis prepared by the Group with data at the end of Q3'2023.

CREDIT RISK MATERIALITY ASSESSMENT - CONCENTRATION & QUALITATIVE HEATMAP OF PORTFOLIOS

December 2023, Credit risk (before mitigants), EUR billion

		TR	PR	CIB	Other segments
Power (Conventional)		High	Medium	30	2
Power (Renewables Project Finance)		Low	Medium	13	0
Oil & Gas		Very high	Moderately low	21	1
Mining & Metals		Very high	Moderately low	15	8
Transport		High	Moderately low	30	12
Auto Consumer		Moderately low	Low	0	159
Real Estate		Moderately low	Medium	8	384
Other Climate-related sectors	Agriculture	Medium	Medium	2	9
	Construction	Moderately low	Low	18	14
	Manufacturing	Medium	Moderately low	47	25
	Water & Waste	Medium	Medium	3	1
Total Climate Sectors				**185**	**615**
Other sectors		Low	Low	64	229
Total				**249**	**845**

Low · Moderately low · Medium · High · Very high

TR: Transition Risk.

PR: Physical Risk

CIB : REC (on and off-balance sheet lending + guarantees + derivatives PFE)

Other segments: Individuals, SCF, Auto US, Corporates & Institutions, and SMEs. Measured with drawn amount.

Other sectors= CIB and Corporate NACES outside of risk taxonomy perimeter // Individuals and SCF: Cards and Other Consumer, Wealth others than mortgages. Other sectors considered as Low risks.

0 exposure amounts to exposures below EUR 500 million. Figures are rounded off without decimals.

The Thermal Coal phase-out targets are described in Section 5.

Finally, we highlight the methodological progress made in our materiality assessment, with improvements to the scope of the existing methodology, including a more holistic view of how climate and environmental factors can impact the main types of risks set out in our framework.

4. Monitoring

To monitor climate and environmental-related factors, we use the Group's risk appetite statement, which is the aggregate level and types of risk we deem prudent for our business strategy, even in unforeseen circumstances.

We constantly monitor the risk profile and our compliance with risk appetite limits through control functions that report to the board.

During 2023 we approved new quantitative metrics in the risk appetite statement — adding to the ones we set for thermal coal and power — for energy (oil & gas), steel, and aviation sectors, which we will implement and monitor in 2024. Also, for the automotive sector, we are making progress in designing a quantitative metric for approval in 2024 and effective implementation in 2025.

Another relevant monitoring lever is our ESG Regulatory Radar, which allows us to monitor regulatory changes related to ESG regulatory framework, among others, as well as the potential efforts and financial impacts the implementation of these changes may entail.

Additionally, the Risk, Compliance & Conduct function monitors ESG initiatives (including acquisitions and divestitures) presented to the investment forum, whose delegated authorities emanate from the Board´s Executive Committee, as well as to the corporate product governance forum (CPGF).

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

5. Mitigation

Policies are a key element in mitigating risks. We have updated our environmental, social and climate change (ESCC) risk management policy, which sets out our public commitments and aims to support our strategy for sensitive, special-attention and prohibited activities. Along with the ESCC risk management policy, Grupo Santander has various internal policies, frameworks and procedures in place for integrating climate and environment risks into our core risk management processes.

Apart from our policies, frameworks and/or procedures, we have other mitigating levers:

1. Credit Committees: Embed environmental, social, and climate change factors in transaction reviews.
2. CIB Customer Ratings: Include qualitative assessments of environmental, social, and climate change factors for climate sectors.
3. Special Pricing for Green Products: Offer preferential pricing for environmentally friendly products.
4. Collateral Management: Consider environmental and climate change factors based on locations and energy performance certificates (EPCs).
5. Specific Procedures to Analyse ESG Risk: The board and committees ensure decisions align with environmental, social, climate change, and reputational risk policies, using due diligence and special questionnaires.
6. Customer Engagement for Relevant Sectors: Support customers' transition to a sustainable economy, offering tailored solutions and obtaining ESG risk data for internal management and reporting.
7. ESG Panels: Classify products, services, and transactions under sustainability criteria aligned with the Sustainable Finance and Investment Classification System (SFICS).
8. The multi-disciplinary ESG working group on ESG controversies: Is coordinated by the Reputational Risk function, addresses controversies that may impact our reputation, especially those involving highly sensitive initiatives and liability implications as an intermediary in various value chains. Significant threats are escalated to senior management following established governance protocols to ensure appropriate mitigating measures are implemented.
9. Insurance: Is viewed as a crucial tool in managing climate risk and continually adapts its insurance strategies to respond to evolving risk environments.

