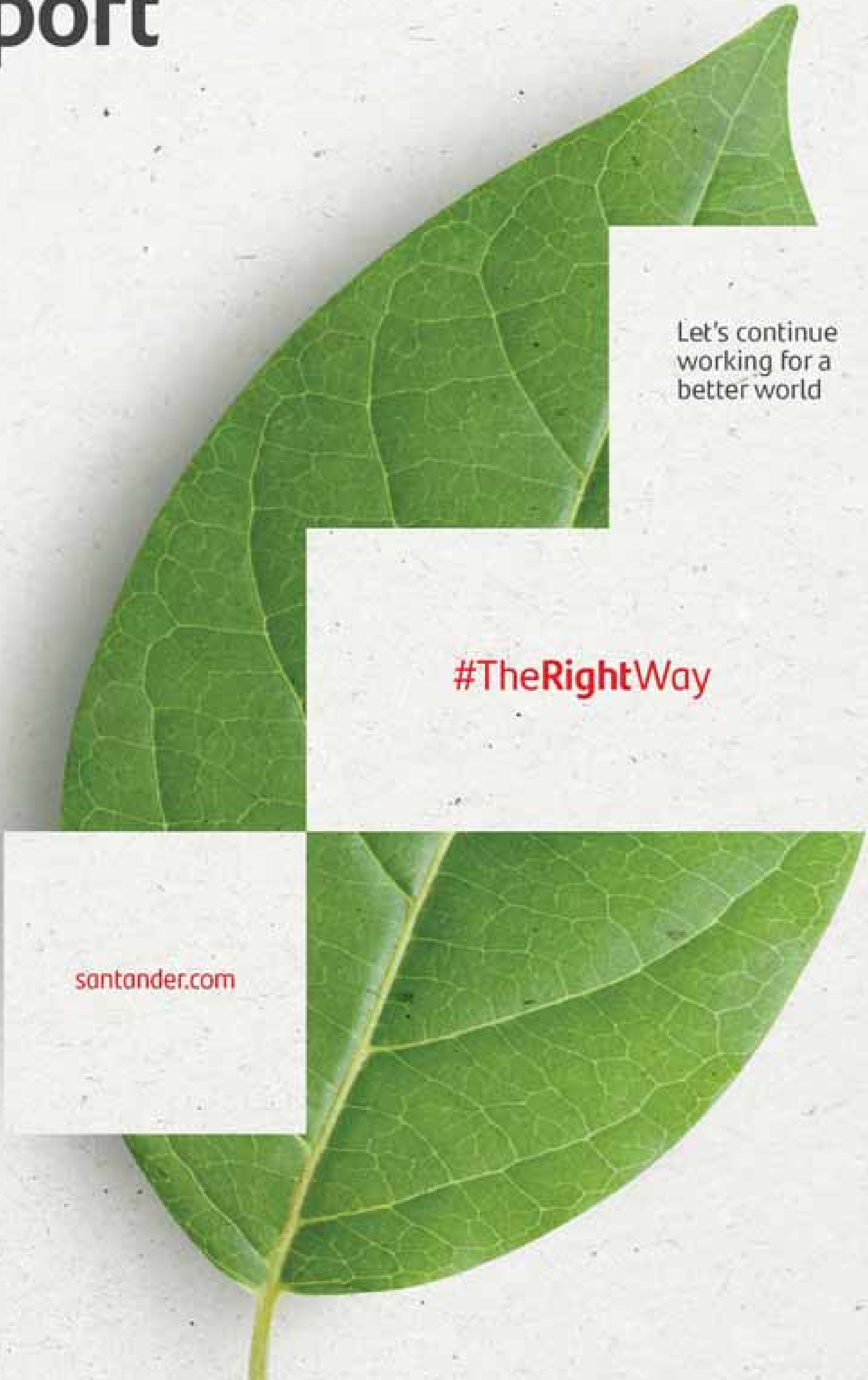
2019 Annual Report



Santander

2019 Annual Report

Unless otherwise specified, references in this annual report to other documents, including but not limited to other reports and websites, including our own, are for informational purposes only. The contents of such other documents and websites are not incorporated by reference in this annual report nor otherwise considered to be a part of it.

Unless the context requires otherwise, the 'Bank' means Banco Santander, S.A., and 'Santander', the 'Group' and 'Santander Group' mean Banco Santander, S.A. and subsidiaries.

Consolidated directors' report

Our 2019 annual report is provided in Spanish and English versions. In case of discrepancy the Spanish version prevails.

Auditor's report and consolidated financial statements

2019 consolidated directors' report

This report has been approved unanimously by our board of directors on 27 February 2020.

Our approach to this document

The presentation of our consolidated directors' report was improved last year to provide in a single, streamlined document the contents of several documents that were previously published separately and are no longer prepared but as sections of this consolidated directors' report. In particular, before 2018, the contents now included in this report were spread in the following documents:

- Annual report
- Consolidated directors' report
- Annual corporate governance report (CNMV format document)
- Report of the board committees
- Sustainability report
- Annual report on our directors' remuneration (CNMV format document)

Additionally, the consolidated directors' report includes all the information requirements to comply with Spanish Law 11/2018 on non-financial information and diversity. This information can be found in the 'Responsible banking' chapter, which represents the Consolidated non-financial information statement.

This format allows a clearer presentation of the information and, therefore, of understanding, avoids repetition and, at the same time, enhances the level of disclosure rather than reducing it.

Level of auditors' review

The contents of our 2019 consolidated directors' report have been subject, as required by applicable legislation, to different levels of review by our independent statutory auditors, PricewaterhouseCoopers Auditores, S.L. These different levels of review can be summarised as follows:

- PricewaterhouseCoopers Auditores, S.L. has verified that the information in this consolidated directors' report is consistent with that of our consolidated financial statements and its contents comply with applicable regulations. For further information see 'Other information: Consolidated management report section of the 'Auditor's report' within 'Auditor's report and consolidated annual accounts'.
- PricewaterhouseCoopers Auditores, S.L. has issued a verification report with a limited assurance scope on the non-financial and diversity information required by Spanish Law 11/2018 and included in this consolidated directors' report. Such report is included as 'Independent verification report' of the 'Responsible banking' chapter.
- PricewaterhouseCoopers Auditores, S.L. has issued an independent reasonable assurance report on the design and effectiveness of the Group´s internal control over financial reporting which is included in section 8.6 of the 'Corporate governance' chapter.

Non-IFRS and alternative performance measures

In addition to financial information prepared in accordance with International Financial Reporting Standards (IFRS) and derived from our consolidated financial statements, this consolidated directors' report contains financial measures that constitute alternative performance measures (APMs) as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on 5 October 2015 and other non-IFRS measures.

The financial measures contained in this consolidated directors' report that qualify as APMs and non-IFRS measures have been calculated using the financial information from Santander Group but are not defined or detailed in the applicable financial reporting framework and have neither been audited nor reviewed by our auditors.

We use these APMs and non-IFRS measures when planning, monitoring and evaluating our performance. We consider these APMs and non-IFRS measures to be useful metrics for management and investors to facilitate operating performance comparisons from period to period. While we believe that these APMs and non-IFRS measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute of IFRS measures. In addition, other companies, including companies in our industry, may calculate or use such measures differently, which reduces their usefulness as comparative measures.

Section 8 of the 'Economic and financial review' chapter provides further information about those APMs and non-IFRS measures.

Forward-looking statements

Santander cautions that this annual report contains statements that constitute “forward-looking statements” within the meaning of the US Private Securities Litigation Reform Act of 1995. Forward- looking statements may be identified by words such as ‘expect’, ‘project’, ‘anticipate’, ‘should’, ‘intend’, ‘probability’, ‘risk’, ‘target’, ‘goal’, ‘objective’, ‘estimate’, ‘future’ and similar expressions. These forward-looking statements are found in various places throughout this annual report and include, without limitation, statements concerning our future business development and economic performance and our shareholder remuneration policy. While these forward-looking statements represent our judgement and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

The following important factors, in addition to those discussed elsewhere in this consolidated financial statements, could affect our future results and could cause outcomes to differ materially from those anticipated in any forward-looking statement: (1) general economic or industry conditions in areas in which we have significant business activities or investments, including a worsening of the economic environment, increasing in the volatility of the capital markets, inflation or deflation, and changes in demographics, consumer spending, investment or saving habits; (2) exposure to various types of market risks, principally including interest rate risk, foreign exchange rate risk, equity price risk and risks associated with the replacement of benchmark indices; (3) potential losses associated with prepayment of our loan and investment portfolio, declines in the value of collateral securing our loan portfolio, and counterparty risk; (4) political stability in Spain, the UK, other European countries, Latin America and the US; (5) changes in laws, regulations or taxes, including changes in regulatory capital and liquidity requirements, including as a result of the UK exiting the European Union and increased regulation in light of the global financial crisis; (6) our ability to integrate successfully our acquisitions and the challenges inherent in diverting management’s focus and resources from other strategic opportunities and from operational matters while we integrate these acquisitions; and (7) changes in our ability to access liquidity and funding on acceptable terms, including as a result of changes in our credit spreads or a downgrade in our credit ratings or those of our more significant subsidiaries.

Numerous factors could affect the future results of Santander and could result in those results deviating materially from those anticipated in the forward-looking statements. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements.

Forward-looking statements speak only as of the date of this annual report 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.

Historical performance is not indicative of future results

Statements as to historical performance or financial accretion are not intended to mean that future performance, share price or future earnings (including earnings per share) for any period will necessarily match or exceed those of any prior period. Nothing in this annual report should be construed as a profit forecast.

No offer

Neither this annual report nor any of the information contained therein constitutes an offer to sell or the solicitation of an offer to buy any securities.

Business model and strategy

The Santander Way

Our purpose

To help people and businesses prosper

Our aim as a bank

To be the best open financial services platform, by acting responsibly and earning the lasting loyalty of our people, customers, shareholders and communities

Our how

Everything we do should be

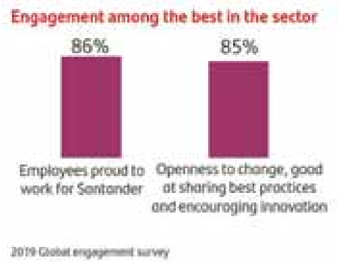
Simple | Personal | Fair

For further information about our corporate culture see Responsible Banking chapter.

Our strategy is built around a virtuous circle based on loyalty

People

Employees who are engaged ...



- Our aim is to be an employer of choice. Focus on employee engagement, leveraging our SPF culture to retain and attract the best talent.
- This year we received important recognitions, of note: one of the 25 best companies to work for at global level (Great Place to Work). Leader in diversity 2020 by the Financial Times, and in addition, for the third consecutive year, we lead the Bloomberg Gender-Equality Index.

Customers

... generate more loyal customers ...

+9%	+15%	2x	36%
Loyal customers	Digital customers	Increase in mobile sales	2019 digital sales as %of total sales

% change vs. 2018
Sales: new contracts executed

- Increase in loyal customers, both individuals and businesses, has resulted in a significant growth in revenues, loans and customer funds.
- Loyal customers use our digital channels more as they hold more of our products and services and interact with us more often.

Shareholders

... leading to strong financial results ...

+8% value creation for shareholder

TNAV per share + dividends per share declared in 2019

2019 total dividend per share

EUR **0.23**

Cash dividend per share:

EUR 0.20	c.+3% vs 2018	2.3x vs 2014

Note: Proposed and subject to 2020 AGM approval.

- Our focus on customer loyalty is delivering results: all-time record figure in customer revenue[A] with 3% growth (+4% in constant euros) and accounting for 95% of total revenue.
- We continued to strengthen our balance sheet, generating more capital and improving credit quality.
- We continue growing our cash dividend, as we have been doing for the last five years.

A. Customer revenue= net interest income + net fee income

Communities

... and more investment in communities, helping to motivate and engage our people ...

2.0 mn people financially empowered in 2019

1.6 mn people helped through our community programmes in 2019

Most sustainable bank in the world

by Dow Jones Sustainability index 2019

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

- We remain committed to generating profit in a more responsible and sustainable way.
- Initiatives and actions to support inclusive and sustainable causes, and good causes in the communities in which we operate.

Our business model

1. Our scale

Local scale and global reach

- Local scale based on three geographic regions, where we maintain a leadership position in our 10 core markets.
- Global reach backed by our global businesses, enabling greater collaboration across the Group to generate higher revenue and efficiencies.

A. Market share in lending as of Sep-19 including only private owned banks. UK benchmark covers mortgage market.

2. Customer focus

Unique personal banking relationships strengthen customer loyalty

- We serve 145 million customers, in markets with a total population of more than one billion people.
- We have over 100,000 people talking to our customers every day in our c.12,000 branches and contact centres.

B. NPS – Customer Satisfaction internal benchmark of active customers' experience and satisfaction audited by Stiga / Deloitte.

3. Diversification

Our geographic and business diversification make us more resilient under adverse circumstances

- Geographic diversification in three regions, with a good balance between mature and developing markets, and among customer segments (individuals, SMEs and large corporates).
- Global businesses contributing 26% of Group earnings that strengthen our local franchises.
- Santander Global Platform (SGP) supports the digital transformation across the Group and aims to become the best open financial services platform.

Note. Underlying attributable profit contribution by region, excluding Santander Global Platform and Corporate Centre.

Resilient profit generation throughout the cycle

In 2019, once again, our business model demonstrated strength and resilience, supported by a disciplined execution against our strategic priorities

Net operating income = Total income-operating expenses.

Our business model and our track record executing our strategy support the delivery of our mid-term goals while we are building a Responsible Bank

Execution of our three-pillar plan to drive profitable growth in a responsible way

1. Improving operating performance
2. Optimising capital allocation
3. Accelerating the digital transformation through Santander Global Platform

1. Improving operating performance leveraging One Santander:

Three geographic regions (with 10 core markets) to improve productivity and generate new efficiencies:

Europe

47% weight of profit/ operating areas

71% weight of loans/ operating areas

	Market shares	
	Loans	Deposits
Spain	18%	19%
UK[A]	10%	9%
Portugal	18%	16%
Poland[B]	12%	12%
SCF	Top 3 in auto finance	

Building one European banking platform, with enhanced profitability

North America

16% weight of profit/ operating areas

14% weight of loans/ operating areas

	Market shares	
	Loans	Deposits
Mexico	13%	13%
USA		
- SBNA[C]	3%	3%
- SC USA	Top 5 in retail auto lending	

Investing together to improve commercial capabilities

South America

37% weight of profit/ operating areas

15% weight of loans/ operating areas

	Market shares	
	Loans	Deposits
Brazil	10%	10%[D]
Chile	18%	18%
Argentina	10%	11%

Natural reweighting and high profitable growth opportunity

Data: Market shares as of Sep-19 and the latest available for the SBNA and SCF as of Jun-19.

A. Includes London Branch.

B. Includes SCF business in Poland.

C. In every state where Santander Bank operates.

D. Includes debentures, LCA (agribusiness credit notes), LCI (real estate credit notes), LF (*letras financeiras*) and COE (structured transactions certificate).

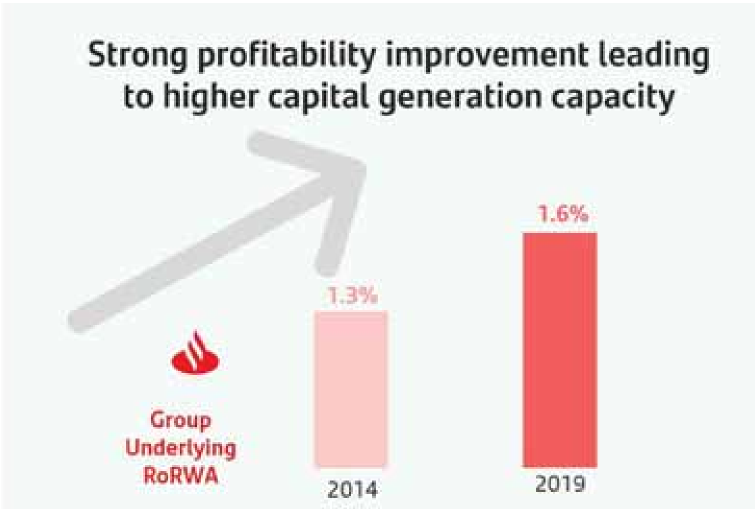
Global businesses to leverage our local scale with global reach and collaboration:

SCIB Santander Corporate & Investment Banking	**+17%** YoY collaboration revenues **17%** weight of profit/ operating areas	1.8% RoRWA 43.1% Efficiency ratio	**We continue to be strategic partners for our customers**, leveraging our capital-light model and geographic diversification
WM&I Santander Private Banking Santander Asset Management Santander Insurance	**+20%** YoY collaboration revenues (only Private Banking) **9%** weight of profit/ operating areas	€2,494 mn Total contribution to Group's profit[A] +13% /2018 Insurance Gross Written Premiums	**We aim to become the best and most responsible Wealth Manager in Europe and the Americas**, underpinned by the Global Private Banking platform, digital investments, and a greater value proposition in SAM and insurance

A. . Profit after tax + net fee income generated by this business.

2. Ongoing capital allocation optimisation to improve profitability:

- Rebalancing to more profitable regions and businesses
- Improved pricing, processes and governance
- Active management and senior team alignment

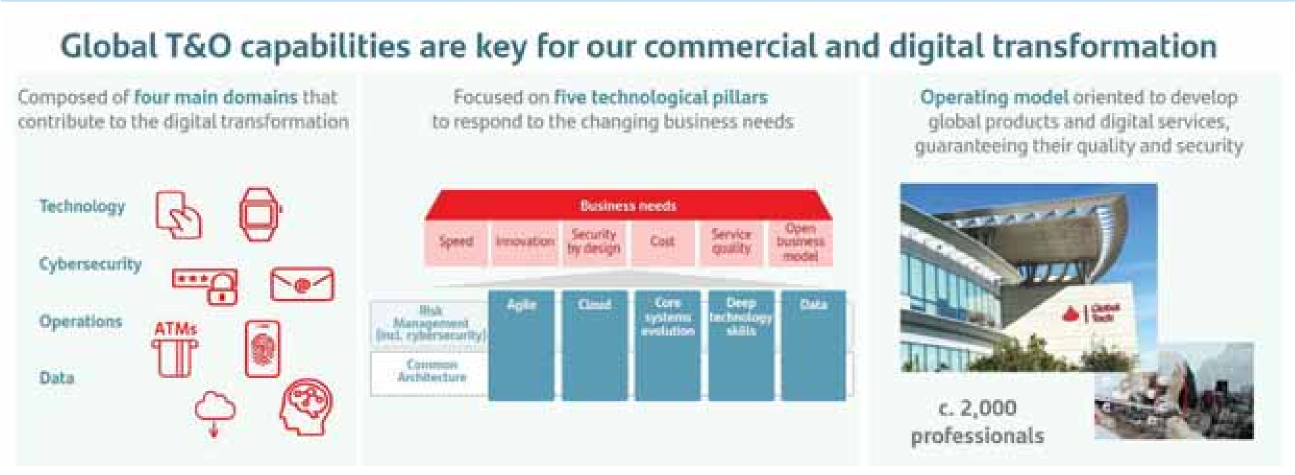


For further details on RoRWA and underlying RoRWA, see section 8 'Alternative Performance Measures' in the 'Economic and financial review'.

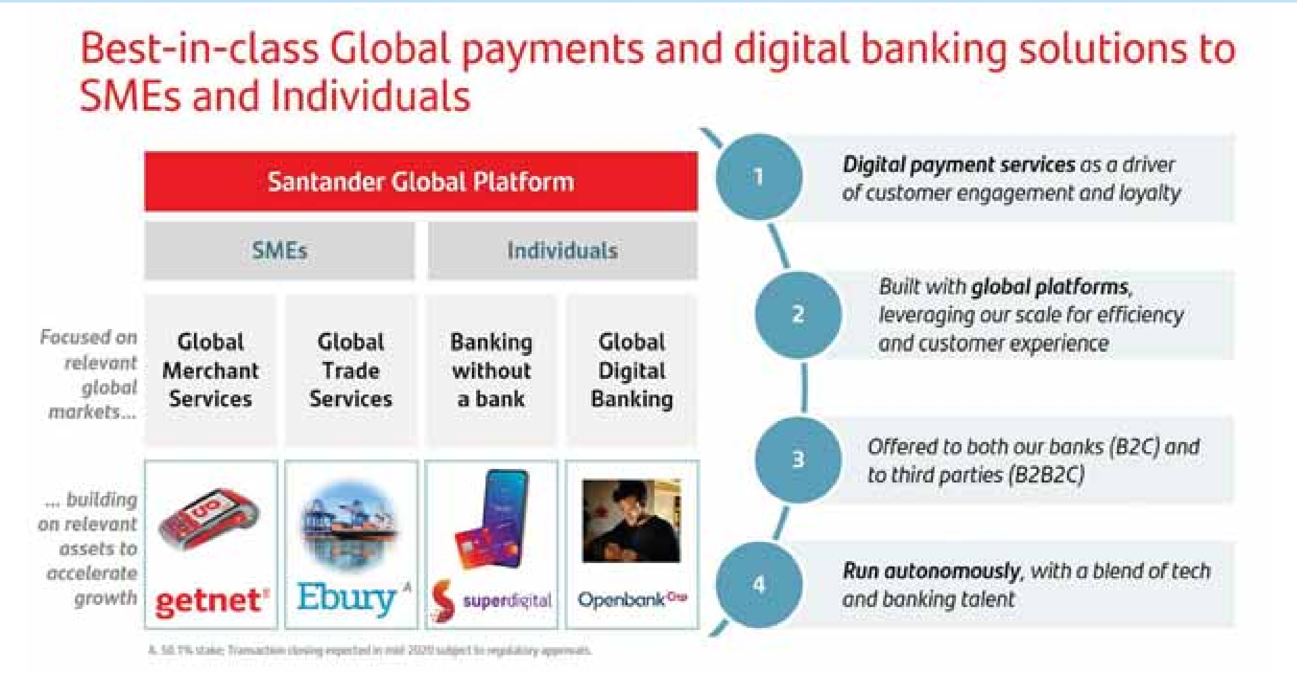
3. Accelerating the digital transformation through SGP:

Our technology strategy is aligned with our two-pronged approach of digitalising our core banks and global businesses and building Santander Global Platform, focusing on better serving our customers needs.

Innovation and technological development are strategic pillars of the Group. Our objective is to respond to the new challenges that emanate from digital transformation, focusing on operational excellence and customer experience.

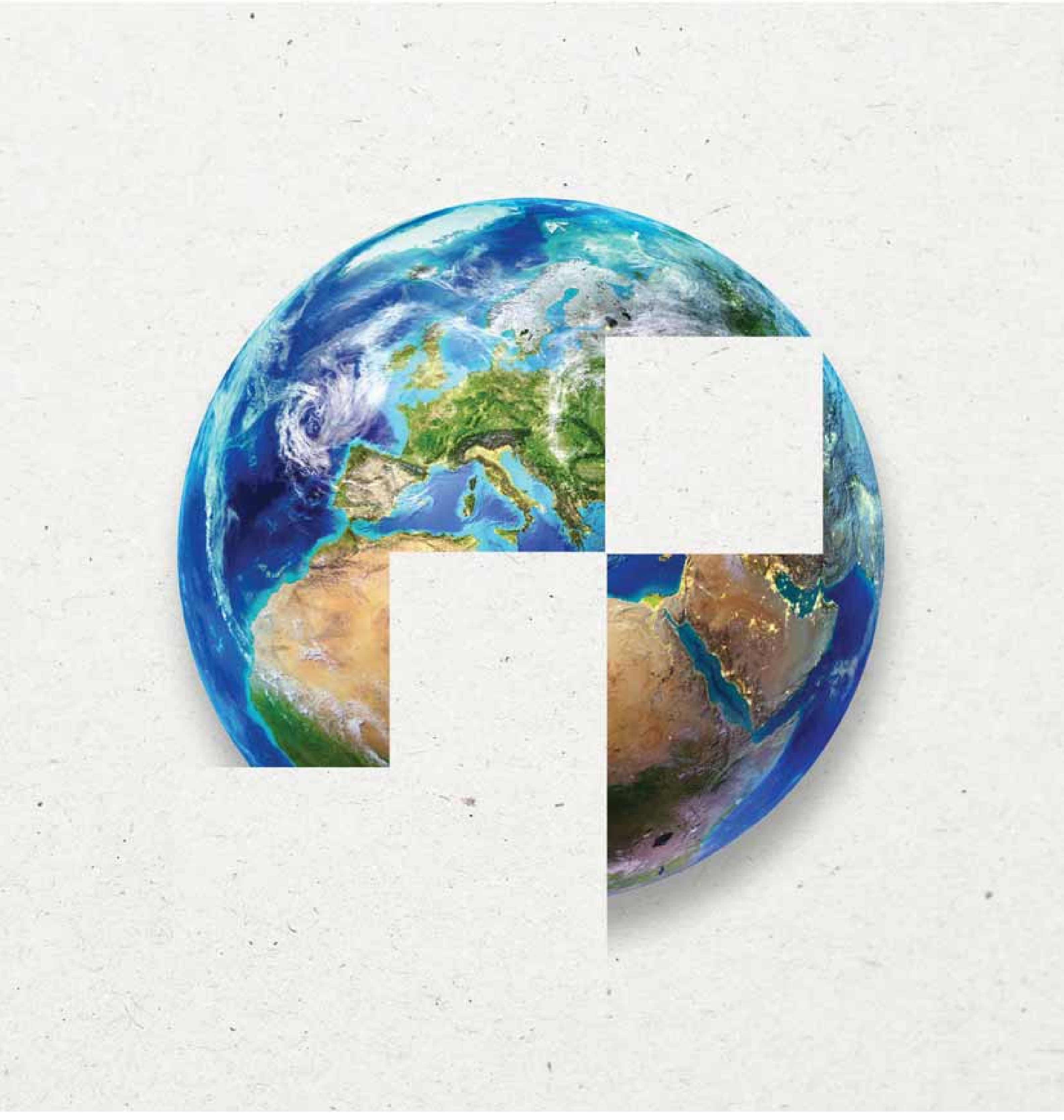


Accelerating digitalisation and building Santander Global Platform. Moving towards One Santander to build simpler, faster and better services.



Responsible banking

Consolidated non-financial information statement



Our approach

"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

How we have helped people and businesses prosper in 2019

People

EUR **12.141** million
Personnel costs[A]

98%
of employees with fixed contracts

55%
of employees are women

Customers

EUR **942,218** million
Loans outstanding (net)

EUR **519,996** million
to households

EUR **319,616** million
to companies

EUR **20,053** million
to public administrations

EUR **82,553** million
to others[B]

EUR **500** million
to microbusinesses through our microfinance programs

Shareholders

EUR **3,822** million
Total shareholder remuneration[C]

EUR **61,986** million
Stock market value at year-end 2019, second bank in the eurozone

EUR **0.23**
per share of total shareholders remuneration[C]

Communities

EUR **165** million
Community investment

EUR **119** million
Investment in universities

EUR **46** million
Investment in programmes and projects to support communities

Suppliers

EUR **4,746** million
Payments to suppliers[D]

4,744
suppliers awarded in 2019 through our global procurement model

93.2%
Local Group suppliers

Tax contribution

EUR **6,765** million
Total taxes paid by the Group

EUR **2,951** million
Corporate income tax

EUR **3,814** million
Other taxes paid

A. From Group consolidated financial statements.
B. Including financial business activities and customer prepayments.
C. Subject to the approval of the total dividend against the 2019 results by 2020 annual general meeting.
D. Data refers exclusively to purchases negotiated by Aquánima.

What our stakeholders tell us

To build a more responsible bank, we are constantly engaging with and analysing the views of all our stakeholders, so that we can improve our performance and do more to help people and businesses prosper.

How we engage

Earning and keeping people's loyalty is 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 perception of the Group, we not only identify issues, we also spot opportunities.

We encourage active listening and have several channels that enable us to understand stakeholders' expectations. This ongoing dialogue is key to ensuring the success of the Group's activities through the value chain.

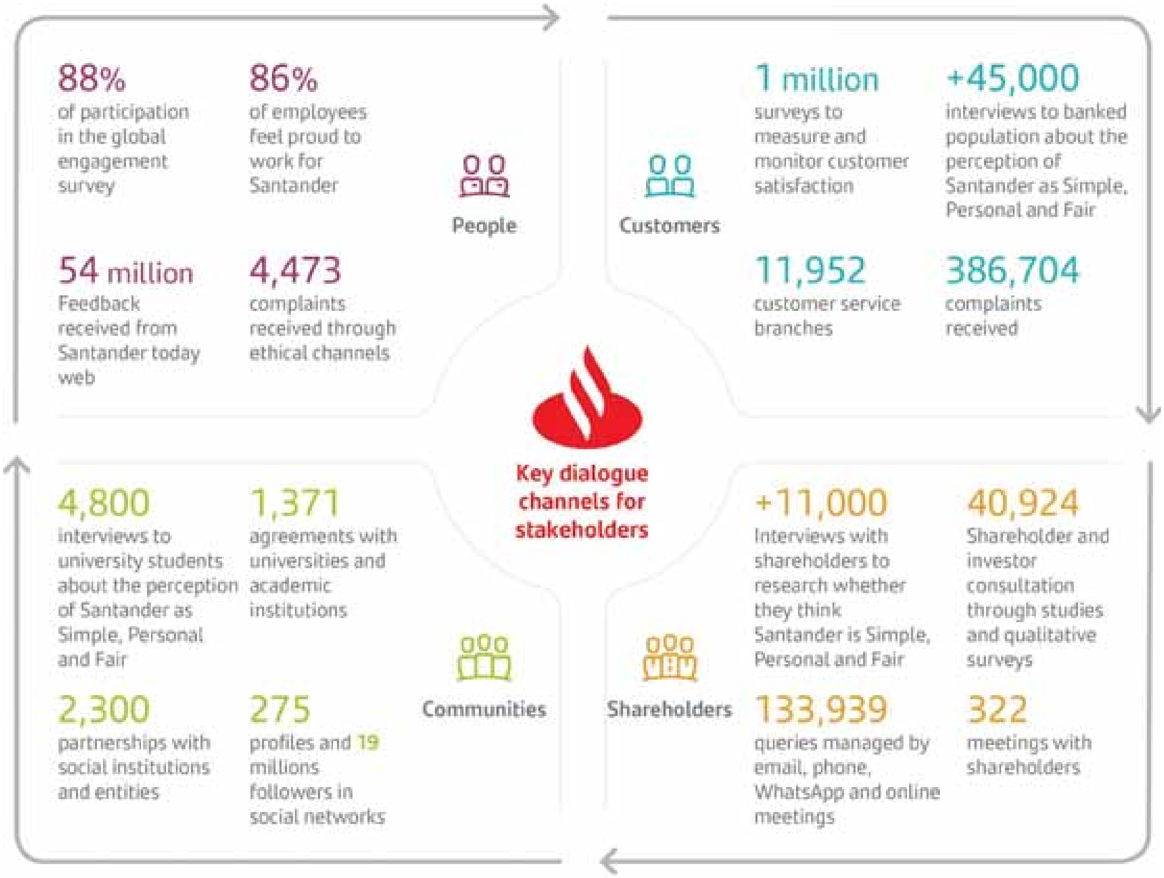
As well as this, and to help us define and manage our responsible banking agenda, we also analyse what the leading environmental, social and governance analysts are telling us.

We are also continuously monitoring political and regulatory agendas in all markets where we operate.

We participate in consultations held by third parties about the impact the Group has on the sustainable development agenda.

Furthermore, to understand our overall impact on society, we are always assessing social and environmental externalities (both negative and positive). This helps Santander to detect possible risks for business; and identify opportunities to create additional value for the society and ways in which we can protect the environment.

Finally, we are part of major local and global initiatives to support inclusive and sustainable growth, and help good causes in the markets where we operate. Details of these partnerships can be found on page 22 of this chapter.



Identifying the issues that matter

Santander regularly analyses the most relevant social, environmental and ethical behaviour issues through its materiality assessment. This systematic study is conducted across the whole Group's value chain on an annual basis, and consists of an in-depth quantitative and qualitative analysis that uses information from both internal and external sources. Each of these inputs is weighted according to its relevance as regards defining material matters for the Bank. Weights are not distributed statically but are reviewed every year to adapt the study as much as possible to the current context and reality.

Based on this materiality assessment, a materiality matrix has been generated, where 15 material issues for the Bank have been identified as the most relevant issues. In 2019 we addressed the issues raised in a wide range of ways, as the following pages highlight. In particular, we focused on measures to embed responsible business practices; to tackle climate change and support the green transition; and to build a diverse and talented team.

Main inputs considered for the analysis

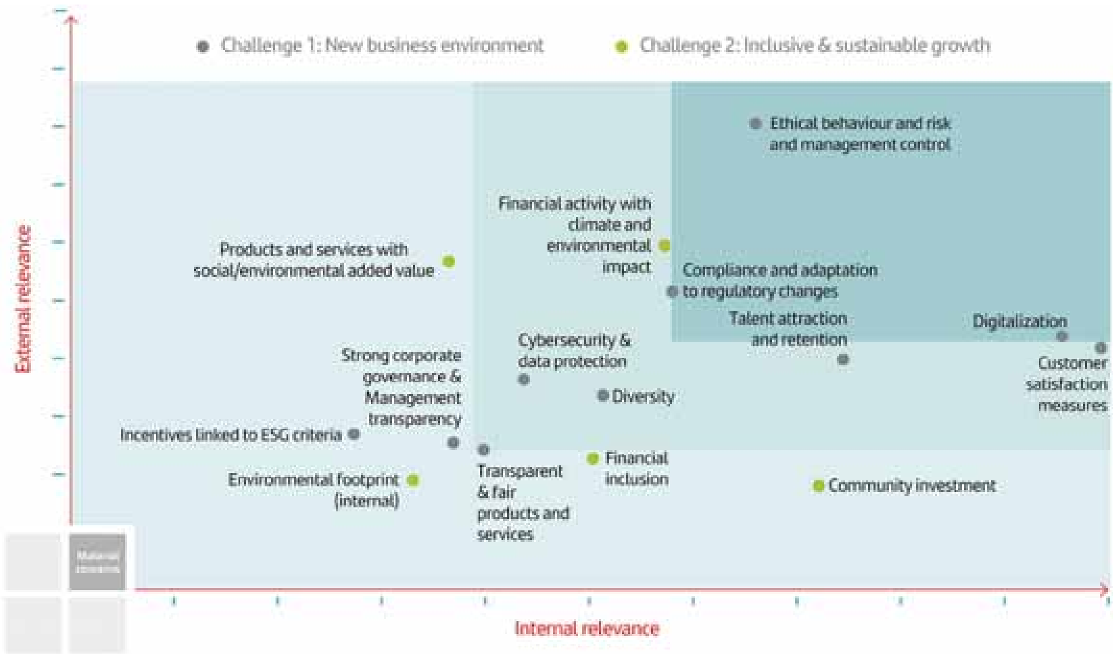
External

- Shareholders (ESG investors; Rep risk)
- Banking sector (Peers reporting and materiality analysis)
- People (Customers surveys; Impact by business segment; Press Analysis; social networks)
- Regulators (Regulatory & voluntary frameworks such us GRI, SASB or IIRC)

Internal

- Santander Strategic view (Public Commitments, Internal communication messages, workshops, Top risk analysis)
- Employees´perspective (employees' surveys; interviews with local & global areas)
- Executive perspective (Responsible Banking committees; Chairman and CEO messages)

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

Challenges and opportunities

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 - the challenge of the new business environment, and the challenge of inclusive and sustainable growth.

Challenge 1:

New business environment

Adapting to an evolving world

The world's economy continues to change fast. Advances in information technology and communications are transforming markets and business models. In this highly competitive environment, and in a time of rapid change, companies must work in new ways and have responsible business practices.

Santander, like all businesses, needs a motivated, diverse, skilled workforce that is able to deliver what customers want, harnessing the power of new technology. Meanwhile, we face new regulations and laws. These trends create the challenge of the 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.

For more detailed information on our strategy to tackle this challenge and turn it into an opportunity, please see section "Challenge 1: New business environment" of this chapter.

Challenge 2:

Inclusive & sustainable growth

Helping society achieve its goals

Growth should meet the needs of today's generation, without hampering future generations' ability to meet their own needs: a balance should always be struck between economic growth, social welfare and environmental protection. Financial institutions can deliver this by managing their own operations responsibly, and lending responsibly to help society achieve its goals.

We can play a major role in helping ensure growth is both inclusive and sustainable. Inclusive: by meeting all our customers' needs, helping entrepreneurs start companies and create jobs, strengthening local economies, improving financial empowerment, and supporting people get the education and training they need. Sustainable: by financing renewable energy, supporting smart infrastructure and technology to tackle climate change. We do this while taking into account the social and environmental risks and opportunities in our operations, and actively contributing to a more balanced and inclusive economic and social system.

For more detailed information on our strategy to tackle this challenge and turn it into an opportunity, please see section Challenge 2: Inclusive & sustainable growth of this chapter.

Principles and governance

All our activity is guided by principles, frameworks and policies to ensure we behave responsibly in everything we do. We have reformed and strengthened our responsible banking governance to help us manage initiatives which tackle the two challenges we have identified.

Policies that support our responsible banking strategy

General Code of Conduct	Corporate Culture Policy [A]	General Sustainability Policy	Human Rights Policy	Sector Policies	Sensitive Sectors Policy
Brings together the ethical principles and rules of conduct governing the actions of all of the Group's staff and is the central element of the Group's compliance function	Establishes the guidelines and required standards to be followed ensuring a consistent culture is embedded throughout the Group.	Defines our general sustainability principles and our voluntary commitments with the aim of generating long-term value for our stakeholders.	Sets out how we protect human rights in all operations, and reflects the UN Guiding Principles on Business and Human Rights.	Lays down the criteria governing the Group´s financial activity with the defence, energy, mining & metals and soft commodities (products such as palm oil, soy and timber) sectors.	Sets down guidelines for assessment and decision making about the Group's participation in certain sectors, whose potential impact could lead to reputational risks.

- Consumer Protection Policy [B]
- Code of Conduct in Security Markets
- Cybersecurity Policy
- Third-party Certification Policy [C]
- Tax Policy
- Conflicts of Interest Policy
- Financing of Political Parties Policy
- Policy on Contributions for Social Purpose
- Global Mobility Policy

A. Includes the Group's Diversity & Inclusion Principles and the Corporate Volunteering Standard.
B. Includes financial consumer acting principles.
C. Includes principles of responsible behaviour for suppliers.

Changes to policies in 2019

- To make our policies easier to navigate, we have incorporated our climate change policy into our **General Sustainability Policy**. More detail on the governance of the policy has been included. The protected areas criteria has been aligned with the new **Environmental and Social Sector Policy** approach.
- The **Corporate Culture Policy** has incorporated the Volunteering Policy. We have also updated our **Diversity & Inclusion** principles to reflect our commitment to people with disabilities and different sexual orientations; and to highlight the importance of having appropriate, accessible products for all. Our **Leadership Commitments** have been included under our Santander Way minimum standards.
- The **Human Rights Policy** has been amended to update the main declarations and codes on which it is based. It also gives further specifics on relevant issues regarding our relationships with customers, suppliers and communities; and more detail on the policy governance.
- The **Global Mobility Policy** has been reviewed to give our employees new opportunities to work in different geographies. We have also reviewed compensation and benefits given to employees when they work abroad, as well as the governance model.

Available on our website www.santander.com those policies that the bank has made public.

Strategic overview and coordination

Governance

The **responsible banking, sustainability & culture committee** assists the board of directors in fulfilling its oversight responsibilities with respect to the Group's responsible banking strategy overall. It focuses on corporate culture, ethics and conduct; the impact of digital transformation on our working practice; the Group's policies on sensitive issues and sectors; and how the Group delivers inclusive and sustainable growth.

The committee is supported by the culture steering group and the inclusive & sustainable banking steering group.

- The **culture steering**, promotes, supports and tracks the implementation of The Santander Way (our corporate culture) across the geographies, ensuring corporate and local actions are consistent.
- The **inclusive & sustainable banking steering** reviews and tracks initiatives to tackle social and financial inclusion; extend and improve access to education and training; support by financing in the transition to a low carbon economy; and support investment which benefits society as a whole.

Responsible Banking network

- The **corporate Responsible Banking unit** coordinates and drives the responsible banking agenda. Supporting this unit, Santander has a **Senior Advisor on Responsible Business Practices**, who reports directly to the executive chairman.
- **Santander subsidiaries' sustainability and culture units** coordinate and drive their local responsible banking agendas, ensuring they are aligned to Santander´s corporate strategy and policies. Each subsidiary has appointed a senior executive responsible for the Responsible Banking function. Its function is to drive responsible banking agenda at local level aligned with the Group.

Coordination and strategy

- **Metrics and targets** have been established to drive Santander´s Responsible Banking agenda and embed Responsible Banking into the heart of the Group's business strategy.
- **Guiding principles** have been developed for subsidiaries (and global business units) to ensure the governance and implementation of our responsible banking agenda is embedded across the Group as a whole.
- **There is regular coordination** between business units, including joint meetings held every two months. Additionally, the first **Responsible Banking workshop,** attended by Responsible Banking representatives from across the Bank's businesses and geographies, was held in 2019.

Key initiatives agreed by the RBSCC in 2019:

Responsible Banking strategy

- Approval of our Responsible Banking priorities for the next cycle, 2020-2022.
- Launch of Responsible Banking commitments for 2021 and 2025.

Challenge 1. The new business environment

- Leadership Commitments have been included under The Santander Way.
- Global simplification initiative has been launched, nominating the responsible people and setting main indicators: Global Engagement Survey (GES), Net Promoter Score (NPS), Simple, Personal and Fair perception (SPF).
- New global maternity and paternity minimum standards created.
- New initiatives launched to increase recruitment of people with disabilities.
- Signed up to the UN Women´s Empowerment Principles
- Update of Corporate Culture Policy.
- Update of Human Rights Policy.

Challenge 2. Inclusive and sustainable growth

- A new climate change strategy created.
- A new Global Sustainable Framework for the issuance of Green, Social and Sustainable Bonds created.
- Updated environmental & social policies.
- A financial empowerment and inclusion action plan created.
- A new approach taken to responsible banking at Santander Wealth Management and Santander Corporate Investment Banking.
- New Santander Group Energy Efficiency and Sustainability plan to reduce our internal environmental footprint.
- New commitment made to become carbon neutral in 2020.

For more information, see section 4.9. ´Responsible banking, sustainability and culture committee´of Corporate governance chapter.

Main international initiatives we support

At Group-level, we work with a number of initiatives and working groups at local and international level to drive forward our agenda on responsible banking. These include the following:

- UNEP Finance initiative. We are a founding signatory of the United Nations Principles for Responsible Banking. We also participate along with other 15 banks in the UNEP FI pilot project on implementing the TCFD recommendations for banks.
- World Business Council for Sustainable Development (WBCSD). Our president, Ana Botín, is a member of the executive committee. And 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.
- Banking Environment Initiative (BEI). We participate in two climate related work streams, the Soft Commodities Compact and the new initiative Bank 2030, which aims to build a roadmap for the banking industry to 2030 seeking to increase the financing to low carbon activities.
- CEO Partnership for Financial Inclusion. We, along with other nine companies are part of a private sector alliance for financial inclusion, an initiative promoted by Queen Maxima of the Netherlands, Special Representative of the United Nations to promote Inclusive Financing for Development.
- Equator Principles. We analyse the environmental and social risks of all our financing operations under the scope of the Equator Principles and we actively participate in the evolution of a common criteria.

In addition, during 2019 we took an active role in the climate change and sustainable finance policy debate, participating in the formal consultation process on relevant regulatory files (particularly 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 so relevant as the EU framework for identifying sustainable economic activities (the so-called taxonomy), and the ongoing work on the technical criteria undertaken by the TEG; 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-UNEP FI working group that will develop voluntary guidelines for banks on the application of the EU taxonomy.

Other international and local initiatives in which we participate

- United Nations Global Compact
- UN Women´s Empowerment Principles
- The Valuable 500
- Principles for Responsible Investment
- CDP (before Carbon Disclosure Project)
- UN Global Investors for Sustainable Development (GISD) Alliance
- International Wildlife Trade Financial Taskforce
- Round table in responsible soy
- Working group on sustainable Livestock
- Climate Leadership Council
- The Wolfsberg Group

Helping us to address today´s main global challenges: 2030 agenda

We want to do more every day to promote inclusive, sustainable growth and ensure that we are actively tackling climate change.

Our activity and investments help us to contribute to a number of the United Nations' Sustainable Development Goals, and support the Paris Agreement's aim to combat climate change and adapt to its effects.

SUSTAINABLE DEVELOPMENT GOALS

Main SDGs where Banco Santander's business activities and community investments have the most weight.

1 NO POVERTY

We are committed to reduce poverty and strengthen the welfare and local economy of the countries in which we operate. Through our microfinance products and services and our community investment programmes we empower and help millions of people each year.

4 QUALITY EDUCATION

We are at the forefront of support for higher education. Through Santander Universities, a pioneering programme and the only one of its kind in the world, we support universities and students to prosper, focusing on education, entrepreneurship and employment. Santander Scholarships is one of the largest scholarship programme financed by a private company.

5 GENDER EQUALITY

We promote an inclusive and diverse workplace. Ensuring equal opportunities and fostering gender equality at all levels is a strategic priority for us. Additionally, we also operate a number of initiatives to support diversity in our business activity.

7 AFFORDABLE AND CLEAN ENERGY

We have a long history of leadership in the financing of renewable energy projects. Actually, we are the global leader in renewable energy financing. Additionally, we support our customers financing energy efficiency projects, low-emission, electric and hybrid vehicles, and other electric mobility solutions.

8 DECENT WORK AND ECONOMIC GROWTH

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.

10 REDUCED INEQUALITIES

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. We have continued to support diversity and inclusion in our business.

11 SUSTAINABLE CITIES AND COMMUNITIES

We finance the construction of sustainable infrastructure that guarantees basic services and drives inclusive economic growth. Additionally, we also promote affordable housing opportunities.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

We promote sustainable consumption both in our own operations as well as with our customers, offering our products and services that are Simple, Personal and Fair, and promoting ethical behaviours among our suppliers.

13 CLIMATE ACTION

We tackle climate change in two main ways: by reducing our own environmental footprint and by supporting our more than 144 million customers to help them transition towards a more sustainable economy.

17 PARTNERSHIPS FOR THE GOALS

We participate actively and we are part of the main initiatives and working groups at local and international level as an important way to manage our responsible banking agenda.

2019 highlights

We have set 11 targets which reflect our commitment to building a more responsible bank...

We work to have a strong corporate culture – a skilled, motivated and diverse workforce that can deliver solutions to our customers' needs: increase access to finance; improve financial resilience through education and training, and supporting our customers in their transition to the green economy, while reducing our environmental footprint. Meanwhile, we create new opportunities by supporting education through our Universities programme and improving lives in the communities where we operate.

Our aim was to create commitments that were SMART: specific, measurable, achievable, realistic and time-bound. The commitments also reflect the ways in which our business can address the United Nations' Sustainable Development Goals most relevant to our operations; and our support for the Paris Agreement's aim to combat climate change and adapt to its effects.

Our external commitments: we need to deliver

	2018	2019	2020	2021	2025
Top 10 company to work for[1]	4	5		6	
Women on the board	33%	40%		40% - 60%	
Women in senior leadership positions[2] (%)	20%	23%			30%
Equal pay gap[3]	3%	2%			~0%
Financially empowered people[4]		2.0 mn			10 mn
Green finance raised and facilitated[5] (EUR)		19 bn			120 bn
Electricity used from renewable energy sources[6]	43%	50%		60%	100%
Becoming carbon neutral in our own operations			0%		
Reduction of unnecessary single use plastic in corporate buildings and branches		75%		100%	
Scholarships, internships and entrepreneurs programmes[7]		69 k		200 k	
People helped through our community programmes[8]		1.6 mn		4 mn	

Cumulative target · From... to...

1 According to relevant external indexes 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, structuring 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 certify 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).

... and we have continued to address the challenge of the new business environment...

- **Updated the Corporate Culture Policy,** which now incorporates our Leadership commitments under The Santander Way, our updated principles of Diversity and Inclusion, and integrates the Volunteering Policy.
- Approved **global parental leave minimum standards,** which includes minimum period of 14 weeks paid for primary maternity/paternity leave and 4 weeks in a row or divided into periods of 15 days for seconday maternity/paternity leave.
- Launched **Canal Abierto,** a new way for employees to report breaches of the General Code of Conduct and actions that do not reflect our corporate behaviour.
- Launched **new customer feedback techniques in Portugal and Mexico**, so we can improve our products and services.
- Developed **corporate guidelines for good practices on treatment of vulnerable customers**, so we can cater for their individual needs and help prevent over-indebtedness.
- Opened **our new corporate Cyber Security centre** to protect Santander, our systems and customers from cyber threats.
- Integrated **new ESG criteria into suppliers' certification process.**
- Signed the **UN Women's Empowerment Principles.**
- Signed **'The Valuable 500'**. Commitment to put inclusion of people with disabilities on our board room agenda.

...while promoting inclusive and sustainable growth...

- Signed, as a founder member, the **United Nations Principles for Responsible Banking**, created to use the power of finance to tackle the major challenges that societies face, and support the UN Sustainable Development Goals and the Paris Climate Agreement.
- Signed the **Collective Commitment to Climate Action,** which sets out concrete and time-bound actions that banks will take to scale up their contribution to and align their lending with the Paris Climate Agreement.
- 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**.**
- Launched Santander **Sustainable & Green Bonds Frameworks** and issued a **€1 billion green bond,** starting our global sustainable debt plan.
- Launched a new **Green Bond investment fund** that completes Santander Asset Management sustainable range, exceeding EUR 1,500 million of assets under management.
- Joined the United Nations' **CEO Alliance on Global Investors for Sustainable Development (GISD)** to help scale up long-term investment in sustainability development.
- Joined the **International Wildlife Trade Financial Taskforce** as a part of the Group's commitment to the prevention and deterrence of wildlife trafficking.

We have received global recognition for our efforts

- Santander was recognised as the **most sustainable bank in the world** in the Dow Jones Sustainability Index.
- We also have been recognised as **one of the top 25 companies to work for in the world** by Great Place to Work and as **one of the Best Places to Work in Latin America.**
- We received the **Top Employer Europe certification**, which acknowledges excellence in the working conditions a company provides to its employees and its contribution to their personal and professional development.
- Santander **leads the 2020 Bloomberg Gender-Equality Index** out of 322 companies analysed. The index is focused on several metrics like equal pay & gender parity, inclusivity and female leadership & talent.
- Santander Brazil was recognised by Fortune Magazine as **one of the companies that are changing the world**, and by Great Place to Work as **one of the 10 companies that stand out for their corporate practices focused on the LGBTQI+.**
- Santander Mexico was recognised in the International Finance Banking Awards for being **"the most Socially Responsible Bank in Mexico"** for second time.

The new business environment

To meet the challenge of the new business environment, we're focusing on...

Our strong corporate culture. The Santander Way.

Having a strong corporate culture is critical if we are to succeed in today's competitive and fast-moving environment.

A talented and motivated team.

The more prepared and motivated our workforce is, the stronger its commitment to helping people and businesses prosper will be. Our team is diverse in terms of expertise and gender.

Responsible business practices.

We develop our products and services responsibly, and aspire to deliver excellent customer service. Our procurement processes are based on ethical, social and environmental criteria to ensure we operate in a sustainable way throughout our operations.

Shareholder value.

We have clear and robust governance. Risks and opportunities are prudently managed; and long-term strategy is designed to safeguard the interests of our shareholders and society at large.

Our strong corporate culture: The Santander Way

The Santander Way reflects our purpose, our aim, and how we do business. It is the bedrock on which we are building a more responsible bank.

To be more responsible, we need a strong culture

Our corporate culture is critical to Santander´s ambition to build a more responsible banking. By fulfilling our purpose, and helping people and businesses prosper, we grow as a business while helping society address its challenges. Economic progress and social progress go together. The value created by our business is shared to the benefit of all.

The Santander Way

To live The Santander Way, and be Simple, Personal and Fair in all we do, in 2016 we defined eight corporate behaviours.

We have embedded them in every step of the employee's lifecycle, making sure they are present in everything we do: from recruitment and hiring, performance management, training, career development, remuneration, recognition, etc.

> "Just as important as what we do is how we do it"
>
> **Ana Botín**, Group Executive Chairman

Leadership commitments

Leadership is key if we are to accelerate our business and cultural transformation. That is why, in 2019, we launched the Leadership Commitments for our leaders. These Commitments had been defined by more than 300 employees from across 28 different units and countries in the Group.

To embed the Commitments in all our operations worldwide, we ran a major internal communications campaign; and included them in the leaders' development programs and specific training modules. Four questions, which reflect the Leadership Commitments, have been included in the global engagement survey and feed into the performance management system, MyContribution.

We have also changed our corporate culture policy to reflect leadership commitments as a common minimum standard (mandatory) in all units.

To embed a strong culture, in 2019 we focused on the initiatives below.

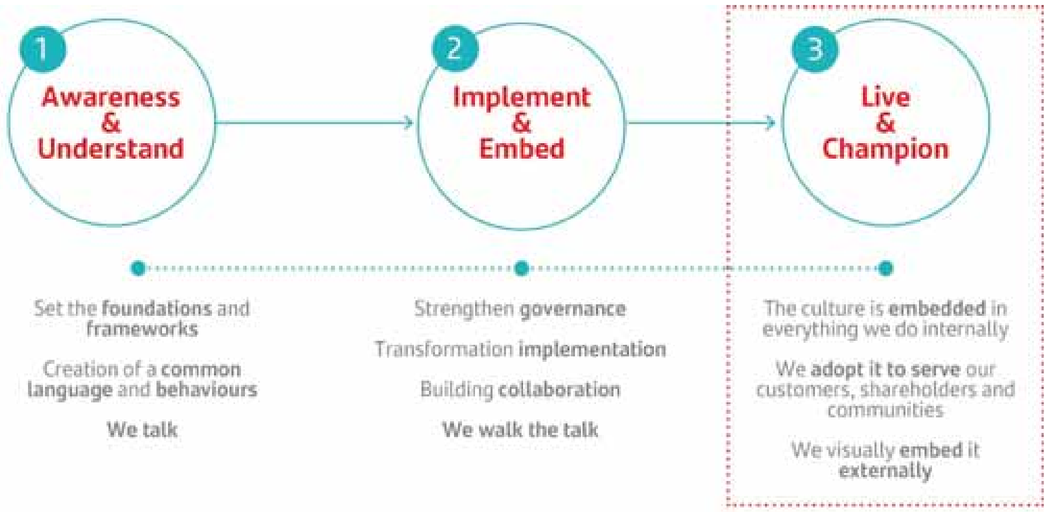
Stakeholder perception of Santander as a Simple, Personal and Fair bank

People	Customers	Shareholders	Communities
84% of employees believe that their colleagues behave in a way that is more simple, personal and fair	**63%** of customers think they have been treated in a Simple, Personal and Fair way	**56%** of shareholders think the bank is Simple Personal and Fair	**59%** of university students think the bank is Simple, Personal and Fair

Cultural transformation: a never-ending journey

Cultural transformation takes time. The Santander Way journey started in 2015, and since then we have focused hard on making all we do Simple Personal and Fair.

Our culture transformation is a 3-phase journey ... we are moving into phase 3



Culture Plan 2019 objectives and achievements

	Objectives	Achievements
Diversity & Inclusion →	Promote **gender diversity** and pay equality. Foster **cultural diversity.** Corporate **vendor** process to incorporate **D&I principles.**	• External gender commitments launched • Bloomberg Gender Equality index: highest score • 40% women on the Board • Equal pay improved from 3% to 2% • Approved global maternity and paternity minimum standards • D&I included in vendor assessments • Gender and cultural diversity targets set for 2025
Speaking up →	Global minimum standards and the promotion of **anonymous whistle-blowing channels.**	• Global minimum standards approved • Anonymous "escalations" channels in all geographies • 2% increase in Global Engagement Survey "speak up" related question
SPF for customers →	Development & communication of **Consumer protection principles.** Promote **conduct global training** for customer facing employees.	• Consumer protection principles launched and embedded • >90% of customer facing workforce completed conduct training • Top 3 for Customer Satisfaction in 6 countries
Simplification →	Define and map simplification current position for people & customers. **Simplify governance structures** to improve accountability and decision-making.	• Global mapping completed and measurement standards introduced • Strategic simplification projects identified • 48% reduction in head quarters committees, saving 533 senior management hours • Corporate policies reduction: 30%

Further details regarding Diversity & Inclusion and Speaking up can be found in Talented and Motivated team chapter. How we are making our approach Simple, Personal and Fair for Customers is within Responsible Business Practices chapter.

Simplification

Simplification is a priority for our Responsible Banking agenda, not only because Simple is one of our core values, but also because it is closely related to the ability to adapt to a changing environment, which remains a challenge for the Group according to feedback from our stakeholders.

An initiative was launched in 2019, working with countries and global areas, to ensure we meet our customers' and employees' expectations of making Santander a Simple bank.

This means:

- focusing on processes and systems that are both internal and customer-facing.
- breaking down silos so we work across business units and geographies, or, where appropriate, focusing on local projects and initiatives.

During 2019 we asked our employees and customers what their priorities are in terms of simplification. They told us they wanted:

- clear, simple language
- processes that are easy to understand
- quick service
- easy to understand products.

In light of these findings, we have launched from Group a series of initiatives. For example:

- Simplification is now included in the objectives for management roles.
- We have simplified the Group's structure into three regions: Europe, South America, North America.
- We have launched the new Santander.com website to provide a simplified and streamlined platform for our stakeholders.
- We have developed a new digital workplace platform to enhance and promote communications, collaboration and best practice sharing across the Group. It will be launched during 2020.
- We simplified our HR platform for our employees to make it easier to access relevant information.
- A products and services global review is being conducted, focusing in particular on speed of service.
- A systems review is being conducted, and improvements made to foster digitalization, making it easier for customers to deal with us and for teams to work together.
- Using agile methodologies, we are changing processes to reduce the time to market, time to make decisions and boost collaboration.

Portugal, a case study on simplification

Santander Portugal has conducted a series of initiatives to simplify its operations:

- Processes: through a focus on end to end process simplification, the time to market for mortgages has been reduced from 75 days to below 25 days, becoming the best in class in Portugal. The focus is now on reducing the end to end process for individual loans, reducing time from an average of 11 days to a few hours. This will be deployed in 2020.
- Product offering: reducing and simplifying the number of products being marketed and enhancing digital channels in the following business lines remains a key area of focus: accounts, cards, credit, savings & investment and protection. The target is to reduce the number of products from 206 to 54.

  In 2019, they focused on reducing the number of products related to individuals from 159 to 77.
- Operational excellence: alignment of processes transformation with business priorities, with strong focus on improving the internal customer experience and cost savings, including automation tools that that decrease implementation time for new processes and reduce manual intervention along several processes.
- Governance: reduction in number of committees from 37 to 27. Simplification has increased transparency, effectiveness and efficiency in decision-making, reducing duplication and the time spent preparing for and attending meetings.

Risk pro: our risk culture

Managing risk is the business of banking - and prudent risk management is a cornerstone of a responsible bank. This requires clear policies, processes and lines of accountability – all backed by a strong risk culture that reflects the fact that, in a bank like Santander, everyone has a role to play in managing risk.

Banks' approach to risk, and their "risk culture", is under increasing regulatory scrutiny: the European Central Bank and other regulators are focusing on how risk is understood at all levels in financial services.

Against this backdrop of constant change, with new types of risk emerging and increasing regulatory requirements, the Group maintains an excellent level of risk management that enables it to achieve sustainable growth.

Our risk culture is called risk pro[A], with the aim of promoting everyone´s personal responsibility for managing risks, regardless of their level or role. This requires prudent risk management, while building a sound internal risk management culture across the whole organisation, which is understood and implemented by all employees.

Risk pro is included within the common minimum standards within the Corporate Culture Policy.

Embedding a strong risk culture

In 2019 we have continued to focus on embedding the importance of risk culture across all areas of the employee lifecycle including:

- recruitment and onboarding
- training and awareness
- performance management and reward
- recognition
- day to day management including promoting speaking up and raising concerns
- best practice sharing and promoting the importance of risk culture from our senior executives

*I AM Risk is the name of Risk Pro in UK and US

Risk management: key to being a responsible bank

Our approach to risk management and compliance is key to ensuring we operate and behave in a way that reflects our values and corporate culture, and delivers our responsible banking strategy. It is based on three lines of defence:

1. Business and support units
2. Risk management and compliance
3. Internal audit

The board of directors is responsible for the risk control and management, and, in particular, for setting the risk appetite for the Group. To do this it counts with the expert support of the risk, supervision, regulation and compliance board committee.

Risks related to compliance, conduct, digitalisation and climate change, as well as the analysis of social, environmental and reputational risks, are clearly highly relevant to our efforts to build a responsible bank. These are overseen by risk supervision, regulation and compliance board committee.

In 2019, following the recommendations made by TCFD, a special effort was invested in the analysis and identification of short, medium, and long-term climate change risks (for more information, see the Sustainable finance chapter).

For more information on environmental and social risks can be found in section 2.5 of the Risk Management and Control chapter.

Information on measures taken to prevent corruption and bribery, money laundering and financing of terrorism is available in section 7.3 of the Risk Management and Control chapter.

risk pro

Everyone's business

93% of employees claim that they are able to identify and feel responsible for the risks they face in their daily work.

91% of employees claim that cyber security is considered a critical priority.

75% of employees consider that senior leadership encourages reporting important information up-the-line even if it is bad news.

79% of employees affirm they can report unethical behaviour or practices without fear of retaliation.

Source: Global engagement survey 2019

Cybersecurity

Cybersecurity is critical in the digital age. Cyber attacks and fraud risk pose systemic risks to financial services. Customers expect their data to be held securely and handled ethically. Therefore embedding behaviour that promotes cybersecurity remains a key priority for us.

Our aim is to help employees, customers and wider society prosper in the cyber space. Our Cybersecurity and IT conduct Policy defines acceptable use of Santander equipment and Information Technology (IT) services, and the appropriate employee cybersecurity and IT conduct rules to protect Santander.

The policy also highlights areas of risk and misuse and gives guidance on how reputational or commercial risks can be avoided, mitigated or managed through Santander´s key cybersecurity rules. Our policy also sets out how the Group and its subsidiaries must use and handle technology, work tools and information Santander gives its employees so as to avoid legal, reputational or cyber-related incidents.

In 2019 a wide range of employee training and awareness campaigns have been launched across all entities in the Group, including online courses, articles, and practical exercises. Furthermore, a new tool for employees to help them to report any cyber incident was developed. This tool is available through a website or through "App Tips". Information is also being shared with customers and general public through Santander digital channels, such us social media, banking apps, emails and the web.

As well as this, a new Global Cyber Security Centre was launched. The centre protects Santander, our systems and customers by taking a proactive approach to monitoring cyber threats 24 hours, 7 days a week, across all of Santander's core markets.

We also work in partnership with public and private organisations to promote information sharing and collaboration on cyber security. Activities include: building bilateral information sharing processes with key public entities and peers; leading efforts across key geographies to help increase information sharing with government agencies and local financial institutions; and championing the creation of international information sharing mechanisms to help combat cyber crime.

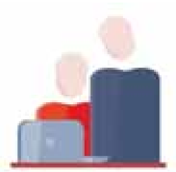
Cybersecurity is a responsibility for everyone employed or engaged in any way by Santander.

For more information on the cyber-risk training given to our employees see "A talented and motivated team" section of this chapter.

For more information on our cyber security plan see "Risk management and control model" chapter.

Our cybersecurity and IT conduct policy has five simple rules to help protect employees and Santander, which have been promoted throughout 2019.

Protect your information and equipment



Be discreet online and in public

Think before you click or reply

Keep your passwords safe

If you suspect it, report it

A talented and motivated team

To win in the new business environment, and to earn and retain customers' loyalty, we need a workforce that is both talented and motivated. And if we are to understand the needs of today's society, our team needs to reflect its diversity.

Our people, the cornerstone of our strategy

Talent management

Being successful in talent management means attracting and retaining the best talent, contributing to their learning and development.

Evaluation and remuneration

Our evaluation and remuneration systems align with our corporate culture, highlighting how we do things.

Diversity and Inclusion

Santander believes that a diverse and inclusive workforce is fundamental to our cultural transformation and delivering our strategy.

Employee experience

To keep our workforce motivated, we make sure to build the best work environment, where health is promoted, with flexible ways of working and innovative recognition tools.

Target for 2021

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. **In 2019 we set the target to be one of the top 10 companies to work for in at least 6 of geographies where we operate by 2021.**[A]

A. According to a well-known external source in each country (Great Place to Work, Top Employer, Merco, etc.).

Progress 2019

Top 10

in 5 geographies*

*Portugal, Chile, Argentina, Spain and Uruguay. In Portugal the employed ranking was that corresponding to businesses with more than 1,000 employees.

Talent Management

Successful businesses need skilled and motivated teams: a responsible business attracts the best talent and earns its loyalty. Talent management and retention is therefore one of our key human resources strategies.

We have developed a number of core projects which will help us attract and retain the best talent:

- **Strategic Workforce Planning (SWP)** aims to identify and quantify the resources and skills needed to deliver the future business strategy. This dynamic tool allows a detailed analysis to help Human Resources and Organisation teams to create action plans and address the need of new and changing profiles.
- **Skill Model** helps focus our current workforce up-skilling and re-skilling efforts.
- **Dojo** is the programme that tackles Santander's learning and development transformational challenge.

Finally, **Workday**, the new human resources information system global platform, will provide us with a seamless view of individuals' skills and competences, while making it easier to communicate internally and work together.

Main Group data	2019	2018
Total employees (thousand)	196	203
% employees with a permanent contract	97.9	96.0
% employees working full time	94.9	94.6
Employees joining/leaving (turnover)	17.6	15.4
% of workforce promoted	8.3	8.6
Average length of service (years)	10.2	10.3
% coverage of collective agreements	74.5	70.6

For additional information, see 'Key metrics' section of this chapter

Talent attraction

Santander's workforce is constantly evolving and developing. Our ability to identify the talent we need to contribute to the company's vision, as well as how to recruit and retain these people, is critical in order to remain at the forefront of the industry.

