

Stakeholder engagement and material concerns report

2019

Let's continue
working for a
better world

#TheRightWay

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Our approach to responsible banking

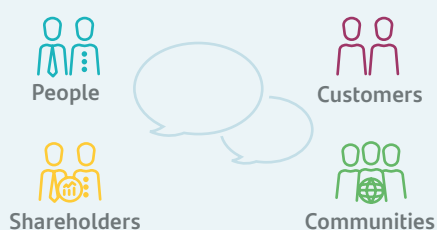
“ By delivering on our purpose, and helping people and businesses prosper, we grow as a business and we can help society address its challenges too. Economic progress and social progress go together. The value created by our business is shared – to the benefit of all.

Communities are best served by corporations that have aligned their goals to serve the long term goals of society. ”

Ana Botín



By being responsible, we build loyalty



... Santander treats me responsibly

In our day-to-day businesses, we ensure that we do not simply meet our legal and regulatory requirements, but we exceed people's expectations by being Simple, Personal and Fair in all we do.

I'm loyal to Santander because...

... Santander acts responsibly in society

We focus on areas where, as a Group, our activity can have a major impact on helping people and businesses prosper.

Our progress in 2019

Knowing our stakeholders' opinions and concerns helps us to set our priorities, as well as to identify opportunities and areas for improvement. In 2019, we worked to improve our listening mechanisms and to identify material issues for the Bank.



Key highlights in 2019:

- We focused on identifying how our stakeholders perceive the Santander values (Simple, Personal and Fair):
 - **4,800** interviews with university students
 - Over **11,000** interviews with shareholders
 - More than **45,000** surveys to banked population
- Our Global Engagement Survey, through which we listen to our employees, secured an **88%** participation rate
- We launched **Canal Abierto**, a new model that sets common standards for the group whistleblowing's channels, that has been implemented in most of the markets where we operate
- We became one of the founding signatories to the **United Nations Principles for Responsible Banking**, committing to align our business with the Sustainable Development Goals and the Paris Agreement on Climate Change
- We participated in the **Paris Agreement Capital Transition Assessment (PACTA)** pilot to align our corporate lending portfolio with 2°C benchmark

By listening to our stakeholders, we identified **15** issues as the most relevant for Santander, and established four key issues to focus in: Customer satisfaction measures, Diversity, Financial inclusion and Financial activity with climate and environmental impact.

Stakeholder engagement and material concerns 2019

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1. Dialogue with stakeholders: why it matters

In today's world, stakeholders expect businesses to play a key role in tackling global challenges, and acting in a responsible manner each and every day. Dialogue is key to gather their vision and expectations, helping us to become a more responsible bank.

Santander believes that responsible business is good business – in every sense of the word "good". By responsible, we mean doing the basics brilliantly, day in, day out; and locking into our business model products and services that foster inclusive and sustainable growth. To achieve this, a continuous dialogue with stakeholders is increasingly important.

Maintaining a dialogue with the stakeholders groups benefits Santander in a number of ways, as it helps us to:

→ Detect possible risks for business, and identify opportunities to create additional value for society.

→ Develop new processes, products and services.

→ Gain greater understanding of social, economic and environmental issues and trends.

→ Increase trust in Santander among all our stakeholders.

Good dialogue with stakeholders is generally acknowledged by a wide array of international reporting standards, associations and initiatives as a key tool for understanding the concerns of stakeholders and for detecting risks and opportunities.



2. How we engage with our stakeholders

Analysing, assessing and responding to the opinions and concerns of all our stakeholders is a fundamental part of our effort to operate as a sustainable and responsible bank and make all we do Simple, Personal and Fair (SPF). So we use several channels to maintain an ongoing dialogue.

Earning and keeping people's loyalty is the key to creating lasting value. To do this, we must understand the concerns of all our stakeholders. By listening to their opinions, and measuring

their perceptions of the Group, we not only identify issues, we also spot opportunities.

The relationship with our stakeholders is, therefore, essential to defining our corporate strategy and culture.

Our policies and procedures embed dialogue with stakeholders

All our activity is guided by policies, principles and frameworks to ensure we behave responsibly in everything we do.

- Our general code of conduct and corporate behaviours define and establish the basic approach to be followed by Bank personnel in their day-to-day activities, including those related to the Bank's stakeholders.
- Our corporate culture policy establishes common minimum standards which are the backbone of our culture, including our relationship model with our main stakeholders (which we call our virtuous circle).
- Our general sustainability policy defines and identifies the key aspects of the Bank's relationships with each of its main stakeholders reinforcing our commitment to maintain a permanent dialogue and to have available consultation channels.

In addition, Santander has other policies and frameworks that set out the guidelines to take into account engagement with specific stakeholders.

Knowing our stakeholders' opinions and concerns helps us to set our priorities, as well as to identify opportunities and areas for improvement. This is

why we always seek to improve our engagement and develop fluid, constant communication.



The responsible banking, sustainability and culture committee is, among other things, responsible for supervising and monitoring the Group's corporate reputation and engagement with stakeholders.



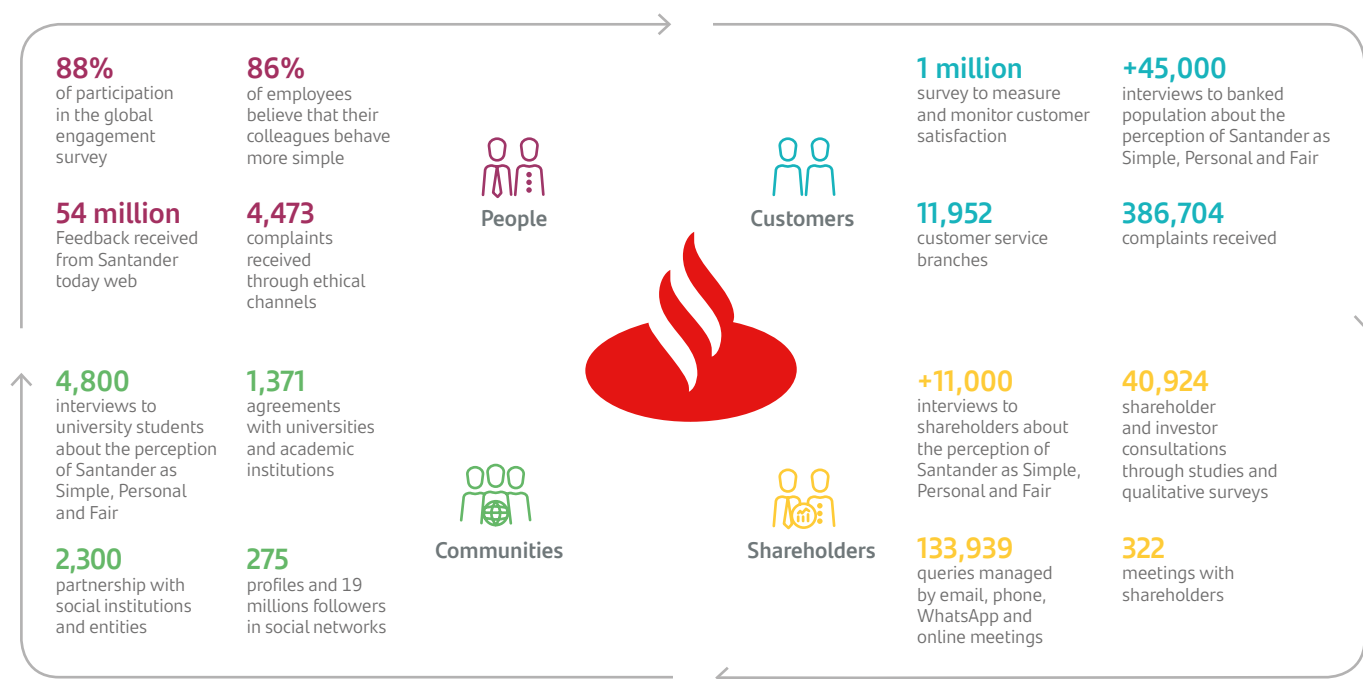
More information about our policies and frameworks