6. Reporting

Transparent and regular reports to senior managers and stakeholders help us manage climate and environmental factors and comply with the law and supervisors' expectations. The board is fully apprised according to the established governance.

Our reporting on climate and environmental risk management includes our annual report, the Climate Finance Report, the ICAAP exercise and in this Pillar 3 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 ESCC risk management policy sets out the standards for investing in, and providing financial products and services[3] to companies and customers in oil and gas, power generation and distribution, mining and metals, and soft commodities (especially retail customers dedicated to farming and ranching in the Amazon).

As disclosed on the ESCC risk policy, we are part of the main and most important local and global initiatives to support the inclusive and sustainable growth. Some examples are:

- World Business Council for Sustainable Development (WBCSD).
- Banking Environment Initiative (BEI).
- UN Global Compact.
- Equator Principles.

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, as stated in the annual report, the SFICS outlines common standards to consider an asset or activity as environmental, social or sustainable in all the Group's units and businesses. It draws on such international market guidelines, standards and principles as the EU Taxonomy (including the four new environmental targets for 2023), ICMA Principles, LMA Principles, UNEP FI Framework and the Climate Bonds Standard.

The SFICS enables us to track our sustainable activity, support product development and mitigate greenwashing risk.

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)

The environmental and climate-related risk drivers are considered as factors that could impact the existing risks in the medium-to-long-term. These elements include, on the one hand, those derived from the physical effects of climate change, generated by one-off events as well as by chronic changes in the environment and, on the other hand, those derived from the process of transition to a development model with lower emissions, including legislative, technological or behaviour of economic agents changes.

Given the nature of its operations, the Group has no environment-related liabilities, expenses, assets or contingencies of a material relevance to its consolidated equity, financial situation and results.

Most exposures in sectors potentially affected by climate change risk, according to market consensus and to the execution of our materiality assessment, are with wholesale clients, whose preliminary reviews, credit approval and credit ratings take such risk into account. Customers' ratings determine the parameters for calculating loan loss (typically in terms of probability of default or "PD"). Thus, when climate factors are relevant, in conjunction with other elements of analysis, they have an impact on the loan loss calculations which support capital and provisions.

Additionally, within the regulatory capital (ICAAP) adequacy exercises and liquidity stress testing (a component of the ILAAP), climate and environmental risk scenarios and factors have been included covering both physical and transition events. These contribute to the estimation of potential impacts on the occurrence of one or more environmental risk events on the Group's position in these scenarios.

Likewise, Grupo Santander has participated in the various climate stress regulatory exercises carried out recently, which have been classified as learning exercises in the industry. Results showed that the Group's coverage for potential losses would be sufficient in view of portfolio maturity over time.

Therefore, based on the best information available at the time these consolidated annual financial statements were prepared, the Group sees no additional environmental or climate change risk having a substantial impact on its equity, financial situation and results in 2023.

Still, this matter is constantly changing, and, like other banks, the Group is working on developing more methodologies to better measure potential loan loss in line with new management needs, best practice, and regulators' and supervisors' requirements. In particular, we monitor progress in this regard both in the prudential area (mandate of the European Banking Authority in article 501c of Regulation (EU) 575/2013), and that resulting from the plan for the second phase of the post-review implementation of IAS 9 by the IASB regarding the calculation of expected losses, planned during 2024.

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

[3] Transactions that entail credit risk, insurance, advisory services, equity, and asset management

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 recent 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)

Due to the climate emergency, the data availability and methodology, the Environmental aspects within ESG are a focus of attention in the banking industry, among others. For this reason, the following section is more targeted on climate and environmental risks factors, which are considered transversal and likely to have an impact on existing risk typologies such as credit, market, liquidity, operational, reputational and strategic, mainly.