Global career site

In 2019 we launched the new global careers site, a gateway for the talent which will continue to build the future of Santander over the next few years. Candidates and employees can search on one website for career opportunities all around the world in all the Group's companies.

In 2019 we also created the Global Talent Attraction Community, to design and implement global initiatives to recruit new talent.

Santander Effect: our employee value proposition

We have updated our employee value proposition and launched The Santander Effect, reflecting our values and highlighting Santander as an employer of choice for current and future talent.

Digital Cellar

Following our internal research (80 interviews in 4 geographies) we have identified target areas for talent attraction such as Cybersecurity, Data Science and User Experience. This enables us to target our attraction and recruitment strategies with personalised elements which are most relevant to prospective recruits, helping us to differentiate Santander from other companies competing for the same talent.

To achieve this, in 2019 we launched the Digital Cellar website and toolkit to attract and retain the digital talent we need.

Social dialogue

Banco Santander maintains a fluid and permanent social dialogue with the legal representation of employees, which is articulated through bilateral meetings and specific committees where the dynamics of information, participation, consultation and negotiation of the trade union representatives are channelled. Respect for labour standards, trade union rights, and freedom of association and collective representation, are relevant aspects for the Group.

Restructuring processes

In the last few years, Santander has restructured its workforce, affecting people's roles and employment. Whenever this has happened, we have followed a series of steps, namely:

- We negotiate and engage with the local unions and legal representatives, ensuring employees' rights are respected.
- We commit to supporting employees by offering alternative roles within Santander or finding alternative roles in other companies.
- We undertake to make redundancy payments in excess of the mandatory amount paid to employees being made redundant.

Talent development

Identifying talent with leadership potential, and giving employees the chance to progress in their careers and fulfil their ambitions, is key to accelerating Santander's transformation and achieve our purpose of helping people and business prosper.

Our main programmes to identify and develop the best talent are:

- **Talent review.** A structured process to identify and assess the potential of our employees.
- **Succession planning.** Succession planning for the key positions in the Group to ensure the sustainability of Santander.
- **Action Learning Programme Santander (ALPS).** A learning programme for senior management talent. ALPS develops leadership and business problem resolution skills within a collaborative environment. In 2019 we concluded the second series of this programme and launched a third one. Since its launch, 95 people have participated.
- **Young Leaders.** Launched in 2018, this 18-month professional development programme is aimed at 280 emerging leaders from 22 countries, who have distinguished themselves with their digital understanding, innovative approach, adherence to our SPF culture and corporate behaviours. Participants were chosen by their peers, and have the chance to work with our top executives and contribute to the strategy of Santander by proposing new ideas and perspectives. A second series is planned for September 2020.

Talent mobility

The mobility of our employees is an essential if we are to develop talent. We want to give our employees the chance of further career opportunities and professional progress, while increasing the diversity of the teams by providing businesses with employees with different profiles and experiences.

Our main mobility programmes are:

- **Global Job Posting**. This offers all employees the chance to apply for vacant positions in other countries, companies or divisions. Since its launch in 2014, over 5,500 positions have been posted globally.
- **Mundo Santander.** Our employees can work for several months on a project in another country, helping the exchange of best practices and broadening their global mindset. Since its launch, over 2,000 people in 38 different countries have taken part.

"Mundo Santander allowed me to meet incredible people, learn new languages and broaden my horizons"

Jonathan Lee, UK

Santander, a great company to work for

Santander has received **Top Employers Europe 2019** certification, which acknowledges excellence in the working conditions a business provides for its employees, and the business's contribution to their personal and professional development. The Group is being awarded this certificate for companies in eight European countries.

In 2019 the Bank has 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. Santander ranked 24th and is the world's 2nd best bank to work for thanks to the performance of our operations in Portugal, Argentina, Brazil, Chile, Mexico and Uruguay, among others.

As well as this, Santander was distinguished by Great Place to Work as one of the **Best Places to Work 2019 in Latin America** in the Multinationals category, ranking no. 15.

In 2019 we set a new target to be top 10 employer in 6 of the countries we operate by 2021. We have changed our commitment to be a "top bank" to be a "top company", to reflect the competitive environment we operate in to attract best talent.

Learning and development

Continuous learning is key to helping our employees adapt to a fast-paced, continuously changing work environment. We have a global policy on induction, knowledge and development that provides criteria for the design, review, implementation and supervision of training to:

- Support the business transformation.
- Encourage global talent management, facilitating innovation, knowledge transfer and sharing and identifying key employees in the various skills domains.
- Support the company's cultural transformation under the governance standards set for the Group, including the Corporate Culture Policy and Code of Conduct.

To support the required up-skilling and re-skilling of our current workforce identified by our Strategic Workforce Planning, the foundations of two transformational projects have been set to be launched in 2020: Skill Model and Dojo.

Santander's **Skill Model** will help us focus efforts up-skill and re-skill the workforce by helping our professionals assess their capacity gap - in other words, the gap between what they know now and the demands of the future.

Dojo is the programme that tackles Santander's learning and development transformational challenge in 4 levels - technology, content, operating model and data - by interconnecting all Santander countries in one global L&D ecosystem, in order to accelerate the required up-skilling/ reskilling of our workforce.

This will transform Santander's course-based training to a skill-based training approach, linked to the new global skill model shared with Workday and Strategic Workforce Planning.

In 2019, the Global Learning Council, composed of Chief Learning Officers of all geographies was established as part of the strategic governance transformation.

The Scouts Community was also launched as a key element of Dojo, a global community of experts whom the Group´s employees can contact for advice about various topics.

Main Group data	2019	2018
Millions invested in training	102.6	98.7
Investment per employee (euros)	522.3	486.8
% employees trained	100.0	100.0
Hours of training per employee	40.7	33.8
Employee satisfaction (over 10)	9.3	8.0

For additional information, see 'Key metrics' section of this chapter

Other focus areas for training in 2019

- The **Risk Pro Banking School and Academy,** together with the other training centres for risk, help define the best strategic training lines for the Bank's professionals in accordance with Group priorities, as well as disseminating the risk culture & developing the best talent.
- The **Global School of Internal Audit** supports the training and developing of auditors by providing practical training solutions designed to complement business evolution and regulators' requirements.
- **Leaders Academy Experience** is an executive programme with two work-streams - business transformation and cultural transformation - to make it easier for participants (638 senior leaders and 280 young leaders) to transform the Group, and to equip them with the tools and training they need to accelerate change. In 2019, the "Leading in the digital era" programme was the key pillar of this training.
- **Leading in the digital era**: an executive masterclass for the 35 top leaders of the Group which provides a foundation of technical knowledge, creating a common language and underscoring the urgency of our mission to become a global platform. The programme is sponsored by our Executive Chairman and leads to a certification.
- **Cyber Heroes** global programme is an online training programme which aims to reinforce the idea that each of us play a direct role in the protection of Santander, our people and customers. The objective is to build a culture of cybersecurity awareness, and put into practice cybersecurity rules outlined in the Cybersecurity Policy. This training became mandatory for all the countries and business inside the Group in 2019.

Sharing good practices across the Group

Fostering collaboration and sharing best practices helps us leverage our global scale and improve our performance faster.

In 2019, more than fifteen global workshops were held by the different functions. Some of these are:

- **Good Conduct with Customers Workshop**: focused on conduct with customers, digitalization and process simplification.
- **Planning and monitoring Compliance&Conduct (C&C) programmes:** these aimed at reinforcing the process of C&C planning and monitoring annual programmes.
- **First Data Forum:** focused on the relevance of data and how Santander must extract maximum value from it in a responsible way.
- **First workshop on best reputational risk practices:** the purpose of this workshop was to strengthen the network of people working on reputational risk and share experiences and best practices.
- **Internal communications workshop:** shared best practices and discussed on how to move forward towards a single digital workplace across the Group.
- **Responsible Banking Workshop:** helped outline the future of Santander Responsible Banking strategy.

In addition, through country visits and presentations to monthly Culture Steering meetings, good practices are shared. Some local initiatives that have been shared wider and adopted in other countries include:

– Risk Pro Heroes, developed and launched in Poland to recognise employees who have highlighted potential fraud has also been adopted in Germany;

– the UK Keep it Simple Santander (KISS), which has been adopted and launched in the US during 2019;

– the successful Work Cafe, launched in Chile a couple of years ago, which has been extended in a number of countries including Spain and UK in 2019.

Evaluation and remuneration

We have a comprehensive remuneration system that combines a fixed salary (which reflects the individual's role and level of responsibility) with short- and long-term variable remuneration. This system rewards employees for their performance on the basis of merit. It reflects both what has been achieved (Group targets and individual or team targets) and how these results are obtained (reflecting behaviour and conduct such as leadership, commitment, development and risk management). In addition, the Group also offers competitive benefits such as pension plans, banking products and services, life insurance and medical insurance.

Fixed remuneration is referenced to the local market. Remuneration levels are set according to local practices and strictly follow the collective agreements applicable in each geography and community. Variable remuneration is a form of reward for achieving the Group's quantitative and qualitative strategic targets.

To align with European regulations on remuneration, we have identified 1,359 staff who take decisions that may involve some risk for the Group. We apply to them a deferral policy for their variable remuneration which includes deferral of between three and seven years, payment in shares (50% of variable remuneration) and potential reduction (malus) or recovery (clawback).

Main initiatives developed in 2019:

- Support the adoption and methodology to include responsible banking within executive remuneration framework.
- Continue to reinforce the embedding of risk frameworks within the context of remuneration.
- Drive the awareness of fair pay practices, including gender pay, equal pay, and diversity inclusion within remuneration.

Approved for 2020:

- In the 2020 executive scorecard (which underpins the Group's remuneration scheme), when calculating our achievement of our profitability metrics, we will consider progress against our Responsible Banking targets.

For additional information regarding remuneration data see 'Key metrics' section of this chapter.

For additional information regarding board remuneration see section 6 of the Corporate governance chapter.

MyContribution

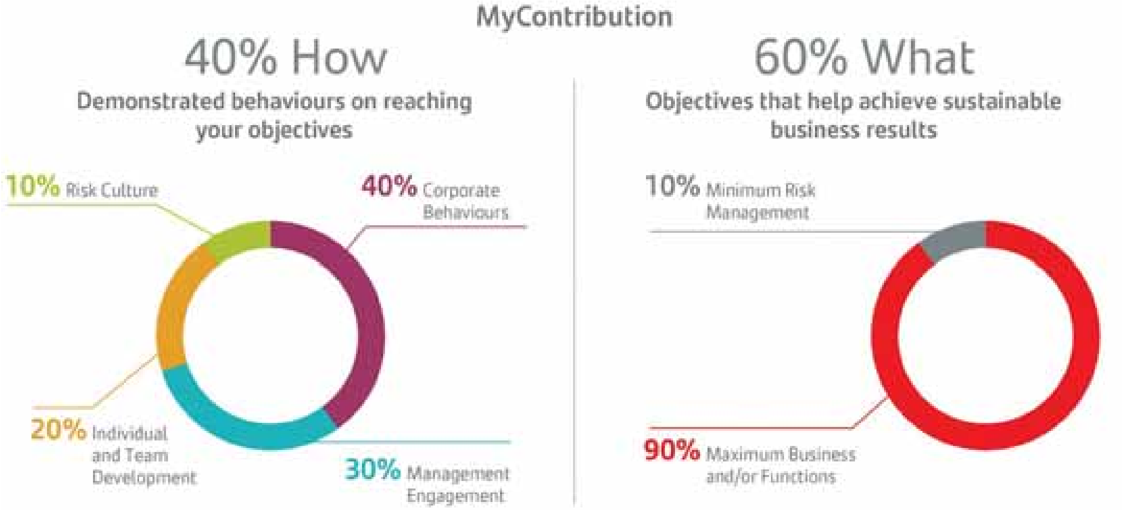
Our employee evaluation model is designed to reinforce the key role that the corporate culture has in driving the Group's transformation.

MyContribution directly applies to senior leaders, employees nominated as being in key positions, and employees nominated as being material risk takers (according to Regulatory & Compensation policy). In addition to them, other employees may participate or fall within the scope, subject to agreement with local HR teams.

The model is based upon two core concepts: 40% of reward is based upon the How we do things, and 60% based upon What we do or deliver:

- How: Key elements to demonstrate achievement of The Santander Way.
- What: Key individual goals with measures that link to the organisational goals.

During 2019 we have been working on harmonising a Global Performance Management Framework continuing with MyContribution, which will be launched in 2020. Based on this, MyContribution framework will permeate to all levels and all geographies. It will be a common model; one model for all the employees with some variations depending on the segment and level.



Diversity & Inclusion

If we are to understand and reflect modern society, we need a diverse and inclusive workforce that reflects society. Managing this diverse talent in an inclusive way, reflecting our values, will enable us to attract, develop and retain the best professionals and to achieve better results in a sustainable manner.

During 2019, the Group´s Diversity & Inclusion (D&I) General Principles, included in the Corporate Culture Policy, were updated as follows:

- Increased the reference to diversities based on sexual orientation and disabilities.
- Introduced a statement about our products reflecting the diversity of our customers and being accessible to all.
- Reworded some principles for simplification and clarity.

In order to ensure appropriate management and promote diversity and inclusion at Group level, we have two working groups:

- **A Global D&I Executive Working Group** with business influencers and decision makers from different geographies and functions to develop and direct to Group diversity and inclusion strategy.
- **A Global Network of D&I experts** with representatives from the countries (operational team to share practices and be the transmission chain at a local level).

The Group also takes measures against sexual harassment and to promote employment. In Spain, for example, the Group has an equality plan that incorporates measures to promote employment, protocols against sexual and gender-based harassment, and plans for the integration and universal accessibility of persons with disabilities.

54.7%
of women employed, =vs 2018

22.7%
of women in management positions,+ 2 vs 2018

38.6
Average age of the workforce, =vs 2018

1.8%
of employees with a disability, +11 b.p. vs 2018

86%
of employees believe Santander treats employees fairly regardless of their age, family, marital status, gender identity, expression, disability, race, colour, religion or sexual orientation. +1 vs 2018.[A]

A. 2019 Global engagement survey

The Santander Group has been named as a Leader in Diversity 2020 by the Financial Times in a new index, which lists the 700 leading companies across Europe with outstanding diversity and inclusion policies.

Initiatives and achievements in 2019 at Group and local level

Gender

- Agreed minimum standards in all countries for maternity and paternity leave to be implemented from 2020 over a 3 year period: a primary maternity/paternity leave of 14 weeks paid and a secondary maternity/paternity leave of 4 weeks (in a row or divided into two periods of 15 days) until each child is one year old. Plus flexible return to work schedule.
- Improve or at least maintain male/female ratio in divisions when hiring for leadership positions and increase the percentage of women in the pipeline for succession planning in order to meet 2025 commitments.
- Supported women growth by cross function mentoring and development programmes.
- Signed the UN Women´s Empowerment Principles.
- Spain launched Santander Career Forward programme to help women who left they professional careers to take care of their family responsibilities.
- Portugal and Mexico launched programmes to promote women leadership.

Culture+ identity

- The 2019 executive committee includes 40% of members from international background.
- In Spain, *Proyecto Integra* of Integra Foundation enables access of refugees from war zones to take part in internship programmes
- Affinity Groups: ensured minority groups are represented in relevant employees´ networks.
- UK: mentoring programme Black, Asian and Minority Ethic (BAME) talent.

LGBTI

- In 2019 we launched a global brand for our LGBTI employee networks called. "Embrace". For now, the LGBTI networks have members from Brazil, Corporate Centre, Spain, Openbank, UK and US.
- UK: LGBTI training for staff on how to be a LGBTI ally.
- Santander Brazil recognised by Great Place to Work as one of the 10 companies that stand out for their corporate practices focused on the LGBTI.

Disability

- In countries without legal requirements for employability, we have set the target to increase 1 p.p. the percentage of employees with disabilities.

Enablement

- In order to foster inclusive leadership and raise awareness, we launched a global D&I online training programme for our senior management leaders, including a focus on unconscious bias.
- Brazil launched *Aliados* diversity training programme which focuses on gender and sexual orientation.

Gender equality

Ensuring equal opportunities and fostering gender equality at all levels continues to be a strategic priority for Banco Santander. Currently 55% of the employees in the Group are women, but this percentage falls significantly in leadership positions. There is significant work that is underway to increase representation of women in senior positions.

To support this goal, in 2019 we have established specific diversity objectives for our top-level executives:

- At the Board level, we agreed to raise our current objective of women representation (30%) to be between 40% and 60% in 2021.
- In senior leadership positions, we have set an ambition to have at least 30% of these positions to be filled by women by 2025[1].

1. Senior leadership positions represent 1% of total workforce

Banco Santander leads the Bloomberg Gender-Equality
For the third consecutive year, Santander has achieved the highest score out of 322 companies.

Pay equality

Guaranteeing full pay equality between men and women is another of our key strategic commitments.

Across the Group, and aligned with emerging standards, the measurement of pay equality is focused around two concepts: Equal pay, and Gender pay (expressed as gaps).

Gender pay gap: 31%

What it measures:

Gender Pay Gap (GPG) metric measures the difference in pay regardless of the work´s nature, in an organization, a business, an entire industry or the economy in general. At Santander, differences are mainly driven by the following factors: lower representation of women in senior and business positions and higher presence of women in retail banking and support positions.

GPG is calculated as the difference of median of compensation paid to male and female employees expressed as a percentage of the male compensation. For this calculation, compensation includes base salary and variable remuneration, excluding benefits/in kind remuneration or local allowances.

Our progress:

In order to address the gender pay gap, Santander has established a methodology based on best practices, establishing common guidelines for both, the Group and local units, on how to address issues and opportunities and improve.

In 2019, the action plans have focused on building rigorous standards for promotion, recruitment, succession planning, unconscious bias training and the building of talent pipelines to ensure strong diversity representation. This accompanies communications from management and initiatives such as mentoring to build balance in the organization.

In 2019, the calculated median GPG was 30.8%, slightly better than 2018 reported figure of 30.9%. However, there are a number of noticeable underlying achievements, including 15% growth in women occupying executive segment positions over the last two years, and the fact that female promotions to top segments have more than doubled since 2017.

Equal pay gap: 2%

What it measures:

The Equal Pay Gap (EPG) metric compares compensation for women and men who hold the same job, with the same level, in the same function. This is intended to capture "equal pay for equal work".

Currently, factors which may impact these comparisons such as tenure in position, years of service, previous experience or background have not been considered to mitigate the reported figures.

Our progress:

In 2019 we developed different programmes across the Group to promote fair pay practices and reduce the measured equal pay gap. Actions include systematic reviews tied to compensation cycles (promotions, merit and bonus processes), the fine-tuning of the job architecture and grading structures and professional development programmes to support the recruiting of diverse talent. Likewise, the incorporation and promotion of women and the reduction of the wage gap have been included among the factors determining variable pay in some units.

In 2019 the calculated gap was 2%, a 33% improvement over the reported figure at 3% in 2018 and we are working across the Group to reduce this each year. Demonstrable improvement was evident in the majority of our main markets.

Disability

We believe that the inclusion of people with disabilities is a question of talent, ethics and responsibility. Employing people with disabilities promotes their independence, freedom and dignity.

In 2019 we have focused on increasing the percentage of people with a disability in our workforce reaching to 1.8% in the Group. To achieve this, we have undertaken a global disability mapping exercise to ensure compliance regarding employability and accessibility; and in countries without legal requirements for employability, we have set the target to increase by 1% employees with disabilities.

Fundación Universia is a key partner who helps us integrate people with a disability into the bank.

All the geographies are making efforts towards the inclusion of people with disability.

Our commitment to the inclusion of people with disability led us to join The Valuable 500, a global movement for putting disability on the business leadership agenda.

Inclusion of people with disabilities in Santander Corporate Centre

Santander Corporate Centre, via Fundación Universia, fosters the inclusion of talent with disability within its workforce. To achieve this, we have several initiatives:

- Fundación Universia offers different scholarships for students with disability. Through them, they map and identify talented professionals to be considered for vacancies in the Corporate Centre.
- "*Santander Incluye*" internship programme: 10% of the internship in Corporate Centre are assigned to professionals with disability. This initiative aims to create a pool of talent with disability.
- The bonus of senior managers is linked to fostering diversity (which includes disability) within their teams.
- Awareness and teamwork sessions through talks and training, like "Open up your Senses", an initiative that aims to demonstrate how diverse teams - including people with disabilities - can be stronger and more effective.

Thanks to these initiatives, at the end of 2019, 54 people with disabilities joined the Corporate Centre, 25 as full time employees and 29 as interns.

Employee experience

Keeping our workforce motivated is key to ensuring their commitment and success in helping people and businesses prosper.

1. Speaking up / active listening/ taking action

If we are to build a responsible bank, everyone should feel able to speak up, not just to suggest how to improve doing things, but to alert management when things go wrong, or when there is suspected malpractice.

This means:	What we do:	How we do it:
Protect	Risks and ethical concerns, internal governance	Ethical channels & Whistleblowing lines Committees and forums
Innovate	Ideas, solutions, simplification improved processes	Agile working, ideas channels
Engage	Recognition, performance management, feedback	StarMeUp, MyContribution; Global Engagement survey

Global engagement survey

Measuring our employees' satisfaction is fundamental for our Group, as it enables us to continue to progress towards being the best company to work for.

2019 survey results show that our team is proud of working for Santander and committed to continue making a bank that is more Simple, Personal and Fair. The results also show that Santander continues to have a strong Risk Culture (85% favourable) across countries and business lines, while more than 8 out of 10 colleagues are positive about living The Santander Way, our common culture. Also the perceptions about Openness to Change are very high and have improved since 2018, with most employees being positive about a culture of sharing best practices, being innovative and creative.

Areas of improvement include the need to continue improving our processes to make them simpler, and to foster collaboration.

88%
of participation = vs 2018

82%
of employees committed = vs 2018

85%
of employees are satisfied with Santander as a place to work. +1 point vs 2018

86%
of employees believe Santander acts responsibly in the way it does business. +3 points vs 2018

Ethical Channels

In 2019, a new model for employees was launched, *Canal Abierto*, and it has been implemented in most of the Group's units and is expected to be launched in Portugal, Poland, Openbank and Argentina during 2020. The purpose of the *Canal Abierto* is to report breaches of the General Code of Conduct and also to report conduct which is not in line with the corporate values and behaviours.

In developing this model, the Group's best practices have been taken into account, as well as the opinions of employees. Common standards have been established for all geographies, which include easy access, the avoidance of conflicts of interest during the investigations, confidentiality through external third party management and communication to employees of the measures adopted as a result of their issues raised. Various communication campaigns have also been carried out to remind employees of the importance of reporting inappropriate conduct.

During 2019, 4,473 issues have been received through the Group's channels, 79% of which have been processed. The main types of communications were: labour relations (64.8%)[A]; fraud, conflicts of interest and corruption (19.4%); and marketing of financial products and services (9.2%). In addition, 20.57% of the communications received have given rise to disciplinary proceedings, with 32%[B], having concluded with the dismissal of the employees involved. The average processing time for managing issues raised through these channels is 30 days.

Canal Aberto in Santander Brazil

In 2018, a number of communications were received highlighting alleged irregularities in the marketing of products related to the activation of customer accounts by branch employees. This led to the investigation of the activity of the offices and the promotion of measures against the employees involved.

In 2019, the reporting of these irregularities has served to strengthen internal processes and to raise the awareness of employees about appropriate conduct in situations that may pose a risk to themselves and to the Group. As a result, the number of breaches of internal product marketing regulations has fallen by 37% in the last year.

A. No complaints have been received through the Canal Abierto regarding incidents of discrimination or human rights violations. Outside of the channel, only one related complaint has been received, which has led to a penalty of 150,000 euros on the bank.
B. Data obtained taking into account the information reported by local units in June, September and December of 2019.

2. The way we work

We actively promote flexible working for our employees to enhance work-life balance.

Flexiworking

Our corporate flexiworking policy applies to the entire Group. It covers:

- How we organise the working day (flexibility and time), searching compatibility with the type of job: schedules of entry / exit, alternative configurations of the workday, regulation of vacations, guides and recommendations for the rational use of email and meetings.
- Where we work from: working remotely, teleworking.

In 2019 we undertook a survey of 6,000 employees to understand their needs related to flexiworking. After reviewing the results and undertaking a gap analysis, we reviewed the policy and refreshed the value proposition while developing local action plans. We created guides with a clearer, common definition and vision of flexiworking.

In addition, the Bank has measures aimed at facilitating the work-life balance of its employees through the different agreements signed with the relevant unions´ representatives. Santander has committed to promoting a rational management of working time and its flexible application, as well as the use of technologies that allow a better organisation of the work of our professionals, specifically addressing the employees´ right to digital disconnection.

New workspaces

We continue to redesign our offices to create new work spaces that encourage collaboration and improve employees' experience.

In 2019 we opened a new corporate building in Argentina, in which the space, furniture and technology enables better collaboration and a more conducive working environment. Facilities such as a gym, medical centre, dining rooms and open air spaces have all been incorporated.

85%

of employees indicate that their direct manager helps them reach a reasonable balance between personal and professional life.[A]

A. 2019 Global engagement survey results.

Digital workplace

A digital workplace is a unified online platform where tech-based solutions and tools allow employees to be productive, creative and engaged any time, anywhere. In 2019 we launched a pilot of a digital workplace that will be rolled out in the Corporate centre in 2020 and then gradually in other countries.

The new digital workplace will help us change the way we work in terms of how we communicate and collaborate across the entire Group as well as locally, and will simplify our employees' work integration into one single platform tools and processes. This platform will provide increased opportunities to share best practices and initiatives across the Group.

Agile methodologies

During 2019 we continued working on agile methodologies to foster collaboration, help speed up decision making and and to drive change through multiple remote teams in several countries.

We celebrated “Agile days”, where representatives from the Agile Transformation and Engineering Excellence teams from different countries had the opportunity to share progress and experiences.

3. Culture of recognition

The StarMeUp initiative is a global recognition network that allows employees to appraise colleagues who lead by example by championing our 8 corporate behaviours, and the work of teams or groups of people, who performance following the SPF culture.

Three yeas after its launch, 2 million stars have been awarded by Santander's professionals to other colleagues through StarMeUp. To achieve this, in 2019 we promoted the platform launching new temporary stars:

- Cyber hero star, to award employees for their focus on cybersecurity.
- Champion star, to recognise the team mates who have stood out the most during the 2019 season.
- Santander effect star, to acknowledge employees who have make a big positive impact both within and outside the Bank.
- Risk pro star, to recognise those employees who identify or escalate risks enabling action to be taken.

Overall, in 2019, the number of active users of StarMeUp in the Group grew to 183,000 (out of 196,419 employees in total) and we have already given 700,000 stars to our colleagues.

StarMeUp

2
millions stars given by employees

4. Social benefits

We offer several benefits for employees across all the geographies. Each country establishes programmes adapted to the local conditions, with benefits ranging from maternity and paternity leave, free services for employees and family members, to discounts on products and services.

Santander Contigo

Santander Contigo gives employees in Spain and Corporate Centre, and their families, access to many services to make life easier and help them balance their personal and professional lives. Some of the benefits and services of the programme are:

- Mental health and legal advisory services
- A 24hr personal assistant to help with daily personal tasks like planning holidays, booking restaurants, etc.
- 56 annual hours of help for people whose medical condition means they need assistance with activities such as house cleaning and babysitting,
- 14 annual visits to specialists (e.g psychologists or speech therapists).
- And much more like: conciliation service on non-labour conflicts, online will writing, a network of specialists and private medical centres, dentists and beauty centres.

5. Volunteering

Volunteering builds a strong team spirit and a sense of purpose - while also helping the communities in which we operate. Our corporate volunteering standard, included in our Corporate Culture Policy, sets out that employees are entitled to spend a certain number of working hours each month or year in volunteering.

At Group level, there are two important moments during the year: our "Santander Week" and the International Volunteering Day.

Our "Santander Week" is held in all Group countries at the same time. During this week, countries arrange different volunteering initiatives in which employees can take part.

In addition, in December we participate in International Volunteering Day. Most local units support this with volunteering initiatives to support vulnerable people and their families.

At a local level, the Group's subsidiaries, within their community investment commitments, organise multiple volunteering programmes.

In Spain, we have Santander Natura programme, which covers all our initiatives, services and products that aim to protect the environment and fight climate change. This programme includes volunteering initiatives, and in 2019 more than 450 volunteers, including employees and pensioners, along with their families and the bank's customers, collected more than a ton of waste, garbage, and plastic from different beaches in Spain.

In the UK, in 2019, our team supported Wise, a Santander developed programme in which our colleagues advise students how to manage their money, prepare for the world of work and be safe online. Also, through our partnership with Young Enterprise, we enabled 197,470 students during My Money Week, an initiative aimed at 4 - 19 year old to gain skills, knowledge and confidence in money matters.

In Portugal, a group of about 110 volunteers participated in the renovation of the retirement home at Nossa Senhora da Penha de França's Social Centre and Parish. Several of Santander's employees have collaborated in painting the walls and ceilings of this retirement home and have also repaired the facilities.

+38,000

employees participating in community activities

+140,000

hours devoted

Pro bono activities

In 2019, our legal department at our HQ and across all our markets have offered pro bono legal assistance to social, cultural and educational non-profit organisations, assisting vulnerable or socially excluded people.

The Corporate Centre offered legal training on contractual, data protection and intellectual property issues to various non-profit organisations. The "Legal Marathon" was held in February to tackle the legal challenges that charities face when creating a social enterprise.

In the United States, our legal teams advised "pro bono" various charities on a wide range of issues, including veteran matters, immigration, property law and family law.

In Argentina, Brazil, Chile and Mexico, we have given pro bono financial training and legal advice: in Chile, we have helped on 23 cases.

In Spain, Portugal, Poland and the United Kingdom, pro bono initiatives have included supporting vulnerable children in need of education, and advising cancer sufferers as to how their data is handled and protected by hospitals.

Santander Consumer Finance also joined the volunteering scheme, providing legal training for immigrants every two months.

6. Health and occupational risk prevention

Santander considers employees' safety and health to be of paramount importance. The continuous improvement of working conditions, and achieving the highest level of protection for our teams is a priority for the Group.

Our Occupational Risk Prevention plans are regularly reviewed with employees´ legal representatives. These plans are implemented through:

- Periodic evaluations of the risks that could be detected in the workplace in terms of safety and / or health.
- Planning what needs to be done to eliminate or control the risks detected.
- Considering how to prevent risks emerging in the first place, by improving the design, contracting or acquisition of products or services, such as work centres, furniture, equipment, products and IT equipment.
- Developing, applying and maintaining the appropriate procedures for the control and assurance of safe working conditions.
- Ensuring employees get the information and training they need.
- Integrating the prevention of occupational risks into the management of the bank.

BeHealthy
Live fit, reach your potential

BeHealthy

In Santander, the health of our people is the health of our company. This is why we have a commitment to be one of the healthiest companies in the world. We offer employees health and wellness benefits, and we raise awareness through our BeHealthy wellbeing programme.

BeHealthy focusses on 4 main pillars: Know Your Numbers, Eat Well, Move, and Be Balanced. The purpose of the programme is to give employees access to health and wellbeing benefits, which differ in each market we operate in.

It has a digital space through which employees around the world can access training on the four pillars of BeHealthy. Employees can access the flagship training programme called Sustaining Executive Performance, where they can find the keys to achieving improved performance, both personally and at work, by encouraging healthy habits. We also have a global agreement with Gympass that offers employees the chance to benefit from over 52,000 affiliated health and wellness centres across the globe which offer a wide range of activities.

In 2019, we launched a new nutrition programme about optimum nutrition. Our employees have access to videos, recipes and backup material such as infographics or downloadable action plans.

We also held in 2019 our third BeHealthy week. Tens of thousands of colleagues took part in various activities related to the four main pillars of the programme.

3.0%
Absenteeism rate[A]

9,862
thousand hours missed due to non-working related illnesses & accidents

0.2%
Severity rate[B]

For additional information regarding remuneration data see 'Key metrics' section of this chapter.

A. Hours missed due to work related accidents, non-work related illness or non-work related accident for every 100 hours worked.
B. Hours missed due to occupational accidents involving leave for every 100 hours worked.

Responsible business practices

Being responsible means offering our customers products and services that are Simple, Personal and Fair, and promoting ethical behaviours among our suppliers. We need to do the basics brilliantly, and we must solve problems fast and learn from our mistakes.

Focusing on the customer

We listen to our customers

By placing our customers at the heart of what we do, we aim to win and keep their loyalty.

To achieve that, we use a range of interactive channels to listen to and understand them better. 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.

The matters discussed in this forum come from many different channels. For example:

- Customer centres: these enable us to listen to our customers' views, in person and online, about our products and services. For example, we invite our Spanish customers to our corporate headquarters in Madrid to get their insights about any possible product launch. Meanwhile, we have created a digital platform for online focus groups. We have customer centres in Chile, Mexico, Spain and Portugal (last two were opened in 2019).
- Customer care on social media: we have to improve constantly the way we care for and engage with customers. This is why in 2019 we analysed the countries´ social media customer care models and best practices; and we have designed a global to-be model to provide the best customer care on social media to be implemented with countries.

Transforming our customer experience

Customer satisfaction is critical to building loyalty. We believe that we will achieve this by focusing on improving our customers' experience. We are doing this in several ways:

- Simplifying our products catalogue.
- Improving the service for our clients with initiatives such as Toque Santander in Mexico, a protocol that reminds employees how to welcome customers, listen and solve their problems, and how to encourage the engagement with the Bank. Likewise, there is our Service attitude program in Portugal - a mandatory training focusing on the best ways employees should behave to deliver excellent customer service.
- Enhancing our customers experience with new models of branches, such as Work Café, Smart Red, Digital (highly automated branch, focused on self-service and multichannel strategy, videoconference booths and tablets to support customers in digitalization, digital sales of basic products and extended opening hours), Fast point (service hub for monetary and operational transactions with the quickest service), and Multichannel point (small format retail kiosk to provide banking services to customers located within retail locations such as shopping malls).

Smart Red branches

Spain, Portugal , Mexico and UK are redesigning their branches to generate a more positive experience. The Smart Red branches have an innovative and functional design that makes them more comfortable and accessible to all, and they use technology to allow a more agile and personalised service.

Our Work Cafés around the world

The Work Café concept adds a whole new banking experience reflecting our commitment to bringing innovation and investment to the branch network.

This innovative space for customers and non-customers brings a bank, working area and coffee house together in a single place. It is a collaborative space open to all, where one can work, surf the internet, hold meetings, attend events and, of course, make financial arrangements as it works also as a branch. All of this can be done while having a delicious coffee.

The Work Café concept was developed by Santander in Chile in 2016. Since then, Spain, Portugal, Brazil and Argentina have followed. In 2019, Work Cafés opened in Poland, UK and Mexico. We currently have 69 Work Cafés across eight countries.

More information of our Work Café innovative branch concept available at 'www.santander.com'.

Customer satisfaction

We are consistently tracking our customers' views and their experiences with Santander. This data reveals where we can improve our services further, and helps us gauge customers' loyalty to Santander. More than a million surveys are conducted annually.

We measure the loyalty and satisfaction of our customers through the *Net Promoter Score* (NPS). This metric has been included as a metric in the variable remuneration systems of most of the Group's employees.

In 2019 we were in the top 3 in 6 out of 9 geographies. Three main drivers impact NPS: the main driver is service (56%), followed by product and price (24%) and image (20%).

In 2019, the number of loyal customers increased by 1.7 million, to a total of 21.6 million loyal customers.

Internal benchmark to measure customer satisfaction, audited by Stiga / Deloitte

We measure 3 main drivers: Service, Image and Product Price

SERVICE	
Branch	General service, waiting time, meet your needs when you visit the branch, layout,....
Channels	Mobile, internet, ATM, CDM, contact centre, personal manager
Personal	Treats me as an individual, kindness, employee professionalism....
Simple	Simple to operate, speed and agility....
Communications	Clarity of statements, offer and promotions info, consistency of info, ...
Problems	Issues perceived
IMAGE	Strong and solid, commitment to social responsibilities, innovative, trust, transparent....
PRODUCT PRICE	Product and service offer, simple products, fees and charge, benefits offered, credit card, ...

Customer satisfaction by channel

% of satisfaction among active retail customers

Protecting consumers, helping vulnerable customers

Being responsible means offering our customers products and services that are Simple, Personal and Fair. We need to do the basics brilliantly and, when it comes to customer protection, we aim to go beyond legal requirements.

Customer protection policy and principles

Santander Group has a strong culture with a focus on consumers. To embed this, the Compliance & Conduct function has developed the Customer Protection Policy, which sets out principles that embody how we expect our teams to handle customer relationships.

Customer protection principles

To ensure our Consumer Protection principles are embedded into our day to day practices, we have launched thematic reviews involving different issues related to the protection of our customers: treating customers in fraud cases, in debt collecting activity, and customer care on social media. As a result of this, we have created action plans to share best practices across the Group; launched awareness campaigns in several countries; and held workshops on product governance and consumer protection.

In 2019, we have implemented a reporting process from countries to assess whether we are embedding our principles and adopting SPF behaviour with customers.

Data protection

Santander is fully committed to ensuring that customers' personal data is collected, stored and used safely and securely.

While 2018 saw the implementation of General Data Protection Regulation (GDPR), in 2019 our focus was on reviewing key internal procedures to ensure their effective implementation; and the consolidation of our control framework to monitor compliance and anticipate potential breaches. We have also created new guidelines and operating criteria to reinforce corporate guidance for our business units and to achieve everyone understands what is expected of them. We also launched a a series of corporate initiatives to foster cooperation and share best practice.

Customer protection principles

- Treat Customer fairly
- Complaints handling
- Consideration of special customers`circumstances and prevention of over-indebtedness
- Data protection
- Customer-centric design of products and services
- Responsible pricing
- Financial education
- Transparent communication
- Responsible innovation
- Safeguarding of assets

Vulnerable customers

We consider a vulnerable customer to be someone whom, due to their personal circumstances, is especially susceptible to suffer a financial and / or personal damage or loss. Customers can be considered vulnerable for a number of reasons like gender, age, incapacities, disabilities or impairments, limited access to education and illiteracy.

This definition is included in the guidelines we have approved in 2019, which have been developed to establish a consistent approach throughout the Group regarding vulnerable customers.

The goal is to prevent their over-indebtedness, ensure they are always treated fairly, with empathy and sensitivity according to their particular circumstances.

Additionally, since 2019, as part of the continuous enhancement of the new product validation process, it is required to specify whether the new product or service can be offered to a vulnerable customer.

Santander UK has developed a framework to help our understanding of vulnerability in order to be able to offer support and special treatment to those customers. This framework allows easy access to relevant information for employees and customers, and considers vulnerability within internal governance across all product and process developments. This model includes specific training to assist all employees to identify situations in which customers may need support.

Product governance

Our governance structure reflects the importance we attach to protecting customers' interests.

Our **Product Governance & Consumer Protection function**, within our Compliance and Conduct area, is responsible for ensuring appropriate management and control in relation to products and services and consumer protection.

Within this function, the **Product Governance Forum** protects the customers by validating products and services and preventing the launch of inappropriate ones.

In this context, the current focus is on the following topics:

- How we use digital technology without undermining customers' rights. To achieve this, in 2019 we created a guide to help the business areas to identify what needs to be considered in terms of the design, launch and post-sale of digital products in order to protect customers' rights.
- Consumer finance products targeted at vulnerable segments, as we must ensure applicable financing terms are reasonable and over-indebtedness is not encouraged.

Since 2019, the Responsible Banking Unit is also represented on the Product Governance Forum. Also, the product validation process involves ESG categorization and how we are supporting vulnerable customers.

For more detail on product governance and consumer protection see 'Risk management and control' chapter.

Sales force cultural transformation

We want our managers to lead culture change, reflecting not simply our customers' rising expectations but also the fact that the first line of defence is key to managing risk and creating a sustainable business. For these reasons we believe that improving our remuneration plan is directly correlated with our customers' satisfaction.

To achieve this, a three year transformation plan is underway to **revise our remuneration practices** for our sales force. Corporate Compliance & Conduct, with the collaboration of HR and local teams, have monitored the implementation of the local action plans to check that significant improvements are made. The action plan covers topics such as governance, variable/fixed remuneration ratio, linear business objectives that do not promote specific products, and relevant weight of quality components with adequate diversification of conduct metrics.

Since 2017 we have reached, in 5 out of our 10 most relevant geographies, the objective of setting a 40% of variable remuneration based on conduct and quality components.

Training is also critical if we are to improve customer service. The main initiatives include designing a specific mandatory course on conduct risk with customers for all employees, and developing a procedure for sales force training. The Conduct and Compliance and HR functions in our subsidiaries have focused during 2019 on ensuring good governance in this area, analysing the adequacy and sufficiency of existing training initiatives, ensuring a relevant presence of customer conduct issues in training programs and strengthening the control environment. Local action plans are in progress.

Santander Consumer Finance and responsible lending

Santander Consumer Finance (SCF) distinguishes between credit worthiness and affordability.

SCF is assessing the market best practices both from a prudential and conduct perspective, as well as regulations in place in the different markets in which it operates. Based on them it is defining a policy to be complied with in all units. The aim is to provide responsible financing in the best interest of customers and SCF.

Santander Bank Polska: authors of the Declaration of Responsible Selling

Santander Bank Polska is one of the originators and authors of the financial market self-regulation standard called "The Declaration of Responsible Selling". The project has been initiated by financial institutions and is coordinated by the Polish Consumers' Association.

The aim is to raise and promote ethical standards in relationships with customers, educate the business and consumers, improve consumer trust in the financial sector and prevent unfair practices. It is the first example of a partnership of businesses who want to improve the quality of banking services. Its founders also include ANG Cooperative and BNP Paribas Bank Polska.

Complaints management

We don't simply aim to address complaints, but to learn from them – tackling the issues that gave rise to complaints in the first place. The Group's procedure for complaint management and analysis aims to handle any complaints submitted, ensuring that customers may submit complaints via their usual contact channels including digital ones (web/internet banking/App/social media) and to provide customers with the best possible service.

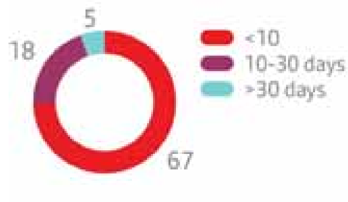
In 2019 the Group has focused on the first point of contact resolution with customers, to improve complaints handling and the customer experience. We have also sought to improve the root cause analyses of complaints in all the markets where we operate, while strengthening reporting of mitigation plans and governance.

We listen to our customers and act to improve our service, as their loyalty is important to us and generates sustainable returns.

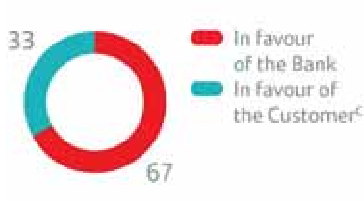
Listen	**We listen carefully to our customers´ questions, complaints and claims.**
Analyse	**We review and understand our customers' needs.**
Act	**We provide innovative solutions to address complaints.**
Improve	**We apply new processes globally.**

Type of complaints[A] (%)

Average resolution time[A] (%)



Resolution[A, B] (%)



A. Personal Protection Insurance (PPI) complaints in UK are excluded. This adjustment has been made to avoid a biased global outcome.
B. If the UK complaints were included, the uphold ratio would decrease up to 16%.
C.+2 p.p. vs 2018

Continuous improvement of processes

During 2019, Santander UK continued to improve its resolution of customer issues by simplifying processes and through a dedicated knowledge tool, providing customer-facing employees with improved access to information and enabling them to solve customer problems faster.

The evolving content and usage of a single knowledge tool, coupled with increased coaching, has driven improved customer experience through resolution of issues at first point of contact in branches and telephone channels, and resulted in overall complaint volumes (excluding Personal Protection Insurance) reducing by 15%.

Argentina has launched COSMOS, a new customer service and problem resolution model, which includes digital attention to queries and complaints on all channels; automated complaint resolution and service requests through predefined business rules; diverting to offline resolutions for more complex cases; multichannel monitoring and more resolution information.

As a result, the length of calls to contact centres has decreased 50%, the average resolution time decreased from 5 days up to one day, and the NPS improved from -10 up to 48 in December 2019.

Payment Protection Insurance (PPI) complaints

The Financial Conduct Authority set a deadline of 29 August 2019 for PPI complaints and delivered a nationwide communications campaign to raise awareness of this deadline among consumers. In line with industry experience, we received unprecedented volumes of information requests in August 2019 and saw a significant spike in both these requests and complaints in the final days prior to the complaint deadline, with the processing of these claims ongoing.

Cumulative complaints to 31 December 2019 were 4.4 million, including 327,000 (approximately) that were still being reviewed. Future expected claims, regardless of the likelihood of Santander UK incurring a liability, were 49,000 (approximately).

We aim to clear the majority of the PPI complaints by the end of the first half of 2020, and the remaining queries second half of 2020.

Responsible procurement

We have a responsibility to ensure that our suppliers are themselves acting responsibly, as suppliers have an impact on society and the environment. So we expect our suppliers to uphold ethical, social and sustainable standards just as we do.

We have a model and a certification policy for managing our suppliers, setting out a common methodology for all countries to follow when selecting, approving and evaluating suppliers. In addition to traditional criteria such as price and quality of service, diversity and sustainability issues are included in this methodology, through the Principles of Responsible Behaviour.

Following the approval of these principles in 2018, during 2019 we enhanced the existing supplier questionnaire to reflect the new Principles of Responsible Behaviour, including diversity and inclusion, and human rights. These applied to all the new suppliers, reaching at least 5,000 of our critical vendors per year.

In total, the Group has 9,863 certified suppliers (-7% vs 2018). 16.7% of the total supplier base in Aquanima[A] has been certified for the first time in 2019 (+5 p.p. vs 2018). Additionally, in 2019 we awarded 8,721 contracts (+6% vs 2018) to 4,744 suppliers (+4% vs 2018) through Aquanima. Of those suppliers, 93.2% were local (companies that operate in the same geographical area where the purchase is made), representing 95.7% of the total volume of purchases (+1 p.p vs 2018), reflecting our support to the local economies.

We also have a whistleblowing channel for suppliers, through which any supplier that provides services to the Group is able to report inappropriate conduct by Group employees which breaches the General Code of Conduct. This whistleblowing channel has been implemented in Argentina, Brazil, Chile, Mexico, Portugal, Spain, United Kingdom and United States.

The Group is working to implement different controls and/or audits to the suppliers which allow us to ensure policy compliance as well as alignment with our corporate values.

Risk control

- Suppliers are an important community at Santander. In 2018 a new focus on risk assessment was agreed at Group level. This goes beyond the traditional approach on financial, reputational, tax, health and other issues, adding specialists into the onboarding process to check our largest suppliers' performance in five key areas: Cybersecurity, Business Continuity, Physical Security, Facilities and Data Privacy. These specialists provide suppliers with advice on how to improve their performance, and monitor the implementation of any remediation plan.
- With the support of the Compliance Unit, all companies in Spain have implemented the Norkom system, which is software to prevent money laundering and the financing of terrorism. This tool allows us to perform a daily check of suppliers; it will be progressively implemented in the other countries during 2020. In addition, in order to control better the cybersecurity among our suppliers, we have assesed their cybersecurity ratings using data supplied by the American company BitSight.
- In 2020, we will launch a new platform for supplier risk management. This tool will create as a single point of contact for the Group with its suppliers and will mean all the supplier management and information will be on an integrated into a single platform making the system more efficient and dynamic.

A. Aquanima is the Group´s subsidiary specialized in purchases.

Brazil, promoting the sustainability amongst its suppliers

Santander Brazil promotes the sustainability of its suppliers in different ways:

- It has a portal for suppliers management through which it promotes best practices.
- It adheres to CDP Supply Chain to foster the commitment of its suppliers to climate change.
- It holds events to share with suppliers best practice to reduce operational, social and environmental risk. In 2019 it focused on personal data protection and cybersecurity laws.

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Shareholder value

Our aim is to build lasting loyalty among our four million shareholders by delivering sustainable growth and stable profits

Creating value for the shareholder

As a responsible bank, transparency and engaging with our shareholders and investors is a priority.

We are addressing key shareholder issues as follows:

- Equality principle for all shareholders: one share, one vote.
- Encouraging active, informed participation at shareholders' meetings. In 2019 Santander broke its record for participation, both at the general meeting of shareholders (quorum of 68.5% and nearly one million shareholders participating) and at the extraordinary general meeting (quorum of 59.2%).
- At our 2019 annual general shareholders' meeting we took one additional step to incorporate blockchain technology for shareholder voting. Building on the success with our institutional tranche last year, we launched a pilot targeting the delegation and voting cycle of minority shareholders. Blockchain technology offers greater transparency during the voting cycle, helps simplify the process, increases the motivation to vote, and improves voting security. The best results in digital participation were also achieved at a general meeting (more than 300,000 shareholders).
- Maintaining constant communication with shareholders and investors, informing them about the evolution of the Group and the share and encouraging a fluid dialogue with them, is also a priority for us.

Shareholder remuneration

In 2019 the Santander remained one of the most profitable and efficient banks in the world. In a trading environment of high volatility, we met all the financial targets we set .

- Total shareholder remuneration has been 23 cents per share in 2019[1]. The percentage of the underlying attributable profit of 2019 dedicated to shareholder remuneration (pay-out) is 46.3% (within the range of 40%-50% announced at the beginning of 2019) and the proportion of cash dividend 89.6%[2] (thus exceeding that of 2018, also as announced at the beginning of 2019).
- The European banking sector, against a backdrop of economic slowdown, was affected by changes in the monetary policies of the main central banks, especially the European Central Bank. The Santander share price ended the year at EUR 3.73, as it was additionally affected by some uncertainties in geographies in which the Group is present[3].
- On 31 December, Santander was the second bank in the Eurozone and the twenty-fifth largest bank in the world by market cap at EUR 61,986 million. It had 16,618,114,582 shares outstanding and posted daily average trading of 76 million shares in 2019.

4 million shareholders

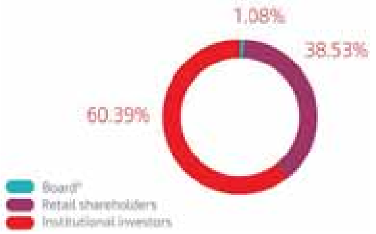
EUR 3,822 million total shareholders remuneration[1]

EUR 0.23 total shareholders remuneration per share[1]

0.20 cash dividend per share[1], c.**+3%** vs 2018

EUR 4.36 TNAV per share **+4%** vs 2018

Share capital ownership



Geographical distribution of share capital

For more information on shareholder transparency & remuneration, please see section 3 of the Corporate governance chapter.

[1] The board of directors has resolved to submit to the 2020 annual general meeting that the second payment of remuneration against the results of 2019 amounts to 0.13 euros per share by means of (1) a final dividend in cash of 0.10 euros per share (the 'Final Cash Dividend') and (2) a scrip dividend (under the 'Santander Dividendo Elección' scheme) (the SDE Scheme) that will entail the payment in cash, for those shareholders who choose so, of 0.03 euros per share. In November 2019, shareholders received the first dividend charged to 2019's earnings, totalling EUR 0.10 per share in cash. The total dividend for 2019 would be EUR 0.23 per share (EUR 0.20 in cash and EUR 0.03 in scrip).
[2] Assuming a ratio of cash options in the Santander Dividendo Elección scheme of 80%.
[3] Presidential elections in Argentina; social protests in Chile; Brexit in the United Kingdom; or the ruling on mortgages in Swiss francs in Poland.
[A] Shares owned or represented by directors. For further details on shares owned and represented by directors, see Corporate Governance chapter.

Awards and recognitions

The performance of our Shareholder and Investor Relations team was recognised by prestigious industry publications such as IR Magazine and Institutional Investor, and it gained prominent positions in the Extel survey.

Environmental commitment

In 2019 we have offset the carbon footprint of our main corporate events globally.

We were the first European financial institution to obtain AENOR certification for its Investor Day. AENOR also renewed for the third year in a row its certification of "sustainable event" for our Ordinary General Meeting and also for the Extraordinary General Meeting.

Social commitment

In collaboration with the Fundación Universia, in 2019 Santander awarded 60 grants to university students with disabilities, shareholders and their relatives, to support socio-occupational integration of people with disabilities.

Engagement with shareholders, investors and analysts

The Shareholder and Investor Relations team had the following priorities in 2019:

- Maintain continuous, fluid communication as well as the dissemination of relevant information to our stakeholders, fostering a flowing dialogue.
- Optimise and enhance the Group's reputation in the markets.
- Offer shareholders and investors personal attention adjusted to their needs, and adapting the channels to their profile.
- Facilitate the participation of shareholders in the progress of the bank through, for example, the general shareholders' meeting.
- Offer exclusive products and benefits through the new yosoyaccionista.santander.com website.

In 2019 we launched a new section for shareholders and investors on the corporate website, which improves user experience by facilitating access to information and improving accessibility from mobile devices.

40,924
shareholder and investor opinions received through studies and qualitative surveys

3,507
contacts with institutional investors (including 126 meetings with ESG investors and analysts)

322
events with shareholders

133,939
queries managed by email, phone, WhatsApp and virtual meetings

+800
communications using mainly digital channels

Evaluation of Santander by ESG indexes and analysts

Santander sustainability performance is periodically evaluated by well-regarded indices and ESG analysts. These evaluations and their results are used internally to measure our performance and identify improvement opportunities. In 2019 our results stand out in both the Dow Jones Sustainability Index (DJSI) and Vigeo Eiris.

Santander was recognised as the most sustainable bank in the world by the DJSI, an international benchmark which assesses economic, environmental and social impact of over 175 banks globally. The bank achieved a total score of 86 points out of 100, achieving the maximum score in a number of areas, including tax strategy, privacy protection, environmental reporting, corporate citizenship and philanthropy, and financial inclusion. As a result it has received the Gold Class distinction.

In November 2019 Vigeo Eiris updated Santander's ESG rating profile and the new ESG overall score achieved shows a notable improvement, moving from a position of 22nd in the sector in December 2016 to 5th in 2019. Vigeo Eiris recognised upward trends in four areas of performance: Environment, Human Rights, Community Involvement and Corporate Governance.

In addition, Santander remains a constituent of the FTSE4Good Index Series and is also evaluated by other ESG analysts such as Sustainalytics, ISS-ESG or MSCI.

Others ESG analyst valuations[A]

Rating/Scoring	2019	Vs.last year	2018	Vs. Sector average
DJSI	86	=	86	First position within the banking sector. Gold class
ISS-ESG	C	=	C	> (decile rank of 2 out of 280 companies in the industry)
MSCI[B]	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.
B. Please review page 104 for MSCI disclaimer.

SAM
Sustainability Award
Gold Class 2020

For more information on communication with ESG analysts, see section 3.1 of the Corporate Governance chapter.

Inclusive and sustainable growth

We play a major role in supporting inclusive and sustainable growth

Meeting the needs of everyone in society.

We develop innovative, simple, and personalised solutions to respond to customers' demands and meet the needs of everyone in society.

Financial empowerment.

We develop products and services for the most vulnerable and hard pressed in society, giving them both access to financial services and the skills to manage their finances.

Sustainable finance.

We innovate to offer new financial products and services that integrate ESG criteria along three main lines: sustainable infrastructures, socially responsible investment and climate finance. While we analyse and measure the social and environmental risks of our investments.

Environmental footprint.

We measure our environmental footprint, we reduce it and we have committed to it further.

Supporting higher education.

We have created a world leading network of universities, through which we help people access education and learn new skills.

Community investment.

We support community programmes that enhance equal opportunities and people welfare

Tax contribution.

Wherever we operate, we pay our fair share in taxes, contributing to the growth and progress of the communities in which we are present.

Meeting the needs of everyone in society

We want to increase our customer loyalty by offering services and products that enable all our customers to manage their finances in the best possible way.

Our value proposition aims to meet the differing needs of our customers

Total customers

145 million

Loyal customers

21.6 million

Customers loans

EUR **942,218** million

Customer funds

EUR **824,365** million

The financial sector is key to sustainable economic and social growth, and banks play a very specific role: we manage the savings of individuals and companies, finance their needs and facilitate commercial transactions.

Good access to finance improves a country's overall welfare because it enables people to thrive and better manage their needs, expand their opportunities and improve their living standards.

Our value offer

Our value offer adapts to the economic and social circumstances of each of the markets in which we are present, complemented by the advantages offered by our global businesses such as Santander Corporate & Investment Banking and Santander Wealth Management & Insurance.

In addition, we have developed and launched Santander Global Platform (SGP), through which we aim to create the best open financial services platform. By consolidating all our digital services under a single unit, we will be able to leverage the Group's talent and scale in high growth payments and digital businesses, targeting retail customers, large businesses and SMEs.

2019 highlights:

- Loans and advances to customers increased 7% year-on-year. 47% of loans were to individuals, 17% to consumer credit, 24% to SMEs and companies and 12% to corporate customers and institutional investors.
- Customers funds increased 6% year-on-year.

Helping people and families

When people are financially included, they can manage their money more easily - and thereby get access to better housing, healthcare and education; start a small business; and buy insurance to protect themselves from shocks. In this way, finance helps to reduce inequalities, and create new opportunities in society.

In 2019 credit to households increased 6.6% year-to-year.

Credit to households

Loans to customers at December 31, 2019, net of impairment losses

	millions euros
Residential	332,881
Consumer loans	167,338
Other purposes	19,777
Total	519,996

Digital solutions for better personal financial management

We continued investing across the Group in better, smarter and more accessible services which empower our customers - especially in terms of easy to use, simple, safe and effective payment and accounts solutions via mobile devices.

One Pay FX. The first multi-corridor international blockchain solution in the world for individuals and SMEs- was launched in four Santander Banks (Spain, UK, Brazil and Poland) in 2018: two more countries have joined in 2019 (Portugal and Chile), and Mexico will be offering the solution in early 2020.

One Pay FX offers transparency & predictability, competitive cost, digital experience and better speed, improving the current sub-optimal customer experience and client stickiness through a best-in-class global payment system.

Openbank

Openbank is Europe's largest fully digital bank and part of the Santander Group. Developed in Spain, our strategy is to expand its operations across Europe and the Americas.

In 2019 Openbank was launched in Germany, Portugal and the Netherlands. The bank offers a fee-free current account that allows free transfers to any EU country via the Openbank website or mobile app. This account comes with a free debit card that allows customers to use all mobile payment systems (Apple Pay, Google Pay, Fitbit). Customers can also turn on and off their cards from the website or app, as well as being able to block them in a particular country and unlock them instantly. Users can restrict the use of their cards to particular channels, such as ATMs, online or physical purchases, while also being able to authorize or block devices from which their account has been accessed within the last 30 days.

All Openbank cards have a charitable purpose and are linked to a charity chosen by the customer through the first 'charity marketplace', made up of a group of charities, selected by the bank

Openbank was named Best Bank in Spain in 2019 by Forbes while achieving the best 'Net Promoter Score' (NPS) among Spanish banks.

Country examples on value offers for different segments

Santander Senior

We offer products and services, financial and non-financial, suited to meet the needs of the growing number of people aged over 65 (forecast to account for 25% of the population in 2030) who need support in planning their savings for old age.

iU Segment

Santander iU was created by Santander Rio for customers aged between 18 and 31 years old. The credit cards offer advantages such as discounts on certain transport services, brands and events; facilities for university payments, direct debit. It also offers information tailored for young people on topics such as entrepreneurship, job search, volunteering initiatives.

Santander ELA

To support businesses led by women, Santander Brazil has worked with IFC Brazil to offer a senior loan for US$225 million to finance Santander's loans to women-owned SMEs, with a 15% discount on the rate during the month of June. The program was a success and every available line was taken up during that month.

Boosting enterprise

Small and medium-sized enterprises are a key driver of economic growth, especially job creation. It is critical that we support them - by lending and providing them with technologies that help them grow, employ more people and have everything they need to make their business competitive. At Santander we want to contribute to this growth and become the bank of choice for SMEs. By helping them, we can help all society prosper.

We now work with more than four million SMEs around the world, offering an increasing number of services to support with their growth and trade overseas.

In 2019, credit to companies and individual entrepreneurs increased 5.8% year-to-year.

Credit to companies and individual entrepreneurs

	millons euros
Large companies	173,090
SMEs and individual entrepreneurs	124,559
Other purposes	21,967
Total	**319,616**

Agreements with multilateral entities

Our focus on customers, our size and diversification enables us to maintain close relationships with a number of multilateral organisations such as the European Investment Bank (EIB). Working with these organisations, we can offer businesses credit lines with advantageous conditions.

In Spain, we recently signed - with the European Investment Bank Group, comprising the European Investment Bank (EIB) and the European Investment Fund (EIF) - a line of EUR 1,900 million to offer Spanish mid-caps and SMEs financing with advantageous conditions.

In Brazil, we have signed a 200 million euro credit line with the International Finance Corporation (IFC) to expand credit to small and medium-sized enterprises where women hold at least 50% of management positions.

In Poland, in cooperation with the EIB, we have negotiated a credit line of EUR 400 million available to SMEs and mid-cap companies, with a special focus on the development of micro-enterprises.

In total, in the last three years, the Group has signed agreements with multilaterals such as EIB, EBRD, IFC, CEB and CAF to offer financing lines to SMEs in Spain, Brazil, and Poland for a total value over EUR 2,500 million.

Supporting the most vulnerable SMEs

The European Investment Bank will participate in a portfolio of corporate loans approved by Banco Santander to the volume of EUR 450 million. This support will allow the Group in Spain to make EUR 900 million available to SMEs.

Part of this sum will be for financing vulnerable SMEs: self-employed people; micro companies with fewer than ten employees; and small businesses that perform their activity in regions with high unemployment. This agreement will enable us to support to almost 7,000 SMEs, providing jobs for about 160,000 people.

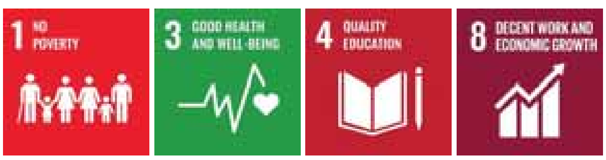
Patricio González, an agricultural entrepreneur in Mexico

In 2001, Patricio González, an agricultural entrepreneur from Chile, tried to expand his berries production in Santa Clara del Cobre, a poor area located in the state of Michoacan, Mexico. He needed financial support to achieve his goal. That same year Sun Belle, Patricio's small company, received its first loan from Santander, the only institution that trusted this project. For González, this changed everything.

Today, Santander is Sun Belle's main bank, and this company's production has exponentially grown from 250,000 boxes of berries to around 7.5 million. Sun Belle works with 900 local producers that the company supports by providing technical knowledge and by purchasing all of their production.

Santa Clara del Cobre, a traditional artisan and craft community based on farming, has seen poverty fall thanks to access to new services and education.

A good example is the Valencia family, who are one of the first berry producers to work with Patricio González. Before they joined Sun Belle, this hard-pressed family had a small cattle business. Now their quality of life has significantly improved. Thanks to the business loans approved by Santander through Sun Belle, they established their own company to supply Sun Belle, creating new jobs in their community.



Innovative solutions to drive business growth

The world of payments is a critical component in finance. Payments systems allow banks know their customers' needs and preferences, enabling the banks to personalise the products and services they offer.

At our Investor Day in April 2019 we set out how Santander Global Payments will be the cornerstone of our global platform and loyalty strategy, consisting of Global Merchant Services (GMS), Global Trade Services (GTS) alongside our other payment businesses (Superdigital, PagoFX). This payments platform will allow us to serve existing and new customers better, with best-in-class value propositions developed globally.

Global Trade Services (GTS)

Supports small and medium-sized businesses access global trade finance. This platform will offer trade finance, supply chain, payments, and foreign exchange, while operating quickly and efficiently for SMEs.

Global Merchant Services (GMS)

Gives online and offline retailers the ability to accept various forms of payment, helping them better manage and grow their business; built with Getnet, a leading payment platform in LatAm. We are currently extending it to Mexico and other Latin American market.

In 2019 we also invested EUR 400 million in acquiring 50.1% of Ebury, one of the major payments and forex platforms for SMEs, which already operates in 19 countries and with 140 currencies. With this investment we want to drive Ebury's growth through a capital increase, and benefit from the opportunities that will arise from helping more SMEs grow around the world. Ebury is looking to enter new markets in Latin America and Asia.

Trade Club Alliance

Along with other international banks, we launched the Trade Club Alliance, a global network of banks aiming to make international trade simpler with an innovative digital platform which enables companies in Europe and Latin America to connect with each other. This new platform will provide members with market information on more than 180 countries including currency analysis, market trends and shipping requirements, serving as a conduit for trusted buyers and suppliers to connect with counterparts in markets around the world.

"Santander is the best positioned bank to help SMEs in their international expansion and to provide them with global services for trade finance".

Ana Botín, Group executive chairman.

Santander Cash Nexus, global connectivity for the bank's largest corporate multinational clients.

For our largest corporate clients, Santander Cash Nexus offers an industry-leading, highly-automated mass transaction engine that combines the best security technologies and procedures available today with 24/7 availability.

At its core, Santander Cash Nexus provides clients with a single point of entry to the global treasury management services we offer in the countries where we operate. The platform is currently available in more than 15 countries.

By creating one, simple platform for SCIB's global connectivity solutions, SCIB helps clients optimize costs, achieve greater control over their transactions, and provides a standardised digital service in the countries where Santander operates and Cash Nexus is available.

Cash Nexus is already being used by more than 100 of SCIB's global clients.

Santander Innoventures

Santander InnoVentures (SIV) is our $200 million corporate venture fund. SIV invests in start-ups in fintech and adjacent areas to accelerate their growth, support entrepreneurs and teams with the capital, scale and expertise of the Santander Group. Since launching in 2014, the fund has invested in more than 25 companies, being one of the most active bank-backed fintech corporate venture in the world. Over 70% of the fund's portfolio companies are now in strategic engagements with Santander

In 2019 we invested in companies, as for example:

- Klar, a Mexican alternative to traditional credit cards and debit services.
- Trulioo, a Vancouver-based global identity verification provider.
- Securitize, a California-based startup which offers a trusted global solution for issuing and managing compliant digital securities on the blockchain.

Financial inclusion and empowerment

We help people get access to finance; set up and grow microbusinesses; and give them the skills to manage their finances through financial education. Our aim is to financially empower 10 million people from 2019 to 2025.