Key dialogue channel for stakeholders

Stakeholders	Main dialogue channels	Frequency
Employees	Global Engagement Survey	Annual
	Motivation and work-life balance	Continuous
	Whistleblowing channels	Continuous
Customers	Commercial channels	Continuous
	Satisfaction survey	Continuous
	Complaints management	Continuous
Shareholders	General Shareholder Meeting	Annual
	Group Strategy Update	Annual
	Shareholder service	Continuous
Communities	Forum and meetings with shareholders	Continuous
	Collaborations with NGOs, universities and other institutions	Continuous
	Collaboration with sectorial organisations and working groups	Continuous
	Social networks	Continuous

In 2019, we have focused on identifying how our stakeholders perceive the values that underpin the Santander Way – Simple, Personal and Fair. To do so, we have conducted 4,800 interviews with university students, over 11,000 with our shareholders and

more than 45,000 to banked population in order to know whether they consider Santander is Simple, Personal and Fair. We have also surveyed our employees through the annual Global Engagement Survey launched in September 2019, which secured an 88% participation rate.



Employees

Communication with **employees** is key for Santander. An important element is the **ethical channels** which allow them to **speak up** and be listened to. In 2019, we launched *Canal Abierto* for our ethical channels, a new model that sets common standards for the group whistleblowing's channels, and has been implemented in most of the markets where we operate. These standards include ease of access; avoidance of conflicts of interest; confidentiality through external third party management and communication to employees of the measures adopted. We developed them by analysing best

practice across the Group, as well as conducting opinion research among employees.

Canal Abierto contributes to the Group's cultural transformation, as it gives employees the opportunity to flag behaviours that are not aligned with our corporate values, not just more usual compliance related cases, such as unlawful acts or breaches of the General Conduct Code.

During 2019, 4,473 issues have been received through the Group's channels, 79% of which have been processed.



You can find more information about ethical channels in our Annual Report pg 43.

Customers

We use a range of interactive channels to listen to and understand our clients. The Consumer Protection function gathers Santander insights on customers at a global working group called CuVo (Customer Voice) that meets monthly, and includes all global areas that have an impact on customers. This forum discusses issues that arise from a number of sources. For example:

- Customer centres: these enable us to listen to our customers' views, in person and online, about our products and services. We have customer centres in Chile, Mexico, Spain and Portugal.
- Customer care on social media: in 2019 we analysed the countries' social media customer care models and best practices; and we have designed a global "best practice" model to provide the best customer care on social media to be implemented globally.

As well as this, we gather insights through the Net Promoted Score (NPS) which measures client satisfaction, and via customers' complaints.

Non-Governmental Organisations (NGOs)

We engage with NGOs directly, and by engaging in targeted conversations, taking part in working groups and answering

specific requests for information. To provide an appropriate response, Santander systematically addresses how consultations are received, analysed and responded to.

Customer Centre in Spain

In Spain, we invite our clients to our Customer Centre to get their insights about any new products and services, and we have created a digital platform for online focus groups.

Since its creation, more than 500 activities have been carried out, involving more than 2,500 Customers and 800 employees. Activities include focus groups, in-depth interviews, customer journeys and user tests among others.

Through these activities, we have identified more flexible and inclusive products for vulnerable customers and we have received some insights to improve the clarity of contracts and products, help the elderly to manage their bank accounts or improve the access to a house for families.



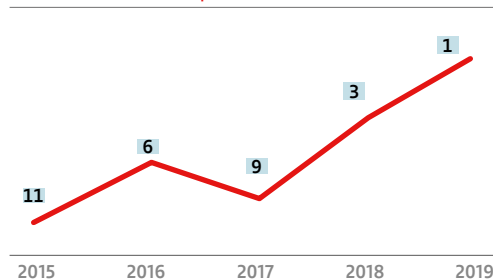
Investors, analysts and rating agencies

Our Responsible Banking unit, working closely with our Investor Relations team, has direct relationships with investors specialising in environmental, social and good governance issues, in order to understand their expectations and inform them of the Bank's main lines of action in terms of sustainability and responsible banking. In 2019, the Responsible Banking team attended 5 roadshows with investors.

Our sustainability performance is periodically evaluated by well-regarded indices and ESG analysts. These evaluations and their results are used internally to measure our performance. The Bank continuously monitors analysts' assessments in order to identify opportunities for improvement and we have a detailed scorecard of results which highlights where we need to improve both globally and in specific areas.

Our position in ESG analysts evaluations

Banco Santander position evolution in DJSI*



*Based on percentile information.

In 2019, Santander was recognised as the most sustainable bank in **the world in the Dow Jones Sustainability Index**, an international benchmark which assesses economic, environmental and social impact of over 175 banks globally.

Others ESG analyst valuations^A

Rating/Scoring	2019	Vs. last year	2018	Vs. Sector average
ISS-ESG	C	=	C	> (decile rank of 2 out of 280 companies in the industry)
MSCI	BBB	▼	A	-
Sustainalytics	32.7	▼	30.8	> (52nd percentile in the industry group)
Vigeo Eiris	63	▲	57	> (rank 5 of 31 companies in the sector)

A.Source: latest ISS-ESG rating (on a scale of A+ to D-) available at January 2020, compared to December 2018. The ISS-ESG decile rank of 1 indicates the highest relative ESG performance, and 10 the lowest. Latest MSCI ESG rating available (on a scale of AAA to CCC) at June 2019, compared to October 2018. Latest Sustainalytics scores (on a scale of 0 to 100) available at December 2019, compared to November 2018. Since September 2018 Sustainalytics has applied a new methodology for its ratings, where the score indicates a company's exposure to and management of ESG risks. Latest Vigeo Eiris overall scoring (on a scale of 100 to 0) available at November 2019, compared to December 2018.

We remain a constituent of the FTSE4Good Index Series and are also evaluated by ESG analysts such as Sustainalytics, ISS-ESG, MSCI or Vigeo Eiris, where our performance has been particularly good this year, moving from a position of 22nd in the sector in December 2016 to 5th in 2019.



Authorities and regulators

In addition, there is a continuous monitoring of key milestones and the development of new standards governing sustainability in Europe and globally. Our Public Policy and Responsible Banking functions work closely together and participate in consultation processes launched by governments and regulators, either directly or through associations and other organisations.

For example, last year Santander took an active role in the climate change and sustainable finance policy debate, participating in the formal consultation process on relevant regulatory files that took place mainly in Europe, and industry forums focusing on the transition to a low carbon economy. We have worked very closely with trade bodies – including the Institute of International Finance, European Financial Services Round Table, the Association for Financial Markets in Europe, and the European Banking

Federation – to reach common positions on issues such as the EU framework for identifying sustainable economic activities (the so-called taxonomy), as well as the accompanying technical criteria work undertaken by the Technical Expert Group advising the European Commission; the disclosure regulation relating to sustainable investment and sustainability risks; or the ongoing work on the identification and management of climate-related risks. In addition, Santander is participating in the EBF-UNEPFI working group that will develop voluntary guidelines for banks on the application of the EU taxonomy.

By participating in these discussions, we aim to contribute to the industry position in this major matter, to help building an effective framework that incentives the sustainability agenda and ensure it is coherent and consistent with Santander's ambitions and priorities under its responsible banking agenda.

Our Public Policy team leads the Bank's responses to consultations on new regulations. Once new regulations are approved, the Bank's internal regulations are adapted to new requirements, and compliance is monitored and supervised by Compliance and the Supervisory Relations function.

To understand regulator's impact on society, the Bank continues to identify social and environmental externalities (both negative and positive). This exercise helps Santander to detect possible risks for business and identify opportunities to create additional value for the society and the environment.

