

# **INFORMATION ON THE INTEGRATION POLICIES OF SUSTAINABILITY RISKS**

**In relation to the disclosure obligations established  
in Regulation (EU) 2019/2088 – “Sustainable  
Finance Disclosure Regulation” (SFDR)**

**Santander Group**

This document is a translation of an original text in Spanish. In case of any discrepancy between both texts, the Spanish version will prevail.

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This document contains information on the policies for integrating sustainability risks in the decision-making process and on the remuneration policy for Banco Santander, S.A. and its Group (“Santander” or “Santander Group”) and how these risks are managed and considered in them<sup>1</sup>. Additionally, it contains information on Santander's approach to the analysis of the main adverse impacts on ESG factors.

## **1 INFORMATION ON THE INTEGRATION OF SUSTAINABILITY RISKS IN THE INVESTMENT DECISION-MAKING PROCESS.**

### **1.1 INTRODUCTION**

Santander recognises that Environmental and Social (E&S) issues pose some of the most significant challenges to the long-term prosperity of the global economy, the well-being of people and communities, and the natural environmental ability to support life. Furthermore, the correlation that exists between the responsible management of E&S risks and the mitigation of the long-term impacts on climate have been well established by science and the work conducted by the Intergovernmental Panel for Climate Change has been the foundation for international agreements, such as the Paris Accord, to combat the effects of climate change and spur the transition to a low carbon society.

Santander is committed to supporting clients and economies in their transition to a low carbon economy, providing financial products and/or services to business activities that are environmentally and socially responsible in line with its sustainability commitments and its support of the goals of the Paris Accord. Attention must also be paid to the social problems that may arise such as the involuntary displacement of the local and/or indigenous population, the health, safety and human rights of the workers who carry out business activities, and the impacts on local communities and other stakeholders affected by these activities. For this purpose Santander Group has the following policies:

- Environmental, Social and Climate Change
- Sustainability
- Remuneration
- Human Rights

### **1.2 INTEGRATION OF SUSTAINABILITY RISKS IN DECISION-MAKING PROCESS**

Santander sets out criteria for the identification, assessment, monitoring and management of E&S risks and other climate change related activities, in the Oil & Gas, Power Generation and Metals & Mining sectors and those arising from businesses engaged in soft commodities which apply to transactions giving rise to credit risk, insurance, asset management, equity and advisory services.

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<sup>1</sup> This document extracts information from the Environmental, Social and Climate Change Risk Management and Remuneration Corporate Policies. These policies are approved by the Santander Group Board of Directors and are provided to all the companies that are part of the Group as a reference document, establishing the applicable principles that all entities belonging to the Group must comply with.

Assessments of the relevant environmental social and climate change risk impacts should be considered as part of the decision-making process.

This assessment shall be more detailed when directly providing financial products and/or services to the special attention activities from the Oil & Gas, Power Generation, Metals & Mining and soft commodities sectors (particular attention will also be given to agriculture and ranching financing for retail clients in the Amazon biome). Furthermore, Santander Group will not directly invest in and/or provide financial products and/or services to the following activities in any client segment:

- Any projects or activities located in 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.

#### **Oil & Gas:**

- Any projects, or expansion of existing facilities, north of the Arctic Circle.
- Projects involved in the exploration, development, construction or expansion of unconventional oil & gas (e.g. tar sands / fracking / coal bed methane).
- Companies involved in exploration and production for whom the activities derived from unconventional oil & gas and/or Arctic oil represent a significant part of their reserves, or account for more than 30% of their activity.

#### **Power generation:**

- From 2030, any entities with more than 10% of revenues, on a consolidated basis, derived from coal fired power generation.
- Project-related financing for coal-fired power plants projects worldwide, or for the expansion of existing coal-fired plants or for the construction or development of associated infrastructure.
- New clients with coal-fired power plants, except for transactions for the specific financing for renewable energy.
- Nuclear Power Plants if:
  - The host country is not a member of the International Atomic Energy Agency (IAEA).
  - The host country has not ratified the Convention on Nuclear Safety, the Convention on the Physical Protection of Nuclear Materials or the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management (or has not taken the appropriate measures to be aligned with the requirements included in these conventions).
  - The host country has not ratified the Non-Proliferation Treaty (NPT) and the International Convention for the Suppression of Acts of Nuclear Terrorism.
  - The host country does not have a national safety agency (NSA) for nuclear activities that:

- Is established, independent and capable (in terms of creating a regulatory environment that requires good environmental and social performance throughout the life cycle of the facility);
- Is authorised to conduct inspections and impose sanctions if required; and
- Has rules in line with the recommendations of the IAEA.

**Mining & Metals:**

- Extraction, processing and marketing of asbestos.
- Extraction and marketing of rough diamonds from producer countries involved in war conflicts, or not certified by the Kimberley process.
- Mining activities relating to the so-called "conflict minerals" extracted from conflict areas and not included in the corresponding certification processes.
- Mining activities without a specific treatment to avoid tailings disposal in riverine or shallow sea environments (such as tailings storage facilities or dry stack).
- Project-related financing for new, or the expansion of, thermal coal mines or the construction or expansion of infrastructure supporting coal mines.
- New clients with thermal coal mine projects worldwide.
- Any exposure to thermal coal mining worldwide by 2030.
- New clients with coal mining operations.