Target

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 between 2019 and 2025.**[A]

Progress

A. In order to measure, assess and improve the Bank's contribution to financial inclusion, we have designed a Santander Group corporate methodology tailored to Santander's requirements and specific mode . This methodology sets out a series of principles, definitions and criteria that can be used to consistently count those individuals who have been financially empowered through the diferent initiatives, products and services promoted by the bank.

Digital technology: boosting access to finance

We want to give everyone access to financial services, regardless of factors such as income level, gender, educational attainment, geographic location or age.

Our flagship digital platform Superdigital helps us achieve this ambition, allowing us to overcome some of the barriers that prevent unbanked and underserved populations from accessing financial products and services.

Our branches and ATMs in remote locations are also an integral part of our strategy to foster access to basic financial services. We operate branches in sparsely populated regions in Spain, Portugal, and the US and branches in remote locations in Argentina. In Mexico, we have reached agreements with retailers to manage basic financial services through their POS.

Fostering access to basic financial services: our twin track approach

Traditional banking + **Digital banking**

Branches, ATMs and retail agents | Internet + Mobile banking

Guaranteeing access for all segments

Sparsely populated communities | Low-income communities | Most vulnerable groups | University students

Superdigital - Banking without a bank

Mobile phones and the internet are powerful tools to drive financial inclusion amongst the unbanked or underserved. We want our digital platform Superdigital to become the single-most important access-point to financial services for many of our low-income clients in Latin America.

Available in Brazil, Mexico and Chile, Superdigital leverages the rapid growth in smartphone adoption and improved network coverage in Latin America to increase financial inclusion in the region[1]. To date the platform has almost 500,000 active users, with plans to reach five million active clients by 2023 across seven markets in Latin America. In the long-term, we aim to have 10 million active users on the platform given the growth potential of digital payment solutions in the region.

Developed with Santander's proprietary technology, Superdigital is very user-friendly and offers a differential customer experience. For instance, clients are able to make online financial transactions without having a bank account, chat with other users of the app, split expenses amongst groups, and receive automated alerts regarding their financial situation. At the same time, fostering digital channels such as Superdigital allows us to drive greater operational efficiencies within the bank, enabling us to serve this segment in a sustainable manner.

In Brazil, Superdigital's largest market, the platform offers access to financial services to individual micro entrepreneurs who use the platform to pay suppliers and receive customer payments and companies with large numbers of employees on their payroll that large banks tend not to serve. Access to financial services through our digital channel, combined with financial education, helps our customers develop their financial resilience.

(1) According to GSMA, which groups more than 750 telecom operators worldwide, smartphone adoption in Latin America will reach 78% of total connections by 2025, compared to 62% at the end of 2017. Source: GSM Association (2018).

Globally, 1.7 billion adults remain unbanked, yet two-thirds of them own a mobile phone that could help them access financial services[1]

45% of adults in Latin America sent or received digital payments in the last year vs. 91% in high-income economies[2]

superdigital

For more information visit
Superdigital Brasil
Superdigital México
Superdigital Chile

1 NO POVERTY | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES

(1) Source: World Bank (2018)
(2) Source: World Bank (2017)

Other initiatives and services that offer physical access to financial services

Financial inclusion branches & remote agents in Argentina

Santander Río has opened four branches in Buenos Aires (in the neighborhoods of Santa María, Castelar Sur, La Juanita and Don Orione, which previously had no banking coverage) as means to encourage financial integration.

Branches in small villages in Portugal

In Portugal, Santander operates 79 branches in small urban areas, highlighting those in Azores and Madeira islands, providing services to over 103,623 customers.

Partnerships with Oxxo and 7 Eleven for cash-in, in Mexico

In Mexico, Santander offers customers the ability to carry out basic transactions through more than 26,000 convenience stores such as Oxxo, 7 Eleven and others.

Cashless program in Poland

Developed by the Polish government, this program aims to expand the card payment network in small urban areas and amongst small and micro businesses. The program allows participants to use a card terminal at no cost for the first twelve months.

Banking the unbanked, while supporting our more vulnerable customers

We offer specific banking products aimed at those groups who are not in the banking system, who are underserved or who are financially vulnerable.

Microfinance products and services can support economic and social development in a number of ways. They can help increase people's earnings potential; help increase their spending on necessities such as education and health; and help people save for retirement or unforeseen events[1].

Our geographical footprint is wide and our clients' needs differ significantly across countries. As a result, our microfinance products and services are tailored to meet local needs, with a focus on income-generating loans to low income and underbanked entrepreneurs.

In Latin America, we launched our microfinance offer in 2002 in Brazil and have since scaled up rapidly across the region, starting operations in Argentina and Mexico. Most recently, in 2019, we set up our microfinance programme in Uruguay, leveraging on the Group's existing presence in the country.

In mature markets, our initiatives are focused on affordable housing programs and loans to SMEs in Spain, US and Portugal, with plans to further enhance our product offering in these countries.

[1]Source: World Bank (2018)
[2] In developing economies 67% of men but only 59% of women have an account, a gender gap of 8 percentage points. Source: World Bank (2018)

Financial solutions to support unbanked, under-banked and vulnerable customers

Microfinance programmes

Our programmes target micro-entrepreneurs and mainly focus on women borrowers, given that in developing countries women are less likely than men to own a bank account[2]. Our value offer includes microloans, microinsurance, and remittance services, amongst others.

Affordable housing initiatives

In the US, through our Inclusive Communities Plan, we offer affordable home purchase and home improvement products. We also lend to projects that benefit low-to-moderate income individuals and communities, primarily through affordable housing projects.

In Spain, we have contributed 1,000 homes to the Social Housing Fund, of which 985 are for rent. Meanwhile, we have another 609 houses with more affordable rents for families in a vulnerable situation.

Specific programs to refinance debt

In Spain, since 2011 we have helped more than 140,000 families with financial problems to continue paying their mortgages, with specific measures which include: the suspension of evictions, mortgage re-financing and restructuring.

Lending in underserved communities in the US

The cornerstone of Santander's approach to supporting communities in the US is our "Inclusive Communities" plan, the Bank's $11 billion commitment across its eight-state north-eastern footprint for 2017 through 2021. This plan increases Santander's Community Reinvestment Act[1] activity by 50% compared to 2012 to 2016, and includes a goal of $9.1 billion in loans to underserved communities for the 2017-2021 period.

Santander's pledge to increase lending in underserved communities includes enhanced affordable home purchase and home improvement products, piloting pre-foreclosure counseling with community organisations, expanded Small Business Administration lending, and community development financial institution (CDFI) loan products.

Santander Bank has committed to lending $9.1 billion to underserved communities over a five-year period

[(1)]Enacted in 1977, the Community Reinvestment Act requires federal financial regulatory agencies to encourage regulated financial institutions to help meet the credit needs of their local communities, including low to moderate-income neighbourhoods. The US Office of the Comptroller of the Currency (OCC) within the United States Department of the Treasury evaluates a bank's record of meeting these credit needs and takes this record into account when evaluating certain corporate applications filed by the bank, such as branch openings.

Our main microfinance programmes

EUR 277 million
in outstanding credit to micro-entrepreneurs at the end of 2019 (+73% vs. 2018)

+850,000
micro-entrepreneurs supported in 2019 (+97% vs 2018)

71% of microentrepreneurs supported are women (in Brazil and Mexico)

70% of income generated circulated within local communities

Prospera Brasil

Banco Santander is recognised as the leading provider of microcredits among private banks in Brazil. Since its creation in 2002, Prospera Santander has supported growth of small businesses, mainly micro-businesses, helping disadvantaged populations and low-income families escape from poverty.

The program grants loans to groups of microentrepreneurs who share the responsibility of repaying the full amount of the loan. A team of Loan Officers helps and guides the entrepreneurs throughout the life of the loan.

In 2019, 56 new Prospera Santander Microfinanzas branches were opened, and the number of municipalities served has grown from 600 to more than 1,700. The number of active clients grew by 253,000 to more than 500,000, with 69% of them being women borrowers.

- Average microcredit size: $550
- Average microcredit term: 7 months

Elaine Cristina, Brazil

Elaine Cristina began her business at the age of 17 as a street vendor selling clothes in her area and to family members. After 8 years, she managed to open Elaine Boutique, a women's clothing store in a busy area of Sao Paulo, hired two 2 people and is now considering opening other stores.

Prospera has been with her at every moment of her journey, advising her and supporting the realization of her dreams.

TUIIO

Launched in 2017, TUIIO offers a comprehensive range of products and services specially designed for low income and under-banked populations, including tailor-made loans, savings products and insurance. All the products offered have a high digital component, which delivers operating efficiencies and a better user experience.

Tuiio supplements its offer with financial, technological and entrepreneurial education courses for its customers; and has branches and ATMs in the communities where customers live.

Microcredits are granted to groups of neighbours composed of at least eight micro-entrepreneurs, with 92% of them being women micro-entrepreneurs.

- Average microcredit size: $330
- Average microcredit term: 4 months

Patricia Santos, Mexico

In early 2018 artisan Patricia Santos set up her own business with the help of a MXN 5,000 loan from Tuiio. Since then, her food business, La Magia del Sabor, has grown and she has now been granted a MXN 20,000 loan. Today, Patricia holds banquets for more than 300 people.

Full story of Patricia Santos. See video

"Tuiio gave us workshops to help us manage the cash that had been given to us, it supported us, and gave us a bank card. But it was not just about giving us a card to withdraw all the cash in one go. We also learnt how to make online payments and to use the app... Initially we were like "what if I hit the wrong button and our money goes where it shouldn't?!" But we learnt how to do it... I also paint ceramics that I sell on the open market, I receive payments on my card and my products reach people I never thought it would... I am deeply grateful to Tuiio for its trust and for saying "go ahead, you can make it".

Prospera Argentina

Through our Social Integration Branches we help unbanked communities gain access to the financial system, offering opportunities for inclusion and growth.

Since 2015, we offer microcredits and other products specially designed for the community where each branch is located.

- Average microcredit size: $500
- Average microcredit term: 9 months

Prospera Uruguay

Launched in 2019 as a pilot programme in the Salto department, Prospera Uruguay offers credits and insurance to entrepreneurs. Since then, the programme has scaled up across the country (current coverage of 84%), reallocating the sales force arising from the digital transformation of a financial institution in Uruguay. With every expansion Prospera has trained its sales agents, 95% of them women with extensive experience in marketing financial services.

In 2020 Prospera Uruguay aims to expand the product offering include savings accounts and payment solutions, amongst others.

- Average microcredit size: $800
- Average microcredit term: 12 months

Promoting financial education

Poor access to financial services is often associated with lower levels of education[1]. As a result, our financial inclusion strategy goes beyond providing access to bank accounts and other basic financial services, as we want people to have the skills to manage their finances, so they can make the right choices about what products and services meets their needs.

Our financial education initiatives are online (websites and social media networks with videos, tools, courses and games) as well as face-to-face (such us training actions, workshops and courses in schools, social organizations and other institutions).

1. According to the World Bank's Global Findex Database 2017, globally 62% of unbanked adults have primary education or less. Source: World Bank (2018)

+580,000
People benefited from financial education programmes in 2019

Outstanding programmes

"Finanzas para Mortales" programme in Spain

In Spain, we held over 1,300 financial education sessions at schools, NGOs, and other institutions. Highlights our financial education project "Finance for Mortals" ("Finanzas para Mortales" in Spanish).

Launched by Santander, the University of Cantabria, and Santander Financial Institute (SanFi), "Finance for Mortals" has been recognised as one of the country's leading financial education programmes by the Central Bank and the National Securities Market Commission (CNMV in Spanish). The programme involves Santander volunteers who provide face-to-face financial education sessions at schools, institutes, NGOs, associations and vocational training centres across Spain.

More information see www.finanzasparamortales.es

"My Money Week" initiative in the UK

Santander UK supports financial education by partnering with organisations such as National Numeracy, Young Enterprise (YE) and the Financial Inclusion Alliance.

In 2019 Santander sponsored YE's My Money Week, a national activity week for primary and secondary schools that provides the opportunity for young people to gain the skills, knowledge and confidence in money matters. My Money Week is regarded as the highest profile and most recognised personal finance education initiative in England, having reached 197,470 people in 2019 across England, Wales, Scotland and Northern Ireland. For 2019 the focus was placed on financial decision making to help saving.

More information see *My Money Week*.

SanodeLucas

Sanodelucas is the platform that brings together all of Banco Santander's financial education initiatives in Chile. Among them, the following stand out:

- Sanodelucas tips and advice. Information, articles and videos on basic aspects of managing individual and family finances.
- Financial Education Programme in Schools. Helps to improve the financial skills and knowledge of students in the country's schools.
- First steps. Initiative that seeks to train those who open a checking account for the first time in the proper use of commercial products.

More information see www.sanodelucas.cl

Multiple initiatives in Mexico

- Launch of a new financial education website: this includes a course on basic personal finance concepts and tools such as calculators. In 2019, more than 40k users visited the bank's financial education website.
- Participation in the National Financial Education Week: Every year the Government organises a week of conferences and activities that provide information on how to better manage one's finances. During this week Santander provided financial education to 10,950 people.
- Financial education courses through the "Tuiio, Finanzas de tú a tú" programme: A microfinance programme aimed at informal entrepreneurs (mainly women) who want to grow their business. The main support mechanisms for microentrepreneurs are courses designed to facilitate the use of financial services and financial tips, digital simulations and calculators available on the Tuiio website.

Forging partnerships to catalyze financial inclusion

Using our global networks, we have developed partnerships that help to further financial inclusion in markets where we operate. We believe partnerships are an important tool for sharing knowledge, learning about industry best practices, and developing innovative approaches to bridging the financial inclusion gap. With the CEO Partnership for Financial Inclusion (CEOP), in 2019 we have made progress on a number of initiatives that have the potential to expand access to financial services at scale.

CEO Partnership for Economic Inclusion

Founded by the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development, Queen Máxima of the Netherlands, the CEOP brings together an influential group of CEOs from a diverse set of sectors working together with the aim of accelerating financial inclusion around the world.

Under the auspice of the CEOP, Santander and Mastercard have joined forces to help smallholder farmers in Mexico.

At the beginning of 2019 Santander and Mastercard launched a pilot programme designed to meet the financial needs of smallholder coffee farmers in Mexico. Thanks to this initiative, close to 2,000 farmers have been able to go cashless, receiving digital payments into a digital account associated with a debit card linked to additional financial services.

In 2020 the project will be rolled out to other segments of the economy while also expanding the financial product offering to smallholder farmers.

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Sustainable finance

We play a major role in the transition towards a more sustainable economy, offering a wide range of products and services, integrating environmental, social and governance criteria into our lending decisions. We are committed to support the climate change goals of the 2015 Paris Agreement.

Main lines of action

we analyse the environmental and social risks of all our project finance deals.

Climate Finance

Curbing climate change is a key objective at Santander. We are a world leader in the financing of renewable energy projects.

Socially responsible investment

We see Sustainable and Responsible Investment as creating value for both management and the investor.

Sustainable infrastructure

We finance the construction of infrastructure that guarantees basic services and drives inclusive economic growth.

Target

We believe that we can support our customers by helping them make the transition to the green economy. So we aim to raise or facilitate the mobilization of 120Bn euros between 2019 and 2025, and 220Bn euros between 2019 and 2030 in green finance to help tackle climate change.[A]

A. Includes Santander overall contribution to green finance: project finance, syndicated loans, green bonds, capital finance, export finance, advisory, structuring and other products to help our clients in the transition to a low carbon economy. Commitment from 2019 to 2030 is 220Bn.

Progress

A. SCIB´s contribution to green finance target includes: Project Finance (lending): 5Bn; Project Finance (advisory): 6.1bn; Green bonds (DCM): 1.9bn; Export Finance (ECA): 0.3bn; M&A: 3bn; Equity Capital Markets: 2.2bn. This information was obtained from public sources, such as lead tables from Dialogic or TXF. All roles undertaken by Banco Santander in the same project are accounted for. Other aspects related to sustainable finance in a social manner, such as financial inclusion or entrepreneurship, are not included.

Climate Finance

The transition to a low-carbon economy is critical in light of climate change and if we are to meet the goals set by the Paris Agreement.

The banking sector has a key role to play in the transition to a low-carbon economy, which presents both challenges and major investment opportunities.

At Banco Santander we lead the change with initiatives to fund renewable energies and supporting our customers in the transition.

Our strategy reflects our commitment both to contribute to the UN Sustainable Development Goals and to the Paris Climate Agreement's goals to combat climate change and adapt to its effects.

Our progress on climate-related actions

The Task Force on Climate-related Financial Disclosures (TCFD) made a number of recommendations regarding the clear disclosure, backed by comparable and consistent information, of the risks and opportunities presented by climate change. Below we set out how we are implementing the TCFD's key recommendations, and the most significant actions we have taken to embed climate in our risk and opportunity management.

Incorporating climate into our businesses' day-to-day activity will help steer decisions so that we can make progress towards the Paris Goals.

TCFD Disclosures

Governance

- The responsible banking, sustainability & culture committee (RBSCC) assists the board in the oversight of the responsible banking strategy, which includes climate change. The RBSCC consists of eight directors, seven external, with the majority being independent, and the Executive Chairman and it is chaired by an independent Board Director. All Directors have been appointed taking into account their knowledge, qualifications and experience. This Committee meets quarterly.
- As part of the responsible banking governance, the inclusive & sustainable banking steering has been set up to promote, among other topics, the transition to a low carbon economy, and fostering sustainable consumption. This steering meets every six weeks and consist of nine senior management permanent members and 2 rotating members (country heads).
- Governance is underpinned by the general sustainability policy which explains the Bank's action framework, in both its internal operations and its banking activities as well as sector-specific policies covering environmental including climate-change issues.
- In 2019 the General Sustainability Policy was updated. This policy is owned by the Board of Directors and it now further describes responsible banking (including climate) governance. This policy now also incorporates climate change and environmental management.
- During this year, climate change has been discussed in all four meetings of the RBSCC including issues such as TCFD, specific sector analysis, business lines plans and environmental footprint. This included a joint session of the RBSCC and the Board Risk Supervision, Regulation and Compliance Committee that reviewed a deep dive analysis of the extractive industries, as climate-relevant sectors.
- in 2019, the board attended a responsible banking training session, and another session solely dedicated to climate change and designed to better equip the Board to address the challenges posed by this subject. It was also agreed that the induction of new board members will include responsible banking and specifics on climate change.

For more information on the committee, see Corporate governance chapter of this report and the Board Committee´s report.

For more information on our policies and governance, see Principles and governance section of this chapter

General Sustainability policy is available at www.santander.com.

Strategy

- Risks related to the transition to a lower carbon economy and physical impacts from climate change need to be incorporated in the risk analysis in the medium to long term.
- We have made progress in performing a high level analysis to identify sectors and geographies that are more likely to be impacted by climate transition and physical risks. This basic materiality approach is informing the selection of our sector deep dives with specific risk assessment exercises. Having undertaken an initial analysis of transition risk on the transportation sector in 2018, in 2019 we performed specific analysis for our European power sectors portfolio in Santander Corporate and Investment Banking. In relation to physical risk the focus has been on our UK mortgages book.
- During 2019 we have also taken steps to introduce climate-related information, specifically capturing information relating to products in the three year budget plans. It was also agreed at the RBSCC to incorporate climate into the long term business strategic planning process which will be started in 2020.
- Climate-related time horizons have been defined and embedded into our strategy process. We define short term as up to a year aligned with budget; medium term as 3-4 years aligned with budget planning; long term as 5-7 years; and, for ad hoc analysis, we define longer term as beyond 7 years.
- We have also made a number of commitments to help us achieve our aim to align our portfolios with the Sustainable Development Goals and the Paris Climate Agreement. This includes raising and facilitating green finance as well as joining the UNEP FI Collective Commitment on Climate Action (which sets by 2022 a scenario based sector specific target to steer our portfolios to be aligned with the Paris Agreement on climate).
- This approach furthers Santander's track record as a leader in financing renewable energy projects. Furthermore, our responsible banking approach will help us to deliver sustainable development aligned financial products, including climate.
- A good example of this was the development of the Santander Sustainability Bond Framework and the issuance of our first green bond - a tangible way to support our strategy and meet our targets regarding new green investments.
- We have also set targets to reduce the emissions from our own operations. The approach incorporates both a reduction of emissions (by switching to renewable sources for electricity consumption) as well as offsetting the remaining emissions to become carbon neutral as regards to our own operations.

The training session regarding climate scenarios were led by experts who coached our Risk & Analysis teams.

Risk management

- Climate change related risks and opportunities are being embedded into the Group's processes. The top risk identification and assessment process led by the Enterprise-wide Risk Management department incorporates climate change and it is updated on a quarterly basis to reflect the evolution of the regulatory changes on the climate change agenda.
- Climate-related risk management criteria is included in Santander sector policies and covers issues such as financing of fossil fuels and protecting against deforestation. Dedicated E&S champions in the credit risk function review customers and provide assessments in relation to these criteria.
- A number of steps have been taken to incorporate climate change into the bank's overall risk management approach. Key highlights include the incorporation of climate change in our risk appetite statement. Starting from 2020 physical and transition risk will be included in the Group's risk management framework as factors that could aggravate the existing risks in the medium and long term.
- We have undertaken a number of detailed analysis to further understand what impact climate change has on certain portfolios.

    i. We performed a deep dive analysis of the oil and gas, mining and steel sectors with particular focus on the risks and opportunities that arise from climate change. This analysis was reviewed at a joint session of the RBSCC and the Board Risk Supervision, Regulation and Compliance Committee.

    ii. A specific analysis of the European Union power sector was undertaken to quantify the potential impact of a number of financial drivers linked to the International Energy Agency scenarios.

    iii. As part of our continued participation in the UNEP FI, TCFD Pilot II, Santander UK designed and performed a pilot to quantify the physical risks of climate change embedded in the UK mortgage portfolio.

- Sessions on climate scenarios training were given by experts to our risk and research teams.

Further information on our risk management approach and progress is available in the Risk Management chapter

Metrics and targets

- Santander has been increasing the number of climate-related metrics disclosed regarding business performance, such as our position in market league tables showing the number of deals; total financing of most relevant climate financial services; and emissions avoided from renewable energy financing.
- In this report we also provide metrics that help track delivery against our commitments and as well as metrics relating to the different assessments the bank has initiated to manage risks and opportunities from climate change.
- We continue to identify and develop new metrics that support climate management and which will be incorporated in future reports along with the continued disclosure of scope 1, 2 & 3 emissions data as detailed in Environmental footprint section of this chapter.
- Santander has set a number of targets on climate change. In relation to commercial activity we have set a green finance target to raise and facilitate 120Bn euros between 2019 and 2025 and 220Bn euros between 2019 and 2030. This 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.
- Santander has also joined the UNEP FI Collective Commitment on Climate Action towards setting and publishing sector-specific, scenario-based targets for portfolio alignment with the Paris Agreement goals.
- Noteworthy is the disclosure of key highlights results from our implementation of the recognized PACTA methodology from 2º Investment Initiative, using International Energy Agency climate scenarios. Implementing this methodology is a valuable step in making progress towards the Collective Commitment on Climate Action and the alignment of sector-specific scenario -based targets.
- Our approach also incorporates the management and reduction of scope 1 and 2 emissions, in this regard Banco Santander has committed to have 100% of electricity from renewable sources by 2025. Furthermore, we have committed to become carbon neutral by offsetting all the emissions generated by our own operations from 2020 onwards.

Assessing our portfolios in relation to the Paris Agreement on climate

During 2019 we have started implementing measures to fulfil the Collective Commitment on Climate Action. A key action was our participation in the PACTA (Paris Agreement Capital Transition Assessment)[1] pilot led by 2º Investment Initiative, along with 16 other banks. This recognised 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.

The methodology focuses on high climate impact sectors including fossil fuels (oil & gas, coal), power, automotive, cement, steel, and shipping. The pilot was undertaken using Santander Corporate and Investment Banking (SCIB) portfolio. Sectors covered by the methodology represent 31% of the entire SCIB portfolio.

Focus on fossil fuels and power sectors

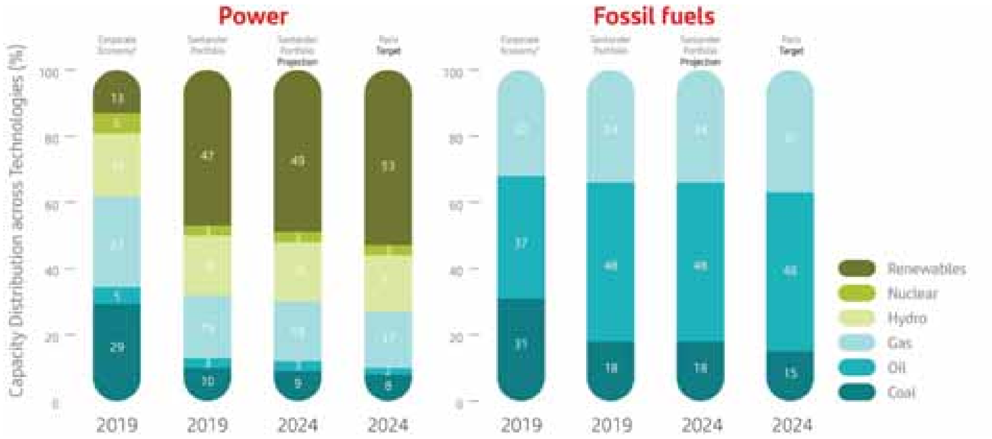
We provide here more detailed information on the results from two of the key climate impact sectors, fossil fuels and power.

The initial analysis shows that against today's Corporate economy[2] our portfolio compares favourably - in fossil fuels with lower coal exposure, and in power with a high exposure to renewables energy. Santander's portfolio projected to 2024 is broadly in line with the mix of technologies in the International Energy Agency scenarios to align to Paris targets[3]. To remain aligned with the Paris targets beyond 2024, we would need to shape our portfolio and engage with our clients so that the share of renewables and gas increases while the share of coal falls.

The Santander portfolio projection is based solely on confirmed plans by companies in our portfolio with no additional intervention.

Santander will continue to perform scenario based analysis going forward, to inform how to steer our portfolios to be aligned with the Paris Agreement on climate, and achieve our Collective Commitment on Climate Action and corresponding internal targets.

[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.
[2] Corporate Economy: represents the aggregate/combined production of all assets in the 2Dii database, which captures approximately 70% of total world CO2 emissions (CO2 is the largest greenhouse gas (GHG) contributor to human induced climate change). Considering the inclusion of other GHG (such as nitrous oxide and methane - relevant in agriculture), the database captures approximately 60% of total GHG emissions. Based on data from the 2018 World Energy Outlook from the International Energy Agency.
[3] Paris targets: This is a suggested trajectory for Santander portfolio where every technology attributed to the portfolio is set on the rate of change defined by the International Energy Agency scenarios.



Santander will continue to undertake scenario based analysis to inform its decisions to meet the Collective Commitment on Climate Action.

(2) Corporate Economy: represents the aggregate/combined production of all assets in the 2Dii database, which captures approximately 70% of total world CO_2 emissions (CO_2 is the largest greenhouse gas (GHG) contributor to human induced climate change). Considering the inclusion of other GHG (such as nitrous oxide and methane – relevant in agriculture), the database captures approximately 60% of total GHG emissions. Based on data from the 2018 World Energy Outlook from the International Energy Agency.

During 2019 Santander UK submitted to the UK Prudential Regulatory Authority its plan to address the PRA's Supervisory Expectation regarding climate change.

In developing a coherent view of climate change we circulated a briefing paper to inform our teams of climate change science facts, geopolitical and macro-economical implications, as well as commercial impacts on companies. This provided the basis for a training session attended by over 200 staff in Head Quarters, which will be now rolled out to local units as part of our training programmes.

Santander has also been active engaging different stakeholders such as regulators, sector associations, think tanks and other in working groups, consultations and debates to contribute and shape the discussions to build finance solutions to better support the UN Sustainable development Goals and the Paris Agreement on climate.

UNEP FI Pilot project on TCFD recommendations

During 2018 and 2019 Santander participated actively in the development of the United Nations Principles for Responsible Banking. In September 2019, Santander became one of the founding signatories to the principles, committing to strategically align its business with the Sustainable Development Goals and the Paris Agreement on Cli-mate Change. Furthermore, we have also signed up to the 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 on Climate. We will continue engaging with UNEP FI in progressing on the development and implementation of these two important initiatives.

We have also continued our participation in the TCFD Pilot II following the first pilot which started back in 2017. The project focuses on implementing certain elements of the TCFD recommendations for banks. This initiative aims to develop models and metrics to enable scenario-based, forward-looking assessment and disclosure of climate-related risks and opportunities.

Banking Environment Initiative

Santander shared insights on sustainable finance practice with the Banking Environment Initiative (BEI), to help on its Bank 2030 research report. The research seeks to shed light on how banks can accelerate the transition to a low carbon economy and develop a vision for a bank in 2030. The report is 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 and the fight against deforestation.

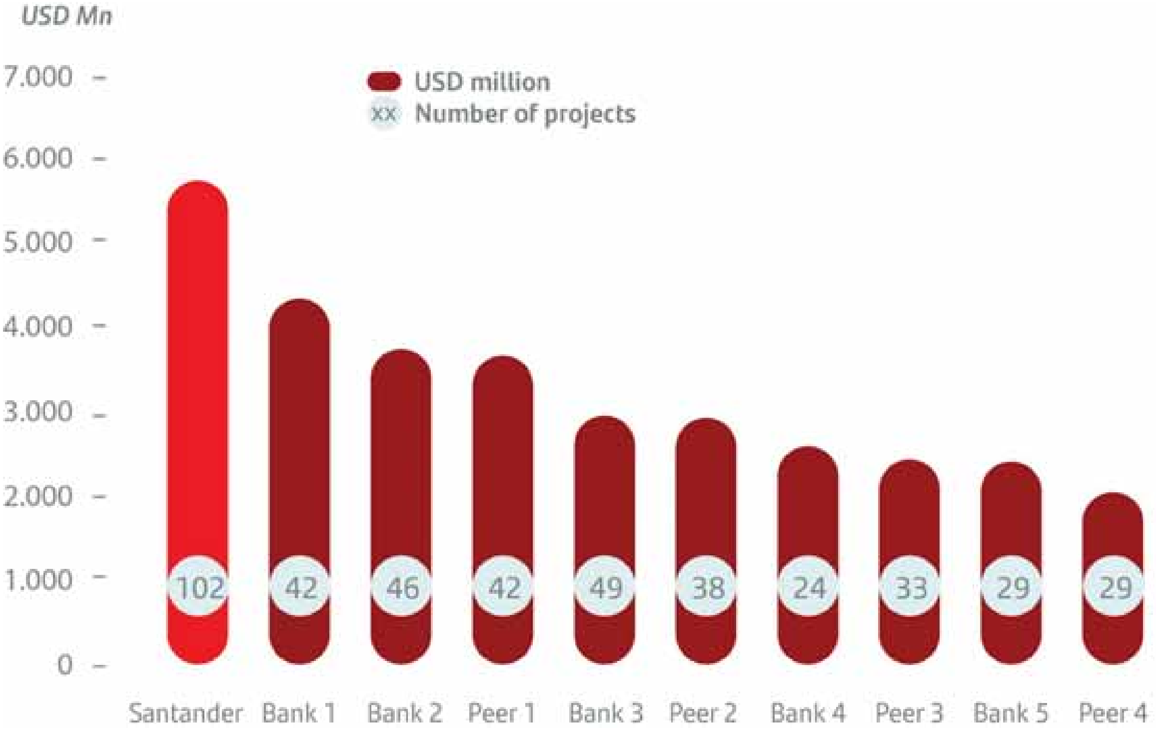
For more information see section Environmental and social risk section of the Risk management and control chapter

Finance for renewable energy and energy efficiency

As a major financier of energy production infrastructure, we understand that the banking sector has to play a particularly prominent role in the transformation of the energy sector. Aware of this, we have a long history of leadership financing renewable energy projects.

In 2019, we have been the global leader in renewable energy financing, in terms of both the number of transactions and their amounts.

Financing of renewable energies ranking[1, 2]



1. As indicated by Dealogic and Bloomberg New Energy Finance league tables for project financing within the Lead Arranger category.
2. Peers are considered those banks that due to their size an market capitalization are comparable to Santander. The peers' list includes: BBVA, BNP Paribas, Citi,bHSBC, ING, ITAÚ, Scotia Bank and , UniCredit.

Compared with other large peers and other large commercial banks, Santander has a comparatively low total amount of financing to fossil fuels. According to Banktrack Santander is placed in 31 out of 33 banks in absolute terms in financing fossil fuels and in the last place (33 out of 33)as a relative measure of total credit provided. (Source: Banking on Climate Change – Fossil Fuel Finance Report Card 2019)

Renewable energy projects

In 2019, we helped finance greenfield renewable energy projects with a total installed capacity of 8,036 MW. In addition, we also contributed to the expansion, improvement or maintenance of existing renewable energy infrastructure projects (brownfield), with a total installed capacity of 16,785 MW.

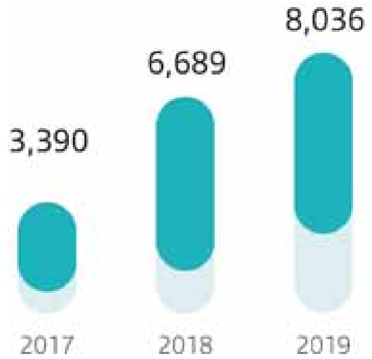
Our total portfolio of renewable energy project finance at the end of last year totalled €10.03 billion, approximately half of the bank's total project finance portfolio. The renewable projects are spread over 349 transactions, of which 166 are wind projects and 145, solar projects.

These projects have a generation capacity equivalent to the consumption of 6.5 million households in one year[1].

1. Equivalence calculated using data on final electricity consumption for the residential sector by country published by the International Energy Agency (source updated in 2019 with data from 2017).

Financing of renewable energy

(MW financed)[A]



Breakdown of MW financed by type of renewable energy

	2017	2018	2019
Wind energy	81%	77%	77%
Solar energy	19%	22%	22%
Others[B]	--	1%	1%

Breakdown of renewable MW financed by country in 2019[C]

USA	United Kingdom	Spain	Chile	Brazil	France	Argentina	Mexico
3,135MW	1,164MW	1,312MW	727MW	839MW	480MW	256MW	117MW

A. In the chart, the light colors represent the attributable MW to the Bank according its participation percentage in each project. In 2019 this represents 34% of total.
B. Include biomass for 2018 and hiydroelectric for 2019.
C. Others: The Netherlands (6MW).

€1 billion green bond as a starting point for a global sustainable debt plan

In 2019 a Global Sustainable Bonds Framework was developed in line with the Green and Social Bond Principles 2018. This framework is aligned with and supports our Responsible Banking strategy and reflects our intention to deploy additional capital for responsible and sustainable projects.

This Global Sustainable Bonds Framework enables the issuance of Green Bonds, Social Bonds and Sustainable Bonds that align the finance-raising activities with sustainable development and our commitment towards a more inclusive and sustainable growth.

On top of this, we issued our first green bond for €1,000 million as a starting point for a global plan on sustainable emissions. The net proceeds will be divided between existing wind and solar assets on Santander balance sheet and new assets of the same nature that will be added. The re-financing share will be less than 50% during the term of the bond.

Financing lines with multilaterals for energy efficiency and renewable energy projects.

In Chile, Santander signed a risk-sharing agreement with the IFC. The additional RWA capacity will be used by the Bank to support new climate finance projects and extend more credit to MSMEs, including women-led enterprises, thereby promoting growth and employment in the country.

In Poland, Santander signed a EUR 80 million loan facility whose proceeds will be used to provide green financing in form of sub-loans or leases to micro, small and medium-sized enterprises in Poland for energy and resource efficiency investments, including the acquisition of energy-efficient equipment and machinery, to upgrade their facilities and support a lower carbon footprint.

Over the last 3 years the Group has signed agreements with multilaterals such as the EIB, EBRD, IFC, MIGA, CEB and CAF to support green finance in Spain, Poland, Brazil, Chile and Peru for a total value of EUR 1,016 million.

Financing low-emission, electric and hybrid vehicles

We concentrate efforts on shifting the automotive sector towards a low-carbon economy through services such as vehicle leasing and renting, to promote the use of hybrid or electric cars in the countries where it operates.

Supporting other electric mobility solutions

In Brazil, we offer an exclusive financing line for bicycles, improving transport alternatives with non-polluting sources and helping to reduce traffic in our cities. Up to 100% of the purchase can be financed and both bicycles and electric chargers have special rates.

Funding sustainable agriculture and livestock farming

We also fund agricultural initiatives that promote the sustainable agricultural practices.

In Brazil, since 2010 we have offered credit as well as technical guidance to rural producers who wish to invest in innovation and sustainability in the field. Financing is available, among others for equipment for renewable energy generation on rural properties; for low carbon agriculture solutions such as direct planting of straw, integration of crop-livestock and forestry and recovery of degraded pastures; for modernization and expansion solutions that include soil recovery and animal defense; for the purchase and modernization of assets, environmental projects, research and innovation and for technological innovations, increased productivity, good management practices and marketing.

Socially Responsible Investment

We see Sustainable and Responsible Investment (SRI) as a source of value for investments. The assumption of ESG criteria allows our managers to have a more complete vision of the assets to be invested in; to identify those differential elements that reflect competitive advantages and warn about potential risks; and - overall - to help us make more and better informed investment decisions.

Santander Asset Management has a full-time dedicated SRI expert team, which is responsible for developing and implementing our ESG analysis methodology. This methodology allows us to obtain an ESG score in order to have a better picture by incorporating extra-financial criteria into our assessment.

Santander Asset Management's commitment to SRI has several lines of action:.

- Investment. We offer a range of SRI products and services to meet the demand of different types of clients.

  Currently we manage nine SRI funds, seven in Spain (Inveractivo Confianza, Santander Responsabilidad Solidario, the four products of the Santander sustainable range, Santander Equality Acciones fund), one in Brazil (Fundo Ethical), and one in Portugal (Santander Sustentável Fund).

- Training. We collaborate with universities and educational centres, organising and participating in events and training days in SRI.

- Dissemination and development. We participate in initiatives and organisations to help spread SRI, and which enable different organisations share best practice and understanding.

  In 2009 Santander Asset Management became a co-founder of SPAINSIF, the Spanish SRI forum.

  In addition, both Santander Pensiones SA SGFP in Spain (since 2010) and Santander Asset Management Brazil (since 2008), are signatories to the United Nations principles for responsible investment (PRI). Santander employees' pension fund in Spain is also a signatory to this initiative.

  Santander Asset Management held in 2019 its first SRI conference in Spain and Portugal. And actively participated in COP25, having organised 2 official events in the Green Zone.

- Donations through solidary funds: . We collaborate with NGOs, through some of our SRI products, to support initiatives which help those who are at risk of social exclusion.

EUROMONEY PRIVATE BANKING 2020

Best Private Bank in ESG & Impact Investing award in Latin America, Chile, Mexico, Portugal and Spain.

For information on socially responsible Investment visit:
www.santanderassetmanagement.es.

New Green Bond Investment Fund

Santander Asset Management strengthened its range of sustainable investment funds with the launch of Santander Sustainable Bonds, a product aimed at conservative savers who will invest their portfolio in issues mainly of green bonds (corporate debt designed to finance green projects: clean energy, reduction of emissions...), which will be complemented with other types of sustainable bonds, such as social, climate change or environmental bonds, all focused on generating positive impacts on society and the environment.

SAM has over EUR 3.5 billion in SRI assets under management. The Santander Sustainable Range now has over EUR 1.5 billion in assets under management.

Santander AM is the undisputed leader in SRI management in Spain. We manage 58% of the assets in SRI funds, and we are a pioneer in the launch of this type of product, with more than 20 years creating SRI Investment Solutions.

The Santander Sostenible range consists of two mixed funds: Santander Sostenible 1 and Santander Sostenible 2, with different weights in equities and fixed income; and a European equity fund Santander Sostenible Acciones.

In addition, in our commitment to continue promoting sustainability in investments, we have launched the first Spanish sustainable bond fund, Santander Sostenible Bonos.

Sustainable Infrastructure

Infrastructure is fundamental to drive development. Finance institutions play a critical role as enablers in providing the environment that satisfies the basic needs of society. Infrastructures have a significant impact on the three dimensions of sustainable development, the economic, environmental and social. Therefore, it is critical that infrastructures are planned and operated in a way that is consistent with the Sustainable Development Goals and the Paris Agreement on climate.

Aligned with our commitment towards a more inclusive and sustainable growth and working on the implementation of the Principles for Responsible Banking we have started work towards having a better understanding of the positive and negative impacts from financing infrastructure, while tacking into account the local necessities and priorities towards a more sustainable development.

We have started working with the methodology developed by the UNEP FI Impact working group, and its application to project finance, assessing positive and negative impacts of individual projects. In working with this newly developed methodology we have also looked into incorporating other developments, namely around taxonomies.

The first phase of this methodology consists of analysing, for each country, the relevance of 22 different factors in different areas (air quality, biodiversity, employment, health, education, etc.) from a sustainable development perspective. In the second phase, we analyse both the positive and the negative impacts (both direct and indirect) of a particular sector using UNEP FI's IP Impact Radar, as it applies to a specific country. Cross-referencing this information with the project finance portfolio data of each country, we are able to quantify the impact of our portfolio investments in such country.

Using different global and local taxonomies, we are then able to refine further more the impact information.

Ultimately, this approach will help us in making better decisions while directing our investments towards those projects that generate the greatest positive impact on the local society.

Analysis of environmental and social risks

Within the framework of our sustainability policies, we analyse the environmental and social risks of all our project finance deals.

At Santander we attach great importance to the environmental and social risks which might result from our customers' activities in sensitive sectors. We follow international best practice regarding social welfare and the environment, particularly the Equator Principles.

In addition, the Group employs the precautionary principle in order to analyse and manage its main environmental risks throughout its value chain, considering both the direct impacts on the assets where it carries out its activity, as well as the indirect ones derived from it.

Sector policies

The Group has specific sectoral policies that define the criteria for analysing environmental and social risks in customers' activities in sensitive sectors, such as energy, mining & metals, and soft commodities. These policies include specific activities within those sectors that we will not support (prohibited activities), and those where detailed assessments of their environmental and social impacts must be carried out (restricted activities).

During 2019, the energy, soft commodities and mining & metals sector policies have been updated. We have aligned these policies with our general sustainability policy, including two new prohibitions: 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; and the prohibition of the development, construction or expansion of oil and gas drilling projects on the north of the Arctic Circle.

Equator Principles

As well as our sustainability policies, since 2009 we have been a signatory to the Equator Principles, in order to analyse the environmental and social risks of all our project finance deals.

During 2019 we continued to contribute to the evolution of the Principles through direct participation in working groups. As a result, the Group will implement Equator Principles IV approved in November 2019 and due to come into full effect on 1 July 2020.

In 2019, 46 projects were analysed that fell under the Equator Principles' scope, all within the project finance category. All included under category B, which are those classified with potential limited adverse environmental and social risks and/or impacts.

Further information on the policies and their governance, see Risk management and control chapter.

Sector policies are available on our corporate website www.santander.com

Equator Principles

	Project Finance		
Category	**A**	**B**	**C**
TOTAL	**0**	**46**	**0**
Sector			
Infrastructures	0	1	0
Oil & gas	0	3	0
Energy	0	41	0
Others	0	1	0
Region			
America			
United States	0	18	0
Mexico	0	4	0
Chile	0	2	0
Brazil	0	1	0
Europe			
United Kingdom	0	5	0
France	0	1	0
Spain	0	15	0
Type			
Designated countries[1]	0	41	0
Non-designated countries	0	5	0
Independent review			
Yes	0	45	0
No	0	1	0

1. In accordance with the definition of designated countries included in the Equator Principles, i.e., those countries considered to have a solid framework of environmental and social governance, legislation and institutional capacity to protect their inhabitants and the environment.

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Environmental footprint

We are strongly committed to protecting the environment by reducing our own footprint.

Target

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[A].**

A. In those countries where it is possible to certify electricity from renewable sources on properties occupied by the Group.

Progress

A. This percentage includes only the G10 countries (10 main markets where Santander operate).

Since 2001, we have been measuring our environmental footprint by quantifying energy consumption, waste and atmospheric emissions. And since 2011 the Group has implemented strict criteria through different energy efficiency and sustainability plans to ensure its environmental impact is kept to an absolute minimum.

2019-2021 Energy Efficiency Plan

In 2019 we launched the 2019-2021 efficiency plan to encourage energy efficiency measures in site and on the maintenance of buildings and of our branches. To do so we have supported and helped countries to implement energy-saving schemes; implemented efficiency projects with a return period that is longer than usual for these projects; analysed opportunities to optimise spaces; and created awareness to the users of the buildings as to how to make their use and operation as efficient as possible.

In addition to our strategy targets, with the 2019-2021 Energy Efficiency we plan the following:

- Electricity consumption: a 2.8% reduction of electricity consumption in G10 countries.[A]
- Emissions of CO2: a 1,4% reduction of emissions in G10 countries.

To meet these targets, during 2019 we have implemented diverse initiatives, focusing on energy savings, saving raw materials, waste reduction, emission reduction and awareness campaigns.

A. Ten main markets where Santander operate.

2019 highlights

Use of energy from renewables sources

50% of energy used in our buildings and branches is renewable, reaching 100% green energy in Germany, Spain and United Kingdom. The United States, Brazil, Chile and Portugal also acquire green energy for some of their facilities' consumption.

Certified Environmental Management System

All direct environmental impacts caused by the Group's activities are duly measured and managed through Environmental Management Systems implemented in most of the Group's buildings, which are externally audited under the ISO 14001 standard.[A]

The bank has also received LEED certifications in:

- LEED PLATINUM certification in buildings in Poland (Atrium I, Warszawa Atrium II and Poznan Business Garden).
- LEED GOLD certification in buildings in Germany (Santander Platz and An der Welle 5), Brazil (Torre Santander and data center in Campinas), Spain (Tripark; Abelias; Luca de Tena and data center Norte Santander), and in Poland (Robotnicza , 11 Street).

Additionally, we received "Zero Waste" accreditation[1] in Santander Group headquarters in Boadilla del Monte. This certification recognises that at least 90% of the waste generated is reintroduced into the value chain (a maximum of 10% of the waste generated goes to the landfill).

Awareness of environmental issues

Both globally and locally, the Group organises awareness campaigns to involve employees in the importance of reducing the consumption and waste we generate in our daily activities. In addition, via our internal Santander Today channel, the Bank provides employees with a space with guides and other information materials which enable them to join the challenge of reducing the organisation's environmental impact.

A year on, Banco Santander participated in Earth Hour, an international initiative to raise awareness of the impact we can have on our environment. The Group turned off the lights in its most iconic buildings of the main countries in which it operates for the tenth consecutive year.

Carbon neutral commitment for 2020

During the UN Climate Change Conference (COP25) in Madrid, we launched our new commitment to become carbon neutral in 2020 by offsetting all the emissions generated by our own operations.

A. Aspects such as light or noise pollution are not considered material aspects for Santander, due to its own activity.
B. The bank has buildings with ISO 14001 certification in Argentina, Brazil, Chile, Spain, Mexico, Portugal and UK.
C. By AENOR.

2019 environmental footprint[1]

		Var. 2018-2019 (%)
2,811,322 M³ water consumed from the supply system		-4.9
1,070 MILL. KWH total electricity	50% renewable energy	-0.7
18,101 T total paper consumed	85% recycled or certified paper	1.0
9,410,831 KG paper and cardboard waste		-2.1
4,252,669 GJ total internal energy consumption		-3.5

		Var. 2018-2019 (%)
	321,164 T CO_2 teq total emissions (market based)	-15.5
Scope 1	**22,691 T CO_2 teq** direct emissions	
Scope 2	**177,504 T CO_2** indirect electricity emissions *(market based)*	
Scope 2	**322,038 T CO_2 teq** indirect electricity emissions *(location based)*	
Scope 3	**120,969 T CO_2 teq** indirect emissions from employees travelling to work	

1. The environmental footprint table with 2-year historical data and the consumptions and emissions per employee can be found in the 'Key Metrics' section.

Supporting higher education

As the largest company investing in education in the world[1], we have been working for more than 20 years with universities around the world to support education, entrepreneurship and employability, which are the basis for inclusive and sustainable growth.

EUR 119 million
of investment in higher education

agreements with
1,333 universities
and other institutions of 33 countries

68,671 beneficiaries
of scholarships, internship and entrepreneurship programmes

We focus on three areas

2019 metrics

1	**Education** We promote education mainly through studies and mobility scholarships. Our goal is to contribute to a more equitable and diverse educational system and helping to improve the university students' lives. We have created Santander Scholarships, one of the largest scholarship programmes financed by a private company.	**30,669 beneficiaries** of Santander Scholarships
2	**Entrepreneurship** We also support university entrepreneurship through acceleration programmes, training workshops, startup awards and several competitions. Santander X aims to become the world's largest community for university entrepreneurship, connecting entrepreneurs with the 3 most important things they need: talent, clients and financing. This helps them turn an idea into a reality.	**18,755** university entrepreneurs supported **8 awards** and **+140 published calls** in Santander X
3	**Employability** Santander Universities helps university students find employment through Santander Scholarship programmes for companies and SMEs. In addition, we run professional skills programmes including training in digital and transversal skills with universities worldwide. Universia offers career guidance and employment services, as we aim to be the main source of advice in the Ibero-American world for young talent management.	**19,247 beneficiaries** of Santander Internship Scholarships

Target

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 between 2019 and 2021.**

Progress

[1] Varkey / UNESCO / Fortune 500
[2] Fortune Magazine

Santander Scholarships

Scholarships promote excellence, equal opportunities and the recognition of effort, improving education and the employability of young people.

Banco Santander has been developing its scholarship programme since 1996. **More than 420,000 Santander Scholarships have been granted since 2005.**

We have seven **different programmes of Santander Scholarships:**

- **Santander Study Scholarships** to support university studies and guarantee equal opportunities in access to education, thus promoting educational inclusion.
- **Santander National and International Mobility Scholarships** for students who participate in programmes that require them to travel from their university and usual place of residence.
- **Santander Scholarships for Internships** in companies and institutions.
- **Santander Digital and Transversal Skills Scholarships** for training in multidisciplinary skills and skills such as leadership, communication, security, digital content.
- **Santander Scholarships for Professors,** supporting academics who wish to stay at other universities, continuing education courses and attracting innovative talent.
- **Santander Research Scholarships** for research projects, mainly doctorates.
- **Santander Scholarships for Entrepreneurs** for entrepreneurial initiatives (prizes, competitions, accompaniment of new ideas and startups).

For more information visit
www.becas-santander.com

Santander Erasmus Scholarship

Alejandro Villaluenga, Complutense University, and María Alonso, Francisco de Vitoria Universiy, Spain.

"I would define the Santander Erasmus Scholarship with the word 'Excitement'. We have to live this experience intensely and take advantage of the opportunity because we are very lucky", Alejandro Villaluenga.

"Receiving this scholarship means not only economic assistance, which is also very necessary, but knowing that a company as important as Banco Santander supports us to continue studying", María Alonso.

See video

Santander W50

Santander W50 programme offers 45 Santander Scholarships to female managers. Participants receive high performance training in leadership skills, so they can progress into senior management positions.

The programme was launched in 2011 and since then more than 680 women have participated.

See video

Entrepreneurship

We support university entrepreneurship through acceleration programmes, training workshops, startup awards and several competitions. A centrepiece is **Santander X**, which aims to become the world's largest community for university entrepreneurship, offering free training, support and mentoring to young people.

Santander X offers an ecosystem for university entrepreneurship, connecting entrepreneurs with the three most important things they need: talent, clients and financing. We promote collaboration between universities, the business sector and entrepreneurs themselves.

To recognise successful university entrepreneurs on an international level, Santander Universities launches Santander X Global Award.

Santander X has been chosen by the Spanish Network of the Global Compact as **one of the best initiatives that are contributing to the UN SDGs.**

Our success was highlighted in 'A Global Alliance for the 2030 Agenda', which aims to raise awareness and provide information to the Spanish private sector about SDGs.

For more information visit
www.santanderx.com

Emprendedor X, Argentina

Facundo Noya / Winner - Project Ebers.

"Winning the entrepreneurship award has given us the necessary financial support to improve design issues of our product, as well as the ability to start manufacturing and testing it both here in Argentina and in Brazil, where we have begun working at the Hospital Israelita Albert Einstein in Sao Paulo".

See video

Santander Universities Entrepreneurship Awards, UK

Lauren Bell / Winner - Project: Cosi Care.

"The prize will enable us to take our product all the way to the shop floor in six months. The support I've had has been incredible and we've made connections for life. Such a great all-round experience."

Robert Van Den Bergh / Winner - Project Scribless.

"The support we've had throughout has been instrumental in driving forward the growth of the business. It's been a great experience which will enable us to provide hand-written marketing to more companies around the world."

Santander Business Innovation Awards, Mexico

Paola Alejandra Garro Almendaro and José Luis Leopoldo González / Winners - Project Ecofilter

"It is very difficult to generate an impact with an environ-mental project. Winning this award is a great boost for us, which will enable us to achieve what we want", Paola Alejandra Garro.

Empreenda Santander, Brazil

Bruno Costa Candia / Winner Univeristy Entrepreneur - Project Aurem.

"It has been many months of effort. Winning this award will help me grow as a person, professional and entrepreneur. My project promotes the inclusion of hearing-impaired students in schools".

Santander Explorer, Spain

9th edition of Explorer Awards with entrepreneurs from Argentina, Spain and Portugal.

More than 80,000 euros in prizes were awarded. The winner of this edition, was BactiDec, a device that allows a surgeon to know the number of bacteria present in the surgical wound in real time.

See video

Universia

Academic Guidance
Digital technology gives users access to accurate and quality information, offering complete resources that link academic guidance and employment making us unique and relevant at decisive moments for the students.

Employment
Our ambition is to create the largest community of professional guidance, internship and employment services for youth in Latin America and Santander America, strengthening their candidacies across 7 countries, and providing them with qualified job offers for a successful immersion in the labor market.

Universities Digital Transformation
Universia is encouraging the development of new technologies at several universities of around the world. And MetaRed is a great example of this digital transformation.

XIX Universia Spain Shareholders' Meeting with deans and academic representatives from universities in Spain and Latin America.

Ana Botin participated in a panel with five representatives of the Santander Erasmus scholarships. She highlighted the role that banks and the education system can play in changing the world. She emphasized the need for all people to have access to education and excellence.

Universia Jobs - For more information (link here)

MetaRed - For more information (link here)

Fundación Universia

Fundación Universia is a private non-profit organisation promoted by Universia. Our goals are broad, focusing in particular on how we can support the people with disabilities, through supporting their higher education and professional development.

The foundation aims to become internationally recognised as the benchmark organisation in qualified employment, linked to the identification and development of diverse talent. It also aims to build collaborative networks capable of producing changes that generate social value in educational and productive responsible environments.

Our strategic focus reflects the UN SDG: access and accessibility (SDG 11), education (SDG 4) and inclusive and equitable quality education (SDG 8).

436 scholarships awarded to university students with disabilities

166 people with disabilities incorporated in companies

Charles Fotso, a story of overcoming

Born in 1988 in Cameroon, Charles Fotso is a member of a large family of 14 brothers and sisters, two of whom suffer from albinism. The consequences of this genetic anomaly are physical-sensory imbalances of the eyes, cutaneous hypersensitivity to the sun's UV rays and photophobia.

After a difficult childhood, he arrived in Madrid in 2005 and studied a Higher Degree in International Trade.

"I heard about Fundación Universia whilst at university because I decided to continue studying. In 2012 I received this information but I did not apply for a scholarship from the foundation to study English until 2016 (He obtained a B2 diploma)".

In 2018 he received a job offer through Santander Summer Experience to work in a bank office during the summer. And a new offer from the Santander Private Banking Experience programme and currently works in a branch of Private Banking.

See video

Community investment

We foster inclusive and sustainable growth through initiatives and programmes that support access to education, social entrepreneurship, employability and welfare in the communities where we operate.

Target

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 between 2019 and 2021.**[A]

Progress

A. The Bank has devised a corporate methodology tailored to Santander's requirements and specific model for contributing to society. This methodology identifies a series of principles, definitions and criteria to allow the Bank to consistently keep track of those people who have benefited from the community investment programmes promoted by the Bank. This methodology has been reviewed by an external auditor. The number of people helped though art and culture programmes has not been included in the methodology.

Main achievements in 2019

EUR 46 million
in social investment

2,300
partnerships with NGOs and social welfare institutions

1.6
million people helped

Key initiatives by country

Commitment to childhood education

Education is the core of our social investment strategy. In addition to supporting university and financial education, the Group supports programmes that are mainly focused on Latin America, where we have been working for many years to guarantee access to quality education.

+500,000

children helped through programmes to support childhood education

Programa Escola Brazil (PEB)

This programme, promoted by the Bank, works with the objective of contributing to the improvement of the quality of basic education for children and young people in public schools in Brazil.

Bécalos

Once again, we collaborated in this initiative of the Association of Banks of Mexico and the Televisa Foundation to promote access to and improvement of education through student scholarships and teacher training grants.

Fundación Belén Educa

Banco Santander collaborates in Chile with the Belén Educa Foundation through various initiatives that foster educational excellence for children and young people (scholarships, internships, workshops, talks and teacher training for secondary school students).

Scholarships

In collaboration with Caritas, the Bank provides scholarships for students from low-income families to combat school dropouts.

Support for social welfare

We promote different initiatives to improve people's quality of life. Our actions are mainly focused on the fight against social exclusion through programmes that address situations of poverty and vulnerability.

+800,000

people helped through programmes designed to tackle social exclusion

Calls for aid to NGOs

Through various internal and public calls for proposals, the Bank supports projects and initiatives of non-profit organisations that contribute to improving people's lives.

Matched Donations programme

The programme is designed to help social enterprises, small charities and community groups deliver projects that improve communities and help disadvantaged people to have confidence in the future.

Fideicomiso por los Niños de México

Programme promoted by the bank's employees to help children in vulnerable situations in areas such as education, health and nutrition.

Techo Chile

Banco Santander has been collaborating for years with TECHO-Chile to help families at risk of exclusion. In 2019, for the second consecutive year, scholarships were awarded to allow access to training courses such as catering or hairdressing.

Promotion of art and culture

Santander Foundation

Santander Foundation has a number of aims, among them making art more accessible and relevant to the public; fostering the linkage between the humanistic and scientific worlds, as well as recovering memory in art, literature and history. It also manages the Banco Santander Collection, and develops support programmes for NGOs and programmes to restore natural areas.

The Santander Emplea Cultura programme is aims to help creating jobs for young people and fostering the professionalisation of the culture sector. Each year, ten cultural organisations are selected and young professionals are sought to work in them for a year.

More information in: www.fundacionbancosantander.com

Farol Santander

Cultural and entrepreneurial centre located in Sao Paulo and Porto Alegre. It promotes contemporary art exhibitions, some of which are interactive, to raise awareness of real community problems, as well as discussion forums and events related to start-ups and innovation.

More information in: www.farolsantander.com.br

Santander Theatre

The largest and most modern multipurpose space in Brazil. Developed to bring cultural events, concerts, shows, exhibitions closer to the population, etc.

More information in: www.teatrosantander.com.br

Tax contribution

We support the communities where we operate, paying the taxes we owe in each of them.

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. It is published on our website.

All Group entities must comply with the Group's tax risk management and control system following its internal control model.

Since 2010 Banco Santander is a member of the Code of Good Tax Practices in Spain and the Code of Practice on Taxation for Banks in the United Kingdom. Santander also participated actively in cooperative compliance initiatives led by different national Tax administrations.

Tax contribution

Santander contributes economically and socially to the countries in which it operates by paying all taxes borne directly by the Group (taxes paid by the Group[A]) and collecting or withholding taxes from third parties generated through business activity, cooperating as required with the local tax authorities (taxes from third parties[B]).

Total taxes raised and paid by the Group in 2019 amount to EUR 16,099 million, of which EUR 6,765 million correspond to taxes paid directly by the Group with the remainder being taxes collected from third parties.

Therefore, for every 100 euros of the total income of the Group, 33 euros correspond to taxes paid and collected, as follows:

- 19 euros for the payment of taxes collected from third parties.
- 14 euros for own taxes paid directly by the Group.

A. Including net income tax payments, VAT and other non-recoverable indirect taxes, social security payments made as employer and other payroll taxes, and other taxes and levies.
B. Including net payments for salary withholdings and employee social security contributions, recoverable VAT, tax deducted at source on capital, tax on non-residents and other taxes

More information on the Group's tax strategy is available on our corporate website www.santander.com.

Core principles of the Group's tax strategy

Fulfill our tax obligations, making a reasonable interpretation of applicable rules that address its spirit and purpose.

Respect the rules on transfer pricing, paying taxes in each jurisdiction in accordance with the functions performed, risks assumed and benefits generated.

Not to provide any kind of advice or tax planning to customers in the marketing and sale of financial products and services.

Communicate transparently the total tax contribution of the Group, distinguishing for each jurisdiction between own taxes borne and those born by third-parties.

Not to create or acquire entities domiciled in offshore jurisdictions without the specific authorization of the board of directors, ensuring adequate control over the presence of the Group in these territories, and reduce it gradually.[C]

Seek to create a good working relationship with the tax authorities, based on the principles of transparency and mutual trust, so as to avoid disputes and consequently minimize litigation.

C. At the end of 2019, we had 3 subsidiaries and 4 branches in offshore territories, having liquidated one in Jersey during the year. See detailed information on off-shore entities in note 3 c) of the notes to the consolidated financial statements.

The taxes included in each year's income statement are largely income tax accrued in the period (EUR million 4,427 in the 2019 financial year - see note 27c of the consolidated annuals accounts - which represents an effective rate of 35.3% or, if the extraordinary results are discounted, EUR million 5,103, which represents a 34.2% tax rate – see note 52.c of the aforementioned report). It also includes non-recoverable VAT, social security contributions as employer, and other levies paid, regardless of the date these amounts are paid.

The taxes paid directly by the Group shown in the accompanying table are included in the cash flow statement. The tax rate when comparing the corporate income tax paid (EUR million 2,951) with the Group's pre-tax profit is 23.5%. Additionally, total taxes paid by the Group includes non-recoverable indirect taxes and contributions to public social security systems, and other taxes that are exclusively levied on banking activities (such as the bank levy in the United Kingdom, Poland and Portugal), and also taxes imposed on financial transactions (in Brazil and Argentina among others). Total taxes paid directly by the Group amounts to 54% of the profit before taxes.

These amounts (taxes accrued-taxes paid) usually differ from each other, given that the date of payment established by national regulations in each country usually is not the same that the date of generation of the income or the date of the operation taxed.

Santander pays taxes in those jurisdictions where the Group's profit is generated. Thus, the profits obtained, taxes accrued and taxes paid correspond to the countries in which the Group carries out its activity.

Tax disclosure by jurisdiction

EUR million

	2019				
Jurisdiction	Corporate income tax	Other taxes paid	Total taxes paid by the Group	Third-party taxes	Total contribution
Spain	(271)	1,313	1,042	1,685	**2,727**
UK	369	486	855	375	**1,230**
Portugal	37	185	222	260	**482**
Poland	210	228	438	160	**598**
Germany	98	47	144	198	**343**
Rest of Europe	400	230	630	(9)	**621**
Total Europe	**842**	**2,490**	**3,331**	**2,669**	**6,001**
Brazil	1,321	513	1,834	2,476	**4,309**
Mexico	396	248	644	749	**1,392**
Chile	186	66	252	302	**554**
Argentina	107	287	394	2,208	**2,602**
Uruguay	32	72	103	37	**140**
Rest of Latin America	27	13	40	17	**57**
Total Latin America	**2,069**	**1,198**	**3,267**	**5,788**	**9,056**
United States	39	124	163	871	**1,035**
Other	1	2	3	5	**9**
TOTAL	**2,951**	**3,814**	**6,765**	**9,334**	**16,099**

Key metrics

Employees

1. Employees by geographies and gender[1]

	Nº employees		% men		% women		% graduates	
Geographies	2019	2018	2019	2018	2019	2018	2019	2018
Spain	29,078	30,868	52	54	48	46	70	73
Brazil	46,248	45,179	43	43	57	57	72	79
Chile	11,267	11,614	46	46	54	54	56	42
Poland	10,902	12,403	31	30	69	70	82	86
Argentina	8,254	9,000	49	50	51	50	40	23
Mexico	19,673	19,096	45	46	55	54	61	49
Portugal	6,255	6,499	54	55	46	45	55	55
UK	22,561	18,297	41	40	59	60	16	22
USA	17,005	16,783	43	42	57	58	15	15
SCF	12,406	12,642	47	46	53	54	34	34
Others	12,770	20,332	51	49	49	51	46	31
Total	**196,419**	**202,713**	**45**	**45**	**55**	**55**	**53**	**52**

1. The employee data presented is broken down according to the criteria of legal entities, and is therefore not comparable to that found in the Auditors' report and annual consolidated accounts, which are presented by management criteria.

2. Functional distribution by gender 2018

	Senior managers					Other managers					Other employees				
	Men		Women		Total	Men		Women		Total	Men		Women		Total
Continental Europe	913	77.8%	260	22.2%	1,173	6,735	64.5%	3,711	35.5%	10,446	26,173	44.4%	32,759	55.6%	58,932
United Kingdom	107	73.3%	39	26.7%	146	1,309	67.2%	640	32.8%	1,949	9,218	39.9%	13,862	60.1%	23,080
Latin America and other regions	523	83.9%	100	16.1%	623	6,427	60.2%	4,256	39.8%	10,683	40,729	42.6%	54,952	57.4%	95,681
Group total	**1,543**	**79.5%**	**399**	**20.5%**	**1,942**	**14,471**	**62.7%**	**8,607**	**37.3%**	**23,078**	**76,120**	**42.8%**	**101,573**	**57.2%**	**177,693**

2. Functional distribution by gender 2019

	Senior managers					Other managers					Other employees				
	Men		Women		Total	Men		Women		Total	Men		Women		Total
Continental Europe	918	76.4%	283	23.6%	1,201	6,043	63.1%	3,534	36.9%	9,577	24,117	44.3%	30,370	55.7%	54,487
United Kingdom	99	76.2%	31	23.8%	130	1,076	68.4%	496	31.6%	1,572	8,870	39.8%	13,391	60.2%	22,261
Latin America and other regions[1]	543	79.2%	143	20.8%	686	4,615	61.6%	2,876	38.4%	7,491	42,626	43.1%	56,388	56.9%	99,014
Group total	**1,560**	**77.3%**	**457**	**22.7%**	**2,017**	**11,734**	**63.0%**	**6,906**	**37.0%**	**18,640**	**75,613**	**43.0%**	**100,149**	**57.0%**	**175,762**

1. The decrease in the variation between 2018 and 2019 related to other managers in Latin America and other regions is due to a change in the categorization criteria in Mexico and Argentina.