Our position on some key issues

→ **We share the ambition of achieving a sustainable development and are committed to play an active role in supporting this transition.** It is important that the transition is fair and inclusive, taking into account the specificities of different regions and sectors. It must provide certainty and clarity for each sector. Governments should define clear paths on how each sector will reconvert to meet the targets of a low carbon economy, backed by policies and incentives, enabling banks to support companies in their transition.

The recently published EU Green Deal is a welcome blueprint on how Europe can transform into a fair and prosperous low carbon economy. We look forward to seeing how the post-COVID recovery plan integrates the priorities of the Green Deal, thus contributing to growth and jobs creation.

→ **EU Taxonomy** is a key step forward that will help financial market participants and companies across all sectors reach common understandings and definitions to identify sustainable activities. Given the global scope of the challenge, it is important that there is as much international alignment as possible on what is considered as green.

→ **Disclosure:** As the financial sector will have to comply with a growing number of new climate-related disclosure requirements, it is necessary that non-financial corporate disclosures are strengthened. The review of the Non-Financial Reporting Directive could be instrumental in achieving this. Banks and authorities need this information to identify and assess risks and opportunities coming from climate activities and ensure compliance, as well as understanding banks' portfolios composition.

The Taskforce on Climate-Related Financial Disclosure framework provides a starting point for aligning corporate disclosure on climate change and companies must make an effort to comply with their recommendations. To avoid having disparities and conflicting approaches, we need common taxonomies, methodologies, scenarios and agreed data sources. We are willing to work closely with supervisors and regulators to achieve these, so that we build trust on how climate-change is being addressed by banks.

→ **Taxes:** Santander pays its fair share in taxes in every jurisdiction where we operate. Our tax strategy, which has been approved by the Board, sets out the principles by which the entire Group operates and is published on our website. We believe that all businesses should pay their fair share of taxes where they make profits and that all business should be treated equally for tax purposes (i.e. level-playing field) irrespective of their different operational models.

In this sense, we strongly support an international consensus-based solution on taxation through a framework that is fair, easy to implement. It must be flexible enough to take into account the specific value drivers of different businesses. We support the work that is being carried out within the OECD to arrive to an international solution in 2020 and the efforts to comply with this timetable despite the COVID19 crisis.

→ **Carbon pricing and subsidies:** Policies and regulations are key to set price signals and guide the transition with clear incentives. Governments have to define clear paths on how each sector will reconvert to meet the targets of a low carbon economy.

It is important to review how fossil fuels are being subsidised, in order to support progress on phasing out fossil fuels. The overall policy framework should ensure that fuel prices internalise associated environmental costs.

An effective carbon pricing mechanism can contribute to reduce emissions and drive investment in low carbon technologies and infrastructures. It would be advisable that the carbon policy instruments are part of a broader framework of policies, including energy efficiency research and emissions. International alignment should be prioritised, so that any potential solution works across countries. This is in line with what sustainability organizations like WBCSD are supporting.



For more information about our carbon pricing and subsidies positioning, please see our Climate Finance Report

Main initiatives we support at Group-level

As part of our external engagement, we participate in a range of multilateral groups around the world that foster responsible business practices, especially those that are material to our priorities and allow us to contribute and learn best practices. Santander also participates in numerous national partnerships in the countries where we operate.

Our participation in initiatives and working groups both at local and international level is an important way to drive forward our agenda and supports progress towards the UN Sustainable Development Goals.

Below are some of the global partnerships and initiatives we support at Group-level:

United Nations Environment Programme Finance Initiative (UNEP FI) - Principles for Responsible Banking, TCFD and Collective Commitment on Climate Action

These Principles provide the banking industry with a single framework that embeds sustainability across all business areas, and the UN Principles align banks with society's goals as expressed in the UN Sustainable Development Goals (SDGs) and the Paris Climate Agreement. Transparency, accountability, governance, target setting and working with all stakeholders towards positive impacts are at the core of the Principles and will help banks increase their contribution to address global challenges.

During 2018 and 2019 Santander participated actively in the development of the United Nations Principles for Responsible Banking and in September 2019, we became one of the founding signatories to the principles, committing to strategically align our business with the Sustainable Development Goals and the Paris Agreement on Climate Change.

Since 2017 we have and continue to participate in UNEP FI's TCFD working group. Now in its second stage, this group continues to focus its work on the development of climate sensitivity analysis, incorporating scenarios and developing specific tools to incorporate climate considerations into

risk assessments. We also participate in the EBF-UNEP FI working group that will develop voluntary guidelines for banks on the application of the EU taxonomy.

Furthermore, also regarding climate change, we have signed up to the UNEP FI Collective Commitment on Climate Action, to scale up our contribution on the climate change agenda and align lending with the objectives of the Paris Agreement. During 2019 we started implementing measures to fulfil this Commitment.

A key action was our participation in the PACTA (Paris Agreement Capital Transition Assessment)¹ pilot led by 2° Investment Initiative, along with 16 other banks. This methodology allows banks to study the alignment of their corporate lending portfolios with 2°C benchmarks. It is a science based approach that uses scenarios to provide valuable information to banks in steering their portfolios to be aligned with the Paris Agreement on climate.

As part of our active engagement with the initiative, Santander was an active participant in (and sponsor of) COP25 in Madrid in December 2019, and took part in a high-level opening plenary organized by UNEP FI on *New climate leadership*.

World Business Council for Sustainability Development (WBCSD)

Santander has been a member of WBCSD since 2015 and our chairman, Ana Botín, is a member of the executive committee. WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world.

Currently, we participate in the WBCSD Future of Work initiative, by looking into how to adapt our own business and human resource strategy to evolve with the digital age. In the context of this work we hosted two events at Santander and have endorsed of the leadership statement on the Future of Work. We are also supporting the Vision 2050 Refresh project which analyses emerging trends and incorporate critical new

¹ PACTA: this methodology uses asset level performance metrics, including forward looking performance based on confirmed plans from companies in relation to future performance changes to these assets and contrasts this scenarios from the International Energy Agency to identify Paris aligned transitions paths.

elements that have emerged for an updated Vision for 2050. Finally, our colleague Norma Castro received the 2019 Leading Women Awards on Excellence during the October WBCSD Council meeting for her contribution to financial inclusion.

In December 2019, the Bank was actively engaged on the different initiatives organised by WBCSD within COP25 framework. We participated in the event *Business Driving Long term Climate Action to Net zero* and attended a session on climate change challenges for the financial system.

Banking Environmental Initiative (BEI)

The Banking Environment Initiative (BEI) comprises 8 leading banks aiming to identify new ways in which banks can collectively stimulate the direction of capital towards environmental sustainable economic growth.

Within the initiative, Santander participated in the Bank 2030 project which has provided a road map for the banking industry to 2030, and increase the financing to low carbon activities. Santander has shared insights on sustainable finance practice with BEI, to help on its Bank 2030 research report. The report makes a significant contribution to the banking sector in identifying barriers and opportunities for banks in this transition, which requires a transformation of assets and behaviours.

Also working with the BEI, Santander remains committed to the soft commodities compact work stream and the fight against deforestation. You can see our 2019 Soft Commodities Compact Report in the 2019 Climate Finance Report.

Equator Principles

In 2019, we continued to move the training agenda forward in the Equator Principles Association via our work in the Capacity Building & Training Working Group. The current challenge is upgrading the training tools to bring them to the new requirements of Equator Principles 4, which will go into effect in the third quarter of 2020.

CEO Partnership for Economic Inclusion

Since 2018, Santander, along with other 9 companies from a diverse set of leading multinational companies are part of a partnership to accelerate financial inclusion around the world. The initiative was promoted by the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development, Queen Máxima of the Netherlands.