These risk factors include the physical effects of climate change and the transition to a low-carbon economy.

Physical risk: effects of climate change on economic activity, labour supply, communities, markets, assets and investors. It comprises:

- **Acute**: more intense extreme weather events, such as droughts, hurricanes or floods.
- **Chronic**: changes in rainfall patterns, extreme weather variability, average temperature rises, severe heatwaves and rising sea levels.

Transition risk: effects of the transition to a low-carbon economy, including changes in regulation, technology and market trends:

- **Market sentiment:** changes in the supply and demand of certain commodities, products and services as they consider climate risk and opportunity, which could lead to reputational and other issues.
- **Policy action:** implementing carbon pricing mechanisms to reduce greenhouse gas emissions; using energy sources with lower emissions; adopting energy efficient solutions; and promoting water efficiency measures and more sustainable land use practices.
- **Technology**: the need to build and innovate to support the transition to an energy efficient financial system with lower CO_2 emissions. This can have a significant impact on companies as new technology displaces obsolete systems and disrupts some components of the financial system as we know it.

We measure the impact of the climate and environmental factors of each risk type across several time horizons. This table shows pre-mitigation impact, our progress with climate matters in 2023, and next steps:

Risk factor	Main climate drivers[4]	Main time horizon[5]	Potential impact on climate risk factors	What we are doing to manage climate risk	Next steps
Credit Risk	– Chronic – Acute – Policy action – Market sentiment – Technology	Medium - Long term	– Extreme weather can lead to higher retail and corporate loan default and lower collateral value. It can also cause income to fall, harm agriculture, and increase insurance coverage and premiums. Moreover, changes in wind patterns that reduce energy production can lead to higher operating costs and hamper productivity. This may increase asset depreciation and early disposal due to property damage in 'high risk' locations – A failure by borrowers to adapt their business models to a low-carbon economy could heighten credit risk and, therefore, the risk of a reduction in income or activity that may increase default or cause the business to lose value. – Adverse weather conditions can cause significant financial losses, endanger communities, harm the environment and affect the value of guarantees. – Market sentiment that influences demand; obsolete technology; customer preferences. – Higher operating costs for carbon intensive customers; information requirements (data gathering), especially on emissions (e.g. Scope 3) and green taxonomy disclosures; and new EU financial information directives stemming from government measures.	– Conducting materiality assessments to spot physical and transition risk in our portfolios. – Analysing short-, medium- and long-term risk concentration by sector and region. – Creating heatmaps that follow orderly, disorderly and Hot House World scenarios up to 2050. – Implementing mitigation measures such as policies, thresholds and insurance to combat risks and their impact. – Conducting scenario analyses and measuring sensitivities to forecast changes in ratings, PD and LGD in view of physical and transition risk. – Drawing up credit risk metrics to monitor and control E&CC risk factors in BAU processes. – Measuring E&CC factors in customer and transaction analysis and ratings. – Setting risk appetite limits and alerts to manage climate-related sectors.	– Run the second phase of 'Climate Race', our credit risk target operating model for climate and environmental factors and embedding of E&CC factors in the entire credit cycle to pinpoint and mitigate physical and transition risk. – Include climate related factors in internal models to measure physical and transition risks, and embed scenario analysis techniques in risk management through a forward-looking approach by sector and geography – Develop tools to monitor E&CC factors that consider physical and transition risk in the activity sector and collaterals.
Market risk	– Acute – Chronic – Market sentiment	Short-Medium-term	– Higher volatility in market factors under stress scenarios. – Changes in market perception leading to wider credit spreads for business in impacted sectors.	– Regular reviews of climate stress scenarios and subsidiaries that apply them. – Stress testing using physical and transition risk scenarios. – Portfolio analysis of current exposure to climate-sensitive business activities.	– 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.