**Soft commodities:**

- Extraction and sale of native tropical wood species not certified to Forest Stewardship Council (FSC).
- Palm oil processors that are not members of the Roundtable on Sustainable Palm Oil (RSPO).
- Developments in forested peatlands in high-risk geographies.

**2 INFORMATION ABOUT DUE DILIGENCE POLICIES IN RELATION TO THE MAIN ADVERSE INCIDENTS ON SUSTAINABILITY FACTORS**

When providing investment or insurance advisory services, the entity considers some of the main adverse incidents on ESG factors (environmental, social and good governance), through the Defense and Environmental, Social and Climate Change Risk policies approved by Santander Group. The degree of the consideration of adverse incidents takes into account: (i) the types of financial products on which it advises; and/or (ii) where it provides data on the main adverse events offered by issuers of financial products and, where appropriate, Santander Asset Management ("SAM")<sup>2</sup> - according to its own methodology and indicators, which will be reviewed as the new applicable

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<sup>2</sup> SAM is the functional name of the asset management business carried out by the legal entity SAM Investment Holdings Limited and its branches, subsidiaries and representative offices.

information requirements are developed-. The consideration of adverse incidents is especially relevant in the management of Sustainable and Responsible Investment products, for which a more exhaustive approach is carried out.

Likewise, in portfolio management services, the identification and monitoring of the main adverse incidents is carried out by the Group's managers, entities to which Santander has delegated the management of the assets of the clients' investment portfolios. These managing entities, in addition to applying the defense and socio-environmental risk and climate change policies approved by the Santander Group, have the corresponding sustainability policies (integration of sustainability risks, engagement and voting). The degree of the consideration of adverse incidents will depend on the type of assets that make up the managed portfolios, observing the data offered by the issuers of financial products and, where appropriate, SAM -according to a methodology and own indicators, which will be reviewed as the new applicable information requirements are developed.

### **3 INFORMATION ON REMUNERATION POLICY AND ITS ALIGNMENT WITH THE INTEGRATION OF SUSTAINABILITY RISKS**

This section lists the key principles and elements related to the way in which the Santander Group manage remuneration for all employees, prioritizing efficient risk management compliant with applicable law:

- Remuneration is aligned with the interests of shareholders, focused on long-term value creation and adequate and rigorous risk management, with long-term strategy, values and interests, as well as with maintaining a strong capital base. Key types and risk factors for the Santander Group are: Credit, Market, Liquidity, Structural, Operational, Compliance, Model, Reputational, Strategic, Environmental, Social and Climate Change Risks;
- Remuneration decisions are taken without any discrimination other than that arising from individual performance assessment;
- The structure and amount of remuneration award in each country complies with local laws and regulations and is consistent with the Santander Group policy, provided that local law does not prevent it;
- All key remuneration decisions are monitored and subject to a formal approval process to guarantee their alignment with risk management. In particular, the board risk supervision, regulation and compliance committee, together with the board remuneration committee, oversee the implementation of the remuneration policy and the most material programmes to ensure their alignment with risk management;
- Together with the HR function, the Santander Group's control functions, and in particular the Risk function, are actively involved in the management of remuneration within the powers defined in the Remuneration Policy and, in particular, implement the necessary control indicators and may propose adjustments to certain elements of remuneration, such as variable remuneration, depending on the management of all risks carried out during the performance period by each unit of the Santander Group;
- The management of variable remuneration in the Santander Group includes the definition of metrics consistent with prudent management of present and future risks. In addition to quantitative metrics, qualitative factors are also included to ensure that all types of risks

are reflected, as well as sustainability and adequate performance assessment. Metrics used for the calculation of annual variable remuneration include ex ante adjustments to risks to ensure that variable compensation is fully in line with the risks assumed;

- In order to align the time horizon of risks and the measurement of results with the economic cycle of the entity in a multiannual framework, multiannual metrics and factors are applied. These metrics include, amongst others, those relating to risks and determine that such variable remuneration is paid only in the event of a solid capital base. These factors are based on the Group's performance in the corresponding financial year. In addition, for this same purpose, Santander Group has implemented deferred variable remuneration plans that reflect the requirements that are defined in the applicable regulation;
- Santander Group includes explicit ex post risk adjustment mechanisms, malus clauses and claw back clauses, through which the entity can adjust the remuneration of a staff member, based on the results or risk management carried out in respect of specific incidents;
- Santander Group has a procedure for identifying material risk takers, reviewed by the control functions and aligned with the applicable regulations, the results of which are presented to the board remuneration and board risk supervision, regulation and compliance committees at least once a year. It also has a duly updated register of the members of that group, which is available to the European Central Bank and other supervisory and regulatory bodies;
- The control functions of Santander Group incorporate into the management of its remuneration, those specific elements established in the applicable regulation that ensure that the remuneration they receive is independent of the business areas over which they exercise their functions.