3.1. Workforce distribution by age bracket 2018

Number and % of total

	aged <= 25		aged 26 - 35		aged 36 - 45		aged 46 - 50		age over 50	
Continental Europe	2,352	3.3%	14,715	20.9%	27,241	38.6%	10,739	15.2%	15,504	22.0%
United Kingdom	3,964	15.8%	7,092	28.2%	6,470	25.7%	2,810	11.2%	4,839	19.2%
Latin America and other regions	11,474	10.7%	46,233	43.2%	29,553	27.6%	8,637	8.1%	11,090	10.4%
Group total	**17,790**	**8.8%**	**68,040**	**33.6%**	**63,264**	**31.2%**	**22,186**	**10.9%**	**31,433**	**15.5%**

3.2. Workforce distribution by age bracket 2019

Number and % of total

	aged <= 25		aged 26 - 35		aged 36 - 45		aged 46 - 50		age over 50	
Continental Europe	2,040	3.1%	13,365	20.5%	25,374	38.9%	10,599	16.2%	13,887	21.3%
United Kingdom	3,941	16.5%	7,032	29.4%	6,064	25.3%	2,537	10.6%	4,389	18.3%
Latin America and other regions	10,546	9.8%	46,337	43.2%	30,597	28.5%	8,402	7.8%	11,309	10.6%
Group total	**16,527**	**8.4%**	**66,734**	**34.0%**	**62,035**	**31.6%**	**21,538**	**11.0%**	**29,585**	**15.1%**

4.1. Distribution by type of contract[1] 2018

	Permanent / Full time					Permanent / Part-time				
	Men		Women		Total	Men		Women		Total
Continental Europe	32,252	49.7%	32,604	50.3%	64,856	348	17.3%	1,662	82.7%	2,010
United Kingdom	9,580	53.5%	8,338	46.5%	17,918	622	9.8%	5,711	90.2%	6,333
Latin America and other regions	45,950	44.8%	56,591	55.2%	102,541	204	25.6%	594	74.4%	798
Group total	**87,782**	**47.4%**	**97,533**	**52.6%**	**185,315**	**1,174**	**12.8%**	**7,967**	**87.2%**	**9,141**

	Temporary / Full time					Temporary / Part-time				
	Men		Women		Total	Men		Women		Total
Continental Europe	966	33.2%	1,942	66.8%	2,908	255	32.8%	522	67.2%	777
United Kingdom	380	49.5%	387	50.5%	767	52	33.1%	105	66.9%	157
Latin America and other regions	1,249	46.5%	1,436	53.5%	2,685	276	28.7%	687	71.3%	963
Group total	**2,595**	**40.8%**	**3,765**	**59.2%**	**6,360**	**583**	**30.7%**	**1,314**	**69.3%**	**1,897**

4.2. Distribution by type of contract[1] 2019

	Permanent / Full time					Permanent / Part-time				
	Men		Women		Total	Men		Women		Total
Continental Europe	29,768	49.2%	30,746	50.8%	60,514	309	17.6%	1,451	82.4%	1,760
United Kingdom	9,152	52.7%	8,213	47.3%	17,365	538	9.2%	5,296	90.8%	5,834
Latin America and other regions	47,253	44.9%	57,986	55.1%	105,239	413	24.8%	1,251	75.2%	1,664
Group total	**86,173**	**47.1%**	**96,945**	**52.9%**	**183,118**	**1,260**	**13.6%**	**7,998**	**86.4%**	**9,258**

	Temporary / Full time					Temporary / Part-time				
	Men		Women		Total	Men		Women		Total
Continental Europe	833	34.3%	1,596	65.7%	2,429	168	29.9%	394	70.1%	562
United Kingdom	328	50.1%	327	49.9%	655	27	24.8%	82	75.2%	109
Latin America and other regions	116	40.8%	168	59.2%	284	2	50.0%	2	50.0%	4
Group total	**1,277**	**37.9%**	**2,091**	**62.1%**	**3,368**	**197**	**29.2%**	**478**	**70.8%**	**675**

1. The decrease in the variation between 2018 and 2019 related to temporary contracts in Latin America and other regions is due to a change in the policies of new contracts in Mexico, during the second half of 2019, established that every new employee must have a temporary contract, unless otherwise stated.

5. Annual rate of contracts by gender[1]

	2019			2018		
	Men	Women	Total	Men	Women	Total
Employees with permanent /full time contract	87,111	97,701	184,813	88,738	98,294	187,031
Employees with permanent/part-time contracts	1,251	8,075	9,326	1,166	8,044	9,209
Employees with temporary/full-time contracts	1,813	2,761	4,574	3,684	4,971	8,656
Employees with temporary/part-time contracts	225	526	752	666	1,446	2,112
Group Total	**90,401**	**109,064**	**199,465**	**94,253**	**112,755**	**207,008**

1. The figure for 2018 has been estimated in this indicator.

6.1. Annual rate of contracts by age bracket 2018[1]

	aged <= 25	aged 26-35	aged 36-45	aged 46-50	aged over 50	Total
Employees with permanent /full time contract	12,940	61,561	60,015	20,833	31,683	187,031
Employees with permanent/part-time contracts	1,185	2,602	2,502	891	2,030	9,209
Employees with temporary/full-time contracts	2,448	3,854	1,410	329	615	8,656
Employees with temporary/part-time contracts	694	755	424	90	149	2,112
Group Total	**17,267**	**68,772**	**64,350**	**22,143**	**34,476**	**207,008**

1. The figure for 2018 has been estimated in this indicator.

6.2. Annual rate of contracts by age bracket 2019

	aged <= 25	aged 26-35	aged 36-45	aged 46-50	aged over 50	Total
Employees with permanent /full time contract	12,787	60,831	59,303	20,586	31,307	184,813
Employees with permanent/part-time contracts	1,200	2,635	2,534	902	2,056	9,326
Employees with temporary/full-time contracts	1,294	3,854	745	174	325	4,574
Employees with temporary/part-time contracts	247	269	151	32	53	752
Group Total	**15,527**	**65,771**	**62,733**	**21,694**	**33,740**	**199,465**

7. Annual rate of contract by category[1]

	2019				2018			
	Senior Managers	Other Managers	Other employees	Total	Senior Managers	Other Managers	Other Employees	Total
Employees with permanent /full time contract	2,022	18,418	164,373	184,813	2,046	18,639	166,346	187,031
Employees with permanent/part-time contracts	4	227	9,095	9,326	4	224	8,981	9,209
Employees with temporary/full-time contracts	12	88	4,474	4,574	23	167	8,466	8,656
Employees with temporary/part-time contracts	0	165	587	752	0	463	1,648	2,112
Total Grupo	**2,038**	**18,898**	**178,528**	**199,465**	**2,073**	**19,493**	**185,442**	**207,008**

1. The figure for 2018 has been estimated in this indicator.

8. Employees who work in their home country[1]

%

	Managers		Other employees		Total	
	2019	2018	2019	2018	2019	2018
Continental Europe	89.26	89.77	96.98	96.83	96.84	96.72
United Kingdom	86.92	92.47	94.11	96.89	94.07	96.87
Latin America and other regions	89.21	88.44	98.28	98.94	98.23	98.88
Group total	**89.09**	**89.55**	**97.34**	**97.96**	**97.26**	**97.88**

1. United States data not included as it is confidential information.

9. Differently-abled employees ratio by region

%	2019	2018
Continental Europe	1.38	1.24
United Kingdom	2.05	1.61
Latin America and other regions	2.09	2.09
Group total	**1.84**	**1.73**

9.1. Differently-abled employees

Number of employees	2019	2018
Spain	361	365
Rest of the Group	3,223	3,071
Total Group	**3,584**	**3,436**

10. Coverage of the workforce by collective agreement

	2019		2018	
Countries	%	Nº Employees	%	Nº Employees
Spain	96.20	27,961	99.94	30,848
Brazil	98.80	45,674	94.13	42,529
Chile	100.00	11,267	100.00	11,614
Poland	0.00	0	0.00	-
Argentina	99.20	8,188	99.00	8,910
Mexico	22.50	4,429	20.05	3,829
Portugal	99.10	6,197	99.40	6,460
UK	94.40	21,294	100.00	18,297
US	0.00	0	0.00	-
SCF	94.00	11,663	50.22	6,349
Other business units	66.20	8,459	70.31	14,295
Total Group	**73.70**	**144,800**	**70.61**	**143,131**

11.1. Distribution of new hires by age bracket 2018

% of total	aged <= 25	aged 26-35	aged 36-45	aged over 45	aged > 50
Continental Europe	23.79	44.73	23.50	4.69	3.30
United Kingdom	47.81	28.51	13.39	4.09	6.20
Latin America and other regions	33.84	44.04	15.19	3.49	3.44
Group total	**33.67**	**41.72**	**16.89**	**3.87**	**3.85**

11.2. Distribution of new hires by age bracket 2019

% of total	aged <= 25	aged 26-35	aged 36-45	aged over 45	aged > 50
Continental Europe	30.16	44.54	18.03	4.26	3.01
United Kingdom	50.83	27.97	11.14	4.44	5.63
Latin America and other regions	26.35	46.71	17.30	3.52	6.12
Group total	**31.84**	**42.62**	**16.18**	**3.82**	**5.53**

11.3. Distribution of new hires by gender

	2019			2018		
	Men	Women	Total	Men	Women	Total
Continental Europe	6.6%	5.5%	6.0%	9.18%	11.29%	10.28%
United Kingdom	22.36%	19.5%	14.9%	22.31%	15.79%	16.97%
Latin America and other regions	16.5%	13.6%	20.7%	18.43%	16.97%	19.23%
Group total	**13.67%**	**11.78%**	**12.63%**	**15.48%**	**14.45%**	**14.92%**

12. Distribution of dismissals [1]

by gender	2019						2018					
	Men	%[2]	Women	%[2]	Total	%[2]	Men	%[2]	Women	%[2]	Total	%[2]
Senior managers	45	2.88%	12	2.63%	57	2.82%	68	4.41%	26	6.52%	94	4.84%
Other managers	752	6.40%	342	4.95%	1,094	5.86%	375	2.59%	189	2.20%	564	2.44%
Other employees	6,945	9.19%	8,245	8.23%	15,190	8.64%	3,087	4.06%	3,681	3.62%	6,768	3.81%
Total Group	**7,742**	**8.71%**	**8,599**	**8.00%**	**16,341**	**8.32%**	**3,530**	**3.83%**	**3,896**	**3.52%**	**7,426**	**3.66%**

by age	2019			2018		
	Men	Women	Total	Men	Women	Total
aged <=25	451	535	986	382	492	874
aged 26-35	1,963	2,603	4,566	1,071	1,310	2,381
aged 36-45	1,878	2,710	4,588	884	1,028	1,912
aged 46-50	696	866	1,562	395	343	738
aged >50	2,754	1,885	4,639	798	723	1,521
Total Group	**7,742**	**8,599**	**16,341**	**3,530**	**3,896**	**7,426**

1. Dismissal: unilateral termination. decided by the company. of an employment contract not subject to term expiration. The concept includes encouraged redundancies within the context of restructuring processes.
2. Percentage expressing the number of dismissals over the total number of employees in each group.

13. External turnover rate by gender[1]

%	2019			2018		
	Men	Women	Total	Men	Women	Total
Continental Europe	15.58	14.39	14.95	12.32	12.48	12.41
United Kingdom	19.73	20.49	20.18	16.39	14.17	15.10
Latin America and other regions	19.94	17.64	18.66	17.99	17.01	17.45
Group total	**18.39**	**16.99**	**17.61**	**15.70**	**15.10**	**15.37**

1. Excludes temporary leaves of absence and transfers to other Group companies.

14.1 External turnover rate by age bracket[1] 2018

% of total	aged <= 25	aged 26-35	aged 36-45	aged 46-50	aged over 50	Total
Continental Europe	40.01	16.15	8.68	7.46	14.43	12.41
United Kingdom	35.72	15.74	8.75	6.48	10.52	15.10
Latin America and other regions	25.73	17.16	13.72	15.49	21.45	17.45
Group total	**29.84**	**16.75**	**11.04**	**10.46**	**16.31**	**15.37**

1. Excludes temporary leaves of absence and transfers to other Group companies.

14.2. External turnover rate by age bracket[1] 2019

% of total	aged <= 25	aged 26-35	aged 36-45	aged 46-50	aged over 50	Total
Continental Europe	40.32	17.93	9.65	6.85	24.16	14.95
United Kingdom	38.97	19.59	13.49	11.51	18.61	20.18
Latin America and other regions	25.19	18.19	15.18	17.56	24.64	18.66
Group total	**30.39**	**18.31**	**12.75**	**11.56**	**23.52**	**17.61**

1. Excludes temporary leaves of absence and transfers to other Group companies.

15.1 Employees average remuneration and evolution

Euros

	By gender		By professional category			
	Men	Women	Senior officers[2]	Other managers	Other employees	Total
Total remuneration (average)[1]	54,123	34,273	408,598	101,520	34,372	43,262
Variación 2019 vs. 2018	5%	6.7%	2.6%	4.2%[3]	4.1%	5.7%

By Age Brackets

	aged <= 25	aged 26-35	aged 36-45	aged 46-50	aged over 50	Total
Total remuneration (average)[1]	17,597	27,563	47,221	62,574	66,216	43,262
Variación 2019 vs. 2018	(4.9)%	10%	6.4%	4.6%	5.1%	5.7%

1. Data at end of 2019. The total remuneration of employees includes annual base salary, pensions and variable remuneration paid in the year.
2. Includes Group Sr. Executive VP. Executive VP and Vice President.
3. The variation includes the effect of internal reclassification between the category and the rest of employees carried out in different geographies.

15.2 Average remuneration Senior officers

Thousands euros	2019			2018		
	Men	Women	Total	Men	Women	Total
Executive officers	6,571	9,952	7,698	6,738	10,481	7,986
Non-executive officers	354	251	292	347	255	317
Senior officers	3,693	3,902	3,740	3,349	3,343	3,348

16.1 Ratio between the Bank's minimum annual salary and the legal minimum annual salary by country and gender 2018

	% Legal Minimum Wage		
	Men	Women	% legal minimum wage
Germany	242.00%	215.00%	228.49%
Argentina	337.00%	337.00%	336.53%
Brazil	183.00%	183.00%	183.12%
Chile	111.00%	112.00%	111.63%
US	179.00%	207.00%	193.02%
Spain	213.00%	213.00%	212.58%
Mexico	130.00%	130.00%	130.23%
Poland	100.00%	114.00%	107.14%
Portugal	207.00%	207.00%	206.90%
UK	102.00%	102.00%	102.43%

16.2 Ratio between the Bank's minimum annual salary and the legal minimum annual salary by country and gender 2019

	% Legal Minimum Wage		
	Men	Women	% legal minimum wage
Germany	225.00%	193.00%	209.00%
Argentina	338.00%	338.00%	338.03%
Brazil	182.00%	182.00%	182.25%
Chile	175.00%	136.00%	155.43%
US	207.00%	207.00%	206.80%
Spain	176.00%	176.00%	176.05%
Mexico	128.00%	128.00%	128.14%
Poland	100.00%	100.00%	100.27%
Portugal	200.00%	200.00%	200.00%
UK	130.00%	130.00%	130.40%

17. Training

	2019	2018
Total hours of training	8,002,784	6,842,825
% employees trained	100.0	100.0
Total attendees	6,024,981	4,700,013
Hours of training per employee	40.70	33.76
Total investment in training	102,586,146	98,689,210
Investment per employee	522.28	486.84
Cost per hour	12.82	14.42
% female participants	54.2	54.4
% of e-learning training attendees	84.6	90.0
% of e-learning hours	48.1	48.1
Employee satisfaction (up to 10)	9.3	8.0

18. Hours of training by category

	2019		2018	
	Hours	Average	Hours	Average
Senior officers	77,861	38.6	69,358	35.71
Managers	678,335	36.39	764,104	33.11
Other employees	7,246,558	41.23	6,009,363	33.82
Group total	**8,002,784**	**40.74**	**6,842,825**	**33.76**

19. Hours of training by gender

	2019	2018
	Average	Average
Men	41.49	34.27
Women	40.13	33.37
Group total	**40.74**	**33.76**

20. Absenteeism by gender and region[1]

%	2019			2018		
	Men	Women	Total	Men	Women	Total
Continental Europe	2.18	5.49	3.94	1.85	4.36	3.18
United Kingdom	3.73	5.40	4.72	3.65	5.14	4.54
Latin America and other regions	1.36	2.86	2.19	3.05	4.22	3.70
Group total	**1.90**	**4.00**	**3.06**	**2.64**	**4.40**	**3.61**

1. Hours missed due to occupational accident. non-work related illness and non-work related accident for every 100 hours worked. The decline in Latin America and the rest stems from a change in the quantification of hours in Brazil.

21. Accident rate[1]

%	2019			2018		
	Men	Women	Total	Men	Women	Total
Continental Europe	0.10	0.27	0.19	0.07	0.09	0.08
United Kingdom	0.01	0.02	0.02	0.01	0.05	0.03
Latin America and other regions	0.18	0.33	0.26	0.66	0.95	0.83
Group total	**0.14**	**0.27**	**0.21**	**0.36**	**0.53**	**0.45**

1. Hours missed due to occupational accident involving leave for every 100 hours worked. The hours worked are theoretical hours. Accidents in itinere are included.

22. Occupational health and safety

	2019			2018		
	Men	Women	Total	Men	Women	Total
Frequency rate[1]	1.61	2.41	1.77	4.14	6.32	5.26
Severity rate[2]	0.14	0.27	0.21	0.36	0.53	0.45
No. of fatal occupational accidents	0	1	1	2	2	4
Work related illness[3]	0	0	0	0	0	0
Hours of absenteeism (hours not worked due to common illness and non-work accident) (millions of hours).	2,959,796	7,682,744	10,642,540	3,812,224	7,884,418	11,696,642

1. Days not worked due to accidents at work with and without leave for every 10,000 hours worked. The hours worked are theoretical hours. In itinere accidents are included.
2. Days not worked due to work accident with leave for every 1000 hours worked. The hours worked are theoretical hours. In itinere accidents are included.
3. No member of the Group's staff is exposed to occupational diseases, given that the activity carried out by Santander professionals and the sector in which they operate is not recognized in Royal Decree 1299/2006.

Customers

23. Group Customers[1]

	2019	2018	var.
Europe	**66,278,825**	**66,367,725**	**(0.1)%**
Spain	13,711,173	13,752,964	(0.3)%
Portugal	3,062,608	3,056,238	0.2%
UK[2]	25,078,945	25,519,550	(1.7)%
Poland	5,047,909	4,525,138	11.6%
SCF[3]	19,286,148	19,427,881	(0.7)%
Rest of Europe	92,042	85,954	7.1%
Latinamerica	**53,933,059**	**50,089,573**	**7.7%**
Brazil	46,089,431	42,074,640	9.5%
Chile	3,415,807	3,460,654	(1.3)%
Argentina	3,548,366	3,701,498	(4.1)%
Rest of Latam.	879,455	852,781	3.1%
North America	**23,395,482**	**21,906,671**	**6.8%**
Mexico	18,134,468	16,690,402	8.7%
Santander Bank	5,261,014	5,216,269	0.9%
SGP	**1,187,935**	**1,085,053**	**9.5%**
Total	**144,795,301**	**139,449,022**	**3.8%**

1. Figures corresponding to total customers, understood as the first holder of at least one product or service with a current contract. Of the European countries listed, except for the United Kingdom, the customers of Santander Consumer Finance are included under "Rest of Europe".
2. Includes SCF.
3. SCF includes all European countries, except UK.

24. Dialogue by channel

	2019	2018	Var .2019/2018 %.
Branches			
Number of branches	11,952	13,217	(9.6)%
ATMs			
Nº ATMs	39,593	38,503	2.8%
Digital banking[1]			
Users[2]	36.8	32.0	15%
Visits	7,907	6,302	25.5 %
Monetary transactions[3]	2,251	1,843	22.1 %

1. Santander Consumer Finance not included.
2. Counts once for users of both Internet and mobile banking.
3. Millions.

25. Customer satisfaction

% satisfaction among active retail customers

	2019	2018	2017
Spain	85.5	87.1	85.5
Portugal	86.4	91.3	91.4
UK	96.5	97.0	96.0
Poland	97.9	97.5	95.9
Brazil	86.2	79.6	77.9
Mexico	94.5	97.8	96.4
Chile	85.6	85.8	91.6
Argentina	86.0	83.3	87.1
US	88.4	83.3	81.8
Uruguay	93.6	94.5	93.3
Total	**90.2**	**88.7**	**88.0**

Source: Corporate benchmarking of experience and satisfaction among active Retail & Commercial banking customers. Based on audited external and local studies developed by well-known vendors (IPSOS, IBOPE,GFK,TNS...) (Data at end 2017, corresponding to survey results in the second half of the year). Uruguay's data has been added as it is now available for 2018 and 2019

26. Total complaints received

	2019	2018	2017
Spain[1]	91,046	85,519	107,103
Portugal	4,655	4,298	4,275
United Kindom [2]	30,298	33,797	37,746
Poland	6,193	4,480	4,785
Brazil [3]	133,841	111,829	101,589
Mexico[4]	75,459	60,740	51,895
Chile[5]	6,474	6,171	5,526
Argentina[6]	4,106	5,464	4,372
US	4,097	4,160	4,041
SCF	30,535	29,067	30,126

Compliance metrics according to Group criteria, homogeneous for all geographies.
It may not match with other local criteria such us Financial Conduct Authority (FCA) in the United Kingdom or in Brazil.

1. Even Popular Bank complaints have been included, in Spain complaints inflow has decreased due to the effects of Supreme Court Ruling related to set up mortgages fees.
2. In the United Kingdom, claims have been reduced due to the new approach in the complaint management model adopted in the equipment, as well as the improvements in the analysis root cause of claims and their government. Claims for personal protection insurance (SPP) are not included. More details can be found in the claims management section.
3. In Brazil complaints inflows have increased mainly due to fees, charges not recognised, and direct debits.
4. In Mexico complaints are increasing mainly due to fraud cases, especially e-commerce, and debt collecting (REDECO Channel).
5. Chile shows a slight increase mainly due to fraud cases, especially online cases.
6. In Argentina Complaints volumes increased due to fees and fraud cases.

Environment and climate change

27. Environmental footprint 2018-2019[1]

	2019	2018	Var. 2018-2019 (%)
Consumption			
Water (m^3)[2]	2,811,322	2,956,420	-4.9
Water (m^3/employee)	14.55	15.24	-4.5
Normal electricity (millions of kwh)	533	616	-13.5
Green electricity (millions of kwh)	537	461	16.5
Total electricity (millions of kwh)	1,070	1,077	-0.7
Total internal energy consumption (GJ)[3]	4,252,669	4,404,750	-3.5
Total internal energy consumption (GJ/employee)	22.00	22.70	-3.2
Total paper (t)	18,101	17,926	1.0
Recycled or certified paper (t)	15,388	15,746	-2.3
Total paper (t/employee)	0.09	0.09	1.4
Waste			—
Paper and cardboard waste (kg)[4]	9,410,831	9,613,690	-2.1
Paper and cardboard waste (kg/employee)	48.69	49.55	-1.7
Greenhouse gas emissions			—
Direct emissions (CO_2 teq)[5,6]	22,691	31,227	-27.3
Indirect electricity emissions (CO_2 teq)-MARKET BASED[7]	177,504	223,920	-20.7
Indirect electricity emissions (CO_2 teq)-LOCATION BASED[8]	322,038	364,682	-11.7
Indirect emissions from displacement of employees (CO_2 teq)[9]	120,969	124,823	-3.1
Total emissions (CO_2 teq)- MARKET BASED	321,164	379,970	-15.5
Total emissions (CO_2 teq/employee)	1.66	1.96	-15.1
Average number of employees	193,261	194,027	-0.4

1. The scope of information includes the main countries of operation: Argentina, Brazil, Chile, Germany, Mexico, Poland, Portugal, Spain, United Kingdom and United States (excluding Puerto Rico and Miami). The information on Banco Popular is included on a consolidated basis within Spain and Portugal.
2. Information is provided exclusively on water consumption from the public network.
3. It is also reported that the external energy consumption resulting from employee travel and business trips has been: 1,721,139 GJ in 2019 and 1,666,802 GJ in 2018.
4. The data for 2018 and 2019 do not include waste from Argentina and the commercial network in Brazil.
5. These emissions include those derived from the direct consumption of energy (natural gas and diesel) and correspond to scope 1, defined by the GHG Protocol standard. To calculate these emissions, the emission factors DEFRA 2019 for 2019 and DEFRA 2018 for 2018 were applied. The variation is due to the consideration of the emissions derived from the use of own vehicles in Mexico.
6. The reduction in direct emissions was mainly due to lower diesel consumption in 2019. This reduction was mainly due to the completion of maintenance operations at the Data Processing Centre in Brazil in 2018 and to the reduction in the number of buildings in the USA and of branches in Germany that used this type of fuel.
7. These emissions include those derived from electricity consumption and correspond to the scope 2 defined by the GHG Protocol standard. In 2019 the IEA (International Energy Agency) emission factors for 2017 have been used, and in 2018, the IEA 2015 factors were used.
- Indirect Electricity Emissions - Market-based: zero emissions have been considered for green electricity consumed in Germany, Brazil, Spain, UK, USA, which has meant a reduction of 144,783 tons of CO2 equivalent in 2019 and 140,762 in 2018. For the rest of the electrical energy consumed, the emission factor of the IEA corresponding to each country has been applied.
- Indirect emissions of electricity - Location-based: the emission factor of the AEI corresponding to each country has been applied to the total electricity consumed, regardless of its source (renewable or non-renewable).
8. The reduction in indirect electricity emissions has been mainly due to the increase in the purchase of green energy in 2019 in the countries that make up the G10.
9. These emissions include emissions from employees travelling from central services in each country to their workplaces by individual car, collective vehicle and rail, and from employees' business travel by air and car. The distribution of employees by type of travel has been made on the basis of surveys or other estimates. The conversion factors DEFRA 2019 for 2019 and DEFRA 2018 for 2018 were used to calculate emissions from employee travel. - The number of employees travelling to work in their own vehicles was estimated taking into account only the number of parking spaces in the central services buildings in each country and the diesel/petrol consumption mix of the vehicle fleet in each country. Data on employee travel by individual vehicle from Argentina, Poland and the United Kingdom are not reported, as the information is not available. - Employees' journeys in collective vehicles were calculated on the basis of the average distance travelled by the vehicles rented by Grupo Santander for collective transport of its employees in the following countries: Germany, Brazil, the US, Spain, Mexico, Poland, Consumer and Portugal, and within the central services of Spain (CGS). - Data on business trips by air from Poland Geoban and business trips by car from Poland Geoban and USA Consumer are not reported, as the information is not available. - Emissions derived from the use of courier services are not included, nor are those derived from the transport of funds, nor those from any other purchase of products or services, nor those indirect ones caused by the financial services provided.

Contribution to UN Sustainable Development Goals

We contribute directly achieving the SDGs through our business activities and our community investment programmes.

Main SDGs where Banco Santander's business activities and community investments have the most weight.

Goal	Target	Scope	Data	Section
1 NO POVERTY	1.4	By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.	The Prospera microfinance program in Brazil, chosen as good practice by the Brazilian Global Compact Network to achieve the SDGs in 2030. Commitment to financially empower 10 million people by 2025. We have empowered 2M people in 2019.	Financial inclusion and empowerment 2019 highlights
	1.5	By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.	Support to the community: 46 million in social investment and 1.6 million people helped through our social programmes . Commitment of 4 million people helped through community programmes by 2022.	Community investment 2019 highlights
4 QUALITY EDUCATION	4.3	By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.	We have 1,333 agreements with different universities. We have invested 119 million euros to support higher education through our programmes.	Supporting higher education
	4.4	By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.		
	4.5	By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations.	More than 500,000 children helped through programmes to support childhood education.	Community Investment
	4.B	By 2020, substantially expand globally the number of scholarships available to developing countries, in particular least developed countries, small island developing States and African countries, for enrolment in higher education, including vocational training and information and communications technology, technical, engineering and scientific programmes, in developed countries and other developing countries.	Banco Santander is the largest company investing in education in the world. More than 68.671 scholarships and grants awarded to students in 2019. The largest private scholarship program in the world. Commitment of 200k scholarships between 2019 y 2021.	Supporting higher education 2019 highlights

5 GENDER EQUALITY	5.1	End all forms of discrimination against all women and girls everywhere.	New general principles on diversity and inclusion that provide global guidelines and minimum standards.	Principles and governance
	5.5	Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life.	55% of women in the workforce, Commitments: Women on board 40-60% by 2021. 30% women in senior leadership positions by 2025a and eliminate our gender pay gap by 2025.	Our approach 2019 highlights
	5.A.	Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws.	In Brazil and Mexico 7 out of 10 individual entrepreneurs helped through our microfinance programmes are women.	Financial inclusion and empowerment
	5.C.	Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels.	In 2019 the calculated gap was 2% and we have committed to reduce it to almost 0 by 2025.We have signed the UN Women's Empowerment Principles.	Principles and governance
7 AFFORDABLE AND CLEAN ENERGY	7.2	By 2030, increase substantially the share of renewable energy in the global energy mix.	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.	2019 highlights Sustainable finance
8 DECENT WORK AND ECONOMIC GROWTH	8.3	Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.	196.000 employees. 98% with a fixed contract. 8.3% of the staff promoted. 124.559 million euros have been granted to SMEs and individual entrepreneurs. Santander X aims to become the world's largest community for university entrepreneurship.	A talented and motivated team Meeting the needs of everyone in society Supporting higher education
	8.5	By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.	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. Commitment "top 10 companies to work for" in 6 of our main geographies by 2022. We achieved 5 countries in 2019.	2019 highlights A talented and motivated team
	8.8	Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.		

	10.2	By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.	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.	Our approach Financial inclusion and empowerment Supporting higher education Community Investment
	11.1	By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.	332,881 millions euros of credit to housing. Our branches and ATMs in remote locations are also an integral part of our strategy to foster access to basic financial services.	Meeting the needs of everyone in society Financial inclusion and empowerment
	11.4	Strengthen efforts to protect and safeguard the world's cultural and natural heritage.	More than 1 million people benefited from art and cultural initiatives.	Community investment

12 RESPONSIBLE CONSUMPTION AND PRODUCTION	12.4	By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.	Environmental footprint: 2.1% reduction in paper and cardboard waste, 3.5% reduction in internal electricity consumption, and 15.5% reduction of total CO_2 emissions in 2019. 50% of the energy consumed by Santander was renewable energy. Commitments: 60% of electricity used from renewable energy sources by 2022 and 100% by 2025. Becoming carbon neutral in own operations 0% by 2020.	Environmental footprint 2019 highlights
	12.5	By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.	Commitment: Unnecessary single use plastic free in corporate buildings and branches to 0 tons by 2022.	2019 highlights Environmental footprint
	12.6	Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.	Environmental and social risks analysis: 46 projects financed under Equator Principles criteria. Responsible procurement: New principles of responsible behaviour of suppliers; 93.2% local Group suppliers. 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. Founder member of UN Responsible Banking Principles	Responsible business practices 2019 Highlights Sustainable finance
13 CLIMATE ACTION	13.A	Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly $100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible.	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 CO_2, electric and hybrid emissions. 1 bn euros first green bond emission Commitment: Green finance raised and facilitated (euros) 120Bn by 2025. In 2019 we achieved 19Bn euros.	Sustainable finance 2019 highlights
17 PARTNERSHIPS FOR THE GOALS	17.16	Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries.	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.	Principles and governance

Further information

This Responsible banking chapter constitutes the traditional sustainability report that the Group prepares and is one of the main tools used by the Group to report on sustainability issues.

International standards and response to legislation in preparing this Responsible banking chapter

Santander has relied on internationally recognized standards such as the Global Reporting Initiative (GRI) in the preparation of its successive Sustainability Reports. This chapter has been prepared in accordance with the GRI Standards: Comprehensive option.

Additionally, in this chapter detailed information is provided to respond to the Law 11/2018, which transposes to the Spanish legal order the Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information.

Scope

This chapter is the fifteenth annual document that the Santander Group has published, giving account of its sustainability commitments, and refers to the period from 1 January to 31 December 2019. This report has been verified by PricewaterhouseCoopers Auditores, S.L., and independent firm which also audited the Group´s annual financial statements for the year.

This report also covers the Group´s relevant activities in the geographical areas in which it is present: Continental Europe, the United Kingdom, the United States and Latin America. The economic information is presented according to the definition used by the Group for accounting purposes; the social and environmental information has been prepared according to the same definition, wherever this is available.

Data contained in this chapter covers Banco Santander SA. and subsidiaries (for more information see notes 3 and 52 to the consolidated financial statements and sections 3 and 4 of the economic and financial chapter).

When the limitations and scope of the information, and the changes in criteria applied with respect to the to the 2018 sustainability report are significant, these are reflected in the corresponding section of the report and the GRI Content Index.

Material aspects and stakeholder involvement

The Group maintains active dialogue with its stakeholders in order to identify those issues that concern them. In addition, a survey was conducted to determine the most relevant aspects to be addressed in this sustainability report. The Group also closely monitors the questionnaires and recommendations of the main sustainability indexes (Dow Jones, FTSE4Good, etc.) and the various international sustainability initiatives to which the Group is party, such as the World Business Council for Sustainable Development (WBCSD).

In flagging and identifying content to be included in the report, and in addition to the materiality study conducted, the sustainability context of the Group at both the global and local level was considered. Moreover, and insofar as there was sufficient available information, the impacts both within and outside the Bank were addressed.

The details of this process, as well as the results of the materiality study, can be found on section 'What our stakeholders tell us' of this document.

Non-financial information Law content index

Equivalent table of legal disclosure requirements under Spanish law 11/2018

	Description of the metric/concept included in the 11/2018 Law to be disclosed	Chapters/section of the Consolidated directors report where the info is available	Correspondence with GRI indicators
0. General Information	Short **description of the Group's business model** (it will include its business environment, its organisation and structure, the markets in which it operates, its objectives and strategies, and the main factors and trends that may affect its future performance).	Business model and strategy, What our stakeholders tell us.	GRI 102-1 GRI 102-2 GRI 102-3 GRI 102-4 GRI 102-6 GRI 102-7 GRI 102-14 GRI 102-15
	A description of the policies that the Group applies, which will include: the due diligence procedures applied for the identification, assessment, prevention and mitigation of risks and significant impacts and of verification and control, including the measures in which they have been adopted):	Principles and governance. Analysis of Environmental & Social Risk	GRI 103-2 GRI 103-3
	The **results of these policies**, including key indicators of relevant non-financial results that allow the monitoring and evaluation of progress and that favour the comparability between companies and sectors, in accordance with national, European or international frameworks of reference used for each matter.	Challenge 2: Inclusive and sustainable growth. A talented and motivated team. Principles and governance. Responsible business practices.	GRI 103-2 GRI 103-3
	The **main risks related to these matters associated with the Group's activities** (business relationships, products or services) that may have a negative effect in these areas, and how the Group manages these risks, explaining the **procedures used to detect and assess them** in accordance with national, European or international frameworks of reference for each matter. It must include information about the impacts that have been detected, offering a breakdown, in particular of the main risks in the short, medium and long term.	Sustainable finance,.Responsible business practices. Risk management and control chapter.	GRI 102-15 GRI 102-30
	Detailed information on the current and foreseeable effects of the activities of the company in the environment and, where appropriate, health and safety, environmental evaluation or certification procedures; the resources dedicated to the prevention of environmental risks; the application of the principle of caution, the amount of provisions and guarantees for environmental risks.	Sustainable finance.	GRI 102-29 GRI 102-31 GRI 201-2 GRI 103-2 (GRI of environmental dimension)
		Environmental footprint.	GRI 102-11 GRI 102-29
		Analysis of environmental and social risks.	GRI 102-11
		At the end of the 2019 financial year, no significant account is presented in the Consolidated Annual Accounts of the Group that should be included in this chapter regarding environmental provisions or guarantees.	GRI 102-11

1. Environmental Information

Description of the metric/concept included in the 11/2018 Law to be disclosed	Chapters/section of the Consolidated directors report where the info is available	Correspondence with GRI indicators
Contamination:		
Measures to prevent, reduce or repair CO_2 emissions that seriously affect the environment, taking into account any form of air pollution, including noise and light pollution.	Environmental footprint.	GRI 103-2 (GRI 302 y 305)
Circular economy and waste prevention and management:		
Waste prevention measures, waste recycling measures, waste reuse measures; other forms of waste recovery and reuse; actions against food waste.	Environmental footprint.	GRI 103-2 (GRI 306) GRI 301-2 GRI 306-1
Sustainable use of resources:		
Use and supply of water according to local limitations	Environmental footprint.	GRI 303-1
Consumption of raw materials and measures taken to improve the efficiency of its use.	Environmental footprint.	GRI 103-2 (GRI 301) GRI 301-1 GRI 301-2
Energy: direct and indirect consumption, measures taken to improve energy efficiency, use of renewable energies	Environmental footprint.	GRI 103-2 (GRI 302) GRI 302-1 GRI 302-3
Climate change:		
Important elements of greenhouse gas emissions generated as a business activity (including goods and services produced)	Environmental footprint.	GRI 103-2 (GRI 305) GRI 305-1 GRI 305-2 GRI 305-3 GRI 305-4
Measures taken to adapt to the consequences of climate change	Sustainable finance, Environmental footprint.	GRI 103-2 (GRI 305) GRI 201-2
Reduction targets voluntarily established in the medium and long term to reduce greenhouse gas emissions and means implemented for this purpose.	Environmental footprint.	GRI 103-2 (GRI 305)
Protection of biodiversity:		
Measures taken to preserve or restore biodiversity	The impacts caused by the direct activities of Banco Santander on biodiversity are not material due to the financial activity carried out by the entity.	-
Impacts caused by the activities or operations of protected areas		

2. Social

Description of the metric/concept included in the 11/2018 Law to be disclosed	Chapters/section of the Consolidated directors report where the info is available	Correspondence with GRI indicators
Employment:		
Total number and distribution of employees by gender, age, country and professional classification	Key Metrics.	GRI 103-2 (GRI 401) GRI 102-8 GRI 405-1
Total number and distribution of contracts modes and annual average of undefined contracts, temporary contracts, and part-time contracts by: sex, age and professional classification.	Key Metrics.	GRI 102-8 GRI 405-1
Number of dismissals by: gender, age and professional classification.	Key Metrics.	GRI 401-1
Average remuneration and its progression broken down by gender, age and professional classification	Key Metrics.	GRI 405-2
Salary gap and remuneration of equal or average jobs in society	A talented and motivated team	GRI 103-2 (GRI 405) GRI 405-2
Average remuneration of directors and executives (including variable remuneration, allowances, compensation, payment to long-term savings forecast systems and any other payment broken down by gender)	Key Metrics. Corporate governance chapter.	GRI 102-35 GRI 102-36 GRI 103-2 (GRI 405)
Implementation of work disconnection policies	A talented and motivated team.	GRI 103-2 (GRI 401)
Employees with disabilities	Key metrics.	GRI 405-1
Organisation of work:		
Organisation of work time	A talented and motivated team	GRI 103-2 (GRI 401)
Number of absent hours	Key Metrics.	GRI 403-2
Measures designed to facilitate work-life balance and encourage a jointly responsible use of said measures by parents	A talented and motivated team.	GRI 103-2 (GRI 401)
Health and safety:		
Conditions of health and safety in the workplace	A talented and motivated team.	GRI 102-41
Occupational accidents, in particular their frequency and severity, as well as occupational illnesses. Broken down by gender.	Key Metrics.	GRI 403-2 GRI 403-3
Social relations:		
Organisation of social dialogue (including procedures to inform and consult staff and negotiate with them)	What our stakeholders tell us. A talented and motivated team. Responsible business practices.	GRI 103-2 (GRI 402)
Percentage of employees covered by collective bargaining agreements by country	Key Metrics.	GRI 102-41
Balance of the collective bargaining agreements (particularly in the field of health and safety in the workplace)	A talented and motivated team.	GRI 403-1 GRI 403-4
Training:		
The policies implemented in the field of training	A talented and motivated team.	GRI 103-2 (GRI 404) GRI 404-2
Total number of hours of training by professional categories.	Key Metrics.	GRI 404-1
Accessibility:		
Universal accessibility of people	A talented and motivated team. Supporting higher education.	GRI 103-2 (GRI 405)
Equality:		
Measures taken to promote equal treatment and opportunities between women and men, Equality plans (Chapter III of Organic Law 3/2007, of 22 March, for the effective equality of women and men), measures taken to promote employment, protocols against sexual and gender-based harassment, Policy against all types of discrimination and, where appropriate, integration of protocols against sexual and gender-based harassment and protocols against all types of discrimination and, where appropriate, management of diversity	A talented and motivated team. Supporting higher education.	GRI 103-2 (GRI 405 and 406)

	Description of the metric/concept included in the 11/2018 Law to be disclosed	Chapters/section of the Consolidated directors report where the info is available	Correspondence with GRI indicators
3. Human Rights	Application of due diligence procedures in the field of Human Rights	Principles and governance. Analysis of Environmental & Social Risk. Responsible Procurement.	GRI 102-16 GRI 102-17 GRI 103-2 (GRI 412)
3. Human Rights	Prevention of the risks of Human Rights violations and, where appropriate, measures to mitigate, manage and repair any possible abuses committed	Principles and governance, Responsible Procurement. Analysis of Environmental & Social Risk.	GRI 410-1 GRI 412-1 GRI 412-3
3. Human Rights	Complaints about cases of human rights violations	A talented and motivated team. Risk management and control chapter.	GRI 406-1
3. Human Rights	Promotion and compliance with the provisions of the fundamental conventions of the International Labour Organisation regarding respect for freedom of association and the right to collective bargaining.	A talented and motivated team.	GRI 103-2 (GRI 406)
4. Fight against corruption	Measures taken to prevent corruption and bribery	Principles and governance. Risk management and control chapter.	GRI 102-16 GRI 102-17
4. Fight against corruption	Measures to combat money laundering	Principles and governance. Risk management and control chapter.	GRI 103-2 (GRI 205) GRI 205-1 GRI 205-2 GRI 205-3
4. Fight against corruption	Contributions to non-profit foundations and entities	Community investment.	GRI 413-1
5.Information on the company	**Commitments of the company to sustainable development:**		
5.Information on the company	The impact of the company's activity on employment and local development	Community investment. Financial inclusion and empowerment.	GRI 103-2 (GRI 203) GRI 203-1 GRI 203-2 GRI 413-1
5.Information on the company	The impact of the company's activity on local towns and villages and in the country.	Community investment. Financial inclusion and empowerment.	GRI 103-2 (GRI 203) GRI 203-1 GRI 203-2 GRI 413-1
5.Information on the company	Relations maintained with the representatives of local communities and the modalities of dialogue with them.	What our stakeholders tell us.	GRI 102-43 GRI 413-1
5.Information on the company	Association or sponsorship actions	Community investment.	GRI 102-12 GRI 102-13
5.Information on the company	**Outsourcing and suppliers:**		
5.Information on the company	Inclusion of social, gender equality and environmental issues in the procurement policy	Responsible procurement.	GRI 103-2 (GRI 204, 308 and 414)
5.Information on the company	Consideration in relations with suppliers and subcontractors of their responsibility	Responsible procurement.	GRI 102-9 GRI 103-2 (GRI 204, 308 and 414) GRI 204-1 GRI 308-1 GRI 414-1
5.Information on the company	Supervision and audit systems and resolution thereof	Responsible procurement.	GRI 103-2 (GRI 204)
5.Information on the company	**Consumers:**		
5.Information on the company	Measures for the health and safety of consumers	Responsible Business Practices. Risk management and control chapter.	GRI 103-2 (GRI 416, 417 and 418) GRI 416-1 GRI 417-1 G4-FS15
5.Information on the company	Systems for complaints received and resolution thereof	Responsible Business Practices. Key metrics. Risk management and control chapter. GRI content index.	GRI 102-17 GRI 103-2 (GRI 416, 417 and 418) GRI 416-2 GRI 417-2 GRI 418-1
5.Information on the company	**Tax information:**		
5.Information on the company	The profits obtained country by country	Auditor's report and annual consolidate accounts.	GRI 103-2 (GRI 201)
5.Information on the company	Taxes earned on benefits paid	Tax contribution.	
5.Information on the company	Public grants received	GRI content index.	GRI 201-4
5.Information on the company	Any other relevant information:		

*NB: The data to report this indicator could be quantitative or qualitative

In addition to the contents mentioned in the previous table, the consolidated non-financial information statement of Banco Santander includes the following contents: 102-5, 102-9, 102-10, 102-12, 102-13, 102-18, 102-19, 102-20, 102-21, 102-22, 102-23, 102-24, 102-25, 102-26, 102-27, 102-28, 102-32, 102-33, 102-34, 102-37, 102-40, 102-42, 102-43, 102-44, 102-45, 102-46, 102-47, 102-48, 102-49, 102-50, 102-51, 102-52, 102-53, 102-54, 102-55, 102-56, 201-1, 201-3, 202-1, 202-2, 203-1, 203-2, 206-1, 302-1, 302-3, 307-1, 308-2, 401-2, 402-1, 404-3, 405-2, 411-1, 414-2, 415-1, 417-3, 419-1.

UNEP FI Principles for Responsible Banking reporting index

Reporting and Self-Assessment Requirements	High-level summary of bank's response	Reference(s)/ Link(s) to bank's full response/ relevant information
Principle 1: Alignment We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.		
1.1. Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities, and where relevant the technologies financed across the main geographies in which your bank has operations or provides products and services. 1.2. Describe how your bank has aligned and/or is planning to align its strategy to be consistent with and contribute to society's goals, as expressed in the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.	Santander is a retail bank operating in 3 geographies (Europe, North America and South America) and in 10 main markets. Furthermore, we have global businesses like Santander Corporate & Investment Banking; Wealth Management & Insurance; or Santander Global Platform. Our purpose as a company is to help people and businesses prosper. Our aim is to be the best open financial services platform, by acting responsibly and earning the lasting loyalty of our people, customers, shareholders and communities. Our business model is based on three pillars: - Our scale provides potential for organic growth. - Unique personal banking relationships strengthen customer loyalty. - Our geographic and business diversification and our subsidiaries' model, which make us more resilient under adverse circumstances. Our strategic priorities are: - Improve business performance. - Optimize capital deployment - Accelerate digitalization through Santander Global Platform. Our value proposition includes a broad variety of solutions for all our customers: individuals, companies, institutions, etc. Products and services are tailored to meet the needs of our customers, taking advantage of global best practices, but adapted to local singularities. We work every day to help people and businesses prosper in a way that is Simple, Personal and Fair. We strive to exceed our stakeholders' expectations and carry out our activity in a responsible way. If we fulfil our purpose, we not only grow as a business, but help society face the main global challenges. Our activity allow us to contribute to several of the UN Sustainable Development Goals and support the Paris Agreement to fight climate change. We have a committed, diverse and skilled team that offers our customers simple and innovative solutions, increasing their access to financial services, improving their financial education, and supporting them in their transition to a low carbon economy, while reducing our environmental footprint. Furthermore, we support education through our Santander Universities programme and improve the living standards of the communities where we operate through several social programmes.	**Corporate website:** www.santander.com -About us -Our approach **2019 Annual Report:** -Our approach - Contribution to UN SDGs -Business model and strategy **Other references:** -Financial report 2019 -2019 Earnings Presentation

Principle 2: Impact and Target Setting
We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.

2.1. Impact Analysis:

Show that your bank has identified the areas in which it has its most significant (potential) positive and negative impact through an impact analysis that fulfills the following elements:

a) Scope: The bank's core business areas, products/ services across the main geographies that the bank operates in have been as described under 1.1. have been considered in the scope of the analysis.

b) Scale of Exposure: In identifying its areas of most significant impact the bank has considered where its core business/its major activities lie in terms of industries, technologies and geographies.

c) Context & Relevance: Your bank has taken into account the most relevant challenges and priorities related to sustainable development in the countries/regions in which it operates.

d) Scale and intensity/salience of impact: In identifying its areas of most significant impact, the bank has considered the scale and intensity/salience of the (potential) social, economic and environmental impacts resulting from the bank's activities and provision of products and services.
(your bank should have engaged with relevant stakeholders to help inform your analysis under elements c) and d))

Show that building on this analysis, the bank has:

- -identified and disclosed its areas of most significant (potential) positive and negative impact.
- - identified strategic business opportunities in relation to the increase of positive impacts / reduction of negative impacts.

Banco Santander runs a systematic analysis to identify the social, environmental and ethical aspects that are most relevant to its various stakeholders all along its value chain.

This study consists of a detailed quantitative and qualitative analysis based both internal and external sources.

- Internal sources: employee and senior management views.
- External sources: shareholders, investors, customers, regulators, agencies and society in general

In 2019, this assessment identified 15 material issues for the bank's responsible banking agenda. It is worth highlighting:

- Funding of activities with environmental and climate impact
- Ethical behaviour and risk management
- Diversity
- Customer satisfaction metrics

To address these issues, two main challenges have been identified:

1) Adapting to the new business environment.

2) Contributing to a more inclusive and sustainable growth, that allows to build more inclusive and equal economies and societies, while at the same supporting the transition to a low carbon economy.

This annual report discloses information on progress and plans relating to addressing these two challenges.

In particular, in 2019 we have focused on: incorporating responsible business practices; tackling climate change and supporting the ecological transition; and fostering a diverse and skilled team of professionals.

In addition, aligning with the Group's control and management risk practices, potential threats that may affect the development of the strategic plan are identified, valued and controlled, through periodic evaluation of the top risks under different stress scenarios. The main strategic risks identified by the Group are regularly monitored by senior management, including their respective mitigation measures.

With a focus on measuring positive/negative impacts of our financing portfolio, in 2019 we have started to work with the methodology developed by the working group of UNEP FI on the impact of infrastructures that we finance, evaluating the positive and negative impacts of the projects individually.

2019 Annual Report- Responsible banking chapter
-What our stakeholders tell us
-Challenges and opportunities
-Sustainable finance

2019 Annual Report
-Risk management and control chapter
-1.2 Santander Top and emerging risks

Other references:
- Stakeholder engagement & material concerns report[A]
-Climate finance report[A]
-Culture report[A]
-Financial empowerment report[A]

A. (These reports are produced after the Annual Report and will be available throughout the month of May 2020)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.

We will continue to improve our materiality analysis and while further exploring and integrating recognised impact methodologies as started this year for our infrastructure operations.

2.2. Target Setting Show that the bank has set and published a minimum of two Specific, Measurable (can be qualitative or quantitative), Achievable, Relevant and Time-bound (SMART) targets, which address at least two of the identified "areas of most significant impact", resulting from the bank's activities and provision of products and services. Show that these targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks. **The bank should have identified a baseline (assessed against a particular year)** and have set targets against this baseline. Show that the bank has analysed and acknowledged significant (potential) negative impacts of the set targets on other dimensions of the SDG/climate change/society's goals and that it has set out relevant actions to mitigate those as far as feasible to maximize the net positive impact of the set targets.	To meet the identified challenges, we have set 11 targets which reflect our commitment to building a more responsible bank. These objectives include, amongst others, the commitment to facilitate the mobilisation of €120 billion of green finance between 2019 and 2025, as well as to financially empower 10 million people in the same period, through increasing microfinance activities, financial education programmes and other tools that give access to financial services. Other commitments to highlight: • To have between 40-60% of women on our board by 2021 and to have at least 30% of women in senior leadership positions by 2025. • To eliminate the equal pay gap by 2025. • To use 100% of our electricity from renewable sources in all countries by 2025. • To fund 200,000 scholarships, internships and entrepreneur programmes between 2019 and 2021. • To help 4 million people through our community programmes between 2019 and 2021.	**2019 Annual Report-** Responsible Banking chapter 2019 highlights Sustainable Finance Contribution to de UN SDG **Other references:** 10 commitments press release

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting.

The Bank has established priority areas for improvement in the short and medium term, specific metrics have been defined for their monitoring, and progress is disclosed in our annual report. We will continue working on further understanding the impacts from our activities including those related to our targets and where relevant set mitigating actions.

2.3 Plans for Target Implementation and Monitoring Show that your bank has defined actions and milestones to meet the set targets. Show that your bank has put in place the means to measure and monitor progress against the set targets. Definitions of key performance indicators, any changes in these definitions, and any rebasing of baselines should be transparent.	The Responsible Banking unit and its network, in collaboration with the remaining areas and local units, defines short, medium and long term action plans to achieve the objectives. These actions are described through the different sections of the Responsible Banking chapter. The monitoring and follow-up of these actions is carried out through the KPIs defined in the plans, where intermediate milestones are set and tracked by the the Responsible Banking governance bodies, in order to ensure delivery of the longer-term objectives defined.	**2019 Annual Report-** Responsible Banking chapter

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring.

Banco Santander has defined at corporate and local level, various action plans to boost our commitments.

2.4. Progress on Implementing Targets For each target separately: Show that your bank has implemented the actions it had previously defined to meet the set target. Or explain why actions could not be implemented / needed to be changed and how your bank is adapting its plan to meet its set target. Report on your bank's progress over the last 12 months (up to 18 months in your first reporting after becoming a signatory) towards achieving each of the set targets and the impact your progress resulted in. (where feasible and appropriate, banks should include quantitative disclosures)	Banco Santander reports, annually, the achievements and scopes of its responsible banking strategy and targets. Here is a summary of the 2019 results of each of the 11 targets set: • To be one of the top 10 companies to work for in at least six of the core geographies where we operate by 2021. In 2019: Top 10 in 5 geographies. • To have between 40-60% women on our board by 2021. In 2019: 40% • To have 30% women in our senior leadership positions by 2025. In 2019: 22% • To eliminate the equal pay gap by 2025. In 2019: 2% • To financially empower 10 million people between 2019 and 2025. In 2019: 2 million • To finance or facilitate mobilization of €120 billion between 2019 and 2025 to tackle climate change. In 2019: 19 billion • To use 100% of our electricity from renewable sources in our buildings by 2025. In 2019: 50% • To eliminate unnecessary single use plastic in our branches and corporate buildings by 2021. In 2019: 75% of reduction. • To fund 200,000 scholarships, internships and entrepreneur programmes between 2019 and 2021. In 2019: 66,000 scholarships • To help four million people through our community programmes between 2019 and 2021. In 2019: 1,4 million	**2019 Annual Report-** Responsible Banking chapter

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets

In 2019 the Group has made positive progress in achieving the various commitments made

Principle 3: Clients and Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

3.1.**Provide an overview of the policies and practices your bank has in place and/or is planning to put in place to promote responsible relationships with its customers.** This should include high-level information on any programmes and actions implemented (and/or planned), their scale and, where possible, the results thereof.

3.2. **Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities.** This should include information on actions planned/implemented, products and services developed, and, where possible, the impacts achieved.

Being responsible means offering our customers products and services that are Simple, Personal and Fair.

All our activity is guided by policies, principles and frameworks to ensure we behave responsibly in everything we do. As far as our customers are concerned:

- The general sustainability policy sets out principles and commitments focused on adding value to our main stakeholders.
- The Consumer Protection policy sets out the specific criteria to identify, organise and execute the principles of consumer protection for our customers.
- The sector policies stipulate the criteria governing the Group's financial activity in the defence, energy, mining/metals and agricultural raw materials (like palm oil, soya and wood) sectors.
- The sensitive sectors policy establishes guidelines for the evaluation and decision making on participation of the Group in certain sectors, which could lead to reputational risks.

We increasingly incorporate ESG within our SCIB and commercial clients conversations and product offering.

Customers are at the heart of everything we do. We use all the interactive channels we have to listen and understand our customers better. Our Product Governance & Consumer Protection function, within our Compliance and Conduct area, is responsible for ensuring appropriate management and control in relation to products and services and consumer protection. Within this function, the Product Governance Forum protects customers by validating products and services and preventing the launch of inappropriate ones.

Additionally, the Group has worked on standards and good practices when dealing with vulnerable customers.

The Group also has a procedure for complaint management and analysis aimed at adequately handling any complaints submitted, ensuring compliance with the local and industry regulations applicable.

Website
- Policies
Annual report 2019
- Principles and governance
- Responsible business practices

Principle 4: Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

4.1. **Describe which stakeholders (or groups/types of stakeholders) your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank's impacts**. This should include a high-level overview of how your bank has identified relevant stakeholders and what issues were addressed/results achieved.	Our strategy is based on a virtuous circle centred on trust and loyalty of our employees, customers, shareholders and communities. To achieve this we promote the active listening of our stakeholders. Listening, analysing, assessing and responding to their opinions and concerns we not only identify issues, we also spot opportunities, which allows us to guarantee our activity and to maintain the right functioning of the entire value chain. In addition, we also regularly analyse the most relevant social, environmental and good governance issues demands of analysts and investors. And we continuously monitor the emergence of new standards and good practice at international level. Actively participating in the consultation processes of both authorities and sectoral associations and other organizations that influence the development of relevant policies on the sustainable development agenda. We are also part of the main and most important local and global initiatives to support the inclusive and sustainable growth. Some examples are UNEP FI; World Business Council for Sustainable Development (WBCSD); Banking Environment Initiative (BEI); UN Global Compact, CEO Partnership for Financial Inclusion; or Equator Principles.	**Annual report 2019** - Principles and governace - What our stakeholders tell us **Other references:** 2019 Stakeholder engagement & material concerns report[A] A. (This report is produced after the Annual Report and will be available throughout the month of May 2020)

Principle 5: Governance & Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking

5.1. Describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support effective implementation of the Principles. **5.2. Describe the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees.** This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others. **5.3 Governance Structure for Implementation of the Principles** Show that your bank has a governance structure in place for the implementation of the PRB, including: a) target-setting and actions to achieve targets set b) remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.	All our activity is guided by policies, principles and frameworks to ensure we behave responsibly in everything we do. The responsible banking, sustainability and culture committee assists the board of directors in fulfilling its oversight responsibilities with respect to the Group's responsible banking strategy, sustainability and culture issues. The committee is supported by the culture steering group and the inclusive and sustainable banking steering group. The culture steering group ensures we embed our culture, the Santander Way across the organisation, coordinating corporate and local actions. Our inclusive and sustainable banking steering group promotes responsible products, services and procedures to support small businesses to create new jobs, improve financial empowerment, support funding the low carbon economy and to foster sustainable consumption. To complete this corporate governance and drive progress on the responsible banking agenda, there is a Responsible Banking unit supported by a senior advisor on responsible business practices reporting directly to the Group's executive Chairman. The culture and sustainability local units coordinate and foster their sustainable banking agenda, ensuring that they are aligned with the corporate strategy and policies. Likewise, each subsidiary has appointed a senior responsible for the sustainable banking function. Our strong corporate culture, the Santander Way, is fully aligned to our corporate strategy. It includes our purpose, our aim, and how we conduct business. It is the bedrock of our bank, a responsible bank. Actively listening to our stakeholders and using the materiality assessment, we have identified two main challenges: adapting to the new business environment and contributing to an inclusive and sustainable growth.	**Corporate website:** www.santander.com -About us -Our approach **2019 Annual Report- Responsible Banking chapter** -What our stakeholders tell us -Challenges and Opportunities -Principles and Governance -A strong corporate Culture **2019 Annual Report- Corporate Governance chapter** -Responsible Banking, sustainability and culture, Committee activities **Other references:** -2019 Stakeholder engagement & material concerns report[A] -2018 Culture thematic report[A] A. (This report is produced after the Annual Report and will be available throughout May 2020)

Please provide your bank's conclusion/ statement if it has fulfilled the requirements regarding Governance Structure for Implementation of the Principles.

The Group has a solid and well-structured responsible banking governance model to meet future challenges and implement necessary measures that allow us to develop our activity in a responsible and sustainable way.

Principle 6: Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

6.1 Progress on Implementing the Principles for Responsible Banking

Show that your bank has progressed on implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) in addition to the setting and implementation of targets in minimum two areas (see 2.1-2.4).

Show that your bank has considered existing and emerging international/regional good practices relevant for the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice.

Show that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress on its implementation of these Principles.

The Responsible Banking chapter of our 2019 Annual report is our consolidated non-financial information statement. This is the eighteenth annual document the Santander Group publishes to diclose its sustainability commitments. This chapter includes information for the period: from 1 January to 31 December 2019.

This chapter has been verified by PricewaterhouseCoopers Auditores, S.L., the independent firm which also audited the Group´s annual financial statements for the year.

Santander has relied on internationally recognized standards such as the Global Reporting Initiative (GRI) in its preparation. This chapter has been prepared in accordance with the GRI Standards: Comprehensive option.

Additionally, in this chapter detailed information is provided to respond to the Law 11/2018, which transposes to the Spanish legal system the Directive 2014/95/ EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/ EU as regards disclosure of non-financial and diversity information.

We actively participate and we are part of the main initiatives and working groups that foster responsible business practices at local and international level. Some examples are:

- UNEP FInance initiative. We are one of the founding signatories to the he UN Principles for Responsible Banking. We have also continued our participation in the TCFD Pilot II following the first pilot which started back in 2017.
- World Business Council for Sustainable Development (WBCSD). We are part of the Future of Work, which supports companies in adapting their own business and human resources strategy to evolve in line with the digital age.
- Banking Environment Initiative (BEI). We participate in two initiatives related to climate, the Soft Commodities Compact and the new Bank 2030 initiative.
- CEO Partnership for Financial Inclusion. We are part of the private sector partnership for financial inclusion.
- Equator Principles. We analyse the environmental and social risks of all our funding transactions that fall under the scope of the Equator Principles.

2019 Annual Report-Responsible Banking chapter
-Principles and Governance
- Our contribution to the UN Sustainable Development Goals
-Complementary information

Other references:
-2019 Stakeholder engagement & material concerns report[A]

A. (This report is produced after the Annual Report and will be available throughout May 2020)

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing the Principles for Responsible Banking

Through the responsible banking chapter of the Annual Report we give accounts of all our commitments related sustainability and responsible banking. We participate actively and we are part of the main initiatives and working groups that foster responsible business practices at local and international level.