[4] All climate drivers have an effect in risk factors, although in this table only the main ones have been considered.
[5] Short-term: up to 1 year; medium-term: up to 3 years; long-term: ≥ 5 years

Risk factor	Main climate drivers[4]	Main time horizon[5]	Potential impact on climate risk factors	What we are doing to manage climate risk	Next steps
Liquidity risk	– Chronic – Market sentiment	Short-Medium-term	– 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 climate scenarios.	– Qualitative and quantitative climate scenario analyses of impacts on highly liquid assets (HQLAs) and financing of exposed companies. – Analysis of higher outflows due to changes in market perception of corporations in climate-sensitive business activities.	– 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	– Acute – Policy action – Market sentiment	Medium-Long term	– Severe climate events can cause damage to our assets, including branches, offices and data centres. They can also affect business continuity, processes and staff. – Climate-related factors can also lead to operational risk losses from litigation (e.g., if a bank is considered not to be following sustainability practices).	– Conducting operational risk and control self-assessments that include ESG-related risks to evaluate our exposure. – Conducting mandatory operational risk scenario analysis that covers physical and transition risk. – Adding ESG flag to the operational risk events database to classify incidents and environmental- and climate-related losses – Including an assessment of climate threats in business continuity scenarios.	– Enhance operational risk reporting on climate-related factors. – Update documentation and provide training on the embedding of ESG factors in operational risk management.
Reputational risk	– Chronic – Acute – Policy action – Market sentiment	Short - Medium -Long-term	– Customers, investors and other stakeholders who believe banks aren't doing enough to meet low-carbon targets, act against their policies or that their public commitments can pose reputational risk. – Misleading customers, investors and stakeholders with statements, actions, announcements, policies and the sustainability features of products or 'greenwashing' practices.	– Updating climate and environmental risk policies and procedures. – Addressing reputational risk through corporate credit committees that assess sensitive transactions that involve climate and environmental risk. – Holding formal meetings to review reputational issues (including climate matters), involving the legal, responsible banking, investor relations, risk and other teams. – Implementing proactive measures to support companies' green transition and decarbonization. – Conducting a materiality assessment to measure climate-related and environmental reputational risk.	– Continue driving cooperation between the reputational risk area and other teams to address climate-related and environmental reputational impact. – Conduct a materiality assessment to measure climate-related and environmental reputational risk. – Implement a methodology to quantify the reputational impact of climate and environmental risk. – Establishing control environment processes to prevent and manage greenwashing. – Strengthening control environment in greenwashing and developing specific training

Risk factor	Main climate drivers[4]	Main time horizon[5]	Potential impact on climate risk factors	What we are doing to manage climate risk	Next steps
Strategic risk	– Acute – Chronic – Market sentiment – Policy action – Technology	Short - Medium - Long-term	– A failure to achieve our climate and environmental targets, including those relating to our own and our customers' operations, could affect our strategy.	– Checking that ESG targets are embedded in the Group's strategic planning. – Monitoring the Group's strategic 'Climate change' project, including net zero KPIs. – Identifying emerging risks, which includes an ESG risk event and analysis of how low-probability stress scenarios might impact on the Group's strategic targets to draw up suitable action plans. – Monitoring ESG initiatives presented at the corporate product governance forum (CGPF) and investments' forum. – Reviewing ESG factors and KPIs in the business model.	– Continue monitoring climate and environmental threats as part of emerging risk identification. – Revise ESG KPIs regularly so that they remain consistent with the Group's strategy. – Continue reviewing ESG factors in relation to business model performance.

We use various assessment tools to help us analyse the potential impacts of climate and environmental factors on our portfolios, such as: materiality assessments, quantitative and qualitative heatmaps, and scenario analysis, among others.

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

As per the annual report, the Group strategy focuses on the ESG topics that are material to Santander. Our social ambition is to promote inclusive growth.

Regarding social topics, we have identified the following priority action plans to focus on:

- **Promote employees' wellbeing and equal treatment and opportunity for all:** ensuring fairness and respect among employees in an inclusive environment, with zero tolerance of harassment and discrimination in a psychological safety environment.
- **Support financial inclusion by promoting access to financial products and services and financial health, including financial literacy**: developing and providing products and services promoting access to basic financial services, including finance that meet their needs.
- **Foster customer information transparency and data privacy**: 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.
- **Support education, employability and entrepreneurship:** 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 programs.