Gathering for the first time during the World Economic Forum, the CEOs of this companies agreed to use their complementary assets, expertise, and collective commitment to meaningfully expand financial services for the 2 billion people who currently have no access to basic tools such as savings, insurance, payments, or credit.

United for Wildlife Financial Taskforce

In 2019, Santander joined the United for Wildlife Financial Taskforce as part of the Group's commitment to detect, disrupt and deter environmental crime. Environmental crime is the leading source of revenue for armed groups in conflict zones, according to Interpol.

International initiatives to which banco Santander is party



- World Business Council for Sustainable Development
- United Nations Global Compact
- Banking Environment Initiative
- UNEP Finance Initiative
- Principles for Responsible Investment
- The Wolfsberg Group
- CEO Partnership for Economic Inclusion
- Equator Principles

- Round table on responsible soy
- Working group on sustainable Livestock
- CDP (before Carbon Disclosure Project)
- Climate Leadership Council
- International Wildlife Trade Financial Taskforce
- UN Womens' Empowerment Principles
- The Valuable 500
- UN Global Investors for Sustainable Development Alliance (GISD)

3. How we identify material concerns

Each year, we conduct a systematic analysis to identify the social, environmental and ethical issues that are most relevant in our value chain.

Each year we improve the analysis and develop new ways to reflect the views of our stakeholders.

The materiality analysis and stakeholder dialogue processes are central to the principles

defined within the Global Reporting Initiative (GRI) standards. They provide us with very valuable information to set our priorities, helping us to minimize risk, reduce costs and generate revenue.

Process of identifying relevant factors

The current methodology includes both quantitative and qualitative analysis in order to make our assessment as complete and accurate as possible.

To start with, we conduct a **quantitative analysis**, including external inputs (such as media analysis, other banks' external reports, or aspects evaluated by ESG indexes) as well as internal inputs (for example, Santander goals, CEO's activity and internal surveys).

All these quantitative inputs are weighted according to their relevance as regards defining material issues for the Bank. Weights are reviewed every year to adapt the analysis as much as possible to the current situation.

This combination of perspectives allows us to get a global focus and a broader approach to the issues affecting the Bank. This enables us to develop a matrix which shows the issues that are most material to the bank, according to their internal and external relevance.

On top of this, we conduct a **qualitative analysis** that takes into account the impact of the material issues in the value chain and their contribution to the UN Sustainable Development Goals, as well as possible controversies and megatrends affecting the financial sector.

As part of this analysis, we assess the relevance of tweets related to the material issues by taking into account the interactions they generate in social networks in order to understand public opinion interests.

We study the main megatrends affecting the Bank (such as demographic changes, loss of trust in the financial sector, globalisation or climate change) to get a clear vision on how they are intrinsically connected with the aspects identified in the matrix.

Finally, we analyze controversies in the sector to help us address the risks they might pose for the Bank.

As a result of all this process, we obtain not only a matrix with material issues but also a qualitative view on the aspects affecting the bank and how they are related.

Process of identifying material concerns

Quantitative analysis

External	ESG Indexes & analysts and investor roadshows Analysis of aspects evaluated in DJSI and others analysts and ESG indexes as well as analysis of the comments received in the most recent roadshows with investors.	Materiality and reporting of other banks Analysis and identification of the matters that other banks consider a priority and reports in their annual and sustainability reports.	Responsible banking survey to customers Surveys to identify what our customers and society think a responsible bank should do.	Media Analysis Identification of matters that have been treated in the media written communication using tools of Big Data analysis.
	Regulatory framework Analysis of issues covered by the regulations applicable to all sectors and specifically for the banking sector in the countries where the Bank operates.	Voluntary reporting frameworks Analysis of the issues covered in the main voluntary reporting frameworks; GRI, Integrated Reporting Framework and SASB.	Reprisk Identification, assess, and monitoring of ESG and business conduct risks in business and investments.	Impact by business sector Analysis of the link between material issues and the different business segments in order to identify the areas of major impact.

Internal	Santander's goals Analysis of Santander nonfinancial targets, including those linked to the Board remuneration.	Responsible Banking, Sustainability and Culture Committee Analysis of matters addressed in Committees, both corporate and local, over the last 4 years. In addition, matters treated in the Climate Finance Task Force have also been considered.	Group Executive Chairman/ CEO activity Analysis of the information provided in the speeches by the Group Executive Chairman and the CEO in different conferences and events held in the last year.	Responsible banking survey with employees Surveys to identify what our employees think a responsible bank should do.
	Internal valuation session Workshops and surveys with corporate responsible banking team, responsible banking network in the countries and relevant areas to identify and debate about the issues that most influence in risk management, income generation and improvement of efficiency.	Santander Today Identification of the issues addressed in the news that have appeared in the Santander Today platform, throughout the year.	Top risk Analysis of Group Top Risks that may be related to sources of uncertainty in the Bank's activity.	

Qualitative analysis

Impact on United Nations SDGs Sustainable Development Goals alignment with material topics and key metrics.	NGOs analysis Analysis of news (related with the financial sector) published in the last year from NGOs active and relevant to the banking sector.	Controversial events Analysis of potentials disputes identified in the financial sector.	Megatrends analysis An analysis of global trends that will affect the sector in the short, medium and long term to incorporate a vision of the future to the study.	Value chain The valued chain has been defined and, taking as reference the main stakeholders, relationships between these and the issues identified materials have been established.	Social networks Identification of the most mentioned issues during the last year considering total volume of mentions, trend global and variability throughout the year.
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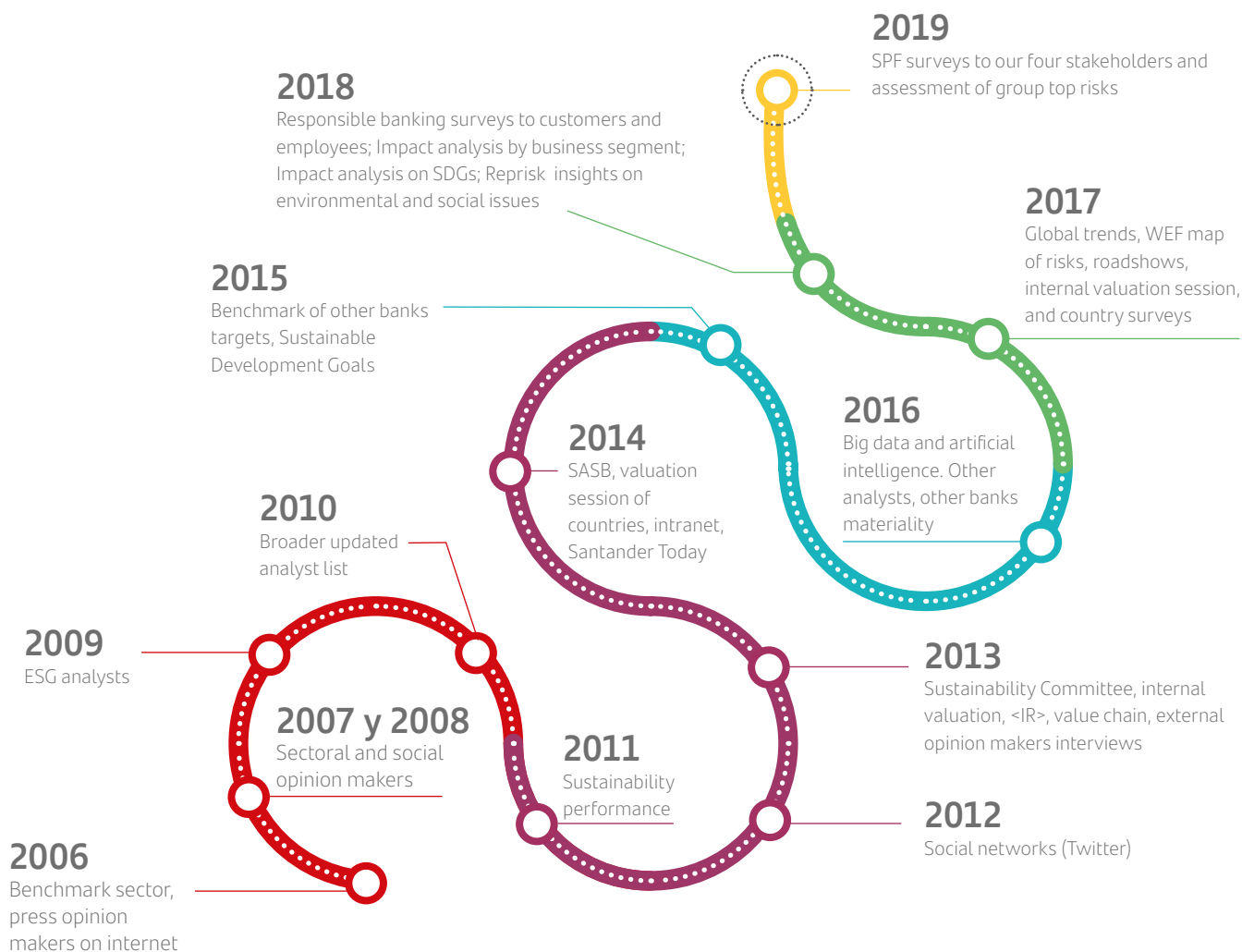
A continuous improving process