Global Reporting Initiative (GRI) content index

GRI Standards: GENERAL DISCLOSURES

GRI Standard	Disclosure	Page	Omission
GRI 101: FOUNDATION			
GRI 102: GENERAL DISCLOSURES			
ORGANISATIONALPROFILE	102-1 Name of the organization	Business model and strategy	-
	102-2 Activities, brands, products, and services	Business model and strategy	-
	102-3 Location of headquarters	Business model and strategy	-
	102-4 Location of operations	Business model and strategy	-
	102-5 Ownership and legal form	Business model and strategy	-
	102-6 Markets served	Business model and strategy	-
	102-7 Scale of the organization	Business model and strategy. Key Metrics	-
	102-8 Information on employees and other workers	Key metrics	-
	102-9 Supply chain	Responsible business practices	-
	102-10 Significant changes to the organization and its supply chain	Responsible business practices	-
	102-11 Precautionary Principle or approach	Sustainable finance	-
	102-12 External initiatives	Our approach. 2019 highlights.	-
	102-13 Membership of associations	Santander participates in industry associations representing financial activity in the countries where it operates, as the AEB in the case of Spain	-
STRATEGY	102-14 Statement from senior decision-maker	Chairman's letter.	-
	102-15 Key impacts, risks, and opportunities	Our strong corporate culture. What our stakeholders tell us. Sustainable finance. Risk management and control	-
ETHICS AND INTEGRITY	102-16 Values, principles, standards, and norms of behaviour	Principles and governance. Our strong corporate culture. Responsible business practices.	-
	102-17 Mechanisms for advice and concerns about ethics	A talented and motivated team. Responsible business practices. Risk management and control	-

GRI Standard	Disclosure	Page	Omission
GOVERNANCE	102-18 Governance structure	Corporate Governance chapter of the annual report.	-
	102-19 Delegating authority	Corporate Governance chapter of the annual report.	-
	102-20 Executive-level responsibility for economic, environmental, and social topics	Corporate Governance chapter of the annual report.	-
	102-21 Consulting stakeholders on economic, environmental, and social topics	Corporate Governance chapter of the annual report. Auditor's report and annual consolidated accounts. What our stakeholders tell us.	-
	102-22 Composition of the highest governance body and its committees	Corporate Governance chapter of the annual report.	-
	102-23 Chair of the highest governance body	What our stakeholders tell us. Shareholder value. Corporate Governance chapter of the annual report. Auditor's report and annual consolidated accounts.	-
	102-24 Nominating and selecting the highest governance body	What our stakeholders tell us. Shareholder value. Corporate Governance chapter of the annual report. Auditor's report and annual consolidated accounts.	-
	102-25 Conflicts of interest	What our stakeholders tell us. Corporate Governance chapter of the annual report. Auditor's report and annual consolidated accounts.	-
	102-26 Role of highest governance body in setting purpose, values, and strategy	Shareholder value. Corporate Governance chapter of the annual report. Auditor's report and annual consolidated accounts.	-
	102-27 Collective knowledge of highest governance body	Shareholder value. Corporate Governance chapter of the annual report. Auditor's report and annual consolidated accounts.	-
	102-28 Evaluating the highest governance body's performance	Shareholder value. Corporate Governance chapter of the annual report. Auditor's report and annual consolidated accounts.	-
	102-29 Identifying and managing economic, environmental, and social impacts	Sustainable finance. Risk management and control chapter. Auditor's report and annual consolidated accounts.	-
	102-30 Effectiveness of risk management processes	Challenge2: Inclusive and sustainable growth.Auditor's report and annual accounts. Risk management chapter .	-
	102-31 Omission of economic, environmental, and social topics	Auditor's report and annual accounts. Risk Management chapter .	-
	102-32 Highest governance body's role in sustainability reporting	Santander´s Board approved this report on February, 27th 2020 related to 2019 period and the Corporate Governance Chapter of the Annual Report published in 2020.	-
	102-33 Communicating critical concerns	Auditor's report and annual accounts.	-
	102-34 Nature and total number of critical concerns	Principles and governance. Responsible business practices.	-
	102-35 Remuneration policies	A talented and motivated team. Corporate Governance Chapter of the Annual Report	-
	102-36 Process for determining remuneration	What our stakeholders tell us. Shareholder's value.Corporate Governance Chapter of the Annual Report. Report of the remuneration committee	-
	102-37 Stakeholders' involvement in remuneration	What our stakeholders tell us. Shareholder's value. Corporate Governance Chapter of the Annual Report. Report of the remuneration committee	-
	102-38 Annual total compensation ratio	A talented and motivated team.	1
	102-39 Percentage increase in annual total compensation ratio	A talented and motivated team.	1
STAKEHOLDER ENGAGEMENT	102-40 List of stakeholder groups	What our stakeholders tell us.	-
	102-41 Collective bargaining agreements	What our stakeholders tell us.	-
	102-42 Identifying and selecting stakeholders	What our stakeholders tell us.	-
	102-43 Approach to stakeholder engagement	What our stakeholders tell us.	-
	102-44 Key topics and concerns raised	What our stakeholders tell us.	-

GRI Standard	Disclosure	Page	Omission
REPORTING PRACTICE	102-45 Entities included in the consolidated financial statements	Further information section of this chapter. Auditor's report and annual accounts.	-
	102-46 Defining report content and topic Boundaries	Our approach. Further information sections of this chapter.	-
	102-47 List of material topics	What our stakeholders tell us.	-
	102-48 Restatement of information	Further information section of this chapter	-
	102-49 Changes in reporting	Further information section of this chapter	-
	102-50 Reporting period	Further information section of this chapter	-
	102-51 Date of most recent report	Further information section of this chapter	-
	102-52 Reporting cycle	Further information section of this chapter	-
	102-53 Contact point for questions regarding the report	General information chapter.	-
	102-54 Claims of reporting in accordance with the GRI Standards	Further information section of this chapter	-
	102-55 GRI content index	GRI Content Index.	-
	102-56 External assurance	Further information section of this chapter.	-

GRI Standards: Topic-specific diclosures

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<tr><td colspan="7">ECONOMIC STANDARDS</td></tr>
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<tr><td>103-2 The management approach and its components</td><td>Principles and governance "Page" of the GRI 201: Economic Performance"</td><td>-</td><td>-</td></tr>
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<tr><td>GRI 201: ECONOMIC PERFORMANCE</td><td>201-1 Direct economic value generated and distributed</td><td>
<table>
<tr><th>€ million</th><th>2019</th></tr>
<tr><td>Economic value generated[1]</td><td>50,553</td></tr>
<tr><td>Gross income</td><td>49,494</td></tr>
<tr><td>Net loss on discontinued operations</td><td>0</td></tr>
<tr><td>Gains/(losses) on disposal of assets not classified as non-current held for sale</td><td>1,291</td></tr>
<tr><td>Gains/(losses) on disposal of assets not classified as discontinued operations</td><td>-232</td></tr>
<tr><td>Economic value distributed</td><td>28,295</td></tr>
<tr><td>Dividends[3]</td><td>3,424</td></tr>
<tr><td>Other administrative expenses (except taxes)</td><td>8,138</td></tr>
<tr><td>Personnel expenses</td><td>12,141</td></tr>
<tr><td>Income tax and other taxes[2]</td><td>4,427</td></tr>
<tr><td>CSR investment</td><td>165</td></tr>
<tr><td>Economic value retained (economic value generated less economic value distributed)</td><td>22,258</td></tr>
</table>
1. Gross income plus net gains on asset disposals.
2. Only includes income tax on profits accrued and taxes recognised during the period. The chapter on Community Investment provides additional information on the taxes paid.
</td><td>Group</td><td>-</td></tr>
</table>

GRI Standards: Topic-specific diclosures

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
			201-2 Financial implications and other risks and opportunities due to climate change	Sustainable finance. Key metrics	Group	-
			201-3 Defined benefit plan obligations and other retirement plans	The liability for provisions for pensions and similar obligations at 2019 year-end amounted to EUR 6,358 million. Endowments and contributions to the pension funds in the 2019 financial year have amounted to EUR 364 million. The detail may be consulted in Auditor´s report and annual consolidated accounts.	Group	-
			201-4 Financial assistance received from government	The Bank has not received significant subsidies or public aids during 2019. The detail may be consulted in Auditor´s report and annual consolidated accounts.	Group	-
MARKET PRESENCE						
Attracting and retaining talent / Diversity / Community investment	Internal	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Our strong corporate culture. Column “Page” of the GRI 201: Economic Performance.	-	-
			103-3 Evaluation of the management approach	Our strong corporate culture. Column “Page” of the GRI 201: Economic Performance.	-	-
		GRI 202: MARKET PRESENCE	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Key metrics.	Group	-
			202-2 Proportion of senior management hired from the local community	Key metrics . The Group Corporate Human Resources Model aims to attract and retain the best professionals in the countries in which it operates.	Group excludin g USA	-
INDIRECT ECONOMIC IMPACT						
Community investment	External	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Financial empowerment. Community investment.	-	-
			103-3 Evaluation of the management approach	Financial empowerment. Community investment.	-	-
		GRI 203: INDIRECT ECONOMIC IMPACT	203-1 Infrastructure investments and services supported	Supporting higher education. Community investment.	Group	-
			203-2 Significant indirect economic impacts	Supporting higher education. Community investment.	Group	-
PROCUREMENT PRACTICES						
Ethical behaviour and risk management	External	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Responsible business practices.	-	-

GRI Standards: Topic-specific diclosures

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
Ethical behaviour and risk management	External	GRI 204: PROCUREMENT PRACTICES	103-3 Evaluation of the management approach	Responsible business practices.	-	-
			204-1 Proportion of spending on local suppliers	Responsible business practices.	Group	2
ANTI-CORRUPTION						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes / Corporate governance-transparency	Internal and External	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	2019 highlights. Our strong corporate culture. Responsible business practices.	-	-
			103-3 Evaluation of the management approach	2019 highlights. Our strong corporate culture. Responsible business practices.	-	-
		GRI 205: ANTI-CORRUPTION	205-1 Operations assessed for risks related to corruption	Risk management and control chapter	Group	-
			205-2 Communication and training about anti-corruption policies and procedures	Risk management and control chapter	Group	-
			205-3 Confirmed incidents of corruption and actions taken	Risk management and control chapter	Group	3

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
ANTI-COMPETITIVE BEHAVIOR						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	2019 highlights. Our strong corporate culture. Responsible business practices and column "Page" of the GRI 206: Anti-competitive Behaviour.	-	-
			103-3 Evaluation of the management approach	2019 highlights. Our strong corporate culture. Responsible business practices and column "Page" of the GRI 206: Anti-competitive Behaviour.	-	-
		GRI 206: ANTI-COMPETITIVE BEHAVIOUR	206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	• SCB ITALY received a fine of €135.000 after an Antitrust inspection on unfair commercial practices by the Italian Competition Authority ("ICA"), which found that Santander infringed the general ban on unfair practices under Art. 20 of the Italian Consumer Code. SCB submitted the appeal to the Administrative Tribunal of Lazio on November 22, 2019. • Administrative proceedings brought by the Portuguese Competition Authority ("PCA") related to alleged involvement of the Bank in the exchange of sensitive information with its competitors. On September 9, 2019 the PCA issued its final decision on the case, considering there was competition law infringement by object, derived from commercially sensitive information exchange between most of the Portuguese banks, from 2002 to 2013, on real estate credit and credit to consumers and small businesses. 14 Portuguese banks were fined in amounts up to EUR 246 million. Santander Portugal and Banco Popular Portugal, SA have been fined in the total amount of EUR 35,65 million A judicial appeal was lodged before the Competition Court (Tribunal da Concorrência, Regulação e Supervisão) on the 21st October 2019. • The Italian Competition Authority has imposed Banca PSA Italia a fine of EUR 6,077,606 as part of an investigation against the Captive Banks. for running an unlawful cartel from 2003 to April 2017, aimed at exchanging sensitive commercial information in the car financing market in Italy, in order to restrict competition for the sale of financed cars, in violation of Article 101 TFEU. Decision was appealed before the administrative court in 2019. In addition, information on litigation and other Group contingencies can be found in Auditor's report and annual consolidated accounts.	Group	4

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
ENVIRONMENTAL STANDARDS						
MATERIALS						
Internal environmental footprint	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Sustainable finance. Environmental footprint.	-	-
			103-3 Evaluation of the management approach	Sustainable finance. Environmental footprint.	-	-
Internal environmental footprint	Internal and external	GRI 301: MATERIALS	301-1 Materials used by weight or volume	Environmental footprint. Key metrics.	Group	5
			301-2 Recycled input materials used	The percentage of the environmentally-friendly paper consumption with respect to the total consumption is 85%. This percentage includes both recycled and certified paper.	Group	5
			301-3 Reclaimed products and their packaging materials	Not applicable due to the type of Group financial activity.	Group	-
ENERGY						
Internal environmental footprint	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Sustainable finance. Environmental footprint.	-	-
			103-3 Evaluation of the management approach	Sustainable finance. Environmental footprint.	-	-
		GRI 302: ENERGY	302-1 Energy consumption within the organization	Environmental footprint. Key metrics.	Group	5
			302-2 Energy consumption outside of the organization	Key metrics.	Group	5
			302-3 Energy intensity	Key metrics.	Group	5
			302-4 Reduction of energy consumption	An specific analysis of cause and effect relation for the implemented measures and of the obtained reduction is not available.	Group	-
			302-5 Reductions in energy requirements of products and services	Not applicable due to the type of Group financial activity.	Group	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
WATER						
Internal environmental footprint	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Sustainable finance. Environmental footprint.	-	-
			103-3 Evaluation of the management approach	Sustainable finance. Environmental footprint.	-	-
		GRI 303: WATER	303-1 Water withdrawal by source	Environmental footprint. Key metrics.	Group	5
			303-2 Water sources significantly affected by withdrawal of water	Not applicable due to the type of Group financial activity.	Group	-
			303-3 Water recycled and reused	Not applicable due to the type of Group financial activity.	Group	-
BIODIVERSITY						
Not material	Not applicable	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	Not material	-	-
			103-2 The management approach and its components	Not material	-	-
			103-3 Evaluation of the management approach	Not material	-	-
		GRI 304: BIODIVERSITY	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Not material	Group	-
			304-2 Significant impacts of activities, products, and services on biodiversity	Not material	Group	-
			304-3 Habitats protected or restored	Not material	Group	-
			304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	Not material	Group	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
EMISSIONS						
Internal environmental footprint	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Sustainable finance. Environmental footprint.	-	-
			103-3 Evaluation of the management approach	Sustainable finance. Environmental footprint.	-	-
Internal environmental footprint	Internal and external	GRI 305: EMISSIONS	305-1 Direct (Scope 1) GHG emissions	Environmental footprint. Key metrics.	Group	5
			305-2 Energy indirect (Scope 2) GHG emissions	Environmental footprint. Key metrics.	Group	5
			305-3 Other indirect (Scope 3) GHG emissions	Environmental footprint. Key metrics.	Group	5
			305-4 GHG emissions intensity	Key metrics.	Group	5
			305-5 Reduction of GHG emissions	An specific analysis of cause and effect relation for the implemented measures and of the obtained reduction is not available.	Group	-
			305-6 Emissions of ozone-depleting substances (ODS)	Not applicable due to the type of Group financial activity.	Group	-
			305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Not applicable due to the type of Group financial activity.	Group	-
EFFLUENTS AND WASTE						
Internal environmental footprint	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Sustainable finance. Environmental footprint.	-	-
			103-3 Evaluation of the management approach	Sustainable finance. Environmental footprint.	-	-
		GRI 306: EFFLUENTS AND WASTE	306-1 Water discharge by quality and destination	Not applicable due to the type of Group financial activity.	Group	-
			306-2 Waste by type and disposal method	Environmental footprint and Key metrics.	Group	5
			306-3 Significant spills	Not applicable due to the type of Group financial activity.	Group	-
			306-4 Transport of hazardous waste	Not applicable due to the type of Group financial activity.	Group	-
			306-5 Water bodies affected by water discharges and/or runoff	Not applicable due to the type of Group financial activity.	Group	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
ENVIRONMENTAL COMPLIANCE						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Responsible business practices.	-	-
			103-3 Evaluation of the management approach	Responsible business practices.	-	-
		GRI 307: ENVIRONMENTAL COMPLIANCE	307-1 Non-compliance with environmental laws and regulations	Massachusetts Department of Environmental Protection (MA DEP) Remediation. The MA DEP alleged that SBNA, as title owner of a foreclosed residential property from 2013-2016, was required to remediate a contaminated ground well on the property. SBNA, without admitting liability, agreed to remediate the property. SBNA's insurance carrier agreed to cover the cost of the remediation (approximately $100,000). In addition, information on litigation and other Group contingencies can be found in Auditor's report and annual consolidated accounts.	Group	4
SUPPLIER ENVIRONMENTAL ASSESSMENT						
Ethical behaviour and risk management	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Responsible business practices.	-	-
			103-3 Evaluation of the management approach	Responsible business practices.	-	-
		GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT	308-1 New suppliers that were screened using environmental criteria	Responsible business practices.	Group	2, 6
			308-2 Negative environmental impacts in the supply chain and actions taken	Responsible business practices.	Group	2, 6

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
SOCIAL STANDARDS						
EMPLOYMENT						
Attracting and retaining talent / Diversity	Internal	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	A talented and motivated team.	-	-
			103-3 Evaluation of the management approach	A talented and motivated team.	-	-
		GRI 401: EMPLOYMENT	401-1 New employee hires and employee turnover	A talented and motivated team. Key metrics.	Group	-
			401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Benefits detailed in "A talented and motivated team" are regarding only full-time employees.	Group	-
			401-3 Parental leave	Not available	Group	-
LABOUR/MANAGEMENT RELATIONS						
Attracting and retaining talent / Diversity	Internal	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Column "Page" of the GRI 402: Labour/ Management relations"	-	-
			103-3 Evaluation of the management approach	Column "Page" of the GRI 402: Labour/ Management relations"	-	-
		GRI 402: LABOR/ MANAGEMENT RELATIONS	402-1 Minimum notice periods regarding operational changes	Santander Group has not established any minimum period to give prior notice relating to organisational changes different from those required by law in each country.	Group	-
OCCUPATIONAL HEALTH AND SAFETY						
Attracting and retaining talent / Diversity	Internal	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	A talented and motivated team. Column "Page" of the GRI 403: Occupational Safe and Safety.	-	-
			103-3 Evaluation of the management approach	A talented and motivated team. Column "Page" of the GRI 403: Occupational Safe and Safety.	-	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
Attracting and retaining talent / Diversity	Internal	GRI 403: OCCUPATIONAL HEALTH AND SAFETY	403-1 Workers representation in formal joint management–worker health and safety committees	In Banco Santander S.A, the percentage of workforce represented in the Health and Safety Committee in 100%.	Banco Santander S.A. and SCF	-
			403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	A talented and motivated team. Key metrics.	Group	-
			403-3 Workers with high incidence or high risk of diseases related to their occupation	There have not been identified work posts with high risk of disease	Group	-
			403-4 Health and safety topics covered in formal agreements with trade unions	A talented and motivated team.	Group	-
TRAINING AND EDUCATION						
Attracting and retaining talent / Diversity	Internal	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	A talented and motivated team. “Page” of the GRI 404: Training and education.	-	-
			103-3 Evaluation of the management approach	A talented and motivated team. “Page” of the GRI 404: Training and education.	-	-
		GRI 404: TRAINING AND EDUCATION	404-1 Average hours of training per year per employee	A talented and motivated team. Key metrics.	Group	-
			404-2 Programs for upgrading employee skills and transition assistance programs	Banco Santander in Spain offers programmes for skills management and lifelong learning that support the employability of their employees once they have finished their carrers or have been affected by collective redundancies. A talented and motivated team. Key metrics.	Group	-
			404-3 Percentage of employees receiving regular performance and career development Omissions	A talented and motivated team. Regular performance and career development Omissions are received by the 100% of the employees.	Group	-
DIVERSITY AND EQUAL OPPORTUNITY						
Attracting and retaining talent / Diversity / Incentives tied to ESG criteria	Internal	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	A talented and motivated team.	-	-
			103-3 Evaluation of the management approach	A talented and motivated team.	-	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
Attracting and retaining talent / Diversity / Incentives tied to ESG criteria	Internal	GRI 405: DIVERSITY AND EQUAL OPPORTUNITIES	405-1 Diversity of governance bodies and employees	A talented and motivated team. Responsible business practices. Key metrics. Corporate governance chapter.	Group	-
			405-2 Ratio of basic salary and remuneration of women to men	A talented and motivated team.	Group	-
NON-DISCRIMINATION						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	A talented and motivated team.	-	-
			103-3 Evaluation of the management approach	A talented and motivated team.	-	-
		GRI 406: NON-DISCRMINATION	406-1 Incidents of discrimination and corrective actions taken	A talented and motivated team. Risk management and control chapter. A final verdict has been reached for an incident of discrimination or infringement of fundamental rights, following from an individual procedure on geographical mobility, resulting in the compensation of 150,000 euros on the bank. However, no complaints of this nature have been received through the *Canal Abierto*.	Group	4
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING						
Not material	Not applicable	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	Not material	-	-
			103-2 The management approach and its components	Not material	-	-
			103-3 Evaluation of the management approach	Not material	-	-
		GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Not material	Group	-
CHILD LABOR						
Not material	Not applicable	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	Not material	-	-
			103-2 The management approach and its components	Not material	-	-
			103-3 Evaluation of the management approach	Not material	-	-
		GRI 408: CHILD LABOR	408-1 Operations and suppliers at significant risk for incidents of child labor	Not material	Group	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
FORCED OR COMPULSORY LABOR						
Not material	Not applicable	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	Not material	-	-
			103-2 The management approach and its components	Not material	-	-
			103-3 Evaluation of the management approach	Not material	-	-
		GRI 409: FORCED OR COMPULSORY LABOR	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	Not material	Group	-
SECURITY PRACTICES						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Column "Page" of the GRI 410: Security Practices.	-	-
			103-3 Evaluation of the management approach	Column "Page" of the GRI 410: Security Practices.	-	-
		GRI 410: SECUTIRY PRACTICES	410-1 Security personnel trained in human rights policies or procedures	Santander requires to its Safety Services suppliers during the hiring process compliance with Human Rights Regulations	Banco Santander S.A.	-
RIGHTS OF INDIGENOUS PEOPLES						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes	External	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Column "Page" of the GRI 411: Rights of Indigenous People	-	-
			103-3 Evaluation of the management approach	Column "Page" of the GRI 411: Rights of Indigenous People.	-	-
		GRI 411: RIGHTS OF INIDGENOUS PEOPLE	411-1 Incidents of violations involving rights of indigenous people	The Bank ensures, through social and environmental risk assessments in their financing operations under the Equator Principles, that no violations of the indigenous peoples' rights occur in such operations. In 2019, a total of 46 operations were evaluated in this respect.	Group	7
HUMAN RIGHTS ASSESSMENT						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes	External	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Column "Page" of the GRI 412: Human Rights assessment	-	-
			103-3 Evaluation of the management approach	Column "Page" of the GRI 412: Human Rights assessment	-	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
Ethical behaviour and risk management / Compliance and adapting to regulatory changes	External	GRI 412: HUMAN RIGHTS ASSESSMENT	412-1 Operations that have been subject to human rights Omissions or impact assessments	All the Bank's financing operations under the Equator Principles are subject to social and environmental risk assessments (which includes human rights aspects). In 2019, a total of 46 operations were evaluated in this respect.	Group	7
			412-2 Employee training on human rights policies or procedures	Not available	Group	-
			412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	The Third-party Certification policy was updated in 2019. This policy includes an annex with the "principles of responsible conduct for suppliers". These principles are mandatory for all the Bank's suppliers and include, among others, human rights aspects.		8
LOCAL COMMUNITIES						
Community investment	External	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.		-
			103-2 The management approach and its components	Financial empowerment, Supporting higher education, Community investment and Sustainable finance		-
			103-3 Evaluation of the management approach	Financial empowerment, Supporting higher education, Community investment and Sustainable finance		-
		GRI 413: LOCAL COMMUNITIES	413-1 Operations with local community engagement, impact assessments, and development programs	Financial empowerment, Supporting higher education, Community investment. The Santander Group has several programmes in its ten main countries aim to encourage development and participation of local communities, in which it is carried out an assessment on people helped, scholarships given through agreement with Universities, among others. Moreover, in the last years the Group has developed different products and services offering social and/or environmental added value adapted to each country where Santander develops its activities.	Group	-
			413-2 Operations with significant actual and potential negative impacts on local communities	Not available	Group	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
SUPPLIER SOCIAL ASSESSMENT						
Control and management of risks, ethics and compliance	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Responsible business practices.	-	-
			103-3 Evaluation of the management approach	Responsible business practices.	-	-
		GRI 414: SUPPLIER SOCIAL ASSESSMENT	414-1 New suppliers that were screened using social criteria	Responsible business practices.	Group	2, 6
			414-2 Negative social impacts in the supply chain and actions taken	Responsible business practices.	Group	2, 6
PUBLIC POLICY						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	2019 highlights,Our strong corporate culture. A talented and motivated team. Responsible Business Practices. and column “Page” of the GRI 415: Public Policy.	-	-
			103-3 Evaluation of the management approach	2019 highlights,Our strong corporate culture. A talented and motivated team. Responsible Business Practices. and column “Page” of the GRI 415: Public Policy.	-	-
		GRI 415: PUBLIC POLICY	415-1 Political contributions	The vinculation, membership or collaboration with political parties or with other kind of entities, institutions or associations with public purposes, as well as contributions or services to them, should be done in a way that can assure the personal character and that avoids any involvement of the Group, as indicated in Santander Group General Code of Conduct	Group	-
CUSTOMER HEALTH SAFETY						
Products and services that are transparent and fair		GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Responsible business practices	-	-
			103-3 Evaluation of the management approach	Responsible business practices	-	-
		GRI 416: CUSTOMER HEALTH AND SAFETY	416-1 Assessment of the health and safety impacts of product and service categories	Responsible business practices. The Commercialisation Committee evaluates potential impact of all products and services, previously they are launched onto the market. These impacts include, among others, clients security and compatibility with other products.	Group	-
			416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	The Bank has not received final sanctions for this concept. In addition, information on litigation and other Group contingencies can be found in Auditor's report and annual consolidated accounts.	Group	4

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
MARKETING AND LABELING						
Products and services that are transparent and fair	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Responsible business practices	-	-
			103-3 Evaluation of the management approach	Responsible business practices	-	-

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
			417-1 Requirements for product and service information and labeling	Responsible business practices. The Commercialisation Committee evaluates potential impact of all products and services, previously they are launched onto the market. These impacts include, among others, clients security and compatibility with other products. In addition, the Bank is member of the Association for Commercial Self- Regulation (Autocontrol) assuming the ethical commitment to be responsible regarding the freedom of commercial communication	Group	-
Products and services that are transparent and fair	Internal and external	GRI 417: MARKETING AND LABELING	417-2 Incidents of non-compliance concerning product and service information and labeling	• Sanction procedure opened on 2015 by the Ministry of Economy and Competitiveness for the violation of the Securities Market Law, in particular, for methodological deficiencies in the convenience questionnaire and the failure to carry out the appropriate warnings both in non-convenient and non-convenient operations evaluated by the former Banco Popular. Fine of 1,000,000 euros. • A fine of 4.5 million euros imposed by Bank of Spain for breaches relating to the content and delivery of contractual and pre-contractual information of contracts with mortgage guaranty and in relation to the collection of commissions and roundings, by the former Banco Popular. The sanction was notified on 5th November 2018 and confirmed by resolution on 24th may 2019. Appeal has been filed before the Administrative Court on 29th July 2019. • Fine of 6.4 million euros imposed by Bank of Spain relating to the content and delivery of contractual and pre-contractual information of contracts with mortgage guaranty, and in relation to the collection of commissions and roundings. Final resolution notified on 29th March 2019 and has become non appealable. • Sanction procedure opened on 2015 by the Ministry of Economy and Competitiveness, for the violation of the Securities Market Law, by the former Banco Popular: (i) not to act with transparency and diligence and in the interest of the clients having charged commissions not adjusted to the rules (ii) recommend to clients financial instruments not adjusted to their investment objectives or to their experience and knowledge. Dismissed judgment of the National Court notified on September 30, 2019. Appeal filed before the Supreme Court. • Sanction procedure opened by the Junta de Andalucía in 2015 for the introduction of allegedly abusive clauses in contracts. Unfavorable judgment rendered on 20th December 2019. The judgment has become non appealeable. The fine imposed amounts to EUR 400,000 Moreover, the information regarding litigation and the Group's other contingencies is provided in the auditor's report and annual accounts.	Group	4
			417-3 Incidents of non-compliance concerning marketing communications	The Bank has not received final sanctions for this concept. In addition, information on litigation and other Group contingencies can be found in Auditor's report and annual consolidated accounts.	Group	4

Identified material aspect	Material aspect boundary	GRI Standard	Disclosure	Page	Scope	Omission
CUSTOMER PRIVACY						
Measures taken for customer satisfaction	Internal and External	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	Responsible business practices	-	-
			103-3 Evaluation of the management approach	Responsible business practices	-	-
		GRI 418: CUSTOMER PRIVACY	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	The Bank has not received final sanctions for this concept. In addition, information on litigation and other Group contingencies can be found in Auditor's report and annual consolidated accounts.	Group	4
SOCIOECONOMIC COMPLIANCE						
Products and services that are transparent and fair / Ethical behaviour and risk management	Internal and external	GRI 103: MANAGEMENT APPROACH	103-1 Explanation of the material topic and its boundary	What our stakeholders tell us and column "Material aspect boundary" of GRI Content Index.	-	-
			103-2 The management approach and its components	2019 highlights,Our Strong corporate culture. A talented and motivated team. Responsible business practices. and column "Page" of the GRI 419: Socioeconomic Compliance.	-	-
			103-3 Evaluation of the management approach	2019 highlights,Our Strong corporate culture. A talented and motivated team. Responsible business practices. and column "Page" of the GRI 419: Socioeconomic Compliance.	-	-
		GRI 419: SOCIOECONOMIC COMPLIANCE	419-1 Non-compliance with laws and regulations in the social and economic area	The Bank has not received final sanctions for this concept. In addition, information on litigation and other Group contingencies can be found in Auditor's report and annual consolidated accounts.	Group	4

GRI Standards - financial services sector disclosures

Identified material aspect	Material aspect boundary	G4 Standard	Disclosure	Page	Scope	Omission
FINANCIAL SERVICES SECTOR DISCLOSURES						
PRODUCT PORTFOLIO						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes / Products and services that are transparent and fair / Products and services offering social and environmental added value	Internal and external	FS1	Policies with specific environmental and social components applied to business lines	Principles and governance, Responsible business practices and Analysis of environmental and social risks.	Group	-
		FS2	Procedures for assessing and screening environmental and social risks in business lines	Principles and governance, Responsible business practices and Analysis of environmental and social risks.	Group	-
		FS3	Processes for monitoring clients´ implementation of and compliance with environmental and social requirements included in agreements of transactions	Principles and governance, Responsible business practices and Analysis of environmental and social risks.	Group	-
		FS4	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	Sustainable finance. Additionally, to raise awareness and transmit the policies content, the Bank has continued with its employee training and awareness campaigns. The latest was a video tutorial explaining the process of adaptation for the sector-specific policies and involving those from the Bank who are ultimately responsible for this area.	Group	-
		FS5	Interactions with clients/ investees/ business partners regarding environmental and social risks and opportunities	2019 highlights. Shareholder value. Risk and management control chapter.	Group	-
		FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/ SME/ large) and by sector	Responsible business practices. Meeting the needs of everyone i n society.	Group	-
		FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	Meeting the needs of everyone in society. Sustainable finance.	Group	-
		FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	Meeting the needs of everyone in society. Sustainable finance.	Group	-

Identified material aspect	Material aspect boundary	G4 Standard	Disclosure	Page	Scope	Omission
AUDIT						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes	Internal and external	FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures	The Group's Internal Audit area carries out a biennial review of the sustainability function to evaluate, among other aspects, the degree of compliance with social and environmental responsibility policies, which includes both the review of the Equator Principles and additional risk assessment procedures on specific sectors. In addition, in 2019 the first review of the governance and procedures applied by the corporate function of Responsible Banking was carried out.	Group	-
ACTIVE OWNERSHIP						
Ethical behaviour and risk management / Compliance and adapting to regulatory changes / Products and services that are transparent and fair / Products and servicies offering social and environmental added value	Internal	FS10	Percentage and number of companies held in the institution´s portfolio with which the reporting organization has interacted on environmental or social issues	Analysis of environmental and social risks	Group	7
		FS11	Percentage of assets subject to positive and negative environmental or social screening	Analysis of environmental and social risks	Group	7
		FS12	Voting policy(ies) applied to environmental or social issues for shares over which the reporting organization hold the right to vote shares or advises on voting	The Santander Group has no voting policies relating to social and/or environmental matters for entities over which acts as an advisor. The Santander Employees Pension Fund does have a policy of formal vote in relation to social and environmental aspects, for shareholder meetings of the entities over which it has voting rights	Group	-
		FS13	Access points in low-populated or economically disadvantaged areas by type	Financial inclusion and empowerment	Group	-
		FS14	Initiatives to improve access to financial services for disadvantaged people	Financial inclusion and empowerment, sustainable finance and Key metrics.	Group	-
		FS15	Policies for the fair design and sale of financial products and services	Responsible business practices	Group	-
		FS16	Initiatives to enhance financial literacy by type of beneficiary	Responsible business practices	Group	-

1. The indicator is not reported because it is confidential information. 2. Data refers exclusively to centralised purchases data in Aquánima. 3. Information is provided on the total number of complaints conflicts of interest and corruption 4. Information is provided for claims of any type and over €60,000 that may have a significant reputational impact on the Group and/or that there is an accounting provision because it may materialize in the short, medium or long term. 5. The scope and limitations of this indicator are described on Key Metrics. 6. Only total amount of approved suppliers is included. 7. Information is only provided on the number of project finance deals of Santander's Bank, which have been analysed regarding social and environmental risks in Equator Principles' frame. 8. Only qualitative information is disclosed. 9. Information is provided on programmes and their direct impacts of the ten main countries of the Group, instead on centres.

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent Verification Report

To the shareholders Banco Santander, S.A.:

Pursuant to Article 49 of the Code of Commerce, we have verified, under a limited assurance scope, the "Responsible banking" chapter, which corresponds to the attached Consolidated Non-Financial Information Statement ("CNFIS") for the year ended 31 December 2019 of Banco Santander, S.A. (the Parent company) and subsidiaries ("Banco Santander" or "the Group") which forms part of Banco Santander's 2019 Consolidated Management's Report ("CMR").

The content of the CNFIS includes additional information to that required by current commercial legislation on non-financial reporting which has not been covered by our verification work. In this respect, our work has been restricted solely to verifying the information identified in the table included in the section "Non-financial information Law content index" section and in the "Global Reporting Initiative (GRI) content index" in the accompanying CNFIS.

Responsibility of the Directors of the Parent company

The preparation of the CNFIS included in Banco Santander's CMR and the content thereof are responsibility of the board of directors of Banco Santander, S.A. The CNFIS has been drawn up in accordance with the provisions of current commercial legislation and with the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") in accordance with the Comprehensive option and the Financial Services Sector Disclosures, in line with the details provided for each matter in the table included in the section "Non-financial information Law content index" and in the "Global Reporting Initiative (GRI) content index" included in the CNFIS.

This responsibility also includes the design, implementation and maintenance of the internal control that is considered necessary to ensure that the CNFIS is free from material misstatement, due to fraud or error.

The directors of Banco Santander, S.A. are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the CNFIS is obtained.

Our independence and quality control

We have complied with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA") which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies the International Standard on Quality Control 1 (ISQC 1) and therefore has in place a global quality control system which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team has been formed by professionals specialized in non-financial information reviews and specifically in information on economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance verification report based on the work carried out. Our work has been aligned with the requirements set by the current International Standard on Assurance Engagements 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Guidelines for verification engagements on non-financial statements issued by the Spanish Institute of Auditors ("Instituto de Censores Jurados de Cuentas de España").

In a limited assurance engagement, the procedures performed vary in terms of their nature and timing of execution and are more restricted than those carried out in a reasonable assurance engagement. Accordingly, the assurance obtained is substantially lower.

Our work has consisted of posing questions to management and several of Banco Santander's units that were involved in the preparation of the CNFIS, in the review of the processes for compiling and validating the information presented in the CNFIS and in the application of certain analytical procedures and review sampling tests, as described below:

- Meetings with Banco Santander personnel to ascertain the business model, policies and management approaches applied and the main risks related to these matters, and to obtain the information required for the external review.
- Analysis of the scope, relevance and integrity of the content included in the CNFIS based on the materiality analysis carried out by Banco Santander and described in the "What our stakeholders tell us" section, and considering the content required under current commercial legislation.
- Analysis of the procedures used to compile and validate the information presented in the CNFIS for 2019.
- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the CNFIS for 2019.
- Verification, through sample testing, of the information relating to the content of the CNFIS for 2019 and its adequate compilation using data supplied by Banco Santander's information sources.
- Obtainment of a management representation letter from the directors and the management of the Parent company.

Conclusions

Based on the procedures performed and the evidence we have obtained, no matters have come to our attention which may lead us to believe that the "Responsible Banking" chapter, which corresponds to the attached CNFIS of Banco Santander, S.A. and its subsidiaries for the year ended 31 December 2019 has not been prepared, in all of their significant matters, in accordance with the provisions of current commercial legislation and with the GRI Standards in accordance with the Comprehensive Option and the Financial Services Sector Disclosures, in line with the details provided for each matter in the table included in the section "Non-financial information Law content index" and in the "Global Reporting Initiative (GRI) content index" included in the accompanying CNFIS.

Use and distribution

This report has been drawn up in response to the requirement laid down in current Spanish commercial legislation and therefore might not be suitable for other purposes or jurisdictions.

PricewaterhouseCoopers Auditores, S.L.

Pablo Bascones

28 February 2020

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Corporate governance

1. Overview of corporate governance in 2019

Structure of our corporate governance report

On 12 June 2018, the Spanish National Securities Market Commission (CNMV) approved new formats for the annual corporate governance and remuneration reports Spanish companies are required to submit and, more importantly, allowed companies to draft their reports in a free format.

As in 2018, the 2019 corporate governance report in this chapter of the annual report follows a free format. Using such free format allows this 2019 corporate governance report to include in one single document content that was previously included in at least five different documents.

The information below is provided to understand how this chapter is organised and how it relates to the documents we published before 2018. This chapter and report:

- Merges (1) the summary content on corporate governance that we typically included in the annual report and (2) the legally required content for the corporate governance report itself;
- Includes the content that was previously set out in the reports on the activities of the board of directors' committees (see sections 4.5, 4.6, 4.7 and 4.8);
- Includes (1) the annual report on directors' remuneration that we are required to prepare and submit to a consultative vote at our 2020 annual general shareholders' meeting (AGM) (see section 6 'Remuneration') and (2) our directors' remuneration policy (see section 6.4 'Directors remuneration policy for 2020, 2021 and 2022 that is submitted to a binding vote of the shareholders');
- Provides in section 9.1 'Reconciliation with the CNMV's corporate governance report model' and section 9.4 'Reconciliation with the CNMV's remuneration report model' cross references to where information can be found in this chapter or elsewhere in this annual report for each section of the corporate governance and remuneration reports in the CNMV's prescribed format; and
- Provides in section 9.3 'Table on compliance with, and explanations of, recommendations on corporate governance' cross-references showing where the information supporting each response for all recommendations in the Spanish Corporate Governance Code for Listed Companies can be found in this 2019 corporate governance chapter or elsewhere in this annual report.
- In addition, this 2019 corporate governance report includes reports on the activities of the responsible banking, sustainability and culture committee and of the innovation and technology committee (see sections 4.9 and 4.10).

1.1 Renewing the board

Continued improvement in the board's composition

Throughout 2019, we continued to renew and strengthen the board, reflecting our strong commitment to ensuring balance and diversity. This renewal was conducted in line with our policy for the selection, suitability assessment and succession of directors, reviewed by the board in February 2019, which replaced the target for 30% of women representation on the board, set in January 2016, to a new target to reach a 40-60% women representation by 2021. Additionally, in February 2020 we reinforced our process of succession planning for the board and we reviewed again said policy, which will be submitted for approval of the board in March 2020.

The main board changes in 2019 were as follows:

- Mr Henrique de Castro was appointed independent director at our 2019 annual general shareholders' meeting (2019 AGM). He filled the vacancy left by independent director Mr Juan Miguel Villar Mir on 1 January 2019.

  Mr Henrique de Castro brings to the board his sound experience in the technological and digital industry along with significant experience in the US market, which he acquired through top positions held in companies such as Yahoo! Inc. and Google, Inc. For more information see section 4.1 'Our directors'.
- Mrs Pamela Walkden was appointed independent director on 29 October 2019 through co-option. She filled the vacancy left by independent director Mr Carlos Fernández González. The ratification of her appointment has been submitted by the board of directors to our 2020 annual general shareholders' meeting (2020 AGM). See section 3.6 'Our coming 2020 AGM'.

  Mrs Pamela Walkden brings to the board greater gender and geographic diversity, as well as a broad international experience in the banking industry and audit , as she has held a number of senior management positions at Standard Chartered Bank over a period of nearly 30 years. With her appointment, we achieved our gender equality target established in the policy for the selection, suitability assessment and succession of directors more than one year ahead of the established target date. For more information see section 4.1 'Our directors'.

- Mr Rodrigo Echenique continues as a director but ceased to be vice chairman of the Board and to perform his executive functions on 1 May 2019.

The following changes have been proposed for 2020:

- Mr Luis Isasi's appointment as a new external director has been proposed by the board of directors to the 2020 AGM to fill the vacancy left by Mr Guillermo de la Dehesa, who notified his decision to resign as director with effects from the approval of Mr Isasi's election at the 2020 AGM. See section 3.6 'Our coming 2020 AGM'. It is expected that, along with his appointment as a director of the Bank, Mr Isasi is appointed non-executive chairman of Santander España.

  Mr Luis Isasi has a strong track record in financial services, both in commercial and investment banking, and capital markets, having held executive positions in JP Morgan in New York and in First National Bank of Chicago in London. In 1987, he joined Morgan Stanley, where he was managing director of investment banking for Europe and chairman and country head in Spain. He brings to the board great experience from a wide range of sectors and international markets, as well as a strong institutional network within Spain.

- Mr Sergio Rial's appointment as a new executive director has been proposed by the board of directors to the 2020 AGM to fill the vacancy left by Mr Ignacio Benjumea Cabeza de Vaca, who has notified his wish that his re-election as a director is not proposed to the approval of the AGM, as would be required under the Bylaws, and therefore to cease in his office as director, with effect as from the appointment and acceptance of Mr Rial become effective. See section 3.6 'Our coming 2020 AGM'.

  Mr Sergio Rial joined the Group in 2015 as chairman of the board of directors of Banco Santander (Brasil), S.A. He is currently head of South America and CEO and vice chairman of Banco Santander (Brasil), S.A. Provides to the board extensive experience in the banking and financial sector, having held various executive positions,as well as a deep knowledge of the Latin American market, especially the Brazilian market. His previous experience in multinational groups in different geographical areas and sectors, such as Cargill Inc., Seara Foods or Marfrig Global Foods, also strengthens the international diversity of the board and provides a valuable vision on environmental and social issues. He currently serves as independent director of Delta Airlines Inc.

Renewal of the board

Changes	Stepping down from role	Taking up role
Independent directors	Mr Juan Miguel Villar Mir	Mr Henrique de Castro
	Mr Carlos Fernández	Mrs Pamela Walkden
External / executive directors	Mr. Rodrigo Echenique (as executive director)	Mr. Rodrigo Echenique (as other external director)
	Mr Guillermo de la Dehesa (other external director)	Mr Luis Isasi (other external director)
	Mr Ignacio Benjumea (other external director)	Mr Sergio Rial (executive director)

Board committees

The board has made changes to the composition of its committees, in order to continue strengthening their functioning and support to the board in their respective areas of action, according to the best international practices and internal rules and regulations.

The changes effected in 2019 are the following:

- Executive committee: Mr Rodrigo Echenique left the committee on 1 May 2019, which resulted in the percentage of independent directors in the committee increasing to 42.8%.
- Audit committee: Mr Henrique de Castro and Mrs Pamela Walkden became members on 21 and 29 October 2019, respectively. Mrs Walkden filled the vacancy left by Mr Carlos Fernández. Therefore, the number of committee members has increased from four to five, all of whom are independent directors.
- Appointments committee: Mr Rodrigo Echenique and Ms Esther Giménez-Salinas i Colomer became members on 1 May 2019 and 29 October 2019, respectively. Ms Esther Giménez-Salinas i Colomer filled the vacancy left by Mr Carlos Fernández. The number of committee members has increased from four to five.
- Remuneration committee: Mr Henrique de Castro became a member of the committee on 29 October 2019. He filled the vacancy left by Mr Carlos Fernández.

  These appointments in the appointments and remuneration committees further differentiated their composition, in line with best practice.
- Innovation and technology committee: Mr Henrique de Castro became a member of the committee on 23 July 2019.

1.2 Responsible banking as a cornerstone of our corporate governance

Responsible banking has been a key priority in the agenda of our corporate governance during 2019 and will continue to be in the future.

The responsible banking, sustainability and culture committee has a key role in guaranteeing that we have a responsible and sustainable governance and in ensuring that all of our business practices are sound and consistent.

In particular, and in coordination with steering groups on culture and on inclusive and sustainable banking, respectively, in 2019 the committee focused on the two challenges it identified and formulated in September 2018:

- Adapt to the new business environment with the necessary culture, skills, governance, digital and business practices to meet our stakeholders´expectations and do our job with the highest standards.
- Support an inclusive and sustainable growth that helps businesses to create new jobs and eases access to

finance, supporting the low-carbon economy and fostering sustainable consumption.

The responsible banking public commitments that we announced in July 2019, in the context of the above mentioned two challenges, drive the responsible banking, sustainability and culture committee's agenda. In particular, with regard to the challenge to adapt to the new business environment, we have already achieved our commitment to have a representation of women on the board between 40 and 60%. In addition, our succession policy for managerial roles throughout the Group, updated by the board on 27 February 2020, considers diversity as a priority, which puts us in an excellent position to achieve the commitment of having 30% of leadership positions held by women by 2025. Those commitments are covered in the chapter 'Responsible banking'.

The conviction that strong corporate values are essential means to keep working to strengthen our Simple Personal and Fair culture: what we name The Santander Way. At the same time, our purpose of helping people and businesses prosper defines the Group's progress towards our goal of being a responsible bank.

With regard to climate change, one of the most important challenges of this era, we have based our strategy on two main lines of action: reducing our own environmental footprint and supporting our customers to help them transition towards a low carbon economy.

All our activity is guided by policies, principles and frameworks to ensure we behave responsibly in everything we do. These policies are updated on a yearly basis. In 2019, the board, supported by the responsible banking, sustainability and culture committee, reviewed and updated our responsible and sustainable corporate policies, taking into account the latest recommendations and best practices at international level, also ensuring consistency across the Group.

Likewise, in 2020 we will consider the progress in meeting our key public commitments in responsible banking as a qualitative adjustment criterion for senior management's remuneration. See section 6 'Remuneration'.

The 2018 consolidated statement on non-financial information was verified by an external auditor and submitted for approval to the 2019 AGM receiving a high level support from our shareholders (see section 3.4 '2019 AGM'). This demonstrates the quality of disclosure and the importance we place on engagement with our stakeholders and on ensuring that the messages in responsible banking, environmental, social and governance (ESG) are well understood by them.

For further information see section 4.9 'Responsible banking, sustainability and culture committee activities in 2019´ and the 'Responsible banking' chapter.

1.3 Achieving our 2019 priorities

The 2018 annual report disclosed our corporate governance goals and priorities for 2019. The following chart describes how we have delivered on each priority.

2019 goals	How we have delivered
Responsible banking	
Responsible banking will be a higher priority than ever. Our culture and corporate values are essential for long term value creation. For these purposes we will focus on:	As we mentioned in section 1.2 'Responsible banking as a cornerstone of our corporate governance', the responsible banking, sustainability and culture committee, highly supported by our active culture and inclusive and sustainable banking steerings groups, had a key role in the responsible banking agenda during 2019.
• Overseeing our business practices to ensure they are sound and responsible and how we engage with all our stakeholders.	These efforts in responsible business practices have been recognised by the Dow Jones Sustainability Index, which has acknowledged Santander as the most sustainable bank in the world.
• Strong governance in decisions relating to sustainability and responsible banking, as well as transparency and disclosure of our non-financial information (environmental, social, prevention of corruption and bribery, ethics, etc.) will also be key matters for the responsible banking, sustainability and culture committee.	Our high standard of transparent disclosure has been ascertained by our stakeholders through the publication in July 2019 of our commitments to adapt ourselves to the new business environment and to support an inclusive and sustainable growth that powers and funds investment in green energy. Guiding principles in responsible banking have been established for our subsidiaries to ensure that the agenda is embedded across the Group.
Strategy	
In the complex environment of today´s financial markets, the success of the Bank requires:	In 2019, the board and committees' forward-looking agendas were reviewed to ensure appropriate scheduling and time allocation to business strategy. The result has been shared with all the committee chairs to implement as appropriate.
• Understanding that innovation and digital/technological transformation are a catalyst in our business model and strategy, turning the challenges of technology into opportunities.	Our main strategic lines relating to the digital transformation were discussed, together with other topics, at the Board Strategy Day and were also included in the monthly reports provided by the executive chairman to the board during 2019.
• A close monitoring of emerging and geopolitical risks.	Moreover, periodic risk reports, covering not only idiosyncratic risks of the Group, but those arising from macroeconomic trends, including emerging and strategic risks, have been regularly submitted to, and monitored by, the board. Group-wide strategy and digitalization were also supervised by the board during 2019.

2019 goals	How we have delivered
Engagement with investors and other stakeholders	
Engagement with investors and other stakeholders, by: • Providing tailored feedback to all of stakeholders under the leadership of the lead independent director with one-to-one meetings, and meeting their expectations with transparency and reliability. Listening and giving voice to investors will increase the Bank's long term returns. • Leveraging on the implementation of the European Union shareholders' rights directive and other legislation to enhance and encourage stakeholder relations.	On 27 February 2020 the board of directors approved an update of the policy on communication and engagement with its shareholders and investors. In 2019, we performed, among others, the following activities to meet investors and other stakeholders needs and expectations: • Our lead independent director maintained regular contact with investors, particularly during the months prior to the AGM, which allowed us to gather their insights and know their concerns, especially with respect to corporate governance. • Our Investors Relations department was in constant contact with the institutional investors and analysts, seeking direct contact to enable discussion on shareholder value creation and improvements made to governance, remuneration structures and sustainability matters. See section 3.1 'Shareholder engagement'. The proposals for the transposition in Spain of the referred European directive on shareholders' rights, which is still pending, have been monitored, with no significant changes in the Group's practices having been identified so far.
Diversity in the boardroom	
A strong and unbreakable commitment to broader diversity will remain a focus for the board and the appointments committee. The updated board skills and diversity matrix will allow any gender and/or other types of imbalance to be addressed. We believe that diversity is not a box to be ticked but a strategy for our success.	Full gender equality in the board of directors was achieved on 29 October 2019 with the appointment of Mrs Pamela Walkden, which enabled us to deliver on the target we had set for 2021 more than one year in advance. With a view to driving gender diversity, all proposed appointments that are submitted to the appointments committee are now accompanied by a diversity impact analysis as part of the suitability assessment, according to the policy for the selection, suitability and succession of directors. This ensures that diversity is considered a priority in our appointment and succession processes and in all related decisions. The Group subsidiaries remained also focused on board composition with a view to enhance gender diversity, in line with the target set by the Group.
Ongoing board and committees renewal	
Ongoing board and committees renewal will remain a priority for the coming years so that the board and its committees have an appropriate and diverse composition, as well as a balanced tenure.	Throughout 2019, significant work was carried out to ensure that the overall composition and skills of the board of directors and board committees are appropriate. Desired areas of experience were identified and incorporated into board succession and recruitment planning overseen by the appointments committee. Our policy for the selection, suitability assessment and succession of directors provides strong assurance about the appropriate composition of the board of directors. The appointments of Mr Henrique de Castro and Mrs Pamela Walkden have further strengthened the board and audit committee's international diversity and brings sound experience in technological, digital and banking industries, and a significant audit background. The appointment of Mr Luis Isasi and Mr Sergio Rial that will be submitted to our next AGM will also strengthen financial industry, international and institutional experience within the board. Section 1.1 'Renewing the board' describes all the changes and improvements made to the composition of the board and the board committees. In addition, the tenure of board members remained a key area of focus, ensuring that an appropriate balance between board renewal, continuity and stability was achieved.
Compensation effectiveness	
The board and the remuneration committee will continue to focus on shaping compensation structures and schemes for our executives, according to our corporate culture and values, while driving them towards alternative performance metrics.	As part of the annual process, in 2019 the remuneration committee reviewed compensation effectiveness based on the alignment with the corporate culture and values, and with shareholders, employees, applicable regulations, risk and market practice. This backdrop supported the launch in 2019 of new incentive schemes designed to support the ongoing transformation of the Bank and the new business models, and to compete for talent, such as the digital transformation award approved by the 2019 AGM.

1.4 Continued improvement in corporate governance

We keep strengthening our corporate governance framework and will further improve its soundness and effectiveness in the coming years. This is key to successfully fulfilling our mission to become a more responsible bank and to tackle the many challenges that face us in today's digital environment.

That is why, on top of delivering on the priorities set in 2019, we have continued to work to keep improving our corporate governance:

- **Greater transparency:** As mentioned in the 'Introduction' to this annual report and in the introduction of this Corporate governance chapter, in 2019 we took a significant leap forward in terms of improved disclosure, including in relation to corporate governance. This allowed us to use the 2018 annual report as the basis to prepare our Form 20-F for 2018 filed with the Securities Exchange Commission (SEC) in 2019 and our share registration document filed with the CNMV also in 2019.
- **New committee reports:** In line with the desire to provide greater transparency, this corporate governance report provides for the first time reports for the responsible banking, sustainability and culture, and the innovation and technology committees (in addition to the reports of the audit, appointments, remuneration and risk supervision, regulation and compliance committees). See sections 4.9 and 4.10, respectively.
- **Increased focus on shareholder engagement:** The Bank has always recognized the importance of engagement with its shareholders and investors. To further increase the focus on such engagement we have updated our policy on communication and engagement with shareholders and investors. See section 3.1 'Shareholder engagement'.
- **Improvements in succession processes:** Succession planning is a key element of our good governance as it ensures orderly transitions in leadership and, at the same time, continuity and stability of the board. Based on our experience in succession for key functions, we have strengthened our succession policy for managerial roles throughout the Group, approving its updating by the board on 27 February 2020, and we will also strengthen our policy for the selection, suitability assessment and succession of directors, which its updating will be submitted for approval of the board in March 2020. To that purpose, we retained an independent advisor that ensured compliance with the highest standards.

  The changes implemented aim to ensure that we build strong talent pipelines for each function, with the required talent in each case, and to establish diversity as a priority. The process encompasses a yearly activity cycle with well-defined methodology and timelines and a clear allocation of responsibilities, ensuring appropriate involvement of management. For each position included in the process, the strength of the pipeline is determined based on the number and readiness of the suitable candidates, and development and training plans are defined where required. The process includes specified risk-based effectiveness indicators that are analysed on a yearly basis, and provides for regular final monitoring and reporting to the board.

  In 2019, succession plans were set for 301 roles throughout the Group, up from 275 in 2018 and 212 in 2017. Out of the 31 critical positions which became vacant in 2019, 22 of them (71%) were filled with candidates identified in prior year succession plan. 86% of the positions covered by the plan have a strong succession pipeline, meaning that we have identified at least two successors who could potentially be immediately ready or one successor who could potentially be immediately ready and two successors who could potentially be ready in one to two years. See 'Election, renewal and succession of directors' in section 4.2.
- **Further insight into the skills of our directors:** In our 2017 annual report we identified each director in our board skills matrix and in that of 2018 we further improved the matrix. This year we have added even more information in the committees skills and diversity matrix, which provides a clear view of the balance of skills, not only in the board, but in each board committee. See 'Committees skills and diversity matrix' in section 4.2. In addition, we have reinforced key skills attributed to each director in their profiles under section 4.1 'Our directors'.

1.5 Priorities for 2020

Our board's priorities on corporate governance for 2020 are the following:

- **Santander share**

  In the creation of long-term value for shareholders, the board will supervise and support the management team in implementing our strategy so that total shareholder's return appropriately reflects the Group's solvency, results, corporate culture and sustainable growth.
- **Continued strength of succession pipeline**

  Succession planning will remain a key priority for 2020 so that it ensures that our pipeline of successors has strength in depth. We will remain proactive in identifying successors, executing appropriate training plans where needed to ensure that any succession event can be dealt with effectively. Our succession planning effectiveness indicators will continue to help us ensure that our efforts in this regard are delivering intended outcomes and that the risks implied in the succession of directors and other key roles are constantly supervised. Regular reporting to the board ensures its awareness of the process, its risks and its results.
- **Designing remuneration policies adapted to the new business environment**

  It is essential to implement remuneration structures and schemes for our executives that include environmental, social and governance-related performance indicators that are simple, transparent, measurable, and aligned with the fulfilment of our public responsible banking commitments.

Ensuring that the remuneration policies are effective and adapted to our culture and corporate values, as well as to the expectations of the investors and other stakeholders, is essential to our strategy for sustainable growth.

- **Fostering communication with shareholders and investors as part of their engagement with the Group**

  Furthering our interaction and dialogue with investors through all the channels and engagement activities included in our policy on communication and engagement with shareholders and investors will facilitate the exercise of their rights, the communication of information according to their expectations and the creation of opportunities for them to participate in our corporate governance in an effective and long-term sustainable manner. This will be in accordance with the laws transposing the European directive on shareholders' rights and its implementing regulation.

  Maximising the dissemination and quality of the economic-financial information we make publicly available, in a transparent and effective manner, will help us retain long-term trust of our investors and society.

- **Strategy to address risks and opportunities arising from climate change**

  We will supervise fulfilment of our public climate change commitments, including environmental criteria in the Group's governance and management of risks, and reporting the progress achieved in this area in a transparent manner.

  Transition towards a green economy by financing sustainable projects, namely renewable energy projects that drive a low-carbon economy, and by supporting the development of sustainable and smart infrastructures, will be very important in the board's agenda.

- **At the forefront of national and international best practices**

  As part of our commitment to continuously improve corporate governance, in 2020 we will keep monitoring the recommendations of supervisors and guidelines of national and international organisations, so that the functioning and internal regulations of our governing bodies are at all times aligned with best practice.

  In particular, we will review the amendments to the Listed Companies' Good Governance Code that may be approved, if any. Its first proposal is aligned with our corporate governance framework in matters such as communication and engagement with shareholders and investors, directors' diversity and suitability assessment, the composition of the executive committee, the board's organization and sustainability.

2. Ownership structure

- Broad, widely distributed and well balanced shareholder base
- A single class of shares
- Authorised capital in line with best practices providing the necessary flexibility

2.1 Share capital

Our share capital is represented by ordinary shares with a par value of 0.50 euros each. All shares belong to the same class and carry the same rights, including in voting and dividends.

There are no outstanding bonds or securities convertible into shares, other than the contingent convertible preferred securities (CCPPS) referred to in the next section 2.2 'Authority to increase capital'.

At 31 December 2019, the Bank had a share capital of EUR 8,309,057,291 represented by 16,618,114,582 shares.

In 2019, the share capital was altered only once through the capital increase carried out on 10 September 2019 as the result of the public exchange offer for the acquisition of shares of Banco Santander México that the Group did not previously own. At this capital increase, which was approved at an extraordinary shareholders meeting (EGM) held on 23 July 2019, a total of 381,540,640 new shares representing 2.30% of the share capital at 31 December 2019 were issued. See section 3.5 '2019 EGM'.

We have a broad, widely distributed and balanced shareholder structure. At 31 December 2019, the total number of Santander shareholders was 3,986,093 and the distribution by type of investor, geographic origin and number of shares was as follows:

Shareholder distribution by type of investor

Type of investor	% of share capital
Board[A]	1.08%
Institutional	60.39%
Retail	38.53%
Total	**100%**

A. Shares owned or represented by directors. For further details on shares owned and represented by directors, see 'Tenure, committee membership and equity ownership' in section 4.2 and subsection A.3 in section 9.2 'Statistical information on corporate governance required by the CNMV'.

Shareholder distribution by continent

Continent	% of share capital
Europe	75.63%
Americas	22.97%
Rest of the world	1.40%
Total	**100%**

Shareholder distribution by number of shares

Shares	% of share capital
1-3,000	6.97%
3,001-30,000	18.62%
30,001-400,000	11.44%
Over 400,000	62.97%
Total	**100%**

2.2 Authority to increase capital

Under Spanish law, the authority to increase share capital rests with the general shareholder's meeting (GSM). However, our GSM may delegate to the board of directors the authority to approve or execute capital increases. Our Bylaws are fully aligned with Spanish law, and do not establish any different conditions for share capital increases.

At 31 December 2019, our board of directors had been authorized by the GSM to approve or execute the following capital increases:

- **Authorised capital to 2021:** At our 2018 AGM, the board was authorised to increase share capital on one or more occasions by up to EUR 4,034,038,395.50 (50% of capital at the time of the 2018 AGM or approx. 8,000 million shares representing approximately 48.14% of the share capital at 31 December 2019). This authority was granted for three years (i.e. until 23 March 2021).

  The authority can be used for issuances for a cash consideration, with or without pre-emptive rights for shareholders, and for capital increases to back any convertible bonds or securities issued under the authority granted to the board by the 2019 GSM.

  The issuance of shares without pre-emptive rights under this authority is capped at EUR 1,613,615,358 (20% of capital at the time of the 2018 AGM or approx. 3,227 million shares representing approximately 19.42% of the share capital at 31 December 2019). This limit is further reduced to 10% of the share capital in connection with capital increases to convert bonds or other convertible securities or instruments. As an exception, these limits for the issuance without pre-emptive rights do not apply to capital increases to allow the potential conversion of contingent convertible preferred securities (which can only be converted into newly-issued shares when the capital equity tier 1 (CET1) ratio falls below a pre-established threshold).

This authority has not been used to date except in connection with the issuances of CCPS of 8 February 2019 and 14 January 2020 mentioned below. The board of directors is proposing to have this authority renewed reducing the limit from 20% to 10% (with an increase only to reflect the amount of capital that has been increased since our 2018 AGM) at our 2020 AGM as it may expire before we hold our 2021 AGM. See section 3.6 'Our coming 2020 AGM'.

- **Capital increases approved for contingent conversion of CCPS:** We have issued contingent convertible preferred securities that qualify as additional tier 1 instruments for regulatory capital purposes and which would convert into newly-issued shares if the CET1 ratio fall below a pre-established threshold. Each of these issuances is therefore backed by a capital increase approved under the authority to increase capital granted by the GSM to the board in force at the time of the CCPS issuance. The following chart shows the CCPS in circulation as at the date of this report, with details of the capital increases agreements. The execution of these capital increases is therefore contingent and has been delegated to the board of directors. The board of directors has the authority to issue further CCPS and other convertible securities and instruments pursuant to the approval granted by our 2019 AGM which allows the issuance of convertible instruments and securities up to EUR 10 billion or the equivalent thereof in another currency. Any capital increase to allow the conversion of any such CCPS or other convertible instruments or securities would be approved under the authority indicated under 'Authorised capital to 2021' in this section or any renewal of such authority.

Authority for scrip dividend: Our 2019 AGM approved a capital increase with a charge to reserves to allow the potential implementation of a scrip dividend (under the "*Santander Dividendo Elección*" scheme) as part of the remuneration for shareholders against the results of 2019. As indicated in section 3.3 'Dividend', the board of directors intends to implement such a scrip dividend against the results of 2019 but is doing so under a resolution submitted to our 2020 AGM as the existing authority will expire on 12 April 2020 and the scrip dividend will be executed after such date. In addition, the board of directors is proposing to have this authority renewed at our 2020 AGM to allow the potential implementation of a scrip dividend as part of the remuneration for shareholders against the results of 2020. See sections 3.3 'Dividend' and 3.6 'Our coming 2020 AGM'.

Issues of contingent convertible preferred securities

Date of issuance	Nominal amount	Discretionary remuneration per annum	Conversion	Maximum number of shares in case of conversion [A]
12/03/2014	EUR 1,500 million	6.25% for the first five years	If, at any time, the CET1 ratio of the Bank or the Group is less than 5.125%	345,622,119 [B]
11/09/2014	EUR 1,500 million	6.25% for the first seven years		299,401,197
25/04/2017	EUR 750 million	6.75% for the first five years		207,125,103
29/09/2017	EUR 1,000 million	5.25% for the first six years		263,852,242
19/03/2018	EUR 1,500 million	4.75% for the first seven years		416,666,666
08/02/2019	USD 1,200 million	7.50% for the first five years		388,349,514
14/01/2020	EUR 1,500 million	4,375% for the first six years		604,594,921

A. The figure corresponds to the maximum number of shares that could be required to cover the conversion of the relevant CCPS, calculated as the quotient (rounded off by default) of the nominal amount of the CCPS issue divided by the minimum conversion price determined for each CCPS (subject to any anti-dilution adjustments and the resulting conversion ratio).
B. By means of material facts dated 9 and 15 January 2020, the Bank announced its irrevocable decision to carry out the voluntary early redemption of all of the outstanding CCPS on the next payment date of the corresponding distribution falling on 12 March 2020.

2.3 Significant shareholders

At 31 December 2019, no shareholder of the Bank individually held more than 3% of its total share capital (which is the significant threshold generally established under Spanish regulations for a significant holding in a listed company to be disclosed). While at 31 December 2019 certain custodians appeared in our register of shareholders as holding more than 3% of our share capital, we understand that those shares were held in custody on behalf of other investors, none of which exceeded that threshold individually. These custodians were State Street Bank and Trust Company (14.06%), The Bank of New York Mellon Corporation (8.12%), Chase Nominees Limited (6.38%), EC Nominees Limited (3.97%) and BNP Paribas (3.40%).

In addition, BlackRock Inc. had as of that date informed the CNMV of its significant holding of voting rights in the Bank (5.426%) but had noted in its communications that the corresponding shares were being held on behalf of a number of funds or other investment entities, none of which exceeded 3% individually.

Throughout 2019 BlackRock Inc. informed the CNMV of the following movements regarding its voting rights in the Bank: 6 February, increase above 5%, 17 April, decrease below 5%, 9 May, increase above 5% and, 23 October, decrease below 5%.

It should be noted that there may be some overlap in the holdings declared by the above mentioned custodians and asset manager.

At 31 December 2019, neither our shareholders registry nor the CNMV's registry showed any shareholder resident in a tax haven with a shareholding of 1% or higher of our share capital (which is the other threshold applicable under Spanish regulations).

Our Bylaws and Rules and regulations of the board provide for an appropriate system for analysing and approving related party transactions with significant shareholders. See section 4.12 'Related-party transactions and conflicts of interest'.

2.4 Shareholders' agreements

In February 2006, a shareholders' agreement was entered into by various persons linked to the Botín-Sanz de Sautuola y O'Shea family whereby a syndicate was created with respect to their Bank's shares. CNMV was informed of the execution of this agreement and the subsequent amendments made by the parties, and this information can be found on CNMV website.

The main provisions of the agreement are the following:

- **Transfer restrictions:** Except when the transferee is also a party to the agreement or the Fundación Botín, any transfer of the Bank's shares expressly included in the agreement requires prior authorisation from the syndicate meeting, which may be granted or denied freely. These transfer restrictions apply to the shares expressly subject to it by virtue of the agreement and to those shares that are subscribed for or acquired by the members of the syndicate in exercise of any subscription, bonus share, grouping or division, replacement, exchange or conversion rights that pertain to, are attributed to or derive from those syndicated shares; and
- **Voting syndicate:** Under the agreement, the parties undertake to syndicate and pool the voting rights attached to all their shares in the Bank, even those not subject to the restrictions on transferability referred above, so that these rights may be exercised, and, in general, the syndicate members will act towards the Bank in a concerted manner, in accordance with the instructions and indications and with the voting criteria and orientation established by the syndicate. This syndication and pooling of voting rights covers not only the shares subject to the transfer restrictions referred above but also any voting rights attached to any other Bank shares held either directly or indirectly by the parties to the agreement, and any other voting rights assigned thereto by virtue of usufruct, pledge or any other contractual title, for as long as they hold those shares or are assigned those rights. For this purpose, representation of the syndicated shares is attributed to the chair of the syndicate, who shall be the chairman of the Fundación Botín (currently Mr Javier Botín-Sanz de Sautuola y O'Shea). Ms Ana and Mr Javier Botín-Sanz de Sautuola y O'Shea are siblings.

The initial term of the agreement ends on 1 January 2056, but it will be automatically extended for further 10-year periods unless terminated by one of the parties with six months prior notice before the end of the initial term or the end of one of the extension periods. The agreement may only be terminated in advance by unanimous agreement of all the syndicated shareholders.

At 31 December 2019, the parties of the shareholders' agreement held 93,453,560 shares in the Bank (representing 0.56% of its capital at that date), which were therefore subject to the above mentioned voting syndicate. Of this total, 77,220,357 shares in the Bank (0.46% of its capital at the end of 2019) were also subject to above mentioned transfer restrictions.

Subsection A.7 of section 9.2 'Statistical information on corporate governance required by the CNMV' contains the list of parties to the shareholders´ agreement and the identification of the material facts filed with CNMV in connection with the shareholders' agreement.

2.5 Treasury shares

Our current treasury share policy was approved by the board on 23 October 2014. The policy provides that treasury share transactions shall have the following objectives:

- To provide liquidity or a supply of securities, as applicable, in the market for the Bank's shares, giving depth to such market and minimising possible temporary imbalances in supply and demand.
- To take advantage, for the benefit of shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.