We have set a target to invest EUR 400 million between 2023-2026 to foster education, employability and entrepreneurship.

We have an ongoing strategic DE&I Plan (2020- 2025) to promote an inclusive working environment where everyone can be themselves.

We maintain rigorous standards for hiring, promotions, succession planning and talent pipelines to strengthen diversity. We also promote implicit bias training, as well as mentoring, networking and other actions aimed at creating a more inclusive environment.

Additionally, our internal taxonomy, the SFICS, 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…). In particular, the social risks are indirectly considered in our strategical exercises (e.g. ICAAP) through the embedding of social factors such as the evolution in technology, policy framework or market sentiment in climate scenarios are used.

Following are some examples: projections of gross value added affecting at sector country level in the value of goods and services, productivity, industrials and manufacturing processes; change in demand is also affected under each scenario, as it determines the costs and the profitability of production as well as the demand of consumers and products; technological change applies also to affecting the demand for the sectors due to growth in the low-carbon technologies and market sentiment.

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.

We increased two ESG targets at our Investor Day: 35% of senior executive positions to be held by women by 2025 and to financially include 5 million people by between 2023 and 2025.

In 2023, we continued consolidating our strategy to serve vulnerable customers, and specially to prevent over-indebtedness. In addition, the Group best practices were upgraded to internal regulation for the subsidiaries. This will ensure a common approach throughout the Group for employee training, recognition of vulnerable customers, case escalation, product and service design, recoveries, fraud management and assistance for senior citizens and people with disabilities.

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):[6]

	2018	2019	2020	2021	2022	2023	Target
Women in senior executive positions (%)[A]	20% →	22.7%	23.7%	26.3%	29.3%	31.4%	→ 35% by 2025
Equity pay gap[B]	3% →	2%	2%	1%	1%	c. 0% ✓	→ ~0% by 2025
Financially empowered people (cumulative)[C]	—	2.0 mn	4.9 mn	7.5 mn	11.8 mn ✓		— 10 mn by 2025
Financially included people (cumulative)[D]						1.8 mn	— 5mn between 2023-2025
Investment to foster education, employment and entrepreneurship						105 mn	— €400m between 2023-2026

— Cumulative target → From… to… ✓ Commitment Achieved

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 Good Governance in this area.

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.

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

B. Equal pay gap based on same jobs, levels and functions.The year-end figure is 0.44%. Having met the target set (two years ahead of schedule), the Group has set itself the objective of maintaining a pay equity ratio in line with best market practices.

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

D. Additional 5 million of included people, considering unbanked, underbanked and financially vulnerable individuals who receive tailored finance solutions relates to access and finance.

1.2.2. Governance

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

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

The board of directors approves and oversees the implementation of policies and strategies related to our corporate culture and values, responsible practices and sustainability. It also ensures that all the Group's employees are aware of our codes of conduct and act ethically, and comply with the law, customs and good practices of the sectors and countries in which we operate. This information is publicly stated on the annual report.

We continue to reinforce the multidisciplinary team, already announced in the previous report, to help enhance the identification, remediation and mitigation of social and environmental risks (including human rights), analyse customer engagement throughout their relationship with us, spot deficiencies and implement action plans.