A good materiality analysis is a valuable input to the development of the Group's overall strategy so we are always working to improve our analysis. We conduct internal reviews and assess new technology, such as Datamaran, to help us do so. We also innovate in the process, combining different techniques to improve the assessment and incorporating new inputs (quantitative and qualitative) in the analysis.

For example, this year, we have incorporated an assessment of Group Top Risks as one of our internal inputs. In order to do so, we have assessed the plausible macro & geopolitics threats and the idiosyncratic manageable risks that could affect the Bank's 3 year plan, considering the magnitude and likelihood of the impacts.

Below are some of the main new inputs that we have incorporated into our systematic analysis in the last years:

Historic evolution of the materiality study - Detail of inputs incorporated into the study on an annual basis



Taking into account international standards

The materiality analysis is based on the GRI standards and helps determine the content of Santander Group's 2019 Responsible Banking report.

In addition to the issues covered in the reporting standard used by Santander (GRI Standards), other voluntary reporting frameworks such as the International Integrated Reporting Framework and the SASB (Sustainability Accounting Standards Board) framework are taken into account as inputs to the analysis.

The information requirements of Law 11/2018 related to non-financial and diversity information are also taken into account when defining the list of issues for this analysis.

Additionally, in 2019, a gap analysis carried out by the Bank after the publication of the Responsible Banking chapter of the Annual Report, was taken into account. As in previous materiality analysis, the results of the Reporting Matters produced by WBCSD and Radley Yeldar were taken into account. In addition, recommendations provided by the auditor of 2018 Responsible Banking report with regard to the materiality analysis were taken into consideration.

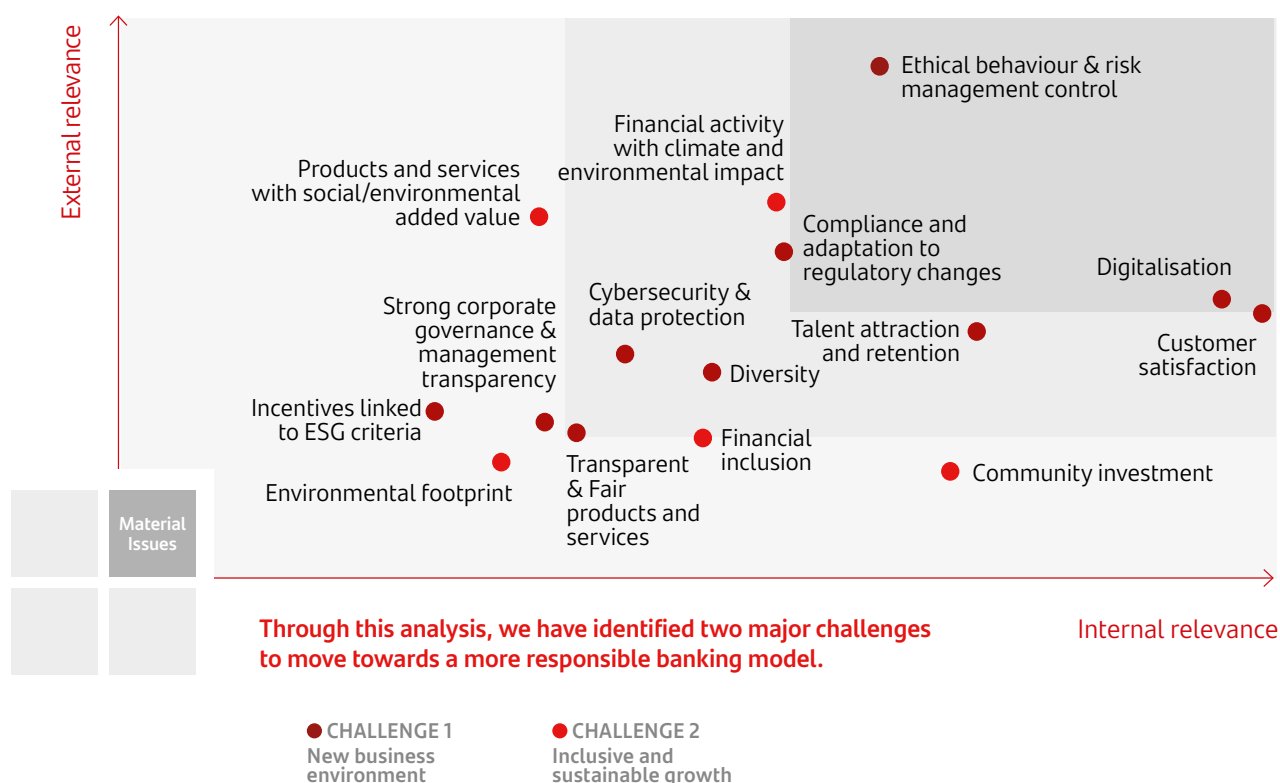
To understand to what extent issues are considered in the different reporting frameworks (GRI, SASB & TFCF), the analysis incorporates information obtained through Datamaran tool indicating the areas covered in each framework.

Matrix for identifying material concerns

The materiality matrix is one of the main outputs we obtain from the materiality analysis. As a result of combining internal and external perspectives, we get a table of results that shows the subject areas that are important both internally for the bank and for the rest of our

stakeholders. In 2019, we identified 15 issues as the most relevant for the Santander, which have been taken into account when defining the contents of the 2019 Annual Report.