The policy further establishes that treasury share transactions may not be carried out for the purpose of intervening in the free formation of prices. Therefore, it requires that:

- Orders to buy should be made at a price not higher than the greater of the following two:
  - The price of the last trade carried out in the market by independent persons; and
  - The highest price contained in a buy order of the order book.
- Orders to sell should be made at a price not lower than the lesser of the following two:
  - The price of the last trade carried out in the market by independent persons; and
  - The lowest price contained in a sell order of the order book.

The policy focuses on the discretionary trading of treasury shares. The policy applies partially to trading of treasury shares linked to customer activities, such as market risk hedging and brokerage activities, or hedging for customers.

Transactions with treasury shares are carried out by the Investments and Holdings department, which is isolated as a separate area from the rest of the Bank's activities and protected by the respective Chinese walls, preventing it from receiving any inside or relevant information.

Trading in treasury shares was last authorised at our 2019 AGM. This authorisation permits the acquisition of treasury shares provided that the shares held at any point in time do not exceed the legal limit provided for under the Spanish Companies Act (currently, 10% of the Bank's share capital).

The authorization further requires that acquisitions are made at a price that is not lower than the nominal value of the shares and does not exceed the last trading price in the Spanish market for a transaction in which the Bank was not acting for its own account by more than 3%.

The aforementioned resolution also authorized the acquisition of shares to be held in treasury with the express possibility of executing share repurchases to reduce the number of shares in issue, should market conditions make such action advisable. Any such share repurchases may also be made in conjunction with a scrip dividend, should such a dividend be deemed appropriate.

The board of directors is proposing to have this authority renewed at our 2020 AGM. See section 3.6 'Our coming 2020 AGM'.

As at 31 December 2019, the Bank and its subsidiaries held 8,430,425 shares representing 0.051% of the share capital at that date (compared to 12,249,652 at 31 December 2018, representing 0.075% of our Bank's share capital).

The following chart summarises the monthly average percentages of treasury shares between 2019 and 2018.

Monthly average percentages of treasury shares[A]

% of the Bank's share capital at month end

	2019	2018
January	0.07%	0.04%
February	0.02%	0.03%
March	0.01%	0.02%
April	0.01%	0.04%
May	0.02%	0.05%
June	0.02%	0.07%
July	0.02%	0.07%
August	0.03%	0.07%
September	0.04%	0.07%
October	0.04%	0.07%
November	0.05%	0.07%
December	0.05%	0.07%

A. Monthly average of daily positions of treasury shares.

In 2019, trading of treasury shares by the Bank and its subsidiaries involved:

- The purchase of 226,681,642 shares equivalent to a par value of EUR 113.3 million (cash amount of EUR 927.6 million) at an average purchase price of EUR 4.09 per share;
- The sale of 230,500,869 shares equivalent to a par value of EUR 115.3 million (cash amount of EUR 947.4 million) at an average price of EUR 4.11 per share; and
- A net loss for the Group of EUR 6,282,500 that has been recognised in the Group's equity under shareholders' equity-reserves.

The following chart reflects the significant changes in treasury stock during the year, which have been communicated to the CNMV.

Significant changes in treasury stock during 2019

Notification date	Total of acquired direct shares	Total of acquired indirect shares	Total % of share capital [A]
07/02/2019	156,794,393	6,103,283	1.00%
06/11/2019	149,243,500	21,297,685	1.03%

A. Percentage calculated with the existing share capital at the date of the notification.

2.6 Stock market information

Markets

The Bank's shares are listed on the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia, with trading symbol SAN), the New York Stock Exchange (NYSE) (in the form of American Depositary Shares, 'ADS', with trading symbol SAN and where each ADS represents one share of the Bank), the London Stock Exchange (in the form of Crest Depositary Interests, 'CDI', with trading symbol BNC and where each CDI represents one share of the Bank), the Mexican Stock Exchange (with trading symbol SAN) and the Warsaw Stock Exchange (with trading symbol SAN).

Share price performance

The main markets improved during the year. In Spain, the Ibex 35 benchmark index increased by 11.8% and in Europe the DJ Stoxx 50 rose by 23.3%.

In a context of economic slowdown, the European banking sector was initially affected by the monetary policies of the main central banks, namely that of the European Central Bank (ECB), which delayed the increase of interest rates beyond 2020. The optimism arising in connection with a potential trade agreement between China and the USA raised market prices at the end of the year.

The main European banking benchmark index, DJ Stoxx Banks, increased by 8.2% while the MSCI World Banks increased by 16.4%. The Bank's shares closed 2019 at 3.73 euros per share, which represents a 6.1% decrease, also affected by some uncertainties in geographies where Santander operates such as Argentina, Chile, UK and Poland.

Market capitalisation and trading

As at 31 December 2019, Santander was the second largest bank in the Eurozone in terms of market capitalisation (EUR 61,986 million) and ranked 25th worldwide. During 2019, a total number of 19,334 million Santander shares were traded for a total cash amount of EUR 77,789 million, which is the highest figure of shares belonging to the Eurostoxx, with a liquidity ratio of 118%.

The Santander share

	2019	2018
Shares (million)	16,618.1	16,236.6
Price (EUR)		
Closing price	3.730	3.973
Change in the price	-6.1%	-27.5%
Maximum for the period	4.682	6.093
Date of maximum for the period	17/4/2019	26/1/2018
Minimum for the period	3.386	3.800
Date of minimum for the period	9/3/2019	27/12/2018
Average for the period	3.963	4.844
End-of-period market capitalisation (EUR million)	61,986	64,508
Trading		
Total volume of shares traded (million)	19,334	19,040
Average daily volume of shares traded (million)	75.8	74.7
Total cash traded (EUR million)	77,789	95,501
Average daily cash traded (EUR million)	305,1	374,5

3. Shareholders. Engagement and shareholders meeting

- One share, one vote, one dividend
- No takeover defences in our Bylaws
- High participation and engagement of shareholders in our AGM

3.1 Shareholder engagement

Policy on communication and engagement with shareholders and investors

On 27 February 2020, the board of directors approved a review of the policy on communication and engagement with shareholders and investors, which underscores our commitment to transparency of information, communication and engagement with them and the capital markets in general.

The Bank's objectives are to ensure the alignment of the its interests with those of our shareholders, the creation of long-term share value, and to gain and retain the long-term trust of investors and society in general and, to that end:

- We provide information to shareholders and investors that satisfies their expectations and aligns with our corporate culture and values.
- To communicate and engage with them on an ongoing basis, ensuring that their views are considered by the senior management.

The policy applies to communication with shareholders and investors, and also with those agents to whom they look for advice, recommendations or orientation such as analysts (including financial and environmental, social and governance analysts), proxy advisors and rating agencies, as the interaction with those agents to be a vital part of communication and engagement with shareholders and investors.

The policy states the following principles for the Bank's engagement and communication with shareholders and investors**:**

- **Protection of rights and lawful interests of all shareholders**, facilitating the exercise of their rights, sharing of information in their favour and the creation of opportunities for effective involvement in our corporate governance and the activities of the Bank effectively.
- **Equal treatment and non-discrimination,** treating all investors equally.
- **Fair disclosure**, ensuring that any information dealt with in the context of interactions with investors is disclosed in a transparent, truthful and balanced manner in accordance with applicable rules. All information that is deemed inside or relevant, in any manner shared with investors will have been previously disclosed except when applicable regulation provides otherwise.
- **Disclosure of information in a relevant manner.** We address the information appropriate and relevant to our investor´s needs, aligning its reporting and disclosure with their expectations. We ensure that the information is presented in a rational and organised manner, tailored to shareholder, and that it is clear, comprehensible, concise and accurate
- **Compliance with statutory provisions and our corporate governance rules**, and with the principles of cooperation and transparency with the competent regulatory or supervisory institutions, with due consideration at all times for the guidelines laid down by our Compliance and Conduct function. We pay particular attention to the rules on handling of insider and material information under applicable laws and regulations and our own regulations set out in our Code of Conduct in Securities Markets, the General Code of Conduct and the Rules and regulations of the board of directors.

The policy further describes:

- The **roles and responsibilities** of the main bodies and functions within the Bank that participate in communication and engagement with shareholders and investors;
- The **channels for information** disclosure to, and communication with, shareholders and investors; and
- The **types of engagement** by the Bank with shareholders and investors, which are covered below.

The policy on communication and engagement with shareholders and investors is available to the general public on the Bank's website.

Engagement with shareholders in 2019

The following engagement activities have been carried out during the year putting into practice the above mentioned policy:

- **The annual general meeting.** We consider our AGM as the most important annual corporate event for our shareholders. For that reason we strive to encourage the informed attendance and participation of our shareholders wherever they are based. See 'Participation of shareholders at the GSM' and 'Right to receive information' in section 3.2.

During the AGM the chairman reports, in sufficient detail, on the most relevant developments during the year of the Group's corporate governance, supplementing the corporate governance report, and addresses any questions that shareholders may pose during the course of the meeting in connection with the matters included in the agenda.

The chairmen of the audit, appointments and remuneration committees also report to the AGM on the tasks of those committees, supplementing the information on the committees' activities provided in this Corporate governance chapter.

Shareholders are entitled to attend the GSM either physically or remotely. We broadcast our GSMs live on our corporate website. This allows non-attending shareholders, other investors and stakeholders in general, to be fully informed of the discussions and results.

The record quorum and outstanding voting results in our 2019 AGM show the importance we put on engagement through our GSMs. See section 3.4 '2019 AGM'.

In 2019 we also held an EGM which had a very with a high quorum and a broad support to the proposals of resolutions submitted for approval. See section 3.5 '2019 EGM'.

- **Quarterly results presentations:** Each quarter we hold a results presentation on the same day as the results' publication, which can be followed live, via conference call or webcast. The corresponding financial report and as well as presentation material are available to the public on the day in advance of the market opening. During the presentation, it is possible to ask questions or send them via email to: investor@gruposantander.com.

  Our most recent event was the 2019 Results Presentation on 29 January 2020. During 2019, the first, second and third quarter results presentations took place on 30 April, 23 July and 30 October, respectively.

- **Investor and strategy days:** We also organise investor and strategy days. In these events, our senior management lays out our strategy for investors and stakeholders in a broader context than what results presentations typically allow. These events also allow investors to have direct interaction with senior management and some of our directors, something we see as increasingly important and further underscore the strength of our governance. In line with the CNMV recommendations, announcements of meetings with analysts and investors and the documentation to be used at those meetings are published in advance by the Bank. Our last Investor Day took place on 3 April 2019 in London. The information made available during investor day is not incorporated by reference in this annual report nor otherwise considered to be a part of it.

- **Meetings and conferences:** The Shareholders and Investor Relations team attends group or individual meetings with Investors at conferences arranged by third parties, discussing general or financial issues.

Without prejudice to the above principle of equal treatment and non-discrimination, our experience is that, when it comes to communicating with investors, one size does not fit all. Therefore, and as regards our investors (including, mainly the institutional, but also fixed-income investors, analysts and rating agencies) we tailor, among others, the following engagement activities to meet their needs and expectations:

- **Lead independent director engagement with key investors:** Our lead independent director, Mr Bruce Carnegie-Brown, maintains regular contact with investors in Europe and North America, particularly during the months prior to our AGM, allowing us to gather their insights and to form an opinion about their concerns, especially in connection with our corporate governance. During 2019 and early 2020 he met with 38 investors, totalling 30% of share capital, in eight different cities. The contribution of our lead independent director to the incorporation of international best practices in our corporate governance, the development of relations with institutional investors and the provision of tailored feedback to them is highly valued by the other directors in our annual board self-assessment. The views received from investors are duly considered by the appointments committee..

- **Investor roadshows:** Our Shareholders and Investors Relations department is in constant contact with our institutional investors and analysts, seeking direct contact to provide all-round discussion on shareholder value, improvements to governance and remuneration structures and sustainability matters.

  During 2019 they had 3,507 contacts with 699 institutional investors in 60 locations. Those included 140 roadshows, 855 one-on-one meetings, 316 group meetings and 25 telephone calls. The team engaged with 41.8% of share capital, which is more than 70% of the capital held by institutional investors.

More than 800 communications were launched in 2019 to strengthen communication and transparency with our shareholders and investors, informing them about the Group's performance, results and Santander share.

We also offer other means of communication especially geared towards retail shareholders regardless of the size of their stake:

- **Shareholder and Investor Relations team,** as part of our exercise of openness towards our retail shareholders, during 2019 had 1,739 contacts in 97 locations, including 322 forums and meetings in which they were informed about the latest results and the Group´s strategy and the evolution of the share . Our Shareholders team has personally attended to 16,428 shareholders representing 8.2% of the Bank´s share capital in roadshows and one-on-one group meetings.

  In addition, in 2019, responded to 133,939 queries received via our shareholder and investor helplines, mailboxes, WhatsApp and one-on-one meetings held through the Virtual Customer Channel. Achieved a 96% recommendation of the attention service obtained.

Lastly, in 2019, 40,924 shareholder and investor opinions were received through quality surveys and studies.

Communication with proxy advisors and other analyst and influencers

Lastly, as indicated above, we have always recognised the value that our investors place on having an open and proactive dialogue with proxy advisors, environmental, social and governance analysts and other influencers. We ensure that our corporate governance, responsible banking and sustainability priorities and messages are well understood by those players, so that these are well communicated to the investors.

In particular, dialogue with proxy advisors has gained significant importance as they are increasingly setting the standards in corporate governance matters. Therefore, through open dialogue we ensure in-depth knowledge of our corporate governance and remuneration practices and markets in which we operate.

In 2019, we had appropriate strengthened both its communication and engagement with proxy advisors, taking into account their opinions concerning corporate governance, and having provided them with any information or clarification required in relation to any proposed resolution submitted for the AGM and the EGM, so that they were enabled to properly set out their voting recommendations.

Corporate website

At the end of 2019, we redesigned our corporate website to improve the effectiveness of our communication with shareholders and, in general, with all our stakeholders at a global scale. The site's new design enables us to be transparent and, at the same time, it improves the experience of users visiting it to obtain accurate and quality information about the Bank.

Our corporate website includes information on corporate governance as required by law. In particular, it includes (i) the key internal regulations of Banco Santander (Bylaws, Rules and regulations of the board, Rules and regulations for the GSM, etc.); (ii) information on the board of directors and its committees as well as the professional biographies of the directors and (iii) information relating to the GSMs.

The link to our information on corporate governance is: https://www.santander.com/en/shareholders-and-investors/corporate-governance. This link is included for informational purposes only. The content of our corporate website is not incorporated by reference in this annual report or otherwise considered to be a part of it.

3.2 Shareholder rights

Our Bylaws provide for only one class of share (ordinary shares), granting all holders the same rights. Each Santander share entitles the holder to one vote.

The Bank does not have any defensive mechanisms in the Bylaws, fully conforming to the principle of one share, one vote, one dividend.

In this section we highlight certain key features available to our shareholders.

No restrictions on voting rights or on the free transfer of shares in our Bylaws

There are no legal or bylaw restrictions on the exercise of voting rights except for those resulting from the failure to comply with applicable regulations as indicated below.

There are no non-voting or multiple-voting shares, or shares giving preferential treatment in the distribution of dividends, or shares that limit the number of votes that can be cast by a single shareholder, or quorum requirements or qualified majorities other than those established by law.

There are no restrictions on the free transfer of shares other than the legal ones indicated in this section.

The transferability of shares is not restricted by our Bylaws or in any other manner other than by the application of legal and regulatory provisions. In addition, there are no bylaw restrictions on the exercise of voting rights (except where an acquisition has been made in breach of legal or regulatory provisions).

Further, the Bylaws do not include any neutralisation provisions (as these are referred to in Spanish Securities Market Law), which apply in the event of a tender offer or takeover bid.

Please also note that the shareholders' agreement referred to in section 2.4 'Shareholders' agreements' contains transfer and voting restrictions on the shares subject to that agreement.

Legal and regulatory restrictions on the acquisition of significant holdings

There are legal and regulatory provisions applicable to the Bank because the banking activity is a regulated sector (which involves that the acquisition of significant holdings or influence is subject to regulatory approval or non-objection) and because of the Bank's status as a listed company (which involves that a tender offer or takeover bid for the Bank's shares must be launched for the acquisition of control and other similar transactions).

The acquisition of significant ownership interests is regulated mainly by:

- Regulation (EU) 1024/2013 of the Council of 15 October 2013, conferring specific tasks on the ECB relating to the prudential supervision of credit institutions;
- Spanish Securities Markets Law; and
- Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions (articles 16 to 23) and its implementing regulation, Spanish Royal Decree 84/2015, of 13 February.

The acquisition of a significant stake in the Bank may also require the authorisation of other domestic and foreign regulators with supervisory powers over the Bank's and its subsidiaries' activities and shares listings or other actions in connection with those regulators or subsidiaries.

Participation of shareholders at the GSM

All registered holders of shares on record, at least five days prior to the day on which a GSM is scheduled to be held, are entitled to attend. The Bank allows shareholders to exercise their rights to attend, delegate and vote using remote communication systems, which also foster participation in the GSM.

Another communication channel is the electronic shareholders' forum. This forum is available on our Bank's corporate website at the time of the meeting. It allows shareholders to post supplementary proposals to the agenda announced in the call notice, along with requests for support for those proposals, initiatives aimed at reaching the percentage required to exercise any of the minority shareholder rights provided for by law, as well as offers or requests to act as a voluntary proxy.

Supplement to the meeting call

Shareholders representing at least 3% of the share capital may request the publication of a supplement to the AGM call with a statement of the name of the shareholders exercising this right and of the number of shares held by them, as well as the items to be included on the agenda, attaching a rationale or substantiated proposal for resolutions concerning these items and, if appropriate, any other relevant documentation.

Shareholders representing at least 3% of the share capital may also submit duly grounded resolutions concerning matters that have already been included or to be included, relating to one or more items on the agenda.

These rights must be exercised by means of a certified notice that must be received by the Bank's registered office within five days after the publication of the notice of the call to meeting.

Right to receive information

From the publication of the call to the GSM until the fifth day, inclusive, prior to the date for which the meeting has been called at first call, shareholders may deliver written requests for information or clarifications, or submit written questions on issues they consider to be relevant concerning the items on the meeting agenda. In addition, in the same manner and within the same period, shareholders may deliver written requests for clarifications concerning the relevant information that the Bank has provided to the CNMV since the last GSM was held or concerning the auditor's reports. The requested information and the answers provided by the Bank are published on its corporate website.

Additionally, this information right may be exercised in the meeting itself but when it is impossible to satisfy the shareholder's right during the course of the meeting, or those requests made by remote attendees at the meeting, the appropriate information is provided in writing within seven days following after the end of the GSM.

Quorum and majorities required for passing resolutions at the GSM

The quorum required to hold a valid general shareholders' meeting and the system for adopting resolutions set out in our Bylaws and in the Rules and regulations for the Bank's GSM are the same as those set down by Spanish law.

Except for specific matters as indicated below, the quorum on first call shall be met by the attendance of shareholders representing at least twenty five per cent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the GSM shall be held on second call, where no minimum quorum is required.

For purposes of determining the quorum, shareholders who vote by mail or through electronic means before the meeting are counted as present at the meeting, as provided by the Rules and regulations for the Bank's GSM.

Except for specific matters as indicated below, resolutions at GSMs are passed when, with respect to the voting capital present or represented at the meeting, the number of votes in favour is higher than the number of votes against.

The quorum and majorities required for Bylaws amendments, issuances of shares and bonds, structural modifications and other significant resolutions provided for in applicable law are those set out below for Bylaws amendments. In addition, pursuant to the rules applying to credit institutions, the increase above 100% (up to 200%) of the ratio of the variable remuneration components over the fixed ones for executive directors and other key function holders requires a qualified majority of two thirds if there is a quorum of more than 50% of the share capital, and a majority of three quarters if there is not such a quorum.

Our Bylaws do not require any decisions that entail an acquisition, disposal or contribution to another company of core assets or other similar corporate transactions to be subject to the approval of the GSM, except in those cases established by law.

Rules governing amendments to our Bylaws

The GSM has the power to approve any amendment of the Bylaws, except for the change in the location of the registered office within Spain, which may be decided by the board.

If the Bylaws are to be amended by the GSM, the Bank's board or, where appropriate, the shareholders tabling the resolution, must draft the complete text of the proposed amendment along with a written report justifying the proposed change, which must be provided to shareholders with the call notice for the meeting at which the proposed amendment will be voted on.

Furthermore, the call notice for the GSM must clearly set out the items to be amended, detailing the right of all shareholders to examine the full text of the proposed amendment and accompanying report at the Bank's registered office, and to request that these documents be delivered or sent to them free of charge.

If the shareholders are called upon to deliberate on amendments to the Bylaws, the required quorum on first call shall be met by the attendance of shareholders representing at least fifty per cent of the subscribed share capital with the right to vote. If a sufficient quorum is not available, the GSM shall be held on second call, where at least twenty-five per cent of the subscribed share capital with voting rights must be present.

When shareholders representing less than fifty per cent of the subscribed share capital with the right to vote are in attendance, the resolutions on amendments to the Bylaws may only be validly adopted with the favourable vote of two-thirds of the share capital present in person or by proxy at the meeting. However, when shareholders representing fifty per cent or more of the subscribed share capital with the right to vote are in attendance, resolutions may be validly adopted by absolute majority.

Any changes to the Bylaws involving new obligations for shareholders must have the consent of those affected.

Authorisation is required under the Single Supervisory Mechanism (SSM) to amend our Bylaws. However, the following amendments are exempt from this authorisation procedure, although they must be reported to the SSM: those intended to reflect a change in registered office within Spain, a capital increase, additions to the wording of the Bylaws of legal or regulatory requirements of an imperative or prohibitive nature, wording changes to comply with court or administrative rulings and any other amendments which the SSM has ruled to be exempt from authorisation due to a lack of materiality in response to prior consultations submitted to it for this purpose.

3.3 Dividends

Remuneration against 2019 results

In February 2019, the board of directors announced that its intention was to set a pay-out ratio of 40-50% of the underlying profit in the mid-term, increasing it from a pay-out ratio of 30-40%; that the proportion of dividend paid in cash would not be lower than that of 2018; and, as was announced in the 2018 AGM, to make two payments against the results of 2019:

- **Interim dividend**. In September 2019 the board of directors approved its first dividend against 2019 results earnings of €0.10 per share, which was entirely paid in cash from 1 November 2019. The amount was equal to the sum of the interim dividends paid in 2018 in August (€0.065) and November (€0.035) and reflected the change in policy from four dividend payments to two.
- **Final remuneration**. The board of directors has resolved to submit to the 2020 AGM that the second payment of remuneration against the results of 2019 amounts to 0.13 euros per share by means of (1) a final dividend in cash of 0.10 euros per share (the 'Final Cash Dividend') and (2) a scrip dividend (under the '*Santander Dividendo Elección*' scheme) (the 'SDE Scheme') that will entail the payment in cash, for those shareholders who choose so, of 0.03 euros per share. See 'Authority for scrip dividend' in section 2.2 and section 3.6 'Our coming 2020 AGM'.

If shareholders approve this proposal, the percentage of 2019 underlying attributable ordinary profit applied to shareholder remuneration (payout) will be 46.3% (within the 40-50% range indicated at the beginning of 2019) and the proportion of cash dividend will be 89.6%, assuming a ratio of cash options in the SDE Scheme of 80% (thus exceeding that of 2018, also as announced at the beginning of the year). This proposal entails an annual increase in the cash dividend of c. 3% as compared to the one charged to the 2018 results (0.195 euros per share against 2018 versus 0.20 euros per share against 2019), even without considering the cash paid under such option in the SDE Scheme.

Remuneration against 2020 results

As for the remuneration against 2020 results, the intention of the board of directors, in line with the remuneration agreed in 2019, is to maintain the one set for the 2019 results: to maintain the announced pay-out ratio of 40-50% of the underlying profit in the mid-term; that the proportion of dividend paid in cash is not lower than that of 2019; and to make two payments against the results of 2020. In the same vein, the board is proposing to our 2020 AGM to retain the flexibility it has had in 2019 in determining shareholder remuneration by:

- Proposing to retain the option to use a scrip dividend, in view of its significant acceptance, especially among our retail shareholders, and to allow the required flexibility to be able to take advantage of the opportunities for profitable growth in our markets, proposed by the Board. See section 3.6 'Our coming 2020 AGM'. This could be combined with share repurchases to satisfy the maximum number of institutional, retail and shareholders, with the target of maximizing earnings per share.
- Proposing to renew the authorization obtained in the 2019 AGM for the acquisition of shares to be held in treasury with the express possibility of executing share repurchases to reduce the number of shares in issue, should market conditions make such action advisable. Any such share repurchases may also be made in conjunction with the scrip dividend referred to above, should market conditions make it appropriate. See section 2.5 'Treasury shares' and section 3.6 'Our coming 2020 AGM'.

This will provide the board with the required flexibility to determine whether or not to use these mechanisms.

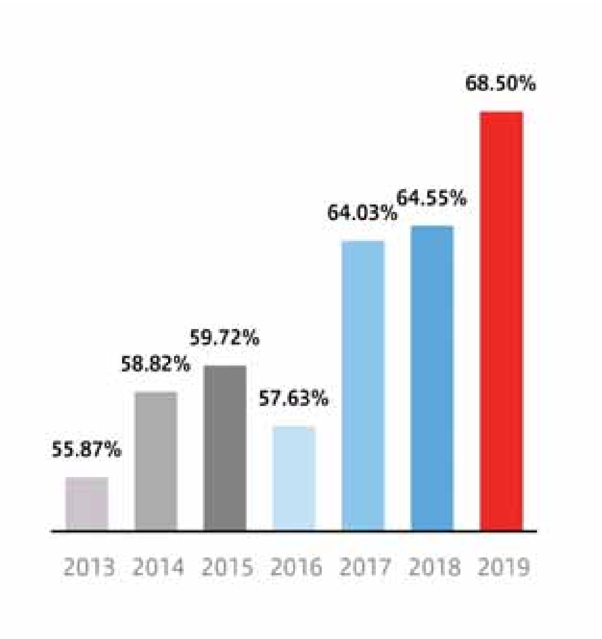
3.4 2019 AGM

- Record quorum of 68.50%
- Corporate management of the Bank in 2018 approved with 99.75 % voting in favour
- 2018 annual report on directors remuneration approved with 94.41% voting in favour
- No opposing vote of more than 15.57%

Quorum and attendance

The quorum for the annual general meeting of 2019 rose to 68.50%, our highest to date.

Quorum at annual general shareholders' meetings



The breakdown of the quorum was as follows:

2019 AGM quorum breakdown	
Physically present and remote attendance	0.767%
By proxy	
Cast by post or directly	61.104%
By electronic means	4.206%
Remote voting	
Cast by post or directly	1.860%
By electronic means	0.568%
Total	**68.505%**

Voting results and resolutions

All items in the agenda were approved. The average percentage of votes in favour of proposals submitted by the board was 94%.

The following chart summarises the resolutions approved at the 2019 AGM and the voting results:

	VOTES [A]				
	For[B]	Against[C]	Blank[D]	Abstention[E]	Quórum[F]
1. Annual accounts and corporate management					
1A. Annual accounts and directors' reports for 2018	99.82	0.18	0.08	3.59	68.50
1B. Consolidated statement of non-financial information for 2018	99.80	0.20	0.08	3.60	68.50
1C. Corporate management 2018	99.75	0.25	0.08	5.47	68.50
2. Application of results	99.80	0.20	0.08	3.38	68.50
3. Appointment, re-election or ratification of directors					
3A. Setting of the number of directors	99.72	0.28	0.09	3.75	68.50
3B. Appointment of Mr Henrique de Castro	99.39	0.61	0.09	3.82	68.50
3C. Re-election of Mr Javier Botín-Sanz de Sautuola	97.63	2.36	0.10	3.77	68.50
3D. Re-election of Mr Ramiro Mato	99.35	0.65	0.09	3.81	68.50
3E. Re-election of Mr Bruce Carnegie-Brown	84.43	15.57	0.09	7.44	68.50
3F. Re-election of Mr. José Antonio Álvarez	99.32	0.68	0.09	3.81	68.50
3G. Re-election of Ms Belén Romana	99.36	0.64	0.10	3.76	68.50
4. Re-election of the external auditor for Financial Year 2019	99.79	0.21	0.09	3.40	68.50
5. Authorisation to acquire treasury shares	97.85	2.15	0.08	3.44	68.50
6. Increase in share capital. Offer to acquire bonus share rights at a guaranteed price	99.58	0.42	0.08	3.38	68.50
7. Delegation to the board of the power to increase share capital to issue all kinds of fixed-income securities, preferred interests or debt instruments of a similar nature (including warrants) that are convertible	93.08	6.92	0.08	3.43	68.50
8. Delegation to the board of the power to increase share capital to issue all kinds of fixed-income securities, preferred interests or debt instruments of a similar nature (including warrants) that are no convertible	96.87	3.13	0.08	3.44	68.50
9. Directors' remuneration policy	95.40	4.60	0.10	3.84	68.50
10. Maximum total annual remuneration of directors in their capacity as directors	96.76	3.24	0.09	3.83	68.50
11. Maximum ratio of fixed and variable components in the total remuneration of executive directors	98.72	1.27	0.09	3.81	68.34
12. Remuneration plans which entail the delivery of shares or share options:					
12A. Deferred multiyear objectives variable remuneration plan	97.76	2.24	0.10	3.80	68.50
12B. Deferred conditional variable remuneration plan	98.43	1.57	0.10	3.80	68.50
12C. Digital Transformation Award	99.25	0.75	0.10	3.79	68.50

	VOTES A				
	For B	Against C	Blank D	Abstention E	Quórum F
12D. Group buy-out policy	99.13	0.87	0.11	3.83	68.50
12E. Plan for employees of Santander UK Group Holdings and other companies of the Group in the UK	99.40	0.60	0.10	3.79	68.50
13. Authorisation to implement the resolutions approved	99.76	0.24	0.08	3.38	68.50
14. Annual directors' remuneration report	94.41	5.59	0.11	3.43	68.50
15. Corporate action to demand director liability(5)	0.001	99.999	0.00	3.86	66.07
16 to 29. Dismissal and removal of directors(6)	0.001	99.999	0.00	3.86	66.07

A Each Banco Santander share corresponds to one vote.
B Percentage over for and against votes.
C Percentage over share capital present and attending by proxy at the AGM.
D Percentage over Banco Santander's share capital as of the date of the AGM.
E Item not included in the agenda.
F Items 16 to 29, not included in the agenda, were submitted to a separate vote. Each item refers to the proposal for dismissal and removal of each director in office at the AGM.

The full texts of the resolutions adopted at the 2019 AGM can be viewed on the Group's corporate website and on the CNMV's website, since they were filed as a significant event on 12 April 2019.

Shareholder communications

In line with the policy on communication and engagement with its shareholders and investors, in 2019 Banco Santander continued to strengthen communications with,and service to, its shareholders and investors in the context of the 2019 AGM.

Communication with its shareholders and investors	
Telephone service lines	9,272 queries addressed
Shareholder and investor mailbox	1,059 e-mails answered
WhatsApp	12 queries addressed

3.5 2019 EGM

An extraordinary general meeting was held on 23 July 2019 (2019 EGM) to approve a capital increase for the purpose of completing the public exchange offer for the acquisition of shares of Banco Santander México that the Group did not previously own (representing 24.95% of Santander Mexico's capital at the time).

The board of directors received shareholder authorisation to increase that share capital by issuing and putting into circulation new shares, that were to be fully subscribed and paid-up through non-cash contributions consisting of Santander Mexico shares, for up to €2,560 million.

The capital increase was executed in September 2019 as part of the completion of the above mentioned exchange offer. A total of 381,540,640 new shares were issued representing 2.30% of the share capital at 31 December 2019.

Quorum and attendance

The quorum for the 2019 EGM was 59.22%.

Voting results and resolutions

All items in the agenda were approved. The average percentage of votes in favour of proposals submitted by our board was 99.72%.

The full text of the resolutions adopted at the 2019 EGM can be viewed on the Group's corporate website and on the CNMV's website, since they were filed as a significant event on 23 July 2019.

3.6 Our coming 2020 AGM

The board of directors has agreed to call the 2020 annual general shareholders' meeting on 2 or 3 April, at first or second call respectively, with the following proposed resolutions.

- **Annual accounts and corporate management.** To approve:
  - The annual accounts and the directors reports of the Bank and its consolidated Group for the financial year ended 31 December 2019. For further information see 'Consolidated financial statements'.
  - The consolidated non-financial statement for the financial year ended 31 December 2019, forms part of this consolidated directors' report. See 'Responsible banking' chapter.
  - The corporate management for the financial year ended 31 December 2019.
  - The application of results obtained during financial year 2019. See section 3.3 'Dividend'.
- **Appointment of directors.**
  - Set the number of directors at 15, within the maximum and minimum limit established by the Bylaws.
  - Appointment of Mr Luis Isasi as an external director and of Mr Sergio Rial as an executive director, ratification of Mrs Pamela Walkden as an independent director (see section 1.1 'Renewing the Board') and re-election for a three-year period of Ms Ana Botín-Sanz de Sautuola, Mr Rodrigo Echenique, Ms Esther Giménez-Salinas and Ms Sol Daurella. See section 4.1 'Our directors'.

- **External auditor.** To re-elect the firm PricewaterhouseCoopers Auditores, S.L. (PwC), as external auditor for the financial year 2020. See 'External auditor' in section 4.5.
- **Authorisation to acquire treasury shares.** See section 2.5 'Treasury shares' and section 3.3 'Dividends'.
- **Increases in share capital via scrip dividend.** See section 3.3 'Dividends'.
- **Authority to issue shares.** To delegate to the board of directors the authority to increase the share capital on one or more occasions and at any time, within a period of three years. See section 2.2 'Authority to increase capital'.
- **Authority to issue non-convertible securities.** To delegate to the board of directors the authority to issue debentures, bonds, preferred interests and other fixed income securities or debt instruments of a similar nature that are convertible into shares of the Bank.
- **Remuneration policy.** To approve the Bank's directors remuneration policy for 2020, 2021 and 2022. For further information see section 6.4 'Directors remuneration policy for 2020, 2021 and 2022 that is submitted to a binding vote of the shareholders'.
- **Remuneration of directors.** To approve the fixed annual amount of remuneration for directors in their capacity as such. For further information see section 6.4 'Directors remuneration policy for 2020, 2021 and 2022 that is submitted to a binding vote of the shareholders'.
- **Variable remuneration.** To approve a maximum ratio of 200% between the variable and fixed components of the total remuneration for executive directors and certain employees belonging to professional categories that have a material impact on the Group's risk profile. For further information see section 6.4 'Directors remuneration policy for 2020, 2021 and 2022 that is submitted to a binding vote of the shareholders'.
- **Remuneration plans.** To approve the implementation of remuneration plans involving the delivery of shares or share options or referenced to the value of shares. For further information see section 6.4 'Directors remuneration policy for 2020, 2021 and 2022 that is submitted to a binding vote of the shareholders'.
- **Annual directors' remuneration report.** To provide a consultative vote on the annual directors' remuneration report. For further information see section 6 'Remuneration'.

The related documents and information shall be available for viewing on the Bank's corporate website (www.santander.com) as from the date of publication of the announcement of the call to meeting. Likewise, the Bank will provide a live broadcast of our 2020 AGM, as it did with the 2019 AGM.

Given that attendance to the 2020 AGM is not remunerated, it is not necessary to establish a general policy in this respect. Notwithstanding the above, and as has been a tradition for decades, the Bank offers attendees of the AGM a commemorative courtesy gift.

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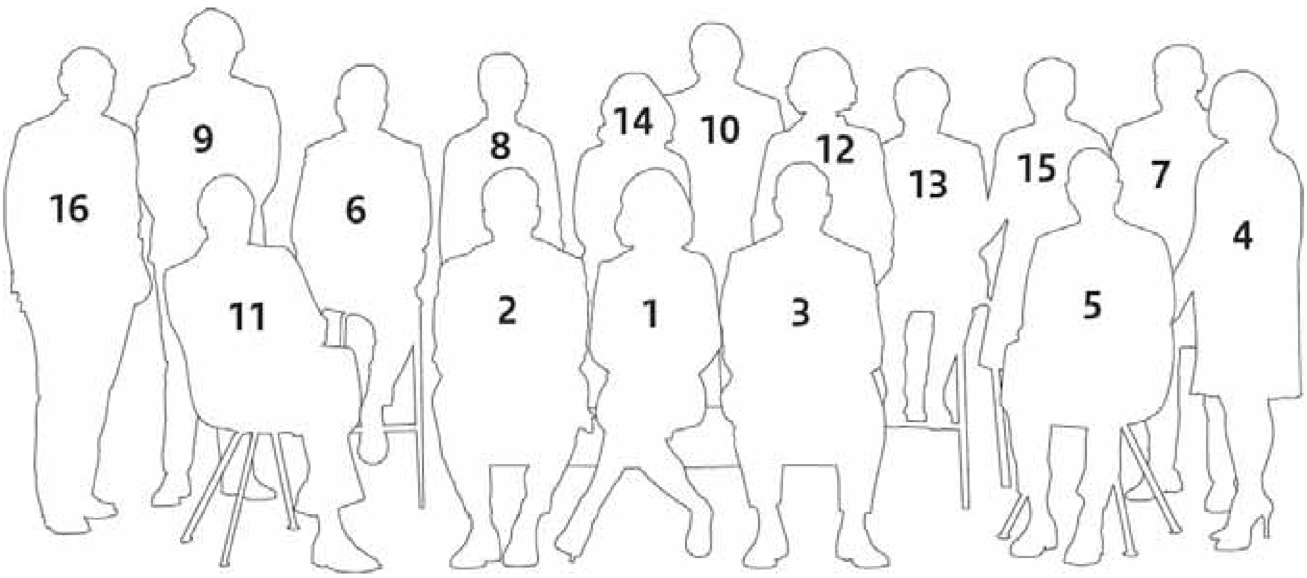
4. Board of directors

- **A committed, balanced and diverse board**
  - Of the 15 directors, 13 are non-executive and two are executive
  - Majority of independent directors
  - Balanced presence of both genders (40%-60%)
- **Effective governance**
  - Thematic committees supporting the board
  - The responsible banking, sustainability and culture committee shows the board's commitment to these matters
  - Complementary functions and power balance: executive chairman, CEO and lead independent director

1. **Ms Ana Botín-Sanz de Sautuola y O'Shea**
   Group Executive chairman. Executive director
2. **Mr José Antonio Álvarez Álvarez**
   Vice chairman and chief executive officer (CEO). Executive director
3. **Mr Bruce Carnegie-Brown**
   Vice chairman and lead independent director. Non-executive director (independent)
4. **Ms Homaira Akbari**
   Non-executive director (independent)
5. **Mr Ignacio Benjumea Cabeza de Vaca**
   Non-executive director
6. **Mr Javier Botín-Sanz de Sautuola y O'Shea**
   Non-executive director
7. **Mr Álvaro Cardoso de Souza**
   Non-executive director (independent)
8. **Ms Sol Daurella Comadrán**
   Non-executive director (independent)
9. **Mr Henrique de Castro**
   Non-executive director (independent)
10. **Mr Guillermo de la Dehesa Romero**
    Non-executive director
11. **Mr Rodrigo Echenique Gordillo**
    Non-executive director
12. **Ms Esther Giménez-Salinas i Colomer**
    Non-executive director (independent)
13. **Mr. Ramiro Mato García-Ansorena**
    Non-executive director (independent)
14. **Ms Belén Romana García**
    Non-executive director (independent)
15. **Mrs Pamela Walkden**
    Non-executive director (independent)
16. **Mr Jaime Pérez Renovales**
    General secretary and secretary of the board



4.1 Our directors

This information is presented as at 31 December 2019

Ms Ana Botín-Sanz de Sautuola y O'Shea

GROUP EXECUTIVE CHAIRMAN
Executive director

Joined the board in 1989.

Nationality: Spanish. Born in 1960 in Santander, Spain.

Education: Degree in Economics from Bryn Mawr College (Pennsylvania, United States).

Experience: She joined Banco Santander, S.A. after working at JP Morgan (New York, 1980-1988). In 1992 she was appointed senior executive vice president. Between 1992 and 1998 she led the expansion of Santander in Latin America. In 2002, she was appointed executive chairman of Banco Español de Crédito, S.A. Between 2010 and 2014 she was chief executive officer of Santander UK. In 2014 she was appointed executive chairman of Santander.

Other positions of note: Member of the board of directors of The Coca-Cola Company. She is also founder and chairman of the CyD Foundation (which supports higher education) and of the Empieza por Educar Foundation (the Spanish subsidiary of the international NGO Teach for All) and she sits on the advisory board of the Massachusetts Institute of Technology (MIT).

Positions in other Group companies: She is non-executive director of Santander UK plc. and of Santander UK Group Holdings plc.; non-executive chairman of Universia España Red de Universidades, S.A.and of Universia Holding, S.L, and non-executive director of Santander Holding USA, Inc. and of Santander Bank, N.A.

Membership of board committees: Executive committee (chairman), innovation and technology committee (chairman), and responsible banking, sustainability and culture committee.

Skills and competencies: She has an extensive international executive career in the banking sector, where she has held the highest executive positions. She has also led the transformational, strategic and cultural change in the Santander Group. In addition, she has shown an ongoing commitment to sustainable and inclusive growth, as reflected in her philanthropic activities.

Mr José Antonio Álvarez Álvarez

VICE CHAIRMAN & CHIEF EXECUTIVE OFFICER
Executive director

Joined the board in 2015.

Nationality: Spanish. Born in 1960 in León, Spain.

Education: Graduate in Economics and Business Administration. MBA from the University of Chicago.

Experience: He joined Santander in 2002 and was appointed senior executive vice president of the Financial Management and Investor Relations division in 2004 (Group chief financial officer). He served as director at SAM Investments Holdings Limited, Santander Consumer Finance, S.A. and Santander Holdings US, Inc. He also sat on the supervisory boards of Santander Consumer AG, Santander Consumer Bank GmbH and Santander Bank Polska, S.A. He was also a board member of Bolsas y Mercados Españoles, S.A.

Other positions of note: None.

Positions in other Group companies: He is non-executive director of Banco Santander (Brasil) S.A.

Membership of board committees: Executive committee and innovation and technology committee.

Skills and competencies: With a distinguished career in the banking sector, he is a highly qualified and talented leader. He brings to the board significant strategic and international management expertise, in particular in relation to financial planning, asset management and consumer finance. He has a strong experience with and reputation amongst key stakeholders, such as regulators and investors.

Mr Bruce Carnegie-Brown

VICE CHAIRMAN & LEAD INDEPENDENT DIRECTOR
Non-executive director (independent)

Joined the board in 2015.

Nationality: British. Born in 1959 in Freetown, Sierra Leone.

Education: Master of Arts in English Language and Literature from the University of Oxford.

Experience: He was non-executive chairman of Moneysupermarket.com Group plc. (2014-2019), non executive director of Jardine Lloyd Thompson Group plc (2016-2017) and he held the non-executive chair of AON UK Ltd (2012-2015). He was also the founder and managing partner of the quoted private equity division of 3i Group plc., and president and chief executive officer of Marsh Europe, S.A. He was also lead independent director at Close Brothers Group plc. (2006-2014) and at Catlin Group Ltd (2010-2014). He previously worked at JP Morgan Chase for eighteen years and at Bank of America for four years.

Other positions of note: He is the non-executive chairman of Lloyd's of London and of Cuvva Limited.

Positions in other Group companies: He is non-executive director of Santander UK, Plc. and of Santander UK Group Holdings Limited.

Membership of board committees: Executive committee, appointments committee (chairman), remuneration committee (chairman), and innovation and technology committee.

Skills and competencies: He has a strong and broad background in the banking sector (in particular, in investment banking) and also relevant experience in the insurance sector. He also possesses significant international experience, having had extensive exposure to Europe (UK), Middle East and Asia. His top management experience brings to the board know how in remuneration, appointments and risk-related matters. In addition, as lead independent director, he has gained an excellent understanding of investor expectations and experience in managing relations with them and with financial communities.

Ms Homaira Akbari

Non-executive director (independent)

Joined the board in 2016.

Nationality: North-American and French. Born in 1961 in Tehran, Iran.

Education: Doctorate in Experimental Particle Physics from Tufts University and MBA from Carnegie Mellon University.

Experience: She was non-executive director of Gemalto NV and of Veolia Environment, S.A. she was chairman and CEO of SkyBitz, Inc., managing director of TruePosition Inc., non-executive director of Covisint Corporation and US Pack Logistics LLC. and she has held various posts at Microsoft Corporation and at Thales Group.

Other positions of note: She is chief executive officer of AKnowledge Partners, LLC, non-executive chairman of WorkFusion, Inc. and non-executive director of Landstar System, Inc.

Positions in other Group companies: She is non-executive director of Santander Consumer USA Holdings Inc

Membership of board committees: Audit committee, innovation and technology committee and responsible banking, sustainability and culture committee.

Skills and competencies: She brings significant executive experience in technology-related companies. Her knowledge of the digital transformation challenges is an asset to the board. In addition, her insights, gained from her extensive international experience in a diverse range of geographies and her knowledge in the management and treatment of water, energy and waste resources, are of particular value to our Group.

Mr Ignacio Benjumea Cabeza de Vaca

Non-executive director

Joined the board in 2015.

Nationality: Spanish. Born in 1952 in Madrid, Spain.

Education: Degree in Law from Deusto University, ICADE E-3 and State Attorney.

Experience: Former senior executive vice president, general secretary and secretary of the board of Banco Santander, S.A. and board member, senior executive vice president, general secretary and secretary to the board of Banco Santander de Negocios, S.A. and of Santander Investment, S.A. He was also technical general secretary of the Ministry of Employment and Social Security, general secretary of Banco de Crédito Industrial, S.A. and director of Dragados, S.A., Bolsas y Mercados Españoles, S.A. (BME) and of the Governing Body of the Madrid Stock Exchange.

Other positions of note: He is vice chairman of the board of trustees and member of the executive committee of the Financial Studies Foundation and a member of the board of trustees and the executive committee of the Banco Santander Foundation.

Positions in other Group companies: None.

Membership of board committees: Executive committee, remuneration committee, risk supervision, regulation and compliance committee, innovation and technology committee and responsible banking, sustainability and culture committee.

Skills and competencies: He brings significant financial expertise to the board, in particular in banking and capital markets. He also has a wide experience in corporate governance and regulatory matters, having served as general secretary and secretary of the board of several banking institutions and held several positions in the Spanish government. He also has a significant involvement in several foundations.

Mr Javier Botín-Sanz de Sautuola y O'Shea

Non-executive director

Joined the board in 2004.

Nationality: Spanish. Born in 1973 in Santander, Spain.

Education: Degree in Law from the Complutense University of Madrid.

Experience: Since 2008, founder and executive chairman of JB Capital Markets, Sociedad de Valores, S.A.U., co-founder and executive director, equities division of M&B Capital Advisers, S.V., S.A. (2000-2008). Previously he was legal advisor to the International Legal Department of Banco Santander, S.A. (1998-1999).

Other positions of note: In addition to his work in the financial sector, he collaborates with several non-profit organizations. Since 2014 he has been chairman of the Botín Foundation. He is also a trustee of the Princess of Gerona Foundation.

Positions in other Group companies: None.

Membership of board committees: None.

Skills and competencies: He brings to the board international and management experience, in particular in the financial and banking sector. He also brings a deep knowledge of the Santander Group and its operations and strategy, acquired through his tenure as a non-executive director of the Bank.

Mr Álvaro Cardoso de Souza

Non-executive director (independent)

Joined the board in 2018.

Nationality: Portuguese. Born in 1948 in Guarda, Portugal.

Education: Degree in Economics and Business Administration from Pontificia Universidade Católica de Sao Paulo, Master of Business Administration (MBA-Management Program for Executives) from the University of Pittsburgh and a graduate of the Investment Banking Marketing Program from Wharton Business School.

Experience: He has held various positions at the Citibank Group, including CEO of Citibank Brazil and various senior positions in the US with respect to the consumer finance, private banking and Latin American businesses. He was a member of the board of AMBEV. S.A., Gol Linhas Aéreas, S.A. and of Duratex, S.A. He has been chairman of WorldWildlife Group (WWF) Brazil, member of the board of WWF International and chairman and member of the audit and asset management committees of FUNBIO (Fundo Brasileiro para a Biodiversidade).

Other positions of note: None.

Positions in other Group companies: He is non-executive chairman of Banco Santander (Brasil) S.A.

Membership of board committees: Risk supervision, regulation and compliance committee (chairman) and responsible banking, sustainability and culture committee.

Skills and competencies: He possesses a broad international banking experience, particularly in Brazil. He has a solid understanding of strategy and risk management-related matters, acquired from his executive experience, which is key to his role as chairman of our risk supervision, regulation and compliance committee. In addition, he actively collaborates in several environmental foundations and NGOs which brings him very useful knowledge in sustainability matters.

Ms Sol Daurella Comadrán

Non-executive director (independent)

Joined the board in 2015.

Nationality: Spanish. Born in 1966 in Barcelona, Spain.

Education: Degree in Business and MBA from ESADE.

Experience: She served on the board of the Círculo de Economía and also as an independent non-executive director at Banco Sabadell, S.A., Ebro Foods, S.A. and Acciona, S.A. She has also been the honorary consul general of Iceland in Barcelona since 1992.

Other positions of note: She is chairman of Coca Cola European Partners, plc., executive chairman of Olive Partners. S.A. and holds several positions at companies belonging to the Cobega Group. She is also chairman of the board of trustees of the FERO Oncology Research Foundation.

Positions in other Group companies: None.

Membership of board committees: Appointments committee, remuneration committee and responsible banking, sustainability and culture committee.

Skills and competencies: She brings to the board excellent skills in strategy and high-level management, acquired through her international top executive experience in listed and large privately held entities, in particular in the distribution sector. She has a wide experience in corporate governance, having chaired several boards, and also in audit after having served as a member of several audit committees. In addition, her experience as a trustee of various Foundations oriented to health, education and environmental matters brings the board responsible business and sustainability insights.

Mr Henrique de Castro

Non-executive director (independent)

Joined the board in 2019.

Nationality: Portuguese. Born in 1965 in Lisbon, Portugal.

Education: Degree in Business Administration from the Lisbon School of Economics and Management (Portugal) and Master's Degree in Business Administration (MBA) from the University of Lausanne (Switzerland).

Experience: He was independent director of First Data Corporation and chief operating officer of Yahoo. Previously, he was the manager of the worldwide devices, media and platform business of Google, the sales and business development manager for Europe of Dell Inc. and a consultant at McKinsey & Company.

Other positions of note: He is independent director of Fiserv Inc. and of Target Corporation.

Positions in other Group companies: None.

Membership of board committees: Audit committee, remuneration committee and innovation and technology committee.

Skills and competencies: Due to the executive positions he has held in top technological companies worldwide, he brings to the board valuable experience in and strategic insights about the technological and digital industry as well as an outstanding international experience in a wide range of geographies.

Mr Guillermo de la Dehesa Romero

Non-executive director

Joined the board in 2002.

Nationality: Spanish. Born in 1941 in Madrid, Spain.

Education: Government Economist and head of office of the Bank of Spain.

Experience: Former secretary of state of Economy, secretary general of Trade, chief executive officer of Banco Pastor, S.A., international advisor to Goldman Sachs International, chairman of Aviva Grupo Corporativo, S.L. and non-executive chairman of Santa Lucía Vida y Pensiones, S.A.

Other positions of note: He is currently non-executive vice chairman of Amadeus IT Group, S.A., honorary chairman of the Centre for Economic Policy Research (CEPR) of London, member of the Group of Thirty based in Washington and chairman of the board of trustees of IE Business School.

Positions in other Group companies: None.

Membership of board committees: Executive committee, appointments committee, remuneration committee, and innovation and technology committee.

Skills and competencies: He has an extensive banking experience (both executive and non-executive). In addition, due to his experience and education, he brings to the board strategic insights in the macroeconomic and regulatory environment and on business management, after having held top management positions as well as non-executive positions.

Mr Rodrigo Echenique Gordillo

Non-executive director

Joined the board in 1988.

Nationality: Spanish. Born in 1946 in Madrid, Spain.

Education: Graduate in Law and State Attorney.

Experience: From 1973 to 1976 he held several positions in the Spanish Public Administration (General Secretary of the Post and Telecommunications Office, Technical Advisor in the Office of the Spanish Prime Minister and other positions in the Spanish Tax Authority offices in Pontevedra and Madrid). Former chief executive officer of Banco Santander, S.A. between 1988 and 1994. He served on the board of directors of several industrial and financial companies, including Ebro Azúcares y Alcoholes, S.A. and Industrias Agrícola, S.A., and was chairman of advisory of Accenture, S.A. He was also non-executive chairman of NH Hotels Group, S.A., Vocento, S.A., Vallehermoso, S.A. and Merlin Properties SOCIMI, S.A. He has also been non-executive chairman of Banco Popular Español, S.A.

Other positions of note: He is non-executive director of Inditex, S.A. and chairman of the board of trustees and the executive committee of the Banco Santander Foundation.

Positions in other Group companies: He is non-executive director of Universia Holding, S.L., of Banco Santander Chile, S.A. and of Universia España, Red de Universidades, S.A. He is also non-executive director and vicechairman of Banco Santander International.

Membership of board committees: Appointments committee.

Skills and competencies: His extensive senior executive experience in the banking sector and also other non-executive roles in various industrial companies along with his deep knowledge on the Santander Group are very valuable for the board. In addition, his prior experience in the Spanish government provides the board with strategic insights into regulations and relations with the public sector.

Ms Esther Giménez-Salinas i Colomer

Non-executive director (independent)

Joined the board in 2012.

Nationality: Spanish. Born in 1949 in Barcelona, Spain.

Education: PhD in Law and Psychologist by the University of Barcelona.

Experience: She was chancellor of the Ramon Llull University, member of the Conference of Rectors of Spanish Universities (CRUE), member of the General Council of the Judiciary of Spain, member of the scientific committee on criminal policy of the Council of Europe, executive vice president of the Centre for Legal Studies and Specialised Training of the Justice Department of the Government of Catalonia and member of the advisory board of Endesa-Catalunya. She was director of Gawa Capital Partners, S.L.

Other positions of note: Professor emeritus at Ramón Llull University, director of the Chair of Restorative and Social Justice at the Pere Tarrés Foundation, Special Chair of Restorative Justice Nelson Mandela of the National Human Rights Commission of Mexico, director of Aqu (quality assurance agency for the Catalan university system), Member of the Bioethics Committee of the Government of Catalonia and member of the advisory board of the Arbitral Court of Barcelona.

Positions in other Group companies: None.

Membership of board committees: Appointments committee, risk supervision, regulation and compliance committee and responsible banking, sustainability and culture committee.

Skills and competencies: Her relevant experience in senior academic and governmental roles, for which she has a strong reputation, enhances the oversight capacities of the board. Also her career path brings to the board knowledge and experience in legal matters, cultural transformation and in embedding an ethical and responsible culture. In addition, she has gained banking experience due to her tenure as non-executive director of Banco Santander.

Mr Ramiro Mato García-Ansorena

Non-executive director (independent)

Joined the board in 2017.

Nationality: Spanish. Born in 1952 in Madrid, Spain.

Education: Degree in Economics from the Complutense University of Madrid and Management Development Programme of the Harvard Business School.

Experience: He has held several positions in Banque BNP Paribas, including chairman of the BNP Paribas Group in Spain. Previously, he held several significant positions in Argentaria. He has been a member of the Spanish Banking Association (AEB) and of Bolsas y Mercados Españoles, S.A. (BME) and member of the board of trustees of the Fundación Española de Banca para Estudios Financieros (FEBEF).

Other positions of note: None.

Positions in other Group companies: None.

Membership of board committees: Executive committee, audit committee, risk supervision, regulation and compliance committee and responsible banking, sustainability and culture committee (chairman).

Skills and competencies: He has had an extensive career in banking and capital markets, where he has held senior executive and non-executive positions. He brings to the board significant expertise in top management and also in audit, risk and strategy, mainly related to the financial sector. In addition, he has been actively participating in the boards of trustees of several foundations aimed at enhancing education.

Ms Belén Romana García

Non-executive director (independent)

Joined the board in 2015.

Nationality: Spanish. Born in 1965 in Madrid, Spain.

Education: Graduate in Economics and Business Administration from Universidad Autónoma de Madrid and Government Economist.

Experience: She was formerly senior executive vice president of Economic Policy and senior executive vice president of the Treasury of the Ministry of Economy of the Spanish Government, as well as director of the Bank of Spain and the CNMV. She also held the position of director of the Instituto de Crédito Oficial and of other entities on behalf of the Spanish Ministry of Economy. She served as non-executive director of Banco Español de Crédito, S.A. and executive chairman of Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (SAREB).

Other positions of note: Non-executive director of Aviva plc. London and of Aviva Italia Holding SpA, member of the advisory boards of GFI España and TribalData, member of the advisory board of the Rafael del Pino Foundation and co-chair of the Global Board of Trustees of the Digital Future Society.

Positions in other Group companies: None.

Membership of board committees: Executive committee, audit committee (chairman), risk supervision, regulation and compliance committee, innovation and technology committee and responsible banking, sustainability and culture committee.

Skills and competencies: Her background as a government economist and her overall, executive and non-executive, experience in the financial sector (in particular, in the audit committee of listed companies) support her recognition as financial expert. In addition, the relevant positions held in Spanish credit institutions and in the field of capital markets provide her with strategic insights into banking, financial regulations and Spanish government relations.

Mrs Pamela Walkden

Non-executive director (independent)

Joined the board in 2019.

Nationality: British. Born in 1960 in Worcester, England.

Education: Master's Degree on Economics from Cambridge University.

Experience: She possesses an extensive career in the banking sector. She has served in a number of senior management positions at Standard Chartered Bank, including as Group Head of Human Resources, Chief Risk Officer, Group Treasurer, Group Head of Asset and Liability Management and Regional Markets, Group Head of Internal Audit, Group Head of Corporate Affairs and Group Manager of Investor Relations. In addition, she served as an independent member of the UK Prudential Regulation Authority (PRA) Regulatory Reform Panel and as member of the European Banking Authority Stakeholder Group.

Other positions of note: She is a lay member of the Welfare and Ethics Committee of the Royal Veterinary College.

Positions in other Group companies: None.

Membership of board committees: Audit committee.

Skills and competencies: She brings to the board a broad experience in the banking industry along with a significant international and audit experience, which support her recognition as financial expert.

Mr Jaime Pérez Renovales

General Secretary and Secretary of the board

He joined the Group in 2003.

Nationality: Spanish. Born in 1968 in Valladolid, Spain.

Education: Graduate in Law and Business Administration at Universidad Pontificia de Comillas (ICADE E-3) and State Attorney.

Experience: He was director of the office of the second vice president of the Government for Economic Affairs and Minister of Economy, deputy secretary of the Presidency of the Government, chairman of the Spanish State Official Gazzete and of the committee for the Public Administration Reform. Previously, he was general vice secretary and vice secretary of the board and head of legal of the Santander Group, general secretary and secretary of the board of Banco Español de Crédito, S.A. and deputy director of legal services at CNMV. He is a member of the jury of the Princess of Asturias of Social Sciences awards and chairman of the Icade Business Club.

Secretary of all board committees.

4.2 Board composition

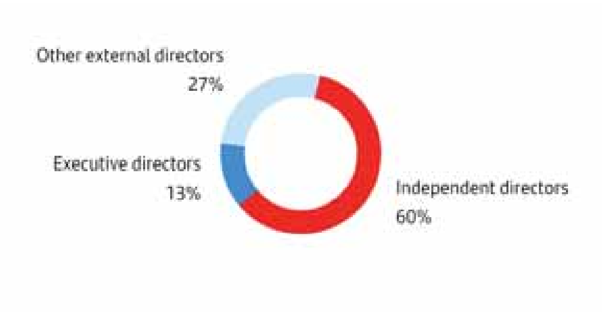
Size

At 31 December 2019, the board of directors was made up of the 15 members whose profile and background are described in the section 4.1 'Our directors' above. Our Bylaws allow for a board with a minimum of 12 and a maximum of 17 members.

Composition by type of director

The composition of the board of directors is balanced between executive and non-executive directors, most of whom are independent. The status of each director has been verified by the appointments committee and submitted to the board.

Our board composition



Diversity

A diverse board is essential to ensure its effectiveness. The combination of experiences and skills in the board provides an environment where different views emerge and the quality of decision-making is improved. Therefore, we seek a solid balance of technical skills, experiences and perspectives in the board.

As further detailed below, our policy governing the selection, suitability assessment and succession of directors promotes diversity within the board, including diversity of gender, geography, experience and knowledge, with no

implicit bias that could lead to any form of discrimination on the grounds of age, disability, race or ethnic origin. This policy was amended in July 2018 in order to bring it into line with recent European legislation on the disclosure of non-financial and diversity information and with EBA and the European Securities and Markets Authority (ESMA) guidelines on suitability assessment of board members and key functions holders. In 2019 the new gender equality target, consisting in achieving a 40%-60% presence of women on the board for 2021, was included. The Bank applies this policy when selecting directors to fill any vacancy or looking for candidates to add or replace board members.

The selection policy promotes diversity in the board of directors from different standpoints:

- **Geographical provenance or international education:** The selection process takes into account the diversity of cultural or international educational background, especially in the main geographies where the Group is present.
- **Gender equality:** Both the appointments committee and the board of directors are aware of the importance of fostering equal opportunities between men and women and of the appropriateness of appointing women to the board who meet the requirements of ability, suitability and effective dedication to the position of director, making a conscious effort to search for female candidates who have the required profile. Our policy promotes a selection of directors that includes a sufficient number of female board members to have a balanced presence of women and men.

  On 26 February 2019 the board replaced the target set in 2016 by the appointments committee for the minority gender (women) from 30% in 2020 to a gender equality target in the board, which implies a presence of women in the board of 40% to 60%, to be achieved by 2021. As of November 2019 the board has already met this target, and at year-end, women currently comprise 40% of the board.

  Female representation on the board is well above the average for large listed companies in Europe. According to a study conducted by the European Commission with data at October 2018, the percentage of female board members at large listed companies was 26.7% for all 28 countries in the European Union and 23.7% for Spain.
- **Education and professional background: T**he selection of candidates ensures that they are qualified and suitable for the overall understanding of our Group, its businesses,

structure and the geographies in which it operates, both individually and collectively; that they are aligned with the Santander culture. The selection process ensures that the candidates have skills and competencies in banking and financial services and in other areas identified as relevant in the board skills and diversity matrix. In this regard, knowledge acquired in an academic environment is taken into account, together with experience in the professional performance of duties.

- The policy has no implicit bias that could lead to discrimination by **age, race, disability and/or ethnic origin**. With regard to age, there are no age limits for directors or for any position on the board, including the chairman and CEO.

In 2019, the Bank continued to place great emphasis on ensuring a diverse composition in the board covering aspects such as gender and geographical diversity but also ensuring there is no discrimination on account of race, age or disability. In line with the above, all proposed appointments of new board members are now accompanied by a diversity impact analysis as part of the suitability assessment. We have also extended this approach to the Group subsidiaries, to ensure that their respective boards remain focused on diversity and promote a gender balanced presence, in line with the Group's target.

The result of applying these diversity criteria in 2019 is described in section 1.1 'Renewing the board'. In particular, international diversity in the board as well as the need to ensure it has a balanced and adequate composition at all times was a priority in 2019, as indicated in section 1.3 'Achieving our 2019 priorities'.

Our strong and unbreakable commitment to broader diversity will remain a focus for the appointments committee in 2020 because, as we stated in section 1.5 'Priorities for 2020', diversity is not a box to be ticked but a strategy for success.

Board skills and diversity matrix

The board composition provides the balance of knowledge, capabilities, qualifications, diversity and experience required to execute our long-term strategy in an ever evolving market environment.

This balance is reflected in the board´s skills matrix that we updated in 2018 in order to make it simpler, more transparent and complete, with more information for our investors and other stakeholders, who are demanding greater visibility on certain skills within the board. In addition, we took into account the recommendations of the EBA and ESMA guidelines on the suitability assessment of board members and key functions holders, which came into effect in June 2018.

This year's matrix follows the structure introduced last year:

- We differentiate between **two groups of skills or competences**: **thematic** and **horizontal**.
- We include a separate **diversity section** which includes not only gender diversity but also diversity in geographical provenance and/or training or education abroad, and a **board tenure** section, reflecting the tenure of each directorship.

In line with last year, the skills matrix discloses the skills and competencies of each board member showing our commitment to transparency in this matter. Section 4.1 'Our directors' includes a paragraph on skills and competencies for each director, to more clearly identify the background for this skills matrix.

We have added an additional chart (entitled 'Committees skills and diversity matrix') which provides a clear view of the balance of skills, not only at board level as a whole, but in each board committee. This presentation enables the overall effectiveness of the board committees to be evaluated by reference to the significant presence of skills more directly relevant to the scope of each committee.