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

- **Activities towards the community and society:** over 174 million euros in community investment in 2023[7].
  - **Conduct and ethical behaviour:** our business complies with the highest standards of conduct and ethical behaviour, taking into account all stakeholders.
  - **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. We promote employability and entrepreneurship with initiatives like Santander Open Academy or Santander X.
  - **Financial inclusion and empowerment:** we help people access the financial services, set up and grow micro-businesses, and learn how to manage their finances. In line with our Group's commitment to reducing the stigma in providing financial services to vulnerable customers.
- **Employee relationships and labour standards**: we want to be an employer of choice. Our approach strategy is based on three pillars:
  - **Putting the employee at the centre of all we do;** working to have the best culture and a great employee experience delivered through diversity, equity and inclusion, culture, and health and well-being initiatives; and listening to employees so we can continuously improve.
  - **Having the right talent and skills in place to enable the Bank's transformation;** attracting and engaging the best talent, with a strong focus on employee development; and having a best-in-class employee value proposition.
  - **Driving change in the company;** shaping a more dynamic organization that's ready to face the future with a positive impact on society; having the best organizational design; utilizing new ways of working to drive value; and holding meaningful conversations with our stakeholders.
- **Customer protection and product responsibility**
  - **Customer conduct risk model:** being responsible means going above and beyond minimum legal requirements to offer customers products and services that are simple, personal, and fair (SPF). Our product governance and consumer protection area oversees and reviews how we follow our customer conduct risk model. The model sets out the requirements applicable to the product and service design, sales, post-sales, and execution.
  - **Product governance:** Santander's product and service approval policy, supported by local decision-making bodies and the corporate product governance forum, helps to provide that products and services are designed to meet the needs of the target market, at a fair price and in a transparent manner. Processes and controls set across life cycle taking into account the interests of our customers.
- **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, and child exploitation 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 the protection of their data.
  - We improved our supplier questionnaires and environmental, social and human rights analysis to respect for human rights throughout our supply chain.
  - We are also enhancing human rights questionnaires to include risks to customers in the supply chain under our ESCC risk management policy.
  - We assess the human rights impact on transactions that fall within the scope of the Equator Principles.

As per the annual report, the **board of directors** oversee our activity regarding climate change and the green transition. In 2023, these topics were discussed by the board in seven of its meetings, including the social factors in the ESCC Policy review and the disclosure reports. Additionally, business units and global businesses report annually to the board on their main ESG initiatives.

According to the Rules and Regulations of the board of directors, the **RBSCC** shall be composed of a minimum of

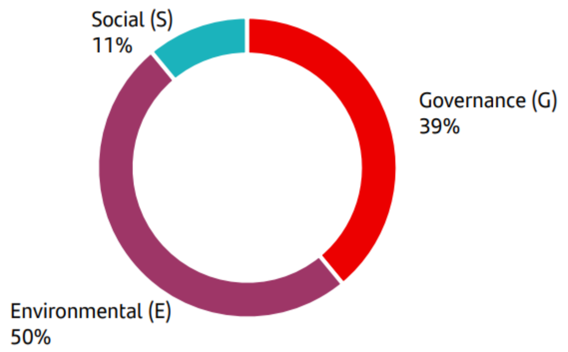
[7] Includes social contributions of foundations. In addition, Banco Santander made a donation of 6,617,008 Banco Santander shares to Fundación Banco Santander as financial support for it to bear (at least partially) the costs of fulfilling its founding purposes with the return on the shares.

three and a maximum of nine directors, all external or non-executive, with independent directors having majority representation. In order to fulfil its purpose, the committee has the function of giving advice to the board of directors on the formulation of the corporate culture and values, including the strategy and policies on responsible business and sustainability and, in particular, on environmental and social matters, monitoring, supervising and evaluating them and considering proposals to the board as to advisable changes to the referred policies, all of this with the purpose of fulfilling their mission of promoting corporate interest and of taking into account, as appropriate, the legitimate interests of the other stakeholders.

In 2023, the **RBSCC** held five meetings. It discussed and reviewed the ESG revised policies, including the ESCC Policy Policy review and Group Culture Policy. The RBSCC reviewed our social agenda, which includes financial inclusion; financial health; business with social output; and corporate social responsibility or philanthropic activities. Likewise, there are teams within the Responsible Banking, General Intervention and Risks Divisions that are dedicated to the identification, evaluation, and reporting of social aspects, including possible risks derived from them.

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 2023.



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 such common principles as, 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:** employees' pay cannot be lower than the legal minimum wage or the living wage in the country where they work. Additionally, 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.

As previously mentioned in section 10.1.2 Governance, we measure our progress in ESG against these four lines of action and their related metrics: (1) percentage of women in senior executive positions, (2) financial inclusion, (3) socially responsible investment and (4) supporting transition.