Relevant aspects for the Group matrix^A



This analysis helps us to focus our initiatives and programmes right across the Group

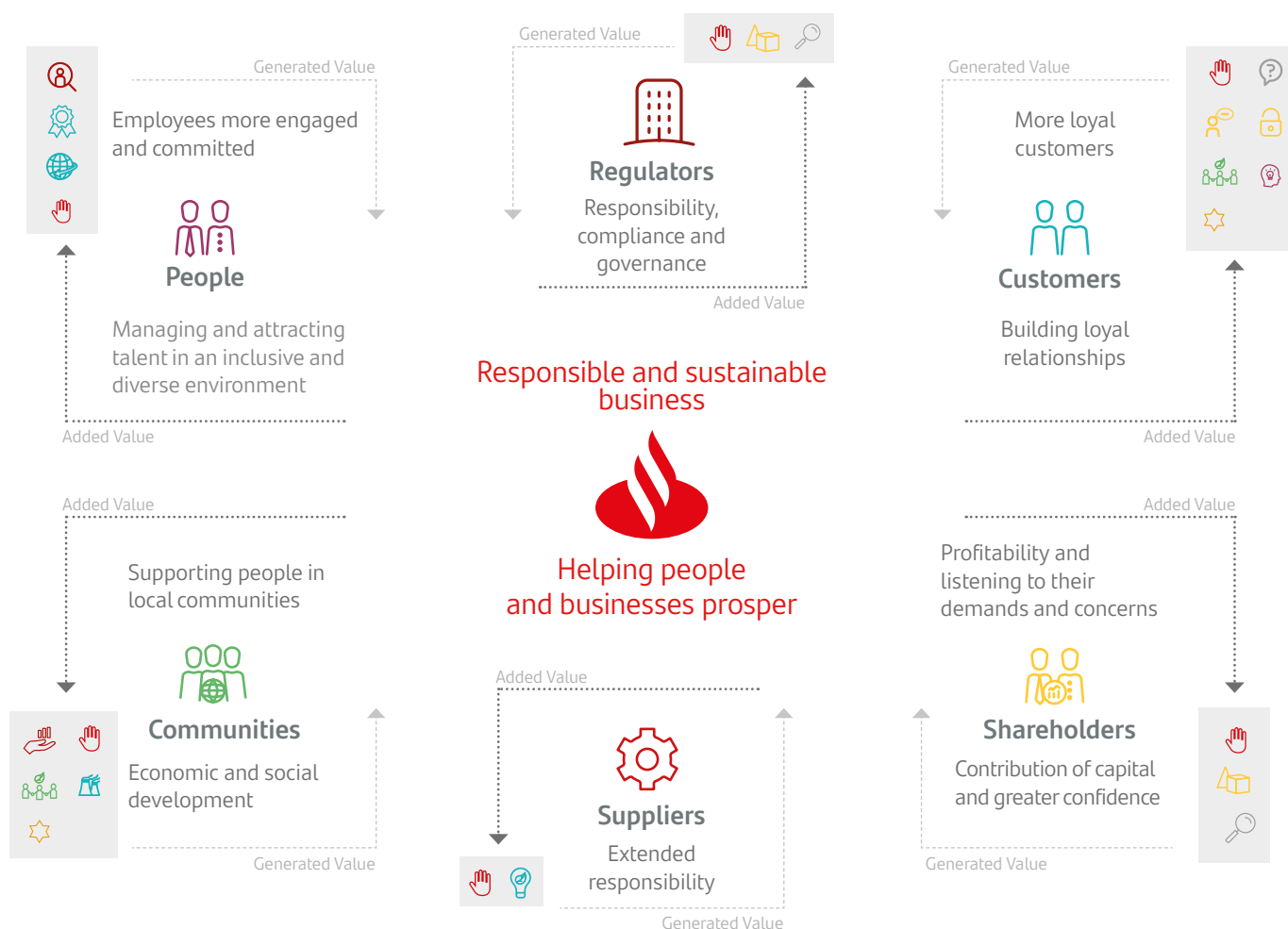
Key issues in which we have put focus in 2019 (and what our stakeholder expect from us)	• Customer satisfaction measures	Mechanisms to control and manage the entity's ethical behaviour and risks (fraud, corruption, terrorism, money laundering prevention tax evasion, etc.).
	• Diversity	Initiatives to promote the incorporation of women, persons with disabilities, ethnic or other minorities.
	• Financial Inclusion	Initiatives to make financial services accessible for all, including those individuals and businesses with low incomes or no access to the formal financial system.
	• Financial activity with climate and environmental impact	Strategy tackle to climate change and the transition to a low-carbon economy. Environmental impact derived from the Bank's financing of certain activities.

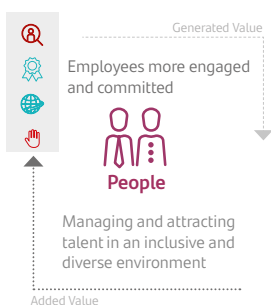
A. Aspects such as food waste, light and noise pollution, human rights and biodiversity are not material to the Group.

Value chain: to identify what is important, for whom and where

Once we have the matrix, as part of the qualitative analysis, Santander performs an exercise of analysing the impact of the identified material issues in the value chain. This analysis

is fundamental as it provides very valuable information on how material aspects affect our relationships with our stakeholders.

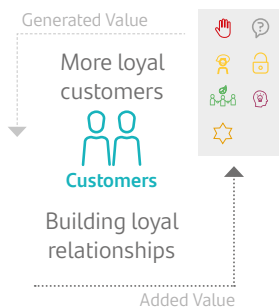




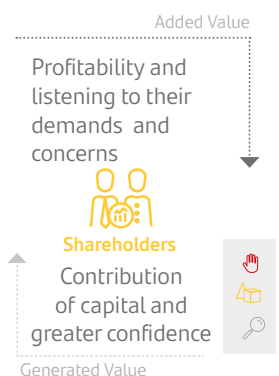
Material issue	How the material issue impact on the value chain
Talent attraction and retention	Conciliation policies, training and fair remuneration that reduce turnover and absenteeism.
Incentives linked to ESG criteria	Setting a Group objective to be among the 3 best Banks to work, which will strengthen employees commitment, lead to greater satisfaction and will encourage the attraction and retention of talent.
Diversity	Promoting our commitment to diversity of our workforce, which is one of the core principles guiding our operation, as a key to creating value.
Ethical behaviour & risk management and control	<ul style="list-style-type: none"> Ensuring employees are aware of the Bank's policies, frameworks and procedures to ensure ethical behaviour. Information and training are essential. Making risk management responsibility for all employees, regardless of their position and area of work, by promoting a strong risk culture among all the units.



Material issue	How the material issue impact on the value chain
Ethical behaviour & risk management and control	<ul style="list-style-type: none"> Ethical behaviour is an issue widely regulated in terms of anti-corruption, tax evasion, fraud, etc. Establishing internal control mechanisms is essential for not being involved in fines and penalties. Risk assessment at both the economic and social and environmental levels is very important to respond to regulators. This can be achieved through compliance with recognised risk management standards, such as the Equator Principles, applied throughout the whole Group. In addition, public reporting on how companies manage risks is increasingly being required by regulators.
Strong corporate governance & Management transparency	Strong corporate governance & Management transparency is an issue widely regulated in terms of anti-corruption, tax evasion, fraud, etc. Establishing internal control mechanisms is essential for not being involved in fines and penalties.
Compliance and adaptation to regulatory changes	Non complying or failing to adapt to regulatory changes may lead to fines and penalties that could be of high importance depending on the non-compliance case.



Material issue	How the material issue impact on the value chain
Ethical behaviour & risk management and control	<ul style="list-style-type: none"> • Clients are more protected when the Bank has strong ethical values. They will receive a fair treatment from employees with a solid ethical culture. • In relation to risks derived from Santander's customers, data protection is key. The strengthening of cybersecurity, where the Bank has established lines of action, is gaining importance in the sector.
Customer satisfaction measures	The Bank works actively to achieve the objectives marked for satisfaction level and customer loyalty.
P&S with S&E added value*	Given the increased demand from customers for products and services that bring social and environmental added value, we should continue to expand our portfolio of products and services of this type.
Products and services transparent & fair	Transparency is key to obtaining the trust of customers, who demand clear and quality information.
Digitalisation	Clients are increasingly demanding multichannel and digital solutions. In addition, social networks have become a new form of communication and care giving financial institutions a new way to contact customers in a simple and direct.
Cybersecurity and data protection	Cybersecurity frameworks are the way of managing risks derived from digital transformation. It is important for banks to have robust frameworks to protect their clients and do not lose their confidence.
Financial inclusion	Santander supports and promotes financial inclusion as a way of contributing to the well-being of the countries in which it operates.