Board skills and diversity matrix

		Executive		Independent									Other external			
		Ana Botín (chairman)	José Antonio Álvarez (vice chairman - CEO)	Bruce Carnegie-Brown (vice chairman and lead independent director)	Homaira Akbari	Álvaro Cardoso de Souza	Sol Daurella	Henrique de Castro	Esther Giménez-Salinas	Ramiro Mato	Belén Romana	Pamela Walkden	Ignacio Benjumea	Javier Botín	Guillermo de la Dehesa	Rodrigo Echenique
SKILLS AND EXPERIENCE																
THEMATIC SKILLS																
Banking (86.7%)		•	•	•		•	•		•	•	•	•	•	•	•	•
Other financial services (66.7%)		•	•	•	•				•	•	•		•	•	•	
Accounting, auditing & financial literacy (93.3%)		•	•	•	•	•	•	•		•	•	•	•	•	•	•
Retail (93.3%)		•	•	•		•	•	•	•	•	•	•	•	•	•	•
Digital & information technology (53.3%)		•	•	•	•			•		•			•		•	
Risk management (86.7%)		•	•	•	•	•	•			•	•	•	•	•	•	•
Business strategy (93.3%)		•	•	•	•	•	•	•		•	•	•	•	•	•	•
Responsible business & sustainability (86.7%)		•	•	•	•	•	•		•	•	•		•	•	•	•
Human resources, culture, talent & remuneration (93.3%)		•	•	•	•	•	•	•	•	•	•	•	•		•	•
Legal & Regulatory (33.3%)									•		•		•		•	•
Governance & control (86.7%)		•	•	•	•	•	•			•	•	•	•	•	•	•
International experience	Continental Europe (86.7%)	•	•	•	•		•	•	•	•	•		•	•	•	•
	US/UK (86.7%)	•	•	•	•	•	•	•	•	•	•	•		•		•
	Latam (60%)	•	•		•	•		•	•	•				•		•
	Others (46.7%)			•			•	•		•		•			•	•
HORIZONTAL SKILLS																
Top management (93.3%)		•	•	•	•	•	•	•		•	•	•	•	•	•	•
Government, regulatory & public policy (33.3%)									•		•		•		•	•
Academia & education (53.3%)		•		•	•		•		•	•					•	•
Significant directorship tenure (93.3%)		•	•	•	•	•	•	•	•	•	•		•	•	•	•
DIVERSITY																
Female (40%)		•			•		•		•		•	•				
Geographical provenance / international education	Continental Europe (73.3%)	•	•				•	•	•	•	•		•	•	•	•
	US/UK (53.3%)	•	•	•	•	•				•	•	•				
	Latam (6.7%)					•										
	Others (6.7%)				•											
BOARD TENURE																
0 to 3 years (26.7%)						•		•		•		•				
4 to 11 years (46.6%)			•	•	•		•		•		•		•			
12 years or more (26.7%)		•												•	•	•

Committees skills and diversity matrix

		Executive committee	Audit committee	Appointments committee	Remuneration committee	Risk supervision, regulation and compliance committee	Innovation and technology committee	Responsible banking, sustainability and culture committee
SKILLS AND EXPERIENCE								
THEMATIC SKILLS								
Banking		100%	60%	100%	80%	100%	75%	87.5%
Other financial services		100%	60%	60%	60%	80%	87.5%	75%
Accounting, auditing & financial literacy		100%	100%	80%	100%	80%	100%	87.5%
Retail		100%	60%	100%	100%	100%	87.5%	50%
Digital & information technology		85.7%	60%	40%	80%	40%	87.5%	87.5%
Risk management		100%	80%	80%	80%	80%	87.5%	87.5%
Business strategy		85.7%	80%	80%	80%	60%	87.5%	75%
Responsible business & sustainability		100%	60%	100%	80%	100%	87.5%	100%
Human resources, culture, talent & remuneration		100%	100%	100%	100%	100%	100%	100%
Legal & Regulatory		42.9%	20%	60%	40%	60%	37.5%	37.5%
Governance & control		100%	80%	80%	80%	80%	87.5%	87.5%
International experience	Continental Europe	100%	80%	100%	100%	80%	100%	87.5%
	US/UK	71.4%	100%	80%	60%	80%	75%	87.5%
	Latam	42.9%	60%	40%	20%	60%	50%	62.5%
	Others	42.9%	60%	80%	80%	20%	37.5%	25%
HORIZONTAL SKILLS								
Top management		100%	100%	80%	100%	80%	100%	87.5%
Government, regulatory & public policy		42.9%	20%	60%	40%	60%	37.5%	37.5%
Academia & education		57.1%	40%	100%	60%	40%	50%	62.5%
Significant directorship tenure		100%	80%	100%	100%	100%	100%	100%
DIVERSITY								
Female		28.6%	60%	40%	20%	40%	37.5%	62.5%
Geographical provenance / international education	Continental Europe	85.7%	60%	80%	80%	80%	75%	75%
	US/UK	71.4%	80%	20%	20%	60%	62.5%	62.5%
	Latam	0	0	0	0	20%	0	12.5%
	Others	0	20%	0	0	0	12.5%	12.5%
BOARD TENURE								
0 to 3 years		14.3%	60%	0	20%	40%	12.5%	25%
4 to 11 years		57.1%	40%	60%	60%	60%	62.5%	62.5%
12 years or more		28.6%	0	40%	20%	0	25%	12.5%

Executive directors

- Ms Ana Botín-Sanz de Sautuola y O'Shea, Group executive chairman.
- Mr José Antonio Álvarez Álvarez, Group vice chairman and CEO.

A more detailed description of their roles and duties is included in 'Group executive chairman and chief executive officer' in section 4.3.

Independent directors

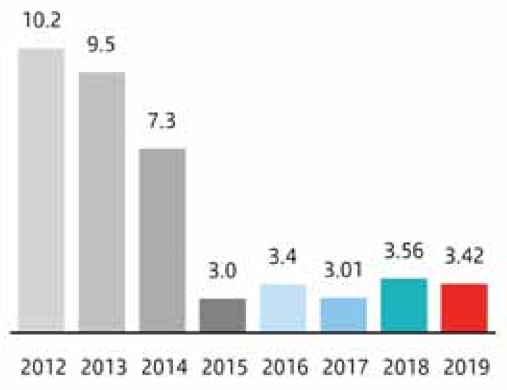
- Mr Bruce Carnegie-Brown (lead independent director).
- Ms Homaira Akbari.
- Mr Álvaro Cardoso de Souza.
- Ms Sol Daurella Comadrán.
- Mr Henrique de Castro.
- Ms Esther Giménez-Salinas i Colomer.
- Mr Ramiro Mato García-Ansorena.
- Ms Belén Romana García.
- Mrs Pamela Walkden

On an annual basis, the appointments committee verifies and informs the board about the category of the independent directors, taking into account all the circumstances of each case and, in particular, the existence of any possible significant business relationships that could affect their independence. This analysis is described further in section 4.6 'Appointments committee activities in 2019'.

Independent non-executive directors account for 60% of the board, following best practices in corporate governance and complying with the Rules and regulations of the board that require the board to be made up predominantly of non-executive directors and have a number of independent directors that represent at least 50% of the board.

At year-end 2019, the average length of service for independent non-executive directors was 3.42 years.

Years of service of independent directors



Other external directors

- Mr Ignacio Benjumea Cabeza de Vaca.
- Mr Javier Botín-Sanz de Sautuola y O'Shea.
- Mr Guillermo de la Dehesa Romero.
- Mr Rodrigo Echenique Gordillo.

These directors cannot be classified as independent directors for the followings reasons:

- Mr Botín and Mr de la Dehesa have both been directors for over 12 years.
- In the case of Mr Benjumea, as a prudence criteria, despite having elapsed the legal period required since his professional relationship with the Bank ceased (other than that derived from his position as director of the Bank and Santander Spain)
- Mr Echenique was executive director until 1 May 2019 and has been a director for over 12 years.

Tenure, committee membership and equity ownership[A]

Board of directors		Executive	Independent	Other external	1. Executive committee	2. Audit committee	3. Appointments committee	4. Remuneration committee	5. Risk supervision, regulation and compliance	6. Innovation and technology committee	7. Responsible banking, sustainability and culture committee	Tenure: Date of first appointment	Tenure: Date of last appointment	Tenure: End date[B]	Bank shareholding[C]: Direct	Indirect	Shares represented	Total	% of share capital
Executive chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea				C					C		04/02/1989	04/07/2017	First six months of 2020	735,000	24,919,906		25,654,906	0.154%
Vice chairman and chief executive officer	Mr José Antonio Álvarez Álvarez											25/11/2014	12/04/2019	First six months of 2022	1,331,602			1,331,602	0.008%
Vice chairmen	Mr Bruce Carnegie-Brown						C	C				25/11/2014	12/04/2019	First six months of 2022	22,443			22,443	0.000%
Members	Ms Homaira Akbari											27/09/2016	23/03/2018	First six months of 2021	30,000	44,000		74,000	0.000%
	Mr Ignacio Benjumea Cabeza de Vaca											30/06/2015	23/03/2018	First six months of 2021	3,576,405			3,576,405	0.022%
	Mr Javier Botín-Sanz de Sautuola y O'Shea											25/07/2004	12/04/2019	First six months of 2022	5,272,830	18,655,736	122,468,000[D]	146,396,566	0.881%
	Mr Álvaro Cardoso de Souza								C			1/04/2018	1/04/2018	First six months of 2021	0	0		0	0.000%
	Ms Sol Daurella Comadrán											25/11/2014	23/03/2018	First six months of 2021	143,255	456,970		600,225	0.004%
	Mr Guillermo de la Dehesa Romero											24/06/2002	23/03/2018	First six months of 2021	173	0		173	0.000%
	Mr Henrique de Castro											17/07/2019	17/07/2019	First six months of 2022	2,982			2,982	0.000%
	Mr Rodrigo Echenique Gordillo											07/10/1988	07/04/2017	First six months of 2020	1,231,529	14,591		1,246,120	0.007%
	Ms Esther Giménez-Salinas i Colomer											30/03/2012	07/04/2017	First six months of 2020	6,062	0		6,062	0.000%
	Mr Ramiro Mato García-Ansorena										C	28/11/2017	12/04/2019	First six months of 2022	40,325	0		40,325	0.000%
	Ms Belén Romana García					C						22/12/2015	12/04/2019	First six months of 2022	167	3		170	0.000%
	Mrs Pamela Walkden											29/10/2019	29/10/2019	First six months of 2020	2,500	0		2,500	0.000%
	Total														**12,395,273**	**44,091,206**	**122,468,000**	**178,954,479**	**1.077%**
General secretary and secretary of the board	Mr Jaime Pérez Renovales																		

C Chairman

Note: The table details the attendance of directors whenever the latter have personally attended meetings of the board or its committees. For this purpose, absent directors who are represented are not counted as having attended.

A. Data at 31 December 2019 except where otherwise indicated. The changes in the membership of the committees during 2019 are shown in section 1.1 'Renewing the board'.

B. For further explanation, see 'Election, renewal and succession' in section 4.2. Indicated periods do not take into account the additional period that may apply under article 222 of the Spanish Companies Act.

C. The Bank has a share holding policy aimed at strengthening the alignment of executive directors with the long-term interests of shareholders. This policy includes the executive directors' commitment to maintain a significant individual investment in the Bank's shares while they are performing executive duties, equivalent to twice the nett amount of the annual salary calculated on the annual gross salary and the marginal tax rate at the time this policy was first applied. To meet the level of investment committed, they have a period of 5 years from their appointment as an executive director. The ratio resulting from the shareholding at 31 December 2019 shown in this table and the share value at 31 December 2019 is 34.8 times for Ms Ana Botín and 2.3 times for Mr José Antonio Álvarez.

D. Includes shares owned by Fundación Botín, of which Mr Javier Botín is the chairman, and syndicated shares, except those corresponding to Ms Ana Botín and Mr Javier Botín as they are already included within their direct or indirect shareholdings. In subsection A.3 of section 9.2 'Statistical information on corporate governance required by the CNMV' we have adapted this information to the CNMV's format, and have therefore added all the syndicated shares as shareholding of Mr Javier Botín. See 2.4 'Shareholders' agreements'.

For further details see section 9.2 'Statistical information on corporate governance required by the CNMV'.

Election, renewal and succession of directors

Election of directors

Our directors are appointed for three-year terms, and one-third of the board is renewed each year, following the order established by the length of the service on the board, according to the date and order of the respective appointment. Outgoing directors may be re-elected. Each appointment, re-election and ratification is submitted to a separate vote at the AGM.

Procedures for appointing, re-electing, evaluating and removing directors

Our internal policy for the selection, suitability assessment and succession of directors stipulates the criteria concerning the quantitative and qualitative composition of the board of directors, the process for reviewing its composition, the process for identifying, selecting and appointing new candidates.

The GSM appoints and re-elects directors. In the event that directors vacate their office during the term for which they were appointed, the board of directors may provisionally designate another director, by co-option, until the shareholders, at the earliest subsequent GSM, either confirm or revoke this appointment.

The proposals for appointment, re-election and ratification of directors, regardless of the status thereof, that the board of directors submits to the shareholders and the decisions adopted by the board itself in cases of co-option must be preceded by the corresponding report and reasoned proposal of the appointments committee.

The proposal must be accompanied by a duly substantiated report prepared by the board containing an assessment of the qualifications, experience and merits of the proposed candidate. In cases of re-election or ratification of directors, the proposal shall contain an assessment of the work and effective dedication of the proposed director to the position during the last period in which he/she occupied the post. If the board disregards the proposal made by the appointments committee, it must give the reasons for its decision and place these reasons in the minutes for the record.

Directors must meet the specific requirements set forth by law for credit institutions and the provisions of our Bylaws, and must formally undertake, upon taking office, to fulfil the obligations and duties prescribed therein and in the Rules and regulations of the board.

Our directors must be persons of renowned business and professional integrity, and must have the knowledge and experience needed to exercise their function and be in a position to carry out a good governance. Candidates for the position of director will also be selected on the basis of their professional contribution to the board as a whole.

For further information see section 4.1 'Our directors' and under 'Board skills and diversity matrix' within this section 4.2.

In all cases, the board of directors shall endeavour to ensure that external or non-executive directors represent a significant majority over executive directors and that the number of independent directors represents at least half of all directors.

Our directors shall cease to hold office when the term for which they were appointed elapses, unless they are re-elected; when the GSM so resolves; or when they resign (explaining the reasons for this in a letter that shall be sent to the other members of the board) or place their office at the disposal of the board of directors.

Directors must tender their resignation to the board of directors and formally resign from their position if the board of directors, following a report from the appointments committee, deems it fit, in those cases in which they may adversely affect the operation of the board or the credit or reputation of the Bank and, in particular, if they are involved in any of the circumstances of incompatibility or prohibition provided by law. The foregoing without prejudice to the provisions of Royal Decree 84/2015, which implements Law 10/2014 on the organisation, supervision and solvency of credit institutions, on the honorability requirements for directors and the consequences of directors subsequently failing to meet such requirements.

Directors must notify the board, as soon as possible, of those circumstances affecting them that might prejudice the credit or reputation of the Bank, and particularly the criminal cases with which they are charged.

Furthermore, proprietary non-executive directors must tender their resignation when the shareholder they represent disposes of, or significantly reduces, its ownership interest.

Finally, succession planning for the main directors is a key element of the Bank's good governance, ensuring an orderly leadership transition and continuity and stability of the board. Board succession planning continues to be an area of focus for the appointment committee and the board, with appropriated and robust plans in place that are regularly revisited.

CEO succession

In application of these procedures, in September 2018 the Bank resolved to appoint Mr Andrea Orcel as new CEO, subject to obtaining the necessary regulatory fit and proper authorization , the shareholders´meeting passing the relevant resolutions on his future remuneration and to the termination of the contractual relationship with his former employer.

Subsequently, due to the change on the basis upon which such decision was taken and the fact that the costs of compensating Mr Orcel for past remuneration exceeded those expected at the time of his appointment, the board resolved in January 2019 to leave without effect to Mr Orcel's appointment. Such decision was possible, among other reasons, as the contract that, in accordance to the Spanish Companies Act, any executive director must enter into, governing the services to be rendered had not been executed nor approved by the Board and attached to the relevant minutes, as requested. Such a contract was never either approved nor executed and as the appointment had not been submitted to our shareholders.

4.3 Board functioning and effectiveness

The board is the highest decision-making body, focusing on the supervisory function

Except in matters falling within the exclusive purview of the GSM, the board of directors is the Bank's highest decision-making body and performs its duties with unity of purpose and independent judgement.

The board's stated policy is delegating the day-to-day management of the Bank and the implementation of its strategy to the executive bodies and the management team. It focuses its activity on the general supervisory function and those functions that it cannot delegate as provided by law, the Bylaws, and the Rules and regulations of the board, which in summary are the following:

- General policies and strategies (including capital and liquidity, new products, activities and services; internal culture and corporate values; risk control; remuneration policy; and compliance).
- Financial information and general information reported to shareholders, investors and the general public, and the processes and controls that ensure the integrity of this information.
- Policies for the provision of information to, and for, communication with shareholders, markets and public opinion, and supervision of the process of dissemination of information and communications relating to the Bank.
- Internal audit plan and results.
- Selection, succession and remuneration of directors.
- Selection, succession and remuneration of senior management and other key positions.
- Effectiveness of the Group's corporate and internal governance system.
- Significant corporate & investment transactions.
- Calling the general shareholders' meeting.
- Governance-related matters in general, such as related party transactions.
- Corporate and internal governance of the Bank and its Group, including the group-subsidiary governance model, corporate frameworks and relevant group internal regulation.

Structure of the board

The board has implemented a governance structure to ensure it discharges its duties effectively. Further details of this structure are provided in the next pages of this section and it can be split into four dimensions:

- **Group executive chairman and chief executive officer** who, as further explained within this section 4.3, are the most senior executives for the strategic and ordinary management of the Bank, which the board is responsible for overseeing, ensuring at the same time that their roles are clearly separated and complementary.
- **A lead independent director** who, as further explained within this section 4.3, is responsible for the effective coordination of non-executive directors and generally ensuring that they serve as an appropriate counter-balance to executive directors.
- **A board committee structure**, which, as further described within this section 4.3, supports the board in three main areas:
  - In the management of the Bank by exercising decision-making powers through the executive committee.
  - In defining strategy in key areas, through the responsible banking, sustainability and culture committee and the innovation and technology committee.
  - In its supervisory functions and significant decision-making, through the audit, appointments, remuneration and risk supervision, regulation and compliance committees.
- **A board secretary,** who, as further described within this section 4.3, supports the board, its committees and our chairman, and is also the general secretary of the Group.

Rules and regulations of the board

The board is governed by the rules set out in the Bank's Bylaws and the Rules and regulations of the board, both of which are available at www.santander.com.

- **Bylaws:** Our Bylaws contain the basic rules and regulations that apply to the composition and functioning of the board of directors and its members' duties, which are supplemented and developed by the Rules and regulations of the board. They can be amended only by our GSM, as described in 'Rules governing amendments to our Bylaws' in section 3.2.
- **Rules and regulations of the board:** The Rules and regulations of the board establish the rules of operation and internal organisation of the board of directors and its committees through the development of applicable legal and Bylaw provisions. These set out the principles that govern all action taken by the board and its committees and the rules of behaviour to be observed by its members.

  The board amended its Rules and regulations on 26 February 2019 in order, among others:

  - To establish the audit committee to be composed entirely of independent directors and to strengthen its supervision functions over the non-financial information.
  - To broaden the mandate of the appointments committee in corporate governance matters taking up functions previously fell with the risk supervision, regulation and compliance committee.

- To expressly provide that the lead independent director must be a member of the appointments committee.
- To include other minor changes in the composition and functioning of the appointments and remuneration committees anticipating the recommendations and good operating practices.

Our Rules and regulations of the board meet all legal requirements and adhere to the main principles and recommendations established in the Spanish Corporate Governance Code for Listed Companies of the CNMV of February 2015; the Corporate Governance Principles for Banks of the Basel Committee on Banking Supervision of July 2015; as well as the guidelines established by the EBA in 'Guidelines on internal governance under Directive 2013/36/EU' that came into force on 30 June 2018.

Our rules on the audit committee also adhere to the recommendations and good operating practices established in Technical Guide 3/2017 of the CNMV, on Audit Committees of Public Interest Entities, of 27 June 2017. This committee also complies with the regulations applicable in the US because of the listing of our shares as American Depositary Shares on the New York Stock Exchange and with Rule 10A-3 under the Securities Exchange Act introduced by the Sarbanes-Oxley Act of 2002 (SOx), on requirements for the audit committees of companies.

Our rules on the appointments and remuneration committees also adhere to the recommendations and good operating practices established in Technical Guide 1/2019 of the CNMV, on Nomination and Remuneration Committees, of 20 February 2019.

Group executive chairman and chief executive officer

The Group executive chairman is Ms Ana Botín-Sanz de Sautuola y O'Shea and the chief executive officer is Mr José Antonio Álvarez Álvarez.

The roles of our Group executive chairman and chief executive officer are clearly separated, as follows:

Roles of the executive chairman and the CEO

Group executive chairman	Chief executive officer
• The chairman is the highest-ranking officer of the Bank and the main Group representative vis-à-vis the regulators, authorities and other major stakeholders. • The chairman´s direct reports are the CEO and the senior managers in charge of long-term strategy of the Bank (such as Corporate Development), the corporate functions (such as Communications and General secretariat) and control (including Risk and Internal Audit) and those areas not directly related to the day-to-day management of the business. • The chairman also leads the appointment and succession planning of the senior management of the Bank.	• The chief executive officer is entrusted with the day-to-day management of the business. • Accordingly, the chief executive officer's direct reports are the senior managers in charge of the businesses (heads of the regional -Europe, North America and South America- and global businesses) and of the functions supporting the business (such as Finance, Financial control and IT & operations).

There is a clear separation of duties between those of the Group executive chairman, the chief executive officer, the board, and its committees, and various checks and balances that assure proper equilibrium in the Bank's corporate governance structure, including the following:

- The board and its committees oversee and control the activities of both the Group executive chairman and the chief executive officer.
- The board of directors has delegated to each of the executive chairman and the chief executive officer all the powers of the board except those that cannot be delegated pursuant to the law, the Bylaws and the Rules and regulations of the board. The board directly exercises those powers in the performance of its general supervisory function.
- The role of the lead independent director, who leads the appointment and succession planning for the Group executive chairman and plays a key role in corporate governance, as detailed below.
- The audit committee is chaired by an independent director, considered to be a financial expert, as this term is defined in Regulation S-K of the Securities and Exchange Commission (SEC).
- The Group executive chairman may not hold simultaneously the position of chief executive officer of the Bank.
- The corporate risk, compliance and internal audit functions, as independent units, report to a committee or a member of the board of directors and have direct and unfettered access to the board when they deem it appropriate.

Lead independent director

The role of the lead independent director is key in our governance structure, as he oversees the proper coordination of non-executive directors and ensures that they serve as an appropriate counter-balance to the executive directors.

The following chart illustrates his functions and their application in 2019:

Duties of the lead independent director and activities during 2019

Duties	Activities during 2019
Facilitate discussion and open dialogue among the independent directors, including by coordinating meetings of non-executive directors and generally engaging with them to canvas their views.	Three meetings were held with non-executive directors, without executive directors being present, where they were able to voice any concerns or opinions. Furthermore, these meetings represented a valuable opportunity to discuss other matters including board training topics, performance of the executive directors and the functioning of the board committees.
Direct the regular assessment of the chairman of the board of directors and coordinate her succession plan.	Leadership in the annual assessment of the chairman in order to determine her variable remuneration.
Engagement with shareholders and other investors with the purpose of gathering information on their concerns, in particular, with regard to the Bank´s corporate governance.	See section 3.1 'Shareholder engagement'.
Replace the chairman in the event of absence with key rights such as the ability to call board meetings under the terms set down in the Rules and regulations of the board of directors.	The lead independent director chaired three meetings of the executive committee due to such absence.
Request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting of the board.	Whilst no such meetings where called by the lead independent director, he remained fully engaged on board meeting content.

Board committee structure

The board currently has seven committees and one international advisory board.

For a description of the composition, functions, rules of operation and activities of:

- **The executive committee, see section 4.4.**
- **The audit, appointments, remuneration, risk supervision, regulation and compliance, responsible banking, sustainability and culture, and the innovation and technology committees, see their activities reports in sections 4.5, 4.6, 4.7, 4.8, 4.9 and 4.10 respectively.**

	Voluntary committees (permitted under Bylaws)		Mandatory committees (required by law and under Bylaws)	
	Decision-making powers	Support and proposal in strategic areas	Supervision, information advice and proposal functions in risk, financial information and audit, nomination and remuneration matters	
Board committees	Executive committee	Responsible banking, sustainability and culture committee	Audit committee	Appointments committee
		Innovation and technology committee	Risk supervision, regulation and compliance committee	Remuneration committee
External advisory board		International advisory board (members are non-directors)		

Secretary of the board

Mr Jaime Pérez Renovales is the secretary of the board. He assists the chairman in her duties and ensures the formal and material legality of all action taken by the board. He also ensures that good governance recommendations and procedures are observed and regularly reviewed.

The secretary of our board is the general secretary of the Bank, and also acts as secretary for all board committees; he does not need to be a director in order to hold this position.

A report from the appointments committee is required prior to submission to the board of proposals for the appointment or removal of the secretary.

Our board also has a deputy secretary to the board, Mr Óscar García Maceiras, who also acts as deputy secretary for all board committees and assists the secretary and replaces him in the performance of his duties in the event of absence, inability to act or illness.

Proceedings of the board

The board of directors held 18 meetings in 2019, 10 ordinary meetings and 8 extraordinary meetings. The Rules and regulations of the board provide that it shall hold no less than nine annual ordinary meetings, and one meeting at least quarterly.

The board holds its meetings in accordance with a calendar established annually and an agenda of matters to be discussed, without prejudice to any further items that may be added or any additional meetings that need to be held according to the business needs that may arise. Directors may also propose the inclusion of items on the agenda. Directors are duly informed of any modifications to the calendar or the agenda of matters to be discussed.

Likewise, the board keeps a formal list of matters reserved to it and will prepare a plan for the distribution of those matters between the ordinary meetings established in the provisional calendar approved by the board.

The relevant documentation for each meeting of the board of directors and of the different committees to which the directors are members, is sent to the directors at least five business days before the board meeting and three business days before the corresponding committee meeting. The information, which is provided to the directors via secure electronic means, is specifically for the purpose of preparing these meetings. In the opinion of the board, that information is complete and is sent sufficiently in advance.

In addition, the Rules and regulations of the board of directors expressly recognise the directors' right to request and obtain information regarding any aspect of the Bank and its subsidiaries, whether domestic or foreign, as well as the right to inspect, which allows them to examine the books, files, documents and any other records of corporate transactions, and to inspect the premises and facilities of these companies. Furthermore, directors are also entitled to request and obtain, through the secretary, such information and advice deemed necessary for the performance of their duties.

The board shall meet whenever the chairman so decides, acting on her own initiative or at the request of not less than three directors. Generally, the meeting must be called 15 days in advance by the board secretary.

Additionally, the lead independent director is authorised to request that a meeting of the board of directors be called or that new items be added to the agenda for a meeting that has already been called.

Our directors must attend the meetings in person and shall endeavour to ensure that absences are reduced to cases of absolute necessity. In this regard, the appointments committee supervises that the attendance of directors to board of directors and committee meetings is not under 75%. For further information, see 'Board and committees attendance' in this section 4.3. If directors are unable to personally attend a meeting, they may grant a proxy to another director, in writing and specifically for each meeting, to represent them for all purposes therein. Proxy is granted with instructions and non-executive directors may only be represented by another non-executive director. A director may hold more than one proxy.

The board may meet in various rooms at the same time, provided that interactivity and communication among them in real time is ensured by audiovisual means or by telephone and the concurrent holding of the meeting is thereby ensured.

Board meetings are validly convened when more than half of its members are present in person or by proxy.

Resolutions are adopted by absolute majority of the directors attending in person or by proxy. The chairman has the casting vote in the event of a tie. The Bylaws and the Rules and regulations of the board only provide for qualified majorities for matters in which the law prescribes a qualified majority.

The board secretary maintains the documentation relating to the board of directors and maintains a record in the minutes of the content of the meetings. The minutes of the meetings held by the board of directors and its committees include any statements made at meetings that are expressly requested to be included in them.

The board may contract legal, accounting or financial advisers or other experts, at the Bank´s expense, to assist in the exercise of their functions.

The board is tasked with promoting and encouraging communication between the various committees, especially between the risk supervision, regulation and compliance committee and the audit committee, and also between the former and the remuneration committee and the responsible banking, sustainability and culture committee. In this regard, some committees hold joint meetings throughout the year and any director may attend and participate in, but not vote, at meetings of board committees of which they are not a member, by invitation of the chairman of the board and of the chairman of the respective committee, after having requested attendance to the chairman of the board. Furthermore, all members of the board who are not also members of the executive committee may attend the meetings of such executive committee at least twice a year, for which purpose they shall be called by the chairman.

During the year, directors that are not members of the executive committee attended 12 of the total of 42 meetings held.

Comparison of number of meetings held[A]

	Santander	Average Spain	US average	UK average
Board	18	10.8	7.9	7.6
Executive committee	43	8.6	—	—
Audit committee	13	8.6	8.4	5.3
Appointments committee	12	6.5	4.7	4.1
Remuneration committee	11	6.5	6.0	5.2
Risk supervision, regulation and compliance committee	14	15	NA	5.8

A. Source: Spencer Stuart Board Index 2019 (Spain, United States and United Kingdom).
NA: Not available.

The following chart shows the approximate allocation of time devoted by the board to each function in 2019.

2019 Approximate allocation of time of the board

Proceedings of the committees

The committees hold their meetings in accordance with a calendar, which includes at least four meetings, and an annual work plan established yearly. Each committee meets as many times as it is required to fulfil its responsibilities.

Meetings of committees are validly held when more than one-half of its members are present in person or by proxy. The committee adopts its resolutions by majority vote of those present in person or by proxy. In the event of a tie, the chairman of the committee has the tie-breaking vote. The committee members may grant a proxy to another member, although non-executive directors may only be represented by another non-executive director.

Committee members are provided with the relevant documentation for each meeting sufficiently in advance of the meeting date, thereby ensuring committee effectiveness.

The committees have the power to require executives to attend their meetings, by invitation from the chairman of the committee to attend under the terms established by the committee. The audit, appointments, remuneration and risk supervision, regulation and compliance committees may contract legal, accounting or financial advisers or other experts, at the Bank´s expense, to assist in the exercise of their functions. The other committees may do so with Board approval.

The post of secretary to all the committees corresponds, in a non-voting capacity, to the general secretary and secretary to the board, who is also head of the Group's Human Resources area, fostering a fluid and efficient relationship with the different units that are expected to collaborate with, or provide information to, each committee.

Each committee chairman reports to the board of directors on the affairs discussed and the decisions made in the course of each committee meeting and, in addition, a copy of the minutes of each committee meeting and all the documentation provided for each committee meeting is made available to all directors.

Board and committee attendance

The table below shows the high rate of attendance to board and committee meetings.

Attendance to the board and committee meetings in 2019

		Committees						
Directors	Board	Executive	Audit	Appointments	Remuneration	Risk supervision, regulation and compliance	Innovation and technology	Responsible banking, sustainability and culture
Average attendance	97%	93%	98%	92%	98%	97%	97%	94%
Individual attendance								
Ms Ana Botín-Sanz de Sautuola y O'Shea	18/18	38/42	_	_	_	_	4/4	4/4
Mr. Bruce Carnegie-Brown	17/18	34/42	_	13/13	11/11	_	3/4	_
Mr José Antonio Álvarez Álvarez	18/18	42/42	_	_	_	_	4/4	_
Ms. Homaira Akbari	18/18	_	13/13	_	_	_	4/4	4/4
Mr Ignacio Benjumea Cabeza de Vaca	18/18	42/42	_	_	11/11	14/14	4/4	4/4
Mr Javier Botín-Sanz de Sautuola y O'Shea	18/18	_	_	_	_	_	_	_
Mr Henrique de Castro[A]	8/8	_	3/3	_	3/3	_	2/2	_
Ms Sol Daurella Comadrán	17/18	_	_	12/13	11/11	_		3/4
Mr Guillermo de la Dehesa Romero	18/18	42/42	_	13/13	11/11	_	4/4	_
Mr Rodrigo Echenique Gordillo[B]	18/18	10/15	_	6/7	_	_	_	_
Ms Esther Giménez-Salinas i Colomer[C]	18/18	_	_	3/3	_	14/14	_	4/4
Mr Ramiro Mato García-Ansorena	18/18	42/42	13/13	_	_	14/14	_	4/4
Ms Belén Romana García	18/18	38/42	13/13	_	_	14/14	4/4	4/4
Mr Álvaro Cardoso de Souza	15/18	_	_	_	_	12/14		3/4
Mrs Pamela Walkden[D]	3/3	_	2/2	_	_	_	_	_

A. Member of the board since 17 July 2019; member of the innovation and technology committee since 23 July 2019, member of the audit committee since 21 October 2019 and member of the remuneration committee since 29 October 2019.
B. Left the executive committee on 1 May 2019 and is member of the appointments committee since that date.
C. Member of the appointments committee since 29 October 2019.
D. Member of the board and of the audit committee since 29 October 2019.

The following table shows the average dedication of our directors to the board and committees:

Average dedication our directors to the board and committees

	Meetings per year	Average of hours per meeting of the members[A]	Average of hours per meeting of the chair[B]
Board	18	120[B]	240[B]
Executive committee	42	210	420
Audit committee	13	130	260
Appointments committee	13	52	104
Remuneration Committee	11	44	88
Risk supervision, regulation and compliance Committee	14	144	288
Responsible banking, sustainability and culture Committee	4	20	40
Innovation and technology Committee	4	16	32

A. Includes the hours of preparation and attendance at meetings.
B. Of the 10 ordinary meetings held.

On average, each of our directors has dedicated approximately 50 days per year to their role as director (including their participation in the different committees), and 5 days for each board meeting, working daily 8 hours.

Directors must inform the appointments committee of any professional activity or position for which they are going to be proposed, so that the time commitment to the Group can be assessed on an ongoing basis, and any possible conflict of interest derived from such position can be verified.

Additionally, the annual suitability reassessment made by our appointments committee (see in section 4.6 'Appointments committee activities in 2019') allows us to keep up to date all information relating to the estimated time dedicated by directors to other positions and/or professional activities and to confirm their capacity to exercise good governance as directors of the Bank.

This allows the Bank to verify compliance with applicable legal requirements regarding the maximum number of company boards to which our directors may belong at the same time (no more than one executive position and two non-executive positions, or four non-executive positions, including positions held in the same Group as a single position and not including positions held at non-profit organisations or entities that do not pursue commercial activities).

Training of directors and induction programmes for new directors

Given the board´s commitment to continuously improve its functioning, an ongoing knowledge update and training programme for the board is in place, which is prepared at the beginning of each year and covers topical matters.

In 2019, seven training sessions were provided both by internal and external speakers.

Among others, the training programme included items relating to the publication of regulations concerning IFRS 16 (Leases) as well as IFRS 17 (Insurance Contracts) and their impact on the Group; regulatory and economic capital, as well as the Group's capital strategy; an explanation on the Group's new reporting to the market structure; an explanatory session on the Ebury investment opportunity prior to its approval; the responsible banking agenda, including a specific session on climate change; an update on anti-money laundering; the Agile working methodology; a review of the Risk Appetite Statement in 2019 and an informative session on new ways of working.

In addition, the board has robust induction and development programmes for new directors to develop their understanding of the Group's business, including governance rules, where key members of the management of the Group provide detailed information on their areas of responsibility, while addressing any specific development needs identified in the director's suitability assessment process. In 2019 and in early 2020, Mr Henrique de Castro and Mrs Pamela Walkden completed their induction programmes, respectively. These programmes were designed for them on the basis of their experience and the specific induction needs identified during their assessment processes.

In 2019, as a result of the annual assessment of the board and its committees functioning, the board approved, among others, the development of induction programmes that incorporate visits to the Bank´s main subsidiaries, and that cover training on country-specific macroeconomic environment, business activities and regulation.

Assessment of the board

The board conducts a yearly assessment of its functioning and the effectiveness of its work. At least once every three years, the assessment process is conducted by an external independent consultant, whose independence is assessed by the appointments committee. The last external assessment took place in 2017.

Action Plan following the 2018 assessment

In 2018, the board assessment was carried out internally and the overall review was positive in terms of outcome and key findings. The exercise resulted in an action plan for further continuous improvement in board effectiveness, which focused mainly on the composition and organisation of the board, board dynamics and internal culture and the functioning of board committees.

During 2019, the implementation of the action plan was monitored by the appointments committee and the plan was successfully completed and implemented, enhancing the overall functioning and effectiveness of the board, which was periodically informed of the status of these actions.

2019 assessment

In 2019, the board conducted the assessment internally. The scope of the assessment included the functioning of the board and all of its committees, as well as individual performance of the chairman of the board of directors, the chief executive officer, the lead independent director, the secretary and each individual director.

The process, coordinated by the chairman of the Board and the lead independent director, followed the methodology and structure of previous assessments, based on a confidential, anonymous questionnaire that was fully completed by all of our board members and focused on the following aspects:

- In relation to the board as a whole: (i) structure (size and composition; skills and competencies), (ii) organisation and functioning (planning of meetings, quality of reporting, training areas, reporting from committees) and (iii) dynamics and internal culture (including formal and informal engagement between the Board and the Executive).
- In relation to the board committees: (i) leadership, size and composition, (ii) responsibilities and (iii) quality of reporting and timeliness.
- Individual performance of the chairman of the board, the chief executive officer, the lead independent director and the general secretary.
- In relation to the performance of each individual director: (i) willingness to speak up at meetings, (ii) contribution and receptiveness of the views of others, (iii) constructively challenging fellow directors and management, (iv) applying a strategic mindset to board and committee discussions and (v) bringing their own skills and experience to the board.

The results of the 2019 assessment process, the findings and specific actions of which were debated by the board and its committees, demonstrated directors´ overall satisfaction with improved effectiveness, and in particular revealed the following:

- The appropriate size and level of independence within the board and committees, noting positive enhancements to the depth and breadth of board skills through recent appointments.
- The overall quality and timeliness of information received, as well as the improvement made on agenda planning and content, which helps directors to focus on key strategic and business issues.
- The overall rigour and depth of induction programs for new directors.
- The open and transparent discussions and constructive challenge of senior management during meetings and the importance of having visibility of emerging talent to ensure effectiveness of the internal succession plans.
- The effective leadership and operation of committees in supporting the board and the ongoing need to ensure time is allowed to cover the topics scheduled.
- The positive overall performance of the chairman of the board, CEO, lead independent director and general secretary and the high degree of confidence in these individual's competence to serve their roles to a high standard.

As a result of the assessment, on 27 February 2020, the board, with the prior report of the appointments committee, approved an action plan with improvements in the following areas:

- **Structure of the board:** As a part of any future Board refreshment, consider strengthening board composition to increase its experience in financial and auditing, technology and coverage of Latam and Mexican markets.
- **Organisation and functioning of the board:**
  - Continue to monitor the proper balance between the mandatory regulatory agenda and business topics, the continued quality of Board and Board Committee papers covering material matters and associated analysis, distributed -sufficiently in advance to facilitate challenge. Ultimately this will continue to help ensure that board time is used optimally given the increasing demands and challenges faced given the uncertain economic and geo-political environment.
  - Continue to develop directors' ongoing training, development and knowledge refreshment programs to ensure that they include relevant matters, resulting in the constant update of their knowledge and the proper performance of their duties.
- **Board dynamics and internal culture:** continue to provide dynamic and agile opportunities, inside and outside the boardroom, for the board to develop its interaction with senior executives and broader talent. This will include engaging local teams during country visits, ultimately ensuring confidence in internal succession plans.
- **Board committees**:
  - Keep the current composition of the executive committee under review, especially taking into account the ongoing reform of the Spanish Corporate Governance Code, where the recommendation to have an executive committee aligned with the composition of the board may change.
  - Further optimise the role and -functioning of the board innovation and technology committee- given the complementary work of the International Advisory Board and keep under review the coordination mechanisms between their respective roles.

Other improvements in governance

Given the key importance of ensuring that changes in the senior management are smooth, ensuring continuity and stability, during 2019 the appointments committee performed an overall review of the succession planning process both for the directors and the key managerial roles to identify areas of improvement. These improvements were included in the updating of the succession policy for managerial positions throughout the Group, approved by the board on 27 February 2020, and will also be included in the updating of the policy for the selection, suitability assessment and succession of directors to be submitted to the board for approval, based on the proposal of said committee, in March 2020. The succession planning review resulted in an improved process with a clear methodology and responsibilities' allocation, as well as overall effectiveness monitoring and controls. It also provides for regular reporting to the board, with pre-defined risk-based indicators to be analysed at an appropriate level of detail, which will ensure supervision of the process effectiveness and of the risks related to key roles succession.

4.4 Executive committee activities in 2019

Composition

Composition		Category
Chairman	Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive
Members	Mr José Antonio Álvarez Álvarez	Executive
	Mr Bruce Carnegie-Brown	Independent
	Mr Ignacio Benjumea Cabeza de Vaca	Other external
	Mr Guillermo de la Dehesa Romero	Other external
	Mr Ramiro Mato Garcia-Ansorena	Independent
	Ms Belén Romana Garcia	Independent
Secretary	Mr Jaime Pérez Renovales	

During 2019, Mr Rodrigo Echenique stepped down as a member of the committee.

Functions

The executive committee is a basic instrument for the corporate governance of the Bank and its Group. It exercises by delegation all the powers of the board, except those which cannot be delegated pursuant to the law, the Bylaws or the Rules and regulations of the board. This allows the board to focus on its general supervisory function. Oversight of the executive committee is ensured through regular reports submitted to the board on the principal matters dealt with by the committee and by making available to all directors the minutes of its meetings and all the supporting documentation made available to it.

How the committee works

The board of directors determines the size and qualitative composition of the executive committee, adjusting to efficiency criteria and reflecting the guidelines for determining the composition of the board. The executive committee, although it does not exactly replicate the qualitative composition of the board of directors, since the presence of all executive directors must be combined with a size that allows an agile development of their functions, is aligned with having a majority of external directors, including three independent directors. The secretary of the board is also the secretary of the executive committee.

The executive committee meets as many times as it is called to meet by its chairman or by the vice chairman in her absence. It generally meets once a week.

'Proceedings of the committees' in section 4.3 above contains further details on the general rules applicable to the functioning of the board committees.

Main activities in 2019

During 2019 the executive committee took action relating to business of the Group, the main subsidiaries, risk matters, corporate transactions and the main matters that are subsequently submitted to the full board:

- **Earnings:** The committee was kept up to date on Group earnings, and their impact on investors and analysts.
- **Business performance:** The committee was kept continuously and fully informed of the performance of the Group's various business areas, through management reports or specific reports on determined subjects submitted. It was also informed of various projects relating to the transformation and development of the Group's culture (Simple, Personal and Fair).
- **Information reported by the chairman:** The chairman of the board of directors, who also chairs the executive committee, regularly reported on key aspects relating to Group management, strategy and institutional issues.
- **Corporate transactions:** The committee analysed and, where applicable, approved corporate transactions carried out by the Group (investments and divestments, joint ventures, capital transactions, etc.).
- **Banco Popular:** The committee continously monitored Banco Popular integration process and its associated risks and mitigating controls.
- **Risks:** The committee was regularly informed about the risks facing the Group and, within the framework of the risk governance model, made decisions about transactions that had to be approved by it due to their amount or relevance.
- **Subsidiaries:** The committee received reports on the performance of the various units and, in line with current internal procedures, authorised transactions and appointments of directors and some key positions of subsidiaries.
- **Capital and liquidity:** The committee received frequent information on the performance of capital ratios and of the measures being used to optimise these ratios, in addition to reviewing regulatory plans.
- **Talent and culture:** The committee received ongoing reports of the implementation of the corporate culture and values within the Group, including the results of the Annual Engagement Survey.
- **Activities with supervisors and regulatory matters:** The committee was regularly informed of the initiatives and activities of supervisors and regulators, in addition to projects to ensure compliance with its recommendations and regulatory changes.
- **Governance models:** The committee approved the governance policy for factories and investees.
- **Issuances by delegation from the board:** Under the delegation conferred by the 2019 AGM, and the subsequent sub-delegation of the board of directors' powers in its favour, the committee resolved to issue preferred securities contingently convertible into newly issued ordinary shares of the Bank and to make other debt issuance.

In 2019, the executive committee held 42 meetings. 'Board and committees attendance' in section 4.3 provides information on the attendance of committee members at those meetings and the average estimated time dedicated by each member of the committee to prepare for, and participate in, meetings held in 2019.

4.5 Audit committee activities in 2019

This section constitutes the audit committee activities report prepared by the committee on 24 February 2020 and approved by the board of directors on 27 February 2020.

Composition

Composition		Category
Chairman	Ms Belen Romana Garcia	Independent
Members	Ms Homaira Akbari	Independent
	Mr Henrique de Castro	Independent
	Mr Ramiro Mato García-Ansorena	Independent
	Mrs Pamela Walkden	Independent
Secretary	Mr Jaime Pérez Renovales	

The board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's scope and responsibilities.

Specifically, Ms Belén Romana García, the committee's chairman, is considered to be a financial expert, as defined in SEC Regulation S-K, based on her training and expertise in accounting, auditing and risk management, and as a result of having held various positions of responsibility at entities in which knowledge of accounting and risk management was essential.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

During 2019, Mr Carlos Fernández stepped down as a member of the committee. Mr Henrique de Castro and Mrs Pamela Walkden were appointed new members of the committee on 21 October 2019 and 29 October 2019, respectively.

External auditor

Our external auditor is PricewaterhouseCoopers Auditores, S.L. (PwC) with registered office in Madrid, Paseo de la Castellana, no. 259 B, with Tax ID Code B-79031290 and registered in the Official Registry of Auditors of Accounts (Registro Oficial de Auditores de Cuentas) of the Accounting and Audit Institute (Instituto de Contabilidad y Auditoría de Cuentas, (ICAC)) of the Ministry for Economy with number S0242.

The lead partner is Mr Alejandro Esnal. As an audit leader for banking, he participates actively in committees and working groups of the sector and collaborates proactively with the financial regulation department, on matters such as the restructuring of the sector or the strengthening of banking practices.

Report on the independence of the external auditor

The audit committee has verified the independence of the external auditor, at its meeting of 24 February 2020 and prior to the issuance of the 2019 auditor's report on the financial statements. This verification was conducted in line with the terms established under section 4.f) of article 529 quaterdecies of the Spanish Companies Act, and under article 17.4.c)(iii) of the Rules and regulations of the board, concluding that, in the committees' opinion, there are no objective reasons for doubting the independence of the external auditor.

To evaluate the independence of the external auditor, the committee has considered the information included under section 'Duties and activities in 2019' below on the remuneration of the auditor for audit services and any other services and the written confirmation from the external auditor itself confirming its independence with respect to the Bank under the applicable European and Spanish legislation, the SEC rules and the rules of the Public Company Accounting Oversight Board (PCAOB).

Proposed re-election of the external auditor for 2020

As indicated in section 3.6 'Our coming 2020 AGM', the board of directors, following the proposal of the audit committee, has submitted to our 2020 AGM the re-election of PwC as external auditor for 2020. In case that PwC is re-elected, and Mr. Esnal continues as the lead partner in auditing the accounts, this would be his last year as lead partner of the auditor, according to the Spanish Law on Auditing.

Duties and activities in 2019

This section contains a summary of the audit committee's activities in 2019, classified in accordance with the committee's duties.

Duties	Actions taken
Financial statements and other financial and non-financial information	
• **Review the financial statements and other financial and non financial information**	• Reviewed the individual and consolidated financial statements and directors´ reports for 2019 and endorsed their content, prior to their authorisation for issue by the board, and ensured compliance with legal requirements and the proper application of generally accepted accounting principles and that the external auditor issued the corresponding report with regard to the effectiveness of the Group's system of internal control of financial reporting (ICFR). • Endorsed quarterly the financial information statements dated 31 December 2018, 31 March, 30 June and 30 September 2019, respectively, prior to their approval by the board and their disclosure to the markets and to supervisory bodies. • Reviewed other financial information such as: annual corporate governance report; DRA filed with CNMV; Form 20-F with the financial information of 2018, filed with SEC; the half-yearly financial information filed with CNMV and with SEC in Form 6-K, and the Group's interim consolidated financial statements specific to Brazil. • Analysed the goodwill ascribed to Santander UK and determination of an accounting impairment as a result. To do this, review of the change in the outlook for Santander UK as a result of a challenging regulatory environment, including the various negative impacts of the Banking Reform Act (ring-fencing), the competitive pressure in the country and the impact that uncertainty relating to Brexit has had on UK economic growth • Reviewed the non-financial and diversity information that the Bank must disclose pursuant to applicable legal provisions.
• **Report to the board about the tax policies applied**	• Received information from the Group's tax advisory unit regarding the tax policies applied, in compliance with the Code of Good Tax Practices and submitted this information for the board of directors.
Relationship with the external auditor	
Auditing the financial statements	
• **Receive information on the audit plan and its implementation**	• Obtained confirmation from the external auditor that it has had full access to all information, to conduct its activity. • Discussed improvements in the reporting of financial information resulting from changes to accounting standards, and best international practices. • Analysed the detailed information on the planning, progress and execution of the audit plan and its implementation. • Analysed the auditor's reports for the annual financial statements prior to the external auditor's report to the board of directors.
• **Relations with the external auditor**	• The external auditor attended 12 of 13 committee meetings held in 2019, serving as a channel of communication between the external auditor and the board. • The committee met two times with the external auditor without the presence of the Bank's executives relating to the audit work.
• **Assessment of the auditor's performance**	• Performed an evaluation of the external auditor and how it has contributed to the integrity of the financial information considering, amongst others, its work and the opinion of the different units and divisions. In this evaluation, the committee was informed by the auditor and also analysed the results of any inspections carried out by the regulators on PwC.

Duties	Actions taken
Independence	
• **PwC's remuneration for audit and non- audit services**	• Monitored the remuneration of PwC; the fees for the audit and non-audit services provided to the Group that were as follows:

EUR million

	2019	2018	2017
Audits	98.2	92.1	88.1
Audit-related services	7.4	6.8	6.7
Tax advisory services	0.7	0.9	1.3
Other services	2.3	3.4	3.1
Total	**108.6**	**103.2**	**99.2**

The 'Audits' heading includes mainly, audit fees for the Banco Santander, S.A. individual and consolidated financial statements, as the case may be, of the companies of the Group, the integrated audits prepared for the annual report filling in the Form 20-F required by the U.S. Securities and Exchange Commission (SEC) for those entities currently required to do so, the internal control audit (SOx) for those required entities, the audit of the consolidated financial statements as of 30 June and, the regulatory reports required by the auditor corresponding to the different locations of Santander Group.

The main fees included in 'Audit-related services' heading correspond to the issuance of comfort letters or other reviews required by different regulations in relation to securitization and other matters.

The amount of fees paid for non-audit works and the percentage they represent of all fees invoiced to the company and/or its group a is as follows:

	Company	Group companies	Total
Amount of non-audit work (EUR thousand)	199	2,824	3,023
Amount of non-audit work as a % amount of audit work	0.2%	2.6%	2.8%

In 2019, the Group commissioned services from audit firms other than PwC for an amount of EUR 227.6 million (173.9 and 115.6 EUR million in 2018 and 2017, respectively).

- **Non-audit services. Assess threats to the independence and the safeguard measures**
  - Reviewed services rendered by PwC, and verified its independence. For these purposes:
    - Verified that all services rendered by the Group's auditor, including audit and audit-related services, tax advisory services and other services detailed in the section above, met the independence requirements set out in the applicable regulation.
    - Verified the ratio of fees received during the year for non-audit and audit-related services to total fees received by the auditor for all services provided to the Group, with this ratio for 2019 standing at 2,8%
    - Average fees paid to auditors in 2019 for non-audit and related services account for 12% of total fees paid as a benchmark according to available information on the leading listed companies in Spain.
    - Verified the ratio of fees paid for all items relating to the services provided to the Group to total fees generated by PwC as a firm in 2019. Group's total fees paid are less than 0,3% of PwC's total revenue in the world.
    - Reviewed the banking transactions performed with companies related to PwC, concluding that no transactions have been carried out that compromise PwC's independence.
- External auditor independence report
  - After considering the information detailed above, the committee issued the 'Report on the independence of the external auditor', which information is provided at the beginning of this section.

Re-election of the external auditor

Duties	Actions taken
• **Re-election of the external auditor**	• Proposed to the board, for subsequent submission to the 2020 AGM, the re-election of PwC as the external auditor of the Bank and its consolidated Group for 2020.

Internal audit function

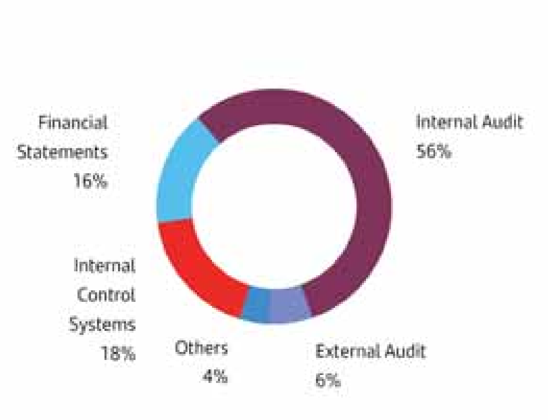
- **Assess the performance of Internal audit function**
  - Supervised the internal audit function and ensured its independence and efficacy throughout 2019.
  - Reported on the progress of the internal audit plan, allowing the committee to have an exhaustive control on Internal audit recommendations and ratings of the different units and corporate divisions. The chief audit executives of the main units and corporate divisions have reported at least once to the committee during 2019 and the intention is to maintain this discipline for 2020.
  - Representatives of the Internal Audit division attended 12 of 13 meetings held by the audit committee in 2019; one of them with the chief audit executive without the presence of other executives or the external auditor.
  - Proposed the budget of internal audit function for 2020, ensuring that it has the material and human resources necessary to carry out its function.
  - Reviewed the annual audit plan for 2020, based on a comprehensive risk assessment, and submitted it to the board for approval.
  - Received regular information of the internal audit activities carried out. In 2019, there was an improvement in the overall distribution of audit ratings, in part due to continued focus on building a stronger control environment. All audit reports issued were subject to additional scrutiny by the committee with the relevant business areas required to present their action plans to it.
  - Reviewed the application of the measures included in the strategic internal audit plan for the 2019-2022 period.
  - Assessed the adequacy and effectiveness of the internal audit function when performing its mission, as well as the chief audit executive's performance in 2019, which was reported to the remuneration committee and to the board in order to establish his variable remuneration.

Duties	Actions taken
Internal control systems	
• **Monitor the efficacy of internal control systems**	• Received information on the process of evaluating and certifying the Group's internal control model (ICM) for 2018 and assessed its effectiveness, in compliance applicable regulations with the CNMV ICFR and SEC Sarbanes-Oxley Act (SOX). The main focus during the year was the reduction of risks associated with risk control. To this end specific remediation plans are in force and regular updates are being provided to the committee. • Reviewed the effectiveness of the Bank's internal controls on the generation of financial information contained in the Group's consolidated annual report filed in the US (Form 20-F) for 2018, as required by the SOX, concluding that, in its opinion, the Group maintained effective internal control over said financial information, in all material aspects.
• **Whistleblowing channel**	• Received information from the Compliance & Conduct area about the activity of the whistleblowing channel ("Canal Abierto") specially in regard to issues relating to questionable financial and accounting practices and the process of generating financial information, auditing and internal controls, verifying that in 2019 there was no claim regarding these issues filed through this channel.
• **Coordination with Risk**	• Developed different activities to ensure that the internal audit plan is properly addressed towards the relevant risks of the Group and joint meetings with board risk supervision, regulation and compliance committee in order to share information regarding model risk, IT and obsolescence risk, whistleblowing, policy on outsourcing of services, implementation of the EBA Guidelines and other matters.
• **Other activities**	• The committee was informed of the progress made on the Group's digital strategy and the Bank's policies of third-party suppliers.
Related-party and corporate transactions	
• **Creation of entities in countries considered tax havens**	• Endorsement of a criteria for the approval of the creation or acquisition of shareholdings in entities domiciled in countries or territories which have the consideration of tax havens, in line with the Bank's commitment to limit and control the reputational, tax and legal risks arising from investments in entities domiciled in tax havens. • The committee was informed by the head of Tax unit about the activities of the of-shore entities of the Group established according to current Spanish regulation. See note 3 c) in the 'Notes to the consolidated annual accounts'.
• **Approval of related party transactions**	• Reviewed that the transactions carried out by the Bank with related parties did not meet the terms envisaged by law and in the Rules and regulations of the board and did not require approval from the governing bodies. No member of the board of directors, direct or indirectly, has carried out any significant transactions or any transaction on non-customary market conditions with the Bank. The committee has examined the information regarding related party transactions in the financial statements. See section 4.12 'Related-party transactions and conflicts of interest'. • Reviewed, and with its favourable report, submitted to the board for its approval the update of the policy for admission, authorisation and monitoring of financial transactions with directors and members of senior management of the Bank.
• **Transactions involving structural or corporate modifications**	• Reviewed the transactions involving structural or corporate modifications planned by the Group during 2019 prior to the submission to the board of directors, analysing their economic conditions and the accounting and internal audit impact.
Information for the general shareholders' meeting and corporate documentation	
• **Shareholders information**	• At our 2019 AGM, Ms Belén Romana, acting as the committee's chairman, reported to the shareholders on the matters and activities within the purview of the audit committee.
• **Corporate documentation for 2019**	• Drafted the report of the committee for the year 2019, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulfilment of the functions entrusted to it, and the priorities for 2020 identified following the assessment carried out by the board and its committees.

Time devoted to each task

In 2019, the audit committee held 13 meetings. 'Board and committees attendance' in section 4.3 provides information on the attendance of committee members at those meetings and on the estimated average time devoted by them to preparing and participating in such meetings.

The chart below shows the distribution of the approximate time dedicated to each task by the committee in 2019.



Annual assessment of the functioning of the committee and fulfilment of the goals set for 2019

The committee's effectiveness during 2019 was considered as part of the overall internal assessment of board effectiveness carried out internally this year. The committee considered the findings and suggested actions resulting from the review and related to the audit committee.

In 2019, the committee addressed all the challenges put forward for the year and identified in the 2018 activities report, especially regarding coordination with units and divisions. Different activities have been conducted in order to facilitate effective oversight, agree key matters and sharing of Group expectations across the main geographies of the Group with the participation of the Group audit committee Chairman in different units' audit committee meetings held during 2019.

The second Santander audit committee Chairs convention was held in May 2019 with a special focus on the following key areas: Internal audit and the concept of the hub; accounting and financial control and focus on internal control environment; T&O with special attention to cyber and obsolescence; the external auditor; the importance of the internal control environment and risk assessment; and the focus of supervisors on capital, models and governance matters.

Also, the committee has strengthened its audit and financial skills increasing its size (from four to five members). There has been appropriate director training on financial and audit topics, including amongst others, IRFS 16 and IRFS 17.

The self-assessment process positively rated both the composition of the committee and the very high degree of dedication among its members, as well as the chairman's leadership. The frequency of its meetings were also found to be appropriate for its proper functioning and for the performance of their duties of supporting, informing, proposing and advising the board. Sufficient and accurate documentation provided on the topics discussed strengthened the quality of debate among members and facilitated sound decision-making.

2020 priorities

The committee has identified the following priorities for 2020:

- The replacement of the committee Chair after four years since her appointment (according to the Spanish Companies Act and the Rules and regulations of the board) and the ongoing effectiveness of the committee.
- Continue working on coordination with main units and divisions developing mechanisms to share information on a regular basis. Schedule the agenda of the committee to ensure that key local topics and internal audit issues are adequately covered.
- Continue working on the achievement of a cross view of certain key topics by the so called 'white books', to ensure a proper oversight and monitor units and divisions taking into account the ratings provided by Internal Audit.
- Further strengthening of the internal control environment risk assessment, digital transformation and relations with third parties suppliers.

4.6 Appointments committee activities in 2019

This section constitutes the appointments committee activities report prepared by the committee on 24 February 2020 and approved by the board of directors on 27 February 2020.

Composition

Composition		Category
Chairman	Mr Bruce Carnegie-Brown	Independent
Members	Ms Sol Daurella Comadrán	Independent
	Mr Guillermo de la Dehesa Romero	Other external
	Mr Rodrigo Echenique Gordillo	Other external
	Ms Esther Giménez-Salinas i Colomer	Independent
Secretary	Mr Jaime Pérez Renovales	

The board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

During 2019, Mr Carlos Fernández and Mr Ignacio Benjumea stepped down as members of the committee. Furthermore, Mr Rodrigo Echenique and Ms Esther Giménez-Salinas i Colomer were appointed new members of the committee on 1 May and 29 October 2019, respectively.

Duties and activities in 2019

This section contains a summary of the appointments committee activities in 2019, classified in accordance with the committee's duties.

Duties	Actions taken
Appointments and removal of directors and committee members	
• **Selection, suitability assessment and succession policy and renewal of the board and its committees**	• Updated the policy for the selection, suitability assessment and succession of directors to include the new gender equality target for the board (presence of women of 40% to 60%). • Ensured that the procedures for selecting board members guaranteed the individual and collective suitability of directors, fostering diversity of gender, experience and knowledge, and conducted the relevant analysis of the necessary competencies and skills for the position, and assessing the time and dedication required to properly perform the role. • Continued playing a leading role in the process on the appointment of both board members and top management executives as well as succession planning, including the chairmanship of committees. • Assessed the composition of the board committees to ensure continuity of appropriate skillset and experience, overall stability and appropriate distribution for the continued development of their duties. • Continued monitoring overall skills and competencies of the board of directors, including the need for coverage of strategic markets for the Bank and ongoing need for technology, digital strategy, banking, finance and regulatory experience and expertise. • Performed continuous oversight on appointments of key positions and regular review of leadership succession plans from a strategy perspective. • Ensured that in any appointment proposal the selection of the candidate pool, associated interview process and appointment decision actively took into account diversity.
• **Appointment, re-election, ratification and removal of directors, and committee members**	• Examined the overall composition and skills of the board of directors and board committees to ensure that they are appropriate and identified, utilising the skills matrix, the desired areas of expertise and experience profiles for recruitment which informed the selection process. • Analysed the candidates presented, as well as their credentials, and assessed their skills and suitability for the position. • Submitted a proposal to the board, for subsequent submission to the AGM, for the appointment of Mr Henrique de Castro and the appointment by co-option of Mrs Pamela Walkden as new independent board members, and the re-election of Mr Javier Botín, Mr Ramiro Mato, Mr Bruce Carnegie-Brown, Mr José Antonio Álvarez and Ms Belén Romana. • Took note of the resignation of Mr Carlos Fernández as director, before his tenure expired. • Regarding the appointment of Mr Andrea Orcel as Group chief executive officer, in a joint appointment and remuneration committee meeting held on January 2019, it was proposed to the board not to continue with the appointment due to the reasons provided in the relevant material fact and other communications published. • Submitted proposals to the board regarding changes in the composition of the board committees, to further strengthen their performance and support to the board in their respective areas, according to the best international practices and our internal Rules and regulations of the board (see 'Board committees' in section 1.1). • Submitted a proposal to the board for the appointment of Ms Nadia Schadlow as new member of the international advisory board and, upon completion of one year of their term of office and in accordance with the Bylaws, the re-election of the rest of its members (see section 4.11 'International advisory board').
Succession planning	
• **Succession planning for executive directors and senior management**	• Analysed proposals for the updating and improvement of the selection, suitability assessment and succession policy for directors, approved by the board on 27 February 2020. • Continued the regular review and supervision of talent and succession plans from executive directors, senior management and key positions throughout the Group. This helped to ensure that sufficiently qualified personnel are available to allow for the execution of Group´s strategic plans without interruption, safe-guard business continuity and avoid any relevant functions not being taken care of.
Verification of the status of directors	
• **Annual verification of the status of directors**	• Verified the classifications of each director (as executive, independent and other external) and submitted its proposal to the board of directors for the purpose of its confirmation or review in the annual corporate governance report and at the AGM. See section 4.2 'Board composition'. • When assessing the independence of directors, the committee has verified that there is no significant business relationship between the Group and the companies in which they are, or have previously been, significant shareholders or directors and, in particular, with regard to the financing granted by the Group to these companies. In all cases, the committee concluded that the existing relationships were not significant because, among other reasons, the business relationships: (i) for business relationships consisting in financing: (a) do not generate a situation of economic dependence in the relevant companies in view of the ability to substitute such financing for other sources of funding, either bank-based financing or other, and (b)) are aligned with the market share of Santander Group within the relevant market, and (ii) have not reached certain comparable materiality thresholds used in other jurisdictions as reference: e.g. NYSE, Nasdaq and Canada's Bank Act.

Duties	Actions taken
Periodic assessment	
• **Annual suitability assessment of directors and key function holders**	• Assessed the suitability of the members of the board, the senior management, those responsible for internal control functions and those holding key positions of the Group, ensuring that they have commercial and professional integrity, and suitable knowledge and experience to perform their duties. In addition, the committee concluded that the board members are capable of carrying out good governance of the Bank, evaluating their attendance at the meetings of the board and of the committees of which they are members, and having verified an average attendance of approximately 95.75%, without any of them presenting a level of attendance at the board and the committees of which they are currently members below the minimum threshold of 75%, so no further action by the committee was needed in this respect. They also have capacity to make independent and autonomous decisions for the Group´s benefit. • During 2019, the committee was not informed by any director of the Bank, and, to the best of its knowledge, had no awareness, of any circumstance or situation that may harm the credit and reputation of the company, that had to be considered by the committee.
• **Potential conflicts of interest and other directors´professionals activities**	• Examined the information provided by the directors regarding other professional activities or positions to which they had been proposed concluding that such obligations did not interfere with the dedication required as Bank directors and that they were not involved in potential conflicts of interest that could affect the performance of their duties.
• **Board self-assessment process**	• In coordination with the executive chairman, the 2019 self-assessment was performed internally, without the assistance of an external expert. The scope of the assessment included the board and all its committees, as well as the Group executive chairman, the chief executive officer, the lead director, the secretary and each director. See 'Self-assessment of the board' in section 4.3. • Updated and submitted the board skills and diversity matrix to the board of directors for approval. See section 4.2 'Board skills and diversity matrix'.
Senior management	

• **Assessment of senior executive vice chairman and other key positions**	• The committee issued favourable opinions, among others, regarding the following appointments, agreed by the board of directors:
	  • Mr Javier San Félix as head of the new global unit focused on payments services called Santander Global Payments Service.
	  • Ms Marjolein van Hellemondt-Gerdingh as the new chief compliance officer (CCO) replacing Ms Mónica López-Monís, appointed head of supervisory and regulatory relations.
	  • Mr José Luis de Mora as new head of Santander Consumer Finance, S.A. replacing Ms Magda Salarich.
	In addition, the committee assessed favourably on the appointment of directors and members of senior management of the main subsidiaries of the Group.

• **Simplification and change management structure. Simplified organisational structure**	• The committee issued a favourable opinion, regarding the creation of three new roles to manage the three geographies where the Bank operates. In order to improve co-operation and decision-taking in the execution of the Group's global strategy:
	  • Europe, led by Mr Gerry Byrne as head of Europe, with the country heads of Spain, Portugal, UK, Poland and Consumer Finance reporting to him.
	  • South America, led by Mr Sergio Rial as head of South America, with the country heads of Chile, Argentina, Uruguay and the Andean region reporting to him.
	  • North America, led by Mr Héctor Grisi with the country head of USA reporting to him.