Regarding social aspects, these targets cover

- **Women in senior executive positions by 2026**

Women in senior executive positions[B] (%)	Coefficient
≥ 37%	1.25
≥ 36% but < 37%	1 – 1.25[A]
≥ 34% but < 36%	0 – 1[A]
< 34%	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 2024 and 2026**

Financial inclusion [B] (million)	Coefficient
≥ 6.3	1.25
≥ 5.3 but < 6.3	1 – 1.25[A]
≥ 3.5 but < 5.3	0 – 1[A]
< 3.5	0

A. Increase of the coefficient is proportional to its position on this line of the scale.
B. Number of people unbanked, underbanked, in financial distress or with difficulty to access credit to whom we provide tailored access and finance solutions, aiming to meet local financial inclusion needs in a recurrent, comprehensive, affordable and effective way.

This information can be found in the'6.4 Directors' remuneration policy for 2024, 2025 and 2026' section in the annual report.

Access 2023 Annual Report available on the Santander Group website

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.

In addition, the SFICS 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:

- As discussed in the climate finance report, the first line of defence 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 policy, an analysis is carried out 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.). As per the annual report, global awareness training on the treatment of vulnerable customers has been launched in 2023.
- As mentioned in the Environmental Risk template, our ESCC risk management policy (which we review every year) sets out the standards for investing in, and providing financial products and services to, companies and customers in oil and gas, power generation and distribution, mining and metals, and soft commodities (especially retail customers dedicated to farming and ranching in the Amazon).
  A financial manager completes a questionnaire before a team of analysts conducts an overall assessment of the client's ESCC risks in the applicable sectors[8].

  The ESCC risk and compliance departments delve deeper into cases that uncover red flags. They submit the findings of their analysis (and its impact on credit and other risks) to the bank's risk approval committees, who use them in decision-making.

  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
  - The Convention on the Rights of the Child
- As stated in our ESCC risk management policy, we are committed to responsible investments that align with our sustainability goals and support for the Paris Agreement. Therefore, we will not invest in or provide financial products or services to projects that fail to meet our social responsibility standards, including projects requiring Free, Prior and Informed Consent (FPIC) under IFC Performance Standard 7 - Indigenous Peoples. Such projects must demonstrate adherence to IFC Performance Standard 7 and have a credible plan to achieve compliance.

  For the activities that require special attention, the Group has decided to perform a detailed analysis. These activities originate from clients whose business

[8] Sectors covered by the ESCC Risk management policy and additional tactical sectors included in the CIB Procedure, as well as other material businesses and sectors depending on the geography and local legal requirements

activities involve the resettlement of indigenous people and/or other vulnerable groups.

- The Group continued to prioritize embedding its anti-bribery and corruption (ABC) compliance framework in 2023, with a strong commitment from marketing, sponsorships, supplier management, human resources and other key functions that are exposed to high ABC risk. The Group's training plan continued to combine introductory ABC courses with more detailed and customized content for certain teams. In 2023, stand-out sessions included technical training on penalty enforcement, ABC risk awareness workshops with staff from the Acquisitions team, and courses for board members.

- Among the tools for integrating social factors, we run surveys and speak-up channels for employees and customers. We assess externalities to identify risks and opportunities and to appraise our impact on the community. We respond to demands from analysts, investors and ratings and NGOs; keep pace with new regulation and best practices worldwide; and take part in consultations with authorities, trade bodies and other organizations that influence policymaking on sustainable development.

- Additionally, in 2023, 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.

- As it is mentioned in section 1.2.1. Business strategy and processes, 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 for the Group's strategic financial processes (e.g. ICAAP), including social factors, such as productivity, labour force change, technological change, market sentiment and demographic trends.

  Likewise, 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 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 Grupo Santander, and on the other, in the evaluation we make of the governance of our customers.

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.

Grupo Santander has corporate frameworks for matters considered to have a material impact on its risk profile, such as risk, capital, liquidity, compliance, financial crime, technology, auditing, accounting, finance, strategy, human resources, outsourcing, cybersecurity, special situations management communications and brand and responsible banking. These frameworks, which are mandatory, also specify:

- How the Group should supervise and exert control over subsidiaries;
- The Group's involvement in subsidiaries' decision-making (and vice versa).