Material issue	How the material issue impact on the value chain
Ethical behaviour & risk management and control	<ul style="list-style-type: none"> • Investors and shareholders are concerned about ethical behaviour as it could derive in sanctions and reputational risks that may lead to a loss in the company value. • The identification and management of risks that affect the Bank is important in the relationship with shareholders. In this area, Banco Santander is well positioned through its Zero Tolerance Statement on compliance and reputational risk, along with Corporate Programmes for the Prevention of Corruption and Fraud.
Strong CG & MT**	Strong corporate governance with clear and well-defined sustainability roles and responsibilities are key to creating shareholder value.
Compliance and adaptation to regulatory changes	Investors and shareholders are concerned about non-compliance situations as they could derive in sanctions and reputational risks that may lead to a loss in the company value and the license to operate.

* Products and services with social/environmental added value

**Strong corporate governance & Management transparency



Material issue

How the material issue impact on the value chain

Ethical behaviour & risk management and control

- The Bank should continue working on the evaluation of suppliers in terms of ethical behaviour, in this sense the new whistleblowing channel for suppliers is a good advance.
- Suppliers can be a source of risk if they do not meet the requirements of the Bank. For this reason, it is necessary to continue working on the evaluation of suppliers in terms of social and environmental risks. Progress in risk management in the supply chain can be achieved through increased demands on critical issues such as Human Rights.

Environmental footprint (internal)

Suppliers play an important role in the Bank's internal footprint through its products and services. It is important to work with those who guarantee the minimum impact (green energy, certified paper, etc.).



Material issue

How the material issue impact on the value chain

Community Investment

Society is the element that most benefits from the investments and actions of a social nature that the Bank carries out (Santander Universities, Volunteer Programmes, donations to NGOs, etc.) aimed at promote culture, creation of employment and higher education. The relevance is reflected in the strategic objective of achieving +1M people helped in 2019.

Ethical behaviour & risk management and control

- Society in general will be benefited from an ethical behaviour of companies, as this means looking for the interests of everybody. In addition, a good reputation in the society could lead to an increase of the number of clients.
- The Bank must take into account the environmental and social risks when financing projects. Progress has been made in this area making sectoral policies more restrictive and extending them to activities beyond Equator Principles.

Products & services with social / environmental added value

The commercialisation of products and services with social and environmental added value make it possible to promote a more sustainable model of society.

Environmental impact

The Bank has an important role to drive forces for more proactive policies toward sustainable development and through the financing and investment in projects with a positive environmental impact.

Financial Inclusion

Santander is committed to offer specific products & services for collectives in risk of financial or social exclusion, tailored to the features of each market. One of the top initiatives regarding financial inclusion it is the microcredit programme.

4. Challenges and opportunities for Banco Santander

Like every business, Santander operates in a world that is changing fast, creating new challenges and opportunities. Using the results of the materiality assessment, we have identified two core challenges and we have established a set of targets in each of these challenges with the aim to build a more responsible bank.

Adapting to the new business environment

Santander, like all businesses, needs a motivated, skilled workforce which can deliver what customers want and harness the power of new technology. Meanwhile, we face new regulations and laws. These trends create the challenge of new business environment in which we operate. Our task is to exceed our stakeholders' expectations, to do the basics brilliantly, every day. Key to this is having a strong culture - a business in which all we do is Simple, Personal and Fair

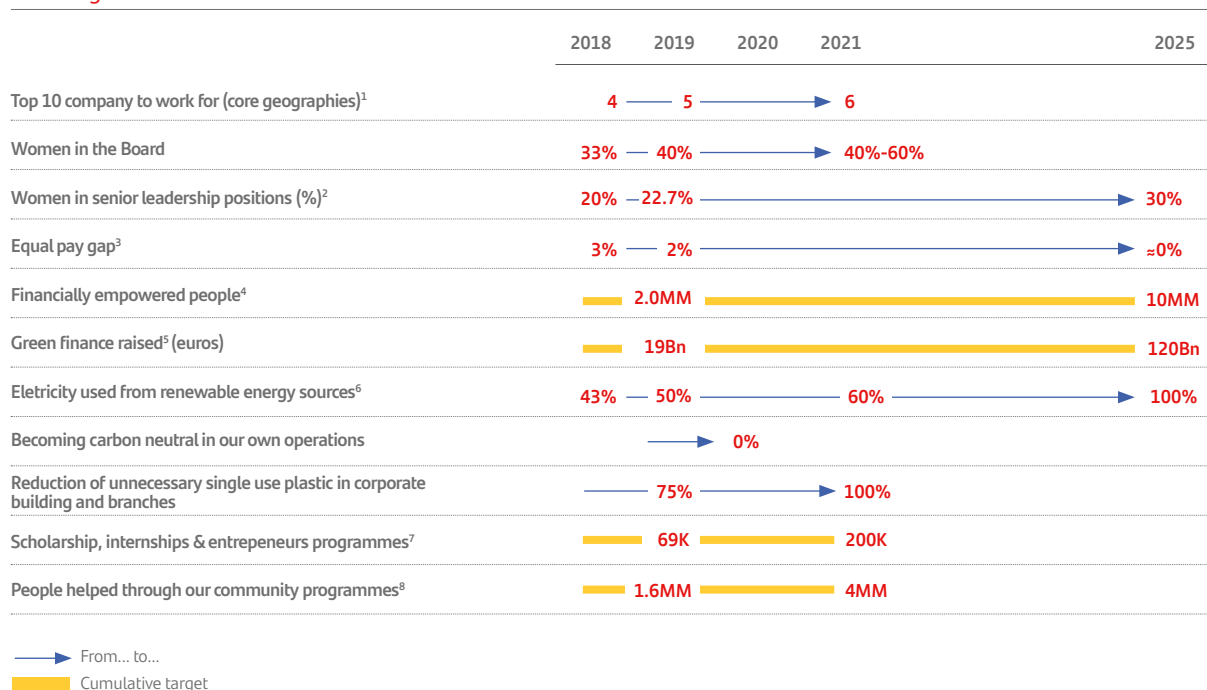
Supporting inclusive and sustainable growth

Santander can play a major role in helping to ensure growth is both inclusive and sustainable. Inclusive: by meeting all our customers' needs; helping companies to create jobs; helping people to be financially empowered, and get the education and skills they need. Sustainable: by supporting the transition to a low carbon economy; and by helping financing renewable energy, smart and sustainable infrastructures, while taking into account social and environmental risks and opportunities

We wanted to provide clear tangible commitments in our ambition around responsible banking. With this aim, in July 2019, we disclosed 10 commitments. In addition, in December that year, we committed to become carbon neutral.

- We believe that by acting responsibly towards our employees, we will build a strong team that is willing to go the extra mile for our customers. This will generate predictable returns for our shareholders, enabling us to invest more to support communities – which builds employees' pride in Santander. This is the virtuous circle of loyalty which drives success. **So we aim to be one of the top 10 companies to work for in at least 6 of the core geographies where we operate by 2021.**
- We believe that to serve society better and understand customers' needs, we must have a diverse and inclusive team. This enables us to attract, develop and retain the best talent, which in turn will help us to achieve better results. **So we aim to have between 40% - 60% women members on our board by 2021; and to have 30% women in senior leadership positions.**
- We believe that our employees deserve fair and transparent remuneration for their work. **So we aim to have a fair salary structure and we are working to eliminate our equal pay gap by 2025.**
- We believe that we can help more people prosper and enjoy the benefits of growth by empowering them financially: giving them access to tailored financial products and services and improving their financial resilience through education. **So we aim to financially empower 10 million people from 2019 to 2025.**
- We believe that we can support our customers by helping them in the transition to the green economy. **So we aim to raise or facilitate the mobilization of 120Bn euros from 2019 to 2025, and 220Bn euros from 2019 to 2030 in green finance to help tackle climate change challenge.**
- We believe that, if we are to tackle climate change, we have a responsibility to reduce emissions and our environmental footprint. **So we aim to purchase 100% of our electricity from renewable sources in all countries where it is possible to do so by 2025. We also aim to eliminate unnecessary single use plastic in our branches and corporate buildings by 2021. In addition, we committed to become carbon neutral in 2020 by offsetting all the emissions generated by our own operations.**
- We believe that education is the bedrock of a fair society and strong economy. **So through our world leading Universities programme, we aim to fund 200,000 scholarships, internships and entrepreneurs programmes from 2019 to 2021.**
- We believe that we can play a major role to improve lives in the communities where we operate. **So we aim to help 4 million people through our community programmes from 2019 to 2021.**

Our targets*



* We report our progress towards these targets in our annual report

1. According to a well-known external source in each country (Great Place to Work, Top Employer, Merco, etc.).
2. Senior positions represent 1% of total workforce.
3. Calculation of equal pay gap compares employees of the same job, level and function.
4. People (unbanked, underbanked or financially vulnerable), who are given access to the financial system, receive tailored finance and increase their knowledge and resilience through financial education.
5. Includes Santander overall contribution to green finance: project finance, syndicated loans, green bonds, capital finance, export finance, advisory and other products to help

our clients in the transition to a low carbon economy. Commitment from 2019 to 2030 is 220Bn.