In addition, compliance function is embedded in the process of reviewing ESG labelled transactions from a wider reputational and conduct risk perspective, with a particular focus on governance. A methodology has been developed for reviewing client governance related aspects with respect to labelled transactions in consideration of the minimum social safeguards under the EU Taxonomy, which focuses on competition, corruption and financial crime and taxation considerations. The internal methodology also gives consideration to broader issues such as allegations of greenwashing, ethics and integrity, DE&I, board composition and customer protection.

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 ESCC of 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 updated annually 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.
   - 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 greenhouse gas (GHG) emission targets were achieved.
   - In relation to **conflict of interest**, Santander evaluates whether both its customers and their suppliers may have activities in prohibited areas according to the Group's regulations and whether there is any process to mitigate this.

     Additionally, it analyses whether its costumer's policies evaluate aspects of non-discrimination at work, working conditions, populations requiring special attention, human rights of its suppliers.
   - Regarding the **internal communication of critical concerns,** we evaluate how internal client communication works, for example, in terms of grievance mechanisms for workers.

     In addition, a governance assessment is conducted 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. Having a c-suite responsible for climate-related issues and a responsible board member ensures that there is internal communication of critical climate concerns throughout the organization.

A financial manager completes a questionnaire before a team of analysts conducts an overall assessment of the client's ESCC risks in the applicable sectors.

The ESCC risk and compliance departments delve deeper into cases that uncover red flags. They submit the findings of their analysis (and its impact on credit and other risks) to the bank's risk approval committees, who use them in decision-making. 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.

4. As part of the customer due diligence process, the Group analyses publicly available information to assess the financial crime risk of our potential or existing customers (**adverse media screening**). If a relevant risk is identified during this process, it is escalated to the Financial Crime Prevention function for review and determination of mitigating actions.

5. According to the **defence sector policy**, Grupo Santander will not be involved in the financing or support in relation to the manufacture, trade, distribution or maintenance services of the prohibited materials mentioned in the policy.

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.

Glossary

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

Companies excluded from EU Paris-aligned Benchmarks: companies that have a certain percentage of their revenues derived from activities considered polluting are not included in the benchmarks aligned with the Paris agreements.

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.

DNSH (Do not significantly harm): principle that requires an assessment to ensure that the investment does not adversely affect one or more of the six environmental objectives defined in the EU Taxonomy.

EDTF (Enhanced Disclosure Task Force): task force that issues recommendations to enhance the transparency of financial institution disclosures to the market.

Energy efficiency: energy consumption of a collateral in kWh/m^2.

EPC label: letter code representing the energy performance of the collateral, from A (the most efficient from the point of view of energy saving) to G (the least efficient).

EP score: energy consumption of a collateral in kWh/m^2.

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): Grupo Santander'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.

ILAAP (Internal Liquidity Adequacy Assessment Process): process for the identification, measurement, management and control of liquidity implemented by the entity in compliance with article 86 of Directive 2013/36/EU.

IRP: This report, titled Pillar 3 Disclosures in the English version. (the acronym is for the Spanish Informe de Relevancia Prudencial).

ITS: Implementing Technical Standards.

MSS (Minimum Social Safeguards): due diligence to avoid any negative impacts and comply with the human and labour rights standards.

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.

RPK: revenue passenger-kilometer.

RSPO (roundtable on sustainable palm oil): established in 2004 with the objective of promoting the growth and use of sustainable palm oil products through global standards and multistakeholder governance.

SDG (Sustainable Development Goals): universal set of goals, targets and indicators that United Nations member states will be expected to use to frame their agendas and policies over the next years.

Stress testing: used to describe various techniques for measuring the potential vulnerability to exceptional but plausible events.

Sustainable Finance and Investment Classification System (SFICS): 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.

tCS: tonnes of crude steel.

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.

TSC (Technical screening criteria): specific requirements and thresholds that each activity covered in the EU Taxonomy will need to meet in order to be considered as significantly contributing to a sustainable objective.

UNEP FI: United Nations Environment Programme Finance Initiative.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