6. In those countries where it is possible to purchase renewable sourced electricity for the properties occupied by the Group.
7. People supported through Santander Universities initiative (students who will receive a Santander scholarship, will achieve an internship in an SME or participate in entrepreneurship programmes supported by the Bank).
8. People helped through our community investment programmes (excluded Santander Universities and financial education initiatives).

By doing this, Santander is helping to address today's main global challenges

• Sustainable Development Goals

Our activity and investments help us to address a number of the United Nation's Sustainable Development Goals.

• Paris Agreement

Supporting the Paris Agreement to combat climate change and adapt to its effects.

**SUSTAINABLE
DEVELOPMENT
GOALS**



IMPORTANT INFORMATION

Santander cautions that this document contains statements that constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. While these forward-looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors, including those unknown or unpredictable, could cause actual developments and results to differ materially from our expectations. Forward-looking statements speak only as of the date of this document and are based on the knowledge, information available and views taken on such date; such knowledge, information and views may change at any time. Santander does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Neither this document nor any of the information contained therein constitutes an offer to sell or the solicitation of an offer to buy any securities. No offering of securities shall be made in the United States except pursuant to registration under the U.S. Securities Act of 1933, as amended, or an exemption therefrom. Nothing contained in this document is intended to constitute an invitation or inducement to engage in investment activity for the purposes of the prohibition on financial promotion in the U.K. Financial Services and Markets Act 2000.

5. Our contribution to UN Sustainable Development Goals

All social agents, including companies, have a responsibility to contribute to the Sustainable Development Goals (SDG) of the United Nations. We contribute directly to achieving the SDGs through our business activities and also through our community investment programmes.

Our contribution in 2019 to the SDGs where Santander has the most weight.



We develop initiatives that support communities and contribute to vulnerable people's financial empowerment and increased resilience

financial empowerment and increased resilience

- We financially empowered 2 million people in 2019; our commitment is to financially empower 10 million people by 2025.
- The Prospera microfinance program in Brazil was chosen as good practice by the Brazilian Global Compact Network to achieve the SDGs in 2030.



We invest more in support for education than any other private company in the world and we promote the largest private scholarship programme in the world

private scholarship programme in the world

- Our commitment is to offer 200k scholarships between 2019 and 2021.
- We have 1,333 agreements with different universities.
- In 2019, we invested 119 million euros to support higher education through our programmes and we helped more than 500,000 children through our programmes to support childhood education.
- Banco Santander is the largest company investing in education in the world. With more than 68.671 scholarships and grants awarded to students in 2019, we are also the largest private scholarship programme in the world.



We promote a diverse and inclusive workforce that reflects society and allows us to face future challenges

- In 2019, we have 55% of women in the workforce and 40% women in the Board. Our commitment is to have 40-60% Women on Board by 2021 and 30% women in senior leadership positions by 2025. Our calculated gap this year was 2% and we have committed to reduce it to almost 0 by 2025.
- In 2019, we have approved new general principles on diversity and inclusion and we have signed the UN Women's Empowerment Principles.
- 7 out of 10 individual entrepreneurs helped through our microfinance programmes in Brazil and Mexico are women.



We contribute to the transition to a low-carbon economy by assuming a leading position in the financing of renewable energy projects

financing of renewable energy projects

- We have committed to raise and facilitate €120 bn for green finance by 2025.
- In 2019, we have been the global leader in renewable energy financing in terms of both the number of transactions and their amounts.
- In 2019, we helped finance greenfield renewable energy projects with a total installed capacity of 8,036 MW. Equivalent to the consumption of 6.5 million households in one year.



We have a prepared and committed team that allows us to respond and meet the needs of customers, help entrepreneurs to create businesses and employment, and strengthen local economies

- We have committed to become one of the "top 10 companies to work for" in 6 of our main geographies by 2022. We achieved 5 countries in 2019.
- In 2019, we have 196,000 employees. 98% with a fixed contract. 8.3% of the staff have been promoted this year.
- 124,559 million euros have been granted to SMEs and individual entrepreneurs in 2019.
- Santander X aims to become the world's largest community for university entrepreneurship.
- In 2019 we received the Top Employers Europe 2019 certification and we have also been included for the first time in the Great Place to Work list of the 25 best companies to work for in the World as well as being distinguished as one of the best Places to Work 2019 in Latin America.



We develop products and services for the most vulnerable in society, giving them access to financial

services and teaching them how to use these in an appropriate way to manage their finances in the best possible way

- 519,996 million euros in loans granted to households in 2019.
- More than 500 million euros to 800,000 micro-entrepreneurs in 2019.
- More than 1 million people helped through community investment to improve the lives of people at risk of exclusion, poverty or vulnerability.
- 436 scholarships awarded to students with disabilities through Fundación Universia and 166 people with disabilities incorporated in companies.



We promote initiatives that protect the world's cultural and natural heritage and we facilitate access to

housing and basic services by fostering access to basic financial services for all

- 332,881 millions euros of credit to housing in 2019.
- More than 1 million people benefited from art and cultural initiatives.



We promote sustainable consumption both in our own operations as well as with our clients

- We have committed to use 60% of electricity from renewable energy sources by 2022 and 100% by 2025; and to become carbon neutral in own operations by 2020.
- We have also committed to reduce unnecessary single use plastic free in corporate buildings and branches to 0 tons by 2022.
- In 2019, we have reduced our environmental footprint: 2.1% reduction in paper and cardboard waste, 3.5% reduction in internal electricity consumption, and 15.5% reduction of total CO2 emissions. Additionally, 50% of the energy consumed by Santander was renewable energy.
- We have financed 46 projects under Equator Principles criteria in 2019.
- We have developed new principles of responsible behaviour of suppliers; and have 93.2% local Group suppliers.
- We analysed part of our portfolio's alignment to climate scenarios, as a step towards addressing the recommendations of the Task Force for Climate-related Financial Disclosures.
- We are a founder member of UN Responsible Banking Principles.



We support the fight against climate change and the transition to a low carbon Economy and we commit

ourselves to actively contribute to the protection of the environment

- Commitment: Green finance raised and facilitated 120Bn euros by 2025. In 2019 we achieved 19Bn euros.
- In 2019, we have been the global leader in renewable energy financing, in terms of both the number of transactions and their amounts.
- Agreements with multilaterals for the financing and development of energy efficiency projects.
- Financing of vehicles with low CO₂, electric and hybrid emissions.
- 1 Bn euros first green bond emission.



We participate actively and we are part of the main initiatives and working groups at local and international

level as an important way to support SDG 17 on partnerships for the goals.

At Group-level, we work with a number of initiatives and working groups at local and international level to drive forward our agenda, and support progress towards the UN SDGs.



Main initiatives we support at Group-level section of this report