Internal Governance	
• **Oversee internal governance including Group subsidiary governance**	• Assessed the suitability of a number of appointments and/or re-elections to Group's subsidiaries subject to the Group's appointments and suitability procedure and oversee subsidiary Board composition to ensure that they remain appropriately composed. • Received periodic explanations of the new governance regulatory developments, and emerging governance trends, and best governance practices and implications for the Group. • Reviewed and submitted for board approval amendments to the Rules and regulations of the board of directors, in line with the CNMV Technical Guide 1/2019 on Nomination and Remuneration committees of 20 February 2019. • Reviewed a proposed approach for remunerating those Group board members who serve on subsidiary boards in a non-executive capacity. • Verified the monitoring of guidelines of the subsidiaries with the GSGM in relation to the board and board committees of structure of the subsidiaries and their duties in line with best practices. • Proposed and approved the appointment of lead Group-nominated directors sitting on subsidiary boards to ensure that those persons representing the significant shareholder on subsidiary boards are suitable and fully aware of their duties and responsibilities.
Information for the general shareholders' meeting and corporate documentation	
• **Shareholders information**	• At our 2019 AGM, Mr Bruce Carnegie-Brown acting as the committee's chairman, reported to the shareholders on the matters and activities within the purview of the committee. • Received an overview of the highlights and results from the 2019 AGM. • Reviewed the work undertaken jointly by the Lead Independent Director and the Shareholders and Investor Relations team, as well as feedback from the investors and shareholders regarding the Group's corporate governance arrangements.
• **Corporate documentation for 2019**	• Drafted the report of the committee for the year 2019, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulfilment of the functions entrusted to it, and the priorities for 2020 identified following the assessment carried out by the board and its committees. • Reviewed the annual corporate governance report.

Time devoted to each task

In 2019, the appointments committee held 13 meetings. 'Board and committees attendance' in section 4.3 provides information on the attendance of committee members at those meetings and on the estimated average time devoted by them to preparing and participating in such meetings.

The chart below show the distribution of the approximate time dedicated to each task by the committee in 2019.

Annual assessment of the functioning of the committee and fulfilment of the goals set for 2019

The committee's effectiveness during 2019 was considered as part of the overall internal assessment of board effectiveness carried out internally this year. The committee considered the findings and suggested actions resulting from the review.

In 2019, the committee addressed all the challenges put forward for the year and identified in the 2018 activities report.

Different activities have been conducted on the Bank's cultural transformation. The committee received information about the Talent Development Programs and Human Resources initiatives focused on training and adapting the workforce of Santander to future needs.

In terms of diversity, we have moved to full gender equality at board level (presence of women of 40% to 60%) and Mr Henrique de Castro and Mrs Pamela Walkden have been appointed as new independent board members bringing broader diversity to the Board, in line with the best practice.

Following the aim to continuously improve the effectiveness of the board and the committees, the committee had an active role with the review and discussion of the annual board and committees effectiveness assessment, and subsequent follow-up of its implementation plan. The committee continued driving improvement of corporate governance across the Group, focusing especially on the effective functioning of the board and adequate oversight and control of its subsidiaries' operations.

The committee continued with the regular review of succession plans of members of the board and senior management relating to current and future strategy and potential challenges the business may face.

The self-assessment process positively rated the overall effectiveness of the committee, including the chairman's leadership. Sufficient and accurate documentation provided on the topics discussed strengthened the quality of the debate among members and sound decision-making.

2020 priorities

The committee has identified the following priorities for 2020:

- **Corporate governance and subsidiary governance:** driving continuous improvement of corporate governance across the Group, focusing especially on the effective composition and functioning of board of directors and adequate oversight and control of its subsidiaries operations. Follow up on governance developments (trends, regulation, and best practices) and the implications for the Group, and keep under continuous review the emerging skill sets and experience required of board members. The committee will continue receiving feedback from investors and analysts provided to the Chairman, to the head of Investors Relations and to the head of Internal governance.
- **Succession planning**: continuous focus on succession management and regular review of plans having regard to current and future strategy and potential challenges the business may face when identifying future leadership needs and the development of internal succession.
- **Diversity**: the Bank will continue to strive toward gender balance and broader diversity. Focus on subsidiaries oversight in this respect.

4.7 Remuneration committee activities in 2019

This section constitutes the remuneration committee activities report prepared by the committee on 24 February 2020 and approved by the board of directors on 27 February 2020.

Composition

Composition		Category
Chairman	Mr Bruce Carnegie-Brown	Independent
Members	Mr Ignacio Benjumea Cabeza de Vaca	Other external
	Ms Sol Daurella Comadrán	Independent
	Mr Guillermo de la Dehesa Romero	Other external
	Mr Henrique de Castro	Independent
Secretary	Mr Jaime Pérez Renovales	

The board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

During 2019, Mr Carlos Fernández stepped down as a member of the committee, and Mr Henrique de Castro was appointed new member of the committee on 29 October 2019.

Duties and activities in 2019

This section contains a summary of the remuneration committee's activities in 2019, classified in accordance with the committee's duties.

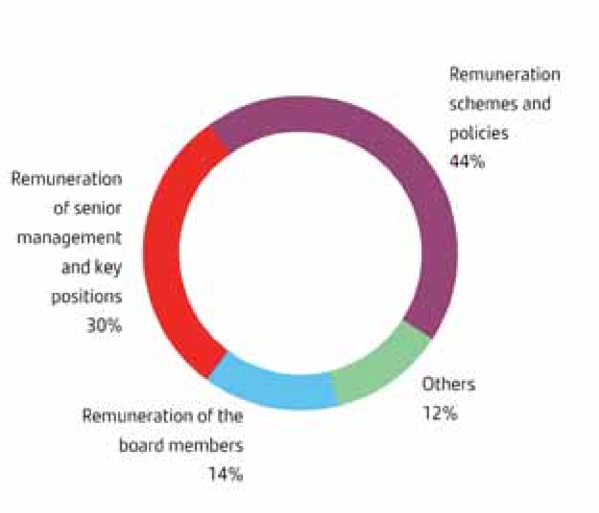
Duties	Action taken
Remuneration of directors	
• **Individual remuneration of directors in their capacity as such**	• Analysed the individual remuneration of directors in their capacity as such based on the positions held by the directors on the collective decision-making body, membership on, and attendance at, the various committees, and any other objective circumstances evaluated by the board. • Submitted a proposal to the board to keep unchanged all the remuneration components.
• **Individual fixed remuneration for executive directors**	• Proposed to the board to maintain the gross annual salary for executive directors in 2020 as in the prior year.
• **Individual variable remuneration for executive directors**	• Submitted a proposal to the board, for subsequent submission to the 2019 AGM, for the approval of a maximum level of variable remuneration up to 200% of the fixed component for executive directors and persons belonging to categories of staff whose professional activities (excluding control functions) have a material impact on the risk profile of the Group (the 'Identified Staff' or 'Material Risk Takers'). • Determined the annual variable remuneration for 2018 payable immediately and the deferred amounts, part of which are established as a maximum and are conditioned to compliance with long term objectives established for executive directors. These are approved by the board, taking into account the directors´ remuneration policy, based on the individual level of achievement of the annual performance targets and the weightings previously established by the board. • As part of the directors´ remuneration policy, the committee submitted a proposal for the annual performance indicators and targets to be used for the calculation of the annual variable remuneration for 2020, to be approved by the board. In addition, it established the achievement scales for annual and multi-year performance targets and their associated weightings, for submission to the board.
• **Director's remuneration and executives compensation agreements**	• Regarding the appointment of Mr Andrea Orcel as Group chief executive officer, in a joint meeting of the appointment and remuneration committees held in January 2019, it was proposed to the board not to continue with the appointment due to the reasons provided in the relevant material fact and other communications published.
• **Share plans**	• Submitted a proposal to the board, for subsequent submission to the 2019 AGM regarding the approval of the application of remuneration plans involving the delivery of shares or share options (deferred multiyear targets variable remuneration plan, deferred and conditional variable remuneration plan, application of the Group's buy-out policy and plan for employees of Santander UK Group Holdings plc. and other companies of the Group in the UK. A proposal for first year was the Digital Transformation Award designed to provide the Group with a tool to attract and retain resources that drive long term share value creation through the achievement of key digital milestones).
• **Propose the directors' remuneration policy to the board**	• Submission of a proposal to the board, for subsequent submission to a binding vote at the 2019 AGM, regarding the approval of the directors´ remuneration policy for 2019, 2020 and 2021, and the committee issued the required explanatory report regarding the directors' remuneration policy.
• **Propose the annual directors' remuneration Report to the board**	• Submission of a proposal to the board, for subsequent submission to a consultative vote at the 2019 AGM, regarding the annual directors' remuneration report. • The committee assisted the board of directors in supervising compliance with the director remuneration policy. • The committee was informed by the lead independent director about contact with key shareholders and proxy advisors on remuneration issues for executive directors. • Scheduled one joint session with the risk supervision, regulation and compliance committee in order to verify that the remuneration schemes factor in risk, capital and liquidity and that no incentives are offered to assume risk that exceeds the level tolerated by the Bank, therefore promoting and being compatible with adequate and effective risk management.
• **Remuneration policy for senior executive vice presidents and other members of senior management**	• Established the remuneration for members of senior management in terms of their fixed and variable annual remuneration, submitting to the board the corresponding proposals for approval. • Established the global annual variable remuneration for 2018 payable immediately and the deferred remuneration of the main executive segments, in accordance with the level of achievement of the quantitative and qualitative targets previously defined, as well as the individual remuneration of members of senior management, based on the individual level of achievement of the annual performance targets and their weightings as previously established by the board. • Established the annual performance indicators to be used for the calculation of variable remuneration for 2020 to be approved by the board, and with the cooperation of the human resources committee, and establishment, for submission to the board, the achievement scales for the annual and multi-year performance targets and weightings.

Duties	Action taken
Remuneration of other executives whose activities may have a significant impact on the Group's assumption of risks	
• **Remuneration for other executives who, although not members of senior management, are identified staff**	• Reviewed and discussed the analysis on fixed and variable remuneration ratios for control functions to ensure alignment with regulation. • Established the key elements of the remuneration of identified staff. • Reviewed and updated the composition of the identified staff in order to identify the persons within the Group who fall within the parameters established for being included in such group. • Submitted a proposal to the board, for subsequent submission to the 2019 AGM, regarding the approval of a maximum level of variable remuneration up to 200% of the fixed component for certain Group employees belonging to categories of staff whose professional activities have a material impact on the risk profile of the Bank or the Group.
• **Assist the board of directors in supervising compliance with remuneration policies**	• Reviewed the directors´ remuneration programmes ensuring that are appropriate taking into account the Bank's results, culture and risk appetite; and that no incentives are offered to assume risk that exceeds the level tolerated by the Bank, therefore promoting adequacy and being compatible with effective risk management. • Informed the board of the content of the report issued by an external consultant assessing the remuneration policy, in application of the provisions of Law 10/2014, which establishes that the remuneration policy of credit institutions will be subject, at least once a year, to a central and independent internal evaluation, in order to verify whether the remuneration guidelines and procedures adopted by the board of directors in its supervisory function have been complied with. • Assisted the board in its supervision of compliance with the remuneration policy for directors and other members of the identified staff, as well as with any other Group's remuneration policies. • Verified the independence of the external consultants contracted to assist the committee in the performance of its duties.
Gender pay	
	• Reviewed the information of gender and equal pay within the Group, comparing it to both prior year data and the targets set, and focusing on the concepts of gender pay gap (average pay comparison between men and women) and equal pay gap (comparison of pay for the same job, level, and/or area – "equal pay for equal work"), and identified areas of improvement.
Internal governance	
• **Governance**	• Reviewed the action plan aimed to improve its effectiveness, drafted in view of the results of the board's effectiveness assessment during 2018. • Informed the board of the changes proposed to the Rules and regulations of the board of directors derived from international best practices and the Technical Guide 1/2019 of the CNMV, on Nomination and Remuneration committees. • Reviewed the definition, impact and expected timeline of the European Union agreement to review executive remuneration rules (compensation chapter of Capital Requirement Directive "CRD V", updating "CRD IV")
Information for the general shareholders' meeting and corporate documentation	
• **Shareholders information**	• At our 2019 AGM, Mr Bruce Carnegie-Brown acting as the committee's chairman, reported to the shareholders on the matters and activities within the purview of the committee during 2018.
• **Corporate documentation for 2019**	• Drafted the report of the committee for the year 2019, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulfilment of the functions entrusted to it, and the priorities for 2020 identified following the assessment carried out by the board and its committees.

Time devoted to each task

In 2019, the remuneration committee held 11 meetings. 'Board and committees attendance' in section 4.3 provides information on the attendance of committee members at those meetings and on the estimated average time devoted by them to preparing and participating in such meetings.

The chart below shows the distribution of the approximate time dedicated to each task by the committee in 2019.



Annual assessment of the functioning of the committee and fulfilment of the goals set for 2019

The committee's effectiveness during 2019 was considered as part of the overall internal assessment of board effectiveness carried out internally this year. The committee considered the findings and suggested actions resulting from the review and related to the remuneration committee.

The self-assessment process rated the overall effectiveness of the committee and the chairman's leadership. Sufficient and accurate documentation provided on the topics discussed strengthened the quality of the debates among members and sound decision-making. In particular, the committee noted the increasing complexity associated with remuneration practices and reiterated the need for the committee to continue to find appropriate time on such matters.

In 2019, the committee successfully addressed all the challenges put forward for the year and identified in the 2018 activities report. Different activities have been conducted in order to facilitate intragroup coordination, such as gender pay gap and effective compensation.

In order to comply with the Group Subsidiary Governance Model, a review of Group-wide remuneration practices was carried out by the committee to assess alignment with local practices and peers, as well as with the standards used by the Group regarding the remuneration received by the non-executive directors of Group subsidiaries.

The committee reviewed all proposed of off-cycle compensation adjustments for senior management members.

The committee has continued to monitor the gender pay reporting analysis and identify areas of improvement.

The committee reviewed certain compensation schemes to support the attraction and retention of key talent to help drive digitalization, and the level of achievement of the long term incentive metrics for the 2016 - 2018 period.

The committee also reviewed group-level compensation policies and practices and assessed their effectiveness in line with article 19 of the Rules and regulations of the board.

Report regarding the director remuneration policy

As provided for under section 2 of article 529 *novodecies* of the Spanish Companies Act, the remuneration committee issues this report regarding the director remuneration policy for 2020, 2021 and 2022 that the board of directors intends to submit to binding approval of the shareholders at the forthcoming AGM as a separate item of the agenda and which is an integral part of this report. See section 6.4 'Director remuneration policy for 2020, 2021 and 2022 that is submitted to a binding vote of the shareholders'.

Considering the analysis made in the context of producing the 2019 annual report on director remuneration and its continuous supervision task on remuneration policies, the remuneration committee is of the opinion that the director remuneration policy for 2020, 2021 and 2022, which is expected to be submitted to the shareholders vote and is included in section 6.4 below, conforms to the principles of the Bank's remuneration policy and to the by-law mandated remuneration system.

Starting in 2020, progress made on our commitments in responsible banking will be a qualitative adjustment criterion in the assessment of remuneration senior management.

2020 Priorities

The committee has identified the following priorities for 2020:

- The coordination with the remuneration committees of the Group subsidiaries is an area of ongoing focus. Monitoring the implementation and application of the corporate policies regarding remuneration to ensure a consistent approach in this respect.
- Progressive reduction of the gender pay gap within the Group.
- Continuous focus on shaping compensation schemes consistent with the Bank's culture, meritocracy and other corporate values.
- Review the Bank's remuneration policies to ensure that they are aligned with international best practice, including ESG and non-financial Key Performance Indicators (KPI's) part of remuneration structures, and that they enable talent attraction and retention.

4.8 Risk supervision, regulation and compliance committee activities in 2019

This section constitutes the risk supervision, regulation and compliance committee activities report prepared by the committee on 17 February 2020 and approved by the board of directors on 27 February 2020.

Composition

Composition		Category
Chairman	Mr Álvaro Cardoso de Souza	Independent
Members	Mr Ignacio Benjumea Cabeza de Vaca	Other external
	Ms Esther Giménez Salinas i Colomer	Independent
	Mr Ramiro Mato García-Ansorena	Independent
	Ms Belén Romana García	Independent
Secretary	Mr Jaime Pérez Renovales	

The board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

Duties and activities in 2019

This section contains a summary of the risk supervision, regulation and compliance committee's activities in 2019, classified in accordance with the committee's duties.

Duties	Actions taken
Risk	
• **Assist the board in (i) defining the Group's risk policies, (ii) determining the risk appetite strategy and culture and (iii) supervising their alignment with the Group's corporate values**	• The committee carried out an overview of the Group's risks, and specific analyses by unit and risk type, and assessed proposals, issues and projects relating to risk management and control. • Submitted to the board the approval of the risk appetite statement, including proposals for new metrics. Reviewed compliance with the limits on a quarterly basis. • Received information about matters relating to the proper management and control of risks within the Group, most notably the Risk Identification and Assessment (RIA) and the Risk Control Self-Assessment (RCSA), two of the main tools for controlling these risks. • Monitored risks derived from technological obsolescence and related to cybersecurity, including data leakage, incident and vulnerability detection, patch management, network security and access control, amongst others. The committee was informed on the status of the main IT developments and projects. Oversight was coordinated with the innovation and technology committee, with which one joint session was held. • Supervised the risks associated with the main corporate transactions analysed by the Bank and the different mitigating measures proposed to address them. In particular, it monitored the risks associated with the strategic investment in Ebury, one of the biggest UK-based trade and foreign exchange facilitator for small and medium-sized companies. • The Group chief financial officer (CFO) submitted the 2019 recovery plan to the committee, assessing the Group's resilience in scenarios of severe stress. The plan was submitted to the board of directors for approval. In addition, the status of the 2019 resolution plan and proposal for 2020 was also presented to the committee. • Supervised the alignment of the risk strategy with the 3-year strategic financial plan, P-22 (from 2020 to 2022), which covers, in qualitative terms and for the entire Group, the priorities and projects for the next three years and, in quantitative terms, a financial plan for that period.
• **Risk Management and Control**	• Received frequent updates on the identified top risks being managed and the adequacy of mitigating controls. • Analysed the risks and opportunities associated with emerging risks and how they affect the different geographies and areas of risk, and the sectors related to climate change in particular. A report was provided to the committee on the extractive industries sector including oil and gas, mining and the steel industries, and also on the existing policies and exposure. • The committee has maintained ongoing focus on the Banco Popular integration process (completed on time without any significant problems) and, in particular, on the minimisation of risks such as technological, reputational, operational, and execution. • Special analysis has been developed on the Non-Performing Loans & Non-Performing Assets during 2019 and a specific report on Leveraged Finance was presented to the committee for its review and discussion. • Supported and assisted the board in conducting stress tests of the Bank. In particular, it assessed the scenarios and assumptions to be used in such tests, analysing the results and the measures proposed by the Risk function as a result. • Received and discussed periodic market and structural risk updates of the Bank and counterparty risk review. • Non-financial risks including legal risk, remained a key area of focus. Reviewed a deep dive on vendor risk to allow members to gain a deeper understanding of issues. • Carried out a deep-dive in the extractive industry sector, that covers oil and gas, coal and steel subsectors.

Duties	Actions taken
• **Supervise the Risk function**	• Ensured the independence and efficacy of the risk function and that sufficient human resources were duly provided. • At the year end, assessed the risk function and the performance of the chief risk officer (CRO) and shared its assessment with the remuneration committee and the board, in order to establish the variable remuneration payable to him.
• **Collaboration to establish rational remuneration policies and practices**	• Scheduled one joint session with the remuneration committee in order to verify that the remuneration schemes factor in risk, capital and liquidity and that no incentives are offered to assume risk that exceeds the level tolerated by the Bank, therefore promoting and being compatible with adequate and effective risk management. • Analysed in conjunction with the remuneration committee, the factors used to determine the ex-ante risk adjustment of total variable remuneration assigned to the units, based on how previously assessed risks actually materialised. • Reviewed the 2019 bonus pool and results of the exercise carried out annually to identify employees whose professional activities had a material impact on the Group´s risk profile.
Capital and liquidity	
• **Assist the board in approving the capital and liquidity strategies and supervise their implementation**	• Reviewed the annual capital self-assessment report (ICAAP) prepared by the Finance department and challenged by the Risk function in accordance with industry best practices and supervisory guidelines and submitted this report to the board for approval. Moreover, a capital plan was drawn up in accordance with the scenarios envisaged over a three-year time frame. • Endorsed the Pillar III disclosures report, which was submitted to and finally approved by the board. The report describes various aspects of the Group's management of capital and risk and provides an overview of the function; base capital and prescribed capital requirements; policies for managing the various risks undertaken by the Bank from the standpoint of capital consumption; composition of the Group's portfolio and its credit quality, measured in terms of capital and the roll-out of advanced internal models. • Assessed the liquidity plan (ILAAP), developed in the context of the Group's business model and submitted for approval by the board. • Performed continuous monitoring of the capital levels and capital management. In addition to that, monitored the project "Capital Tools" to comprehensively improve its management, ensuring that the capital allocation is appropriate for all the risks assumed.
Compliance and conduct	
• **Supervise the Compliance and conduct function**	• Oversaw the completion of the annual compliance program (ACP), that now is now more mature and one of the key processes of the Compliance and conduct function. The compliance program is supervised by the board and the management team of the respective subsidiary, as well as validated by the Group Compliance and conduct function. • Assessed the Compliance and conduct function (including the analysis of the function's staffing to ensure that has the physical and human resources needed for the performance of its work) and the performance of the chief compliance officer (CCO) and shared it with to the remuneration committee and the board in order to establish her variable remuneration. • Endorsed the appointment of the new CCO prior to its final approval by the board of directors. • Reviewed that the corporate centre has the necessary components to ensure ongoing control and oversight of the compliance and conduct model, establishing robust systems of governance and systematic reporting and interaction with the local units in accordance with the Group's subsidiary governance model. • Monthly reports on the compliance function were provided to the committee as part of the risk and compliance monthly report. Particularly informed on regulatory issues, product governance and consumer protection, reputational risk, internal and external events, notifications and inspections by supervisors, treasury shares etc.

• **Regulatory Compliance**	• Monitored the compliance with regulatory requirements regarding:
	  • The General Data Protection Regulation (GDPR) and the consolidation of the control framework.
	  • The finalization and improvement of the MiFID control framework for each local unit in collaboration with other units.
	  • The Dodd Frank Title VII Update.
	  • Volcker's compliance programme has been adapted to the recent amendments introduced to the Rule and the oversight of this regulation has continued in 2019.

• **Financial Crime Compliance (FCC)**	• Oversaw the group´s compliance with Financial Crime related regulation, and among other things :
	  • Provided annual update on key actions and relevant risk across the group.
	  • Communicated and addressed recommendations and observations stemming from the annual Independent Expert Report regarding Banco Santander S.A. in accordance with Spanish the Spanish Law 10/2010 and Royal Decree 304/2014 (anti-money laundering and counterterrorism financing)
	• A new global head of FCC was appointed in January 2019. Further, the FCC team has been restructured to have a more specialised knowledge covering the FCC Topics.
	• During 2019, the Group has placed a special focus on optimisation of systems, issuance of policy implementation guides and a new Anti Money Laundering (AML) training module.

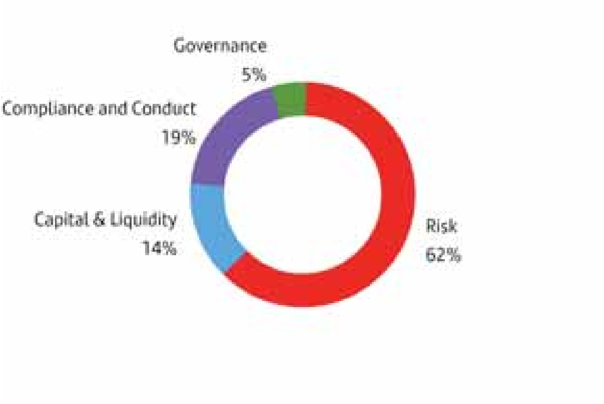
• **Product governance and consumer protection**	• Received an update on the status of customers' complaints in the first half of 2019, managing 28 countries, 36 business units and 9 SCIB branches and action plans in place to address identified deficiencies and mitigate detriment to customers. • In a joint session with the remuneration committee, the committee received information about the progress of the local action plans regarding internal sales force remuneration in the Group and an overview of the assessment of the external sales force regarding their potential conduct risk impact. • Received information on the risk management and main conclusions reached from the activities carried out by the product governance and consumer protection unit.

Duties	Actions taken
• **Supervise the whistleblower channel (*Canal Abierto*)**	• Promote and oversee the use of the Canal Abierto model (a specific way to run whistleblowing channels in the Group). Through Canal Abierto, employees can report, on a confidential and, if wished, anonymous basis, violations to the General Code of Conduct and behaviours not aligned with or contrary to the values of Simple, Personal and Fair. The Canal Abierto aims to contribute to the Group´s cultural transformation by increasing the awareness on the importance of Speaking Up so that it is creating a working environment where employees can talk straight and be truly listened to. • Review and report the measures taken in the different countries as a result of the use of whistleblowing channels.
Governance	
• **Corporate governance and internal governance**	• Supported the appointments committee in its function of advising the board in relation to the corporate governance and internal governance policy of the Bank and its Group. • Reviewed the modification of the Terms of reference of the risk control committee and executive risk committee in order to enhance committee best practices and simplify decision making processes. • In relation to data management and governance, the committee reviewed the two key priorities, namely to extend the data governance model beyond the risk data aggregation and risk reporting structure and to simplify that governance. • Received quarterly updates on the matters discussed at the responsible banking, sustainability and culture committee by the chairman of this committee. • In a joint session with the audit committee, reviewed the status of the internal audit plan and of the main recommendations of the Bank, and an update on the Internal audit works performed on the risk corporate division.
Supervisors	
• **Relations with supervisors**	• Continuous monitoring of regulatory interactions helped ensure that the committee remained well engaged on the main areas of regulatory interest. • Focus on ongoing interactions with the regulators, including the Supervisory Review and Evaluation Process (SREP). • The committee was informed about the updates in relation to the new Interbank Offered Rates (IBORs) based on alternative risk-free rates, which are being developed by the supervisors of the main jurisdictions.
Corporate documentation	
• **Corporate documentation for 2019**	• Drafted the activities report of the committee for 2019, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulfilment of the functions entrusted to it, and the priorities for 2020 identified following the assessment carried out by the board and its committees.

Time devoted to each task

In 2019, the risk, supervision regulation and compliance committee held 14 meetings. 'Board and committees attendance' in section 4.3 provides information on the attendance of committee members at those meetings and on the estimated average time devoted by them to preparing and participating in such meetings.

The chart below show the distribution of the approximate time dedicated to each task by the committee in 2019[A].



A. All regulatory and supervisory relations topics discussed in 2019, are embedded in each task described in the chart.

Annual assessment of the functioning of the committee and fulfilment of the goals set for 2019

The committee's effectiveness was considered as part of the overall internal assessment of board effectiveness carried out internally in 2019. The committee followed up on all organisational actions and improvements that were launched as a result of the assessment carried out in 2018 and in particular:

- Ongoing focus on **material risks** and the potential impact of their outcomes and continuous analysis of the macroeconomic environment and early warning indicators.
- Ensuring the proper **coordination with other board committees.** The committee has examined, in conjunction with the remuneration committee, whether the incentives policy envisaged in the remuneration scheme takes into account risk. Also, in a joint session with the audit committee, the committee reviewed the status of the Internal Audit Plan and an update on the Internal Audit works on the Risk Corporate Division.
- Oversight of **transformational projects** (regulatory and non regulatory), including the supervisory review and evaluation process (SREP) and the updates in relation to the new interbank offered rates (IBORs) based on alternative risk-free rate.

The self-assessment process positively rated the very high degree of dedication among its members, as well as the chairman's leadership. The frequency and duration of its meetings were also found to be appropriate for its proper functioning although the committee noted the growing list of issues to be addressed and the consequent need to ensure adequate time allocation to the most relevant topics. Sufficient and accurate documentation provided on the topics discussed strengthened the quality of the debates among members and sound decision-making.

2020 Priorities

The committee has identified the following priorities for 2020:

- Continued focus on Group top risks, early warning indicators, impacts and mitigation actions in order to assure that risks are appropriately managed with risk profiles remaining within the board risk appetite limits.
- To be very alert on emerging/non traditional risks to enable us to anticipate key strategic changes in the business environment.
- Continued close coordination with other board committees, including, among others, the responsible banking, sustainability and culture committee, the remuneration committee, the innovation and technology committee and particularly the audit committee, in order to ensure they all know and leverage areas of mutual interest.
- Continue working on the effectiveness of the committee making sure that its role is discharged in the most tangible and effective manner.

4.9 Responsible banking, sustainability and culture committee activities in 2019

This section constitutes the responsible banking, sustainability and culture committee activities report prepared by the committee on 3 February 2020 and approved by the board of directors on 27 February 2020.

Composition

Composition		Category
Chairman	Mr Ramiro Mato García-Ansorena	Independent
Members	Ms Ana Botín Sanz de Sautuola y O´Shea	Executive
	Ms Homaira Akbari	Independent
	Mr Ignacio Benjumea Cabeza de Vaca	Other external
	Mr Álvaro Cardoso de Souza	Independent
	Ms Sol Daurella Comadrán	Independent
	Ms Esther Giménez Salinas i Colomer	Independent
	Ms Belén Romana García	Independent
Secretary	Mr Jaime Pérez Renovales	

The board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

Duties and activities in 2019

This section contains a summary of the responsible banking, sustainability and culture committee's activities in 2019, classified in accordance with the committee's duties.

Duties	Actions taken
Responsible banking strategy	
• **Initiatives and challenges of responsible banking**	• The committee was informed of the different initiatives for facing the challenges of the new banking environment and an inclusive and sustainable growth. • Considered the key priority actions with respect to employees, customers, shareholders and the communities. • Reviewed new metrics and targets, the progress on priorities, the agenda ahead and proposed commitments related to responsible banking and the level of public dissemination of that information. • Assisted the Board in ensuring responsible banking targets, metrics and commitments were embedded across the group and measured effectively. • The committee was informed about the progress made in the year on the implementation plans for the priorities approved for 2019 in responsible banking. It was also informed about the priorities defined in coordination with the countries for the period 2020 to 2022. • In general, the committee coordinated with other board committees in relation to issues concerning corporate culture and values, responsible banking practices and sustainability. This ensured that adequate and effective control processes are in place and that risks and opportunities relating to sustainability and responsibility are identified and managed, according to the guiding principles of the responsible banking governance approved by the board.

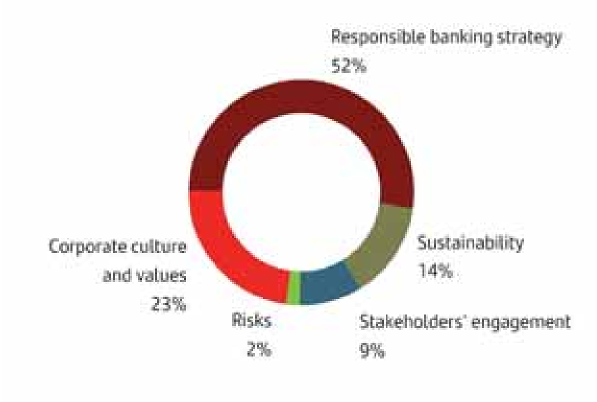
Duties	Actions taken
• **Governance**	• The committee was informed about the creation of the new Environmental and social risk management function within the Risk area to ensure adequate and effective control processes are in place and risks and opportunities related to sustainability and responsible banking are adequately identified and managed. • The reputational risk function informed the committee about its oversight of potential reputational impacts arising from environmental and social matters. • The committee received regular updates by the different units and different initiatives to drive the responsible banking agenda, reinforcing continuous communication and sharing of best practices and concerns. • The chair of the risk, supervision, regulation and compliance committee reported quarterly to the committee, within its scope of action, ensuring a global overview of key risks and opportunities in relation to responsible banking matters.
• **Commitment on Sustainability goals**	• Approved public commitments on sustainability goals to adapt to the new business environment and to support an inclusive and sustainable growth, including climate change objectives for 2021 - 2025.
• **Policies and internal regulations**	• Reviewed the environmental and social policies: energy, mining and metal, financing for sensitive sectors, soft commodities and defense, updating the criteria for financing activities related to coal, for their approval by the board. • Analysed the scope and sufficiency of the sensitive sector policies to determine whether a certain matter or a new policy should be introduced. • The committee addressed the review of human rights policy, sustainability policy and Corporate Culture Policy. • The committee determined the new criteria to be applied at Santander Group to clients operating in the cannabis sector.
Corporate culture and values	
• **Corporate culture**	• Reviewed, in coordination with the remuneration committee, the alignment of the remuneration programs with the corporate culture and values. • Reviewed, in coordination with the risk supervision, regulation and compliance committee, the alignment of the risk appetite with the corporate culture and values and assessed non-financial risks. • In general, assisted the board in embedding the corporate culture and values across the Group, monitoring its level of adherence. • Informed the board about the global simplification project as well as the appointment of a responsible executive in each geography and defined the relevant KPIs.
• **SPF with employees**	• Analysed the employees' opinions shown at the annual Global Engagement Survey launched in September 2019, as well as the 2020 plans and programs related to the workforce and culture. • The committee was informed of the key priorities and initiatives included in the Group´s diversity and inclusion strategy, with a particular focus on the proposal for global minimum standards for maternity and paternity and other benefits under consideration in order to implement the global family policy.
• **SPF with customers**	• The committee was informed about the Group´s ten consumer protection principles for fostering the Simple Personal and Fair culture among customers and the methodology used to measure it, as well as the criteria established for the treatment of vulnerable customers.
Sustainability	
• **Environmental and climate change**	• The committee was informed of a coordinated climate change strategy for the Santander Group aligned to the external commitments, provided feedback and verified the plan and actions to carry out. • The committee addressed climate related risks and opportunities and analysed new regulation with regard to climate change, including the EBA consultation on integration of ESG principles including climate change, into lending policies, or the ECB plans to include climate change into stress testing exercises in the next 2 years, and the impacts that will arise from that. • The committee was informed about the task force on Climate-related Financial Disclosures requirements set by the Financial Stability Board, previously presented at the internal Inclusive & Sustainability Banking Steering Group, within the overall climate strategy for the Group which contributes to Sustainable Development Goals and The Paris Climate Agreement. • Reviewed and discussed the current and emerging risks in the Extractive Industries (Oil & Gas and Mining & Steel). The Committee was updated on latest trends, our exposure, policies and any actions we have taken.
• **Financial Inclusion**	• The committee considered the empowerment and financial inclusion initiatives developed by the Group, the goals and the action plan to achieve them, as well as the metrics designed to measure their progress. The objective is keep enhancing the proposal in Latam to make profit with a purpose, financially empowering vulnerable people in mature markets, and achieve a higher external profile leveraging on the Group strength.
• **Support for higher education**	• The committee was informed about the current and future contribution of Santander Universidades to the Group´s Responsible Banking strategy. This represents one of the strategic areas of the Responsible Banking strategy along with sustainability/green financial inclusion.
• **Santander environmental footprint**	• Reviewed and discussed the direct environmental impact of the activity of Santander Group and the new energy efficiency and sustainability plan of the Group to reduce Santander footprint implemented to date, and the proposed new initiatives to be followed. • Presented the alternatives for the Group to become a carbon neutral organization by offsetting the atmospheric emissions caused by its own activity and reported favourably the objective to be carbon neutral in 2020.

Duties	Actions taken
• **Sustainable finance**	• The committee was informed about the new Santander's global sustainable framework to issue green, social and sustainable bonds, the rationale for Santander to issue sustainable bonds and the key features of the framework. • The committee was informed about Wealth Management and Insurance division's plans in ESG and Responsible Banking.
Stakeholders engagement	
• **Indexes and ratings**	• Analysed the global and local awards, rankings and sustainability indexes. • Supervised and monitored the corporate reputation and engagement with stakeholders, facilitating the measurement of initiatives implemented. • Reviewed the key metrics being proposed to measure the progress in the Responsible Banking field, including medium term targets, a wider set of metrics for each of the stakeholders and targets related to the Dow Jones Sustainability Index and the Sustainalytics rating.
• **Shareholders & Investors**	• The committee coordinated with the appointments committee, in its supervision and evaluation of the strategy for communication and relations with shareholders and investors, including small and mid-sized shareholders; and the process of communication and relations with other stakeholders.
• **Partnership with International Initiatives**	• The committee was informed that Santander together with other 27 banks and UN Environment Finance Initiative (UNEP FI) launched the Principles for Responsible Banking for global public consultation at the UNEP FI Global Roundtable in Paris. The responsible banking agenda will incorporate all the requirements from the UNEP FI Responsible Banking Principles, including setting metrics, adequate targets and transparency in demonstrating progress. • The committee was informed about the Collective Commitment on Climate signed by some of founding banks of the UNEP FI Principles for Responsible Banking, including Santander. • The committee was informed on the Cop 25 event that took place in Madrid and Santander's participation and involvement in its promotion.
Corporate documentation	
• **Corporate documentation for 2019**	• Reviewed the Group's statement of non-financial information, including the independent expert´s report, composed by the "Business model and strategy" and "Responsible banking" chapters included in the 2019 annual report. The referred Responsible banking chapter replaced the traditional sustainability report that the Group published in previous years. • Drafted the activities report of the committee for 2019, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulfilment of the functions entrusted to it, and the priorities for 2020 identified following the assessment carried out by the board and its committees.

Time devoted to each task

In 2019, the responsible banking, sustainability and culture committee held 4 meetings. 'Board and committees attendance' in section 4.3 provides information on the attendance of committee members at those meetings and on the estimated average time devoted by them to preparing and participating in such meetings.

The chart below show the distribution of the approximate time dedicated to each task by the committee in 2019.



Annual assessment of the functioning of the committee and fulfilment of the goals set for 2019

The committee's effectiveness during 2019 was considered as part of the overall internal assessment of board effectiveness carried out internally this year.

The committee successfully addressed its challenges and priorities put forward for 2019 and different activities have been conducted in order to facilitate greater intragroup coordination and establish guiding principles for subsidiaries to ensure that the responsible banking agenda and Group´s corporate culture is embedded across the Group. Initiatives regarding financial and social inclusion, and responsible and sustainable products offered have been carried out by the committee in 2019.

The self-assessment process positively rated the committee and its overall effectiveness acknowledging the relatively short period that it has been established. The frequency and duration of its meetings were also found to be broadly appropriate for its proper functioning and for the performance of their duties of supporting, informing, proposing and advising the board. However, the committee acknowledged the need to consider greater frequency and establish greater coordination with the countries given the emergence of new matters. Sufficient and accurate documentation provided on the topics discussed facilitated quality of debate among members and sound decision-making.

2020 Priorities

The committee has identified the following priorities for 2020:

- Ongoing focus on embedding the responsible banking agenda across the Group, and promoting initiatives in the different units to meet these targets.

- Key focus on communication and marketing of the achievements of the Group to further develop the reputation to continue to be recognized as one of the most sustainable banks in the world.
- Drive to continue to assist the board in the management of risks and opportunities related to climate change and in becoming a carbon neutral organization in 2020, embedding climate change into the group strategy and corporate governance.
- Continue to monitor the initiatives, targets, and metrics proposed to achieve the commitments for an inclusive and sustainable banking.

4.10 Innovation and technology committee activities in 2019

This section constitutes the innovation and technology committee activities report prepared by the committee on 10 February 2020 and approved by the board of directors on 27 February 2020.

Composition

Composition		Category
Chairman	Ms Ana Botín Sanz de Sautuloa y O´Shea	Executive
Members	Ms Homaira Akbari	Independent
	Mr José Antonio Álvarez Álvarez	Executive
	Mr Ignacio Benjumea Cabeza de Vaca	Other external
	Mr Bruce Carnegie-Brown	Independent
	Mr Henrique de Castro	Independent
	Mr Guillermo de la Dehesa Romero	Other external
	Ms Belén Romana García	Independent
Secretary	Mr Jaime Pérez Renovales	

The board of directors has appointed the members of the committee bearing in mind their knowledge, aptitude and experience in relation to the committee's mission.

For further information about the skills, knowledge and experience of each of the committee members, see section 4.1 'Our directors' and 'Board skills and diversity matrix' and 'Committees skills and diversity matrix' in section 4.2.

Duties and activities in 2019

This section contains a summary of the innovation and technology committee’s activities in 2019, classified in accordance with the committee’s duties.

Duties	Actions taken
Innovation framework	
	• Reviewed the implementation of the Group strategic technology plan and the Group’s innovation agenda, identifying the main challenges and building the Group's capabilities in innovation. • Identified opportunities to accelerate innovation across the Group and increase the likelihood of success in the identification of new business models, technologies, systems and platforms. This involved the definition of priorities such as, among others, a better collaboration across local banks and with Santander Digital Division. • Identified Group level initiatives to develop and launch, namely, coaching programs, increased access to start-ups, labs, creation of a testing environment (sandbox) and establishment of local digital & innovation committees, mirroring the corporate committee. • Outlined the key stages in the innovation framework for the Group, leveraging an approach commonly used by venture capital firms.
Cybersecurity	
	• Supervised defences to face the increasing threat environment, reviewed security controls and automated security. • Analyzed the high-profile incidents involving data loss affecting other very well-known companies. • Monitored the Group cybersecurity threat level and followed-up the global cyber transformation plan for 2019. • Shared information with the risk supervision, regulation and compliance committee regarding cybersecurity risks (with special focus on public cloud infrastructure and platforms), Group IT strategy (Group’s future retail banking platform) and financial crime compliance systems situation and strategy. Furthermore, assisted it in its supervision of technological risks and cybersecurity. • Reviewed the implementation of cybersecurity plan within the Group and the main risks and mitigating controls. • Analysed the systems currently supporting financial crime compliance core processes to comply with new regulation and to align to Santander´s business strategy while taking into account best practices and standards and new regulatory expectations. • Received updated information about employee awareness of cybersecurity matters and identified key areas to consider in future plans.

Duties	Actions taken
Digital	
	• Received an update on Santander digital assets strategy, forward looking commitments for 2020 and execution plans. • Verified collaboration efforts between countries and business units in relation to digital initiatives, with a focus on execution. • Monitored metrics in connection with the Santander Digital evolution and associated transformation. Metrics included return on investments, unit-cost evolution per product/service/data storage, time-to-market and customer attraction. • Reviewed the main digital strategies to transform the existing business, and accelerate the growth of new businesses.
Technology and operations	
	• Reviewed the global technology strategy plan and reported to the board on plans and activities relating to technology and innovation. • The committee endorsed the main technology related strategic priorities for the Group, with a special focus on cloud roadmap execution as part of the cloud strategy approved in 2018, IT retail architecture strategy as part of the Group's technology strategy and the description of the process of moving from strategy to execution through a new operating model and a common architecture. • Ensured that the technology and operations strategy was properly focused on the relevant issues and priorities of the Group. • The committee was informed about the discussions held by the international advisory board relating to technological and innovation matters.
Data management	
	• Received updated information on the newly created data unit, resulting from the integration of the Data management and intelligence teams, with the aim of increasing value for business. • Assessed the adequacy of the resources of the data function and possible new regulations, without identifying material weaknesses at Group level. • Reviewed the policy on data and artificial intelligence (machine learning) and its potential impacts.
Corporate documentation	
	• Drafted the activities report of the committee for 2019, which includes a section dedicated to the activities carried out during the year, an analysis and assessment of the fulfilment of the functions entrusted to it, and the priorities for 2020 identified following the assessment carried out by the board and its committees.

Time devoted to each task

In 2019, the innovation and technology committee held 4 meetings. 'Board and committees attendance' in section 4.3 provides information on the attendance of committee members at those meetings and on the estimated average time devoted by them to preparing and participating in such meetings.

The chart below shows the distribution of the approximate time dedicated to each task by the committee in 2019.

Annual assessment of the functioning of the committee and fulfilment of the goals set for 2019

The committee's functioning during 2019 was considered as part of the overall internal assessment of board effectiveness carried out internally this year. The assessment process positively rated the committee's leadership and the accurate documentation provided on the topics discussed that strengthened the quality of debate among members and sound decision-making, recognising also that continuous improvement in this regard should continue.

2020 Priorities

The committee has identified the following priorities for 2020:

- The committee composition and size will continue to be an area of focus as part of broader board committees' composition review conducted alongside ongoing board succession and recruitment planning.
- Focus on technology & operations transformation model execution and cyber security monitoring.
- The digital strategy will continue to be a priority and the committee will monitor and provide recommendations regarding the initiatives, targets, commitments, KPI´s and metrics proposed on cross projects for the Group.
- Support the board on the innovation strategy of the Group as well as trends resulting from new business models, technologies and products, in coordination with the international advisory board.
- Supervise the effectiveness of data management, the adequate functioning of the new data unit and the appropriateness of its resources.

4.11 International advisory board

Members

The members are all external and not members of the board.

Composition		Positions
Chairman	Mr Larry Summers	Former Secretary of the US Treasury and president emeritus of Harvard University
Members	Ms Sheila C. Bair	Former chairman of the Federal Deposit Insurance Corporation. Former president of Washington College
	Mr Mike Rhodin	Board member of TomTom, Syncsort and HzO. Former IBM senior Vice President
	Ms Marjorie Scardino	Former CEO of Pearson and director of Twitter
	Mr Francisco D'Souza	CEO of Cognizant and director of General Electric
	Mr James Whitehurst	Chairman and CEO of Red Hat
	Mr George Kurtz	CEO and co-founder of CrowdStrike
	Ms Blythe Masters	Former CEO of Digital Asset Holdings
	Ms Nadia Schadlow	Former deputy National Security Advisor for Strategy and Assistant to the President of the United States
Secretary	Mr Jaime Pérez Renovales	

Functions

The Bank's international advisory board was formally established in 2016 in order to play a key role in providing strategic insight advice on issues and matters related to the challenges and opportunities for the future of the businesses of the Group. In particular, the international advisory board was scoped to focus on innovation, digital transformation, cybersecurity and new technologies, capital markets, corporate governance, brand and reputation and regulation and compliance.

The members are all prominent and respected international leaders with significant experience in strategic challenges and opportunities, with a focus on innovation, digital transformation and the US market.

Meetings

The international advisory board meets at least twice a year. In 2019, the international advisory board met in the spring and fall.

Rationale

The international advisory board allows the Group to benefit from, and gain in a structured and recurrent manner, the insights of international leaders who, due to their other commitments, could not provide such support as members of the board.

4.12 Related-party transactions and conflicts of interest

Related-party transactions

Directors, senior management and significant shareholders

This subsection includes the report on related-party transactions referred to in recommendation six of the Good Governance Code of Spanish Listed Companies.

In accordance with the Rules and Regulations of the board, the board of directors shall examine any transactions that the Bank or Group companies carry out with directors, with shareholders that own, whether individually or together with others, a significant interest, including shareholders represented on the board of directors of the Bank or of other Group companies, or with persons related to them.

These transactions require the authorisation of the board, following a favourable report from the audit committee, except where the law provides that the approval corresponds to the GSM. Exceptionally, and for reasons of urgency, related-party transactions may be authorised by the executive committee, with subsequent ratification by the board.

Such transactions shall be evaluated in light of the principle of equal treatment and in view of market conditions.

However, authorisation of the board shall not be required for transactions that simultaneously meet the following three conditions:

- They are carried out under contracts with basic standard terms that customarily apply to the customers contracting for the type of product or service in question;
- They are entered into prices or rates generally established by the party acting as supplier of the goods or service in question or, if the transactions concern goods or services for which no rates are established under arm's length conditions, similar to those applied to commercial relationships with customers having similar characteristics; and
- The amount does not exceed 1% of the Bank's annual income.

During 2019, following due enquiry, no member of the board of directors, no person represented by a director, and no company of which such persons, or persons acting in concert with them or through nominees, are directors, members of senior management or significant shareholders has carried out with the Bank into any significant transactions or under conditions which were not market conditions.

The audit committee has verified that all transactions completed with related parties during the year were fully compliant with the abovementioned conditions in order not to require approval from the governing bodies as mentioned in the audit committee activities report in section 4.5 'Audit committee activities in 2019'.

The Bank also has a policy for the admission, authorization and monitoring of loans, credits and guarantees to directors and members of senior management that contains the procedure established for risk transactions of which they or their related parties are beneficiaries.

The policy includes general rules on maximum borrowing levels, interest rates and other conditions applicable in similar terms to those applicable to the rest of employees.

According to the mentioned policy and with the regulations applicable to credit institutions, the loans, credits or guarantees to be granted to directors and senior managers of the Bank need to be authorised by the board and subsequently by the ECB. There are two exceptions:

- Transactions subject to the conditions of a collective agreement agreed by the Bank and whose conditions are similar to the conditions of transactions granted to any Bank employee.
- Transactions carried out under contracts whose conditions are standardised and generally applied to a large number of customers, provided that the amount granted to the beneficiary or its related parties does not exceed the amount of EUR 200,000.

Direct risks of the Group regarding the Bank's directors and members of senior management as of 31 December 2019 in the form of loans, credits and guarantees provided in the ordinary course of business, are shown in note 5.f of the 'consolidated financial statements'. Their conditions are equivalent to those made under market conditions or the corresponding remuneration in kind has been attributed.

Intra-group transactions

With regard to intra-group transactions, identical rules, approval bodies and procedures apply as to transactions with customers, with mechanisms in place to monitor that such transactions are under market prices and conditions.

The amounts of the transactions with other Group entities (subsidiaries, associates and multigroup entities), as well as with directors, senior management and their related parties are included in note 53 ('Related parties') in the 'Consolidated financial statements' and note 47 ('Related parties') in the individual financial statements.

Conflicts of interests

The Bank has approved standards and procedures that establish the criteria for the prevention of conflicts of interest that may arise as a result of the various activities and functions carried out by the Bank, or between the Bank's interests and those of its directors and senior management.

The Bank has an internal policy on conflicts of interest that provides the employees, directors and entities of the Group with criteria to prevent and manage any conflict of interest that may arise as a result of their activities.

Directors and senior management

Our directors must adopt the measures that are necessary to prevent situations in which their interests, whether their own or through another party, may enter into conflict with the corporate interest and their duties towards the Bank.

The duty to avoid conflicts of interest requires directors to fulfil certain obligations such as abstaining from using the Bank's name or their capacity as directors to unduly influence private transactions, using corporate assets, including the confidential information of the Bank, for private purposes, taking advantage of business opportunities of the Bank, obtaining benefits or remuneration from third parties in connection with the holding of their position, except for those received merely as a sign of courtesy, carrying out activities, on their own behalf or on behalf of others, which actually or potentially entail effective competition with the Bank or which otherwise place them in a situation of permanent conflict with the interests of the Bank.

In any case, they must inform the board of any direct or indirect conflict of interest between their own interests or those of their related parties and those of the Bank that will be disclosed in the financial statements.

No director has communicated during 2019 any situation that places him or her in a conflict of interest with the Group. However, in 2019, there were 49 occasions in which directors abstained from participating in discussions and voting on matters at the meetings of the board of directors or of its committees. The breakdown of the 49 cases is as follows: on 28 occasions the abstention was due to proposals to appoint, re-elect or remove directors, and their appointment as members of board committees or as members of other boards at Santander Group companies; on 13 occasions the matter under consideration related to remuneration or the granting of loans or credits; and on 8 occasions the abstention concerned the annual verification of the status and the suitability of directors.

Further, the conflicts of interest policy and the Code of Conduct in Securities Markets to which both, the directors and the senior management of the Bank have adhered to, establishes mechanisms to detect and address conflicts of interest. These persons must present a statement to the Compliance function of the Bank detailing any relations they hold. This statement must be continuously updated. They must also notify the Compliance function of any situation in which a conflict of interest could occur owing to their relations or due to any other reason or circumstance and they shall abstain from deciding, or where applicable, voting in situations where a conflict exists and shall inform those who are to take the respective decision.

Conflicts of interest shall be resolved by the person holding the highest responsibility for the area involved. If several areas are affected, the resolution shall be made by the most senior officer in all such areas or if none of the foregoing rules are applicable, by the person appointed by the Compliance function. In the event of any doubt, the Compliance function should be consulted.

The control mechanisms and the bodies in charge of resolving this type of situation are described in the Code of Conduct in Securities Markets, which is available on the Group's corporate website. According to this code, and in relation to the Group's shares and securities, neither directors, the senior management nor their related parties may: (i) carry out counter-transactions on securities of the Group within 30 days following each acquisition or sale; or (ii) carry out transactions on Group securities in the one month preceding the announcement of quarterly, six-monthly or annual results until they are published.

Group companies

The Bank is the only Santander Group company listed in Spain, so it is not necessary to have mechanisms in place to resolve possible conflicts of interest with subsidiaries listed in Spain.

Notwithstanding this, in case of conflicts of interest that may arise between a subsidiary and the Bank, the latter as the parent company must take into account the interests of all its subsidiaries and the way such interests contribute to the long term interest of the subsidiaries and the Group as a whole. Furthermore, the Santander Group entities must take into account the interests of the Santander Group as a whole and, consequently, also examine how decisions adopted at the subsidiary level may affect the Group.

The Bank, as the parent company of Santander Group, structures the governance of the Santander Group through a system of rules that guarantees the existence of rules of governance and an adequate control system, as described in section 7 'Group structure and internal governance'.

5. Management team

The table below shows the profiles of the Bank's senior management (other than the executive directors described in section 4.1 'Our directors') as of 31 December 2019.

Mr Rami Aboukhair	COUNTRY HEAD – SANTANDER SPAIN	Born in 1967. He joined the Group in 2008 as a director of Santander Insurance and head of Products and Marketing. He also served as managing director of Products, Marketing and Customers in Banco Español de Crédito, S.A. (Banesto) and as managing director and head of Retail Banking in Santander UK. In 2015 he was appointed country head for Santander Spain and in 2017 he was named chief executive officer of Banco Popular Español, S.A. until its merger with Banco Santander, S.A. He is currently senior executive vice president and country head of Santander Spain.
Ms Lindsey Argalas	HEAD OF SANTANDER DIGITAL	Born in 1974. In 2017 she joined the Group as senior executive vice president and Group head of Santander Digital. She served as principal of The Boston Consulting Group (BCG) (1998-2008). She also served as senior vice president and chief of staff to the CEO of Intuit Inc. (2008-2017).
Mr Juan Manuel Cendoya	GROUP HEAD OF COMMUNICATIONS, CORPORATE MARKETING AND RESEARCH	Born in 1967. He joined the Bank in July 2001 as Group senior executive vice president and head of the Communications, Corporate Marketing and Research division. In 2016 he was appointed vice chairman of the board of directors of Santander Spain and head of Institutional and Media Relations of that unit, in addition to his function as Group head of Communications, Corporate Marketing and Research. He is also a member of the board of directors of Universia España Red de Universidades, S.A.Formerly, he was head of the Legal and Tax department of Bankinter, S.A. He is a State Attorney. He is currently a non-executive director at Arena Communications Network, S.L.
Mr José Doncel	GROUP HEAD OF ACCOUNTING AND FINANCIAL CONTROL	Born in 1961. He joined the Group in 1989 as head of Accounting. He also served as head of Accounting and Financial Management at Banco Español de Crédito, S.A. (Banesto) (1994-2013). In 2013 he was appointed senior executive vice president and head of the Internal Audit division. In 2014 he was appointed Group head of Accounting and Financial Control. Currently he serves as Group chief accounting officer.
Mr Keiran Foad	GROUP CHIEF RISK OFFICER	Born in 1968. He joined the Group in 2012 as deputy chief risk officer of Santander UK. He also served in various risk and corporate leadership roles at Barclays Bank, plc. (1985-2011) and as chief risk officer at Northern Rock, plc. In 2016 he was appointed senior executive vice president and deputy chief risk officer of the Bank until his appointment in 2018 as the Group chief risk officer.
Mr José Antonio García Cantera	GROUP CHIEF FINANCIAL OFFICER	Born in 1966. He joined the Group in 2003 as senior executive vice president of Global wholesale banking of Banco Español de Crédito, S.A. (Banesto). In 2006 he was appointed Banesto's chief executive officer. Formerly, he was member of the executive committee of Citigroup EMEA and member of the board of directors of Citigroup Capital Markets Int, Ltd. and Citigroup Capital Markets UK. In 2012 he was appointed senior executive vice president of Global Corporate Banking. Currently he serves as Group chief financial officer.
Mr Juan Guitard	GROUP CHIEF AUDIT EXECUTIVE	Born in 1960. He joined the Group in 1997 as head of Human Resources of Santander Investment, S.A. He was also General counsel and secretary of the board of Santander Investment, S.A. and Banco Santander de Negocios, S.A. In 2013 he was head of the Bank's Risk division. In November 2014 he was appointed head of the Internal Audit division. Currently, he serves as Group chief audit executive. Juan Guitard is a State attorney.
Mr José María Linares	GLOBAL HEAD OF CORPORATE & INVESTMENT BANKING	Born in 1971. He served as an equity analyst in Morgan Stanley & Co. New York (1993-1994). He worked as senior vice president and senior Latin America telecom equity analyst at Oppenheimer & Co. New York (1994-1997). He also served as director senior Latin America TMT equity analyst at Société Générale, New York & São Paolo (1997-1999). In 1999 he joined J.P. Morgan and in 2011 was appointed as managing director and head of Global Corporate Banking at J.P. Morgan Chase & Co. (2011-2017). In 2017 he was appointed senior executive vice president of the Group and Global head of Corporate & Investment Banking.

Ms Mónica López-Monís	GROUP HEAD OF SUPERVISORY AND REGULATORY RELATIONS	Born in 1969. She joined the Group in 2009 as general secretary and board secretary of Banco Español de Crédito, S.A. (Banesto). Formerly, she was general secretary of Aldeasa, S.A. She also served as general secretary of Bankinter, S.A. and independent director of Abertis Infraestructuras, S.A. In 2015 she was appointed senior executive vice president of Santander and Group chief compliance officer. Since September 2019, she is the Group head of Supervisory and Regulatory Relations. She is a State Attorney.
Mr Javier Maldonado	GROUP HEAD OF COSTS	Born in 1962. He joined the Group in 1995 as head of the International Legal division of Banco Santander de Negocios, S.A. He was in charge of several positions in Santander UK. He was appointed senior executive vice president of Santander and head of Coordination and Control of Regulatory Projects in 2014. He currently serves as Group senior executive vice president and head of Costs.
Mr Dirk Marzluf	GROUP HEAD OF TECHNOLOGY AND OPERATIONS	Born in 1970. He joined the Group in 2018 as Group senior executive vice president and Group head of IT and Operations. Previously he held several positions in AXA Group, where he served as group CIO from 2013 leading the insurance group's technology and information security transformation and co- sponsor of its digital strategy. His global roles include previous work at Accenture, Daimler Chrysler and Winterthur Group.
Mr Víctor Matarranz	GLOBAL HEAD OF WEALTH MANAGEMENT & INSURANCE	Born in 1976. He joined the Group in 2012 as head of Strategy and Innovation in Santander UK. In 2014 he was appointed senior executive vice president and head of Executive chairman's office and strategy. Previously, he held several positions in McKinsey & Company where he became partner. Currently, he serves as Global head of Wealth Management.
Mr José Luis de Mora	GROUP HEAD OF STRATEGY AND CORPORATE DEVELOPMENT AND OF CONSUMER FINANCE (SANTANDER CONSUMER FINANCE)	Born in 1966. He joined the Group in 2003. Since 2003, he has been in charge of developing the Group strategic plan and acquisitions. In 2015 he was appointed Group senior executive vice president and Group head of Financial Planning and Corporate Development. Since 15 February 2019, the Strategy function has been integrated with the Corporate Development function. Since 1 January 2020, he is also head of Santander Consumer Finance.
Mr José María Nus	RISK ADVISER TO GROUP EXECUTIVE CHAIRMAN	Born in 1950. He joined the Group in 1996 as executive director and chief risk officer of Banco Español de Crédito, S.A. (Banesto). In 2010 he was appointed executive director and chief risk officer of Santander UK. He also served as Group chief risk officer until June 2018. Formerly, he served as senior executive vice president in Argentaria, S.A. and Bankinter, S.A.. He currently serves as senior executive vice president and risk advisor to Group executive chairman.
Mr Jaime Pérez Renovales	GROUP HEAD OF GENERAL SECRETARIAT AND HUMAN RESOURCES	See profile in section 4.1 'Our directors'.
Mr Javier San Félix García	HEAD OF SANTANDER GLOBAL PAYMENTS	Born in 1967. He joined the Group in 2004 as head of Strategic Planning in the Consumer Finance division. In 2005 he was appointed director and executive vice president of Santander Consumer Finance in Spain and in 2006 he was appointed chief operating officer of the Santander Consumer Finance division. From 2012 to 2013, he was the chief executive officer of Banco Español de Crédito, S.A. (Banesto). In 2013 he was appointed senior executive vice president of Banco Santander, S.A. and head of the Commercial Banking division and from 2016 to 2018 he served as senior executive vice president and head of Retail and Commercial Banking in the UK. Currently, he serves as head of Santander Global Payments.
Ms Jennifer Scardino	HEAD OF GLOBAL COMMUNICATIONS. GROUP DEPUTY HEAD OF COMMUNICATIONS, CORPORATE MARKETING AND RESEARCH	Born in 1967. She joined the Group in 2011 as head of Corporate Communications, Public Policy and Corporate Social Responsibility for Santander UK. She also held several positions in the US Securities and Exchange Commission (1993-2000). She was appointed managing director of Citigroup (2000-2011). In 2016 she was appointed senior executive vice president and head of Global Communications and Group deputy head of Communications, Corporate Marketing and Research.
Ms Marjolien van Hellemondt-Gerdingh	GROUP CHIEF COMPLIANCE OFFICER	Born in 1964. She joined the Group in 2019 as senior executive vice president and Group chief compliance officer. Previously she was chief compliance officer of several banking or financial entities like NN Group, Zurich Insurance Company and De Lage Landen International B.V.

6. Remuneration

Sections 6.1, 6.2, 6.3, 6.4, 6.5, 6.7, 9.4 and 9.5 constitute the annual report on directors' remuneration that must be prepared and submitted to the consultative vote of the general shareholders' meeting.

In addition, section 6.4 constitutes the directors' remuneration policy for 2020, 2021 and 2022, which is to be submitted to the vote of the general shareholders' meeting.

The annual report on directors' remuneration and the directors' remuneration policy for 2020, 2021 and 2022 have been approved by the board of directors of the Bank, in its meeting held on 27 February 2020. None of the directors voted against nor abstained in relation to their approval.

The text of the remuneration policy for directors in force at the date of this report is available at our corporate website.

6.1 Principles of the remuneration policy

Remuneration of directors in their capacity as such

The individual remuneration of directors, both executive and otherwise, for the performance of supervisory and collective decision-making duties, is determined by the board of directors, within the amount set by the shareholders, based on the positions held by the directors on the collective decision-making body itself and their membership and attendance of the various committees, as well as any other objective circumstances that the board may take into account.

Remuneration of directors for the performance of executive duties

The most notable principles of the Bank's remuneration policy for the performance of executive duties are as follows:

1. Remuneration must be aligned with the interests of shareholders and be focused on long-term value creation, while remaining compatible with rigorous risk management and with the Bank's long-term strategy, values and interests.
2. Fixed remuneration must represent a significant proportion of total compensation.
3. Variable remuneration must compensate for performance in terms of the achievement of agreed goals of the individual and within the framework of prudent risk management.
4. The global remuneration package and the structure thereof must be competitive, in order to attract and retain professionals.
5. Conflicts of interest and discrimination must be avoided in decisions regarding remuneration.

The assistance of Willis Towers Watson was sought by the remuneration committee and the board for the following purposes:

- To compare the relevant data with that on the markets and comparable entities, given the size, characteristics and activities of the Group.
- To analyse and confirm the compliance of certain quantitative metrics relevant to the assessment of certain objectives.
- To estimate the fair value of the variable remuneration linked to long-term objectives.

6.2 Remuneration of directors for the performance of supervisory and collective decision-making duties: policy applied in 2019

A. Composition and limits

As set out in Banco Santander's Bylaws, the remuneration of directors in their condition as such consists of a fixed annual amount determined at the general shareholders' meeting. This amount shall remain in effect until the shareholders resolve to amend it, though the board may reduce its amount in the years it considers such reduction appropriate. The remuneration established at the general shareholders' meeting for 2019 was EUR 6 million, with two components: (a) annual allotment and (b) attendance fees.

In addition, the Bank contracts a civil liability insurance policy for its directors upon customary terms that are proportionate to the circumstances of the Bank. Directors are also entitled to receive shares, share options or share-linked compensation following the approval of the general shareholders' meeting.

Directors are also entitled to receive other compensation following a proposal made by the remuneration committee and upon resolution by the board of directors, as may be deemed appropriate in consideration for the performance of other duties in the Bank, whether they are the duties of an executive director or otherwise, other than the supervisory and collective decision-making duties that they discharge in their capacity as members of the board.

None of the non-executive directors has the right to receive any benefit on the occasion of their removal as such.

B. Annual allotment

The amounts received individually by the directors during the last two years based on the positions held on the board and their membership on the various board committees were as follows:

Amount per director in euros	2019	2018
Members of the board of directors	90,000	90,000
Members of the executive committee	170,000	170,000
Members of the audit committee	40,000	40,000
Members of the appointments committee	25,000	25,000
Members of the remuneration committee	25,000	25,000
Members of the risk supervision, regulation and compliance committee	40,000	40,000
Members of the responsible banking, sustainability and culture committee	15,000	15,000
Chairman of the audit committee	70,000	70,000
Chairman of the appointments committee	50,000	50,000
Chairman of the remuneration committee	50,000	50,000
Chairman of the risk supervision, regulation and compliance committee	70,000	70,000
Chairman of the responsible banking, sustainability and culture committee	50,000	50,000
Lead director	110,000	110,000
Non-executive vice chairmen	30,000	30,000

A. Mr Bruce Carnegie-Brown, for duties performed as part of the board and board committees, specifically as chairman of the appointments and remuneration committees and as lead director, and for the time and dedication required to perform these duties, has been allocated minimum total annual remuneration of EUR 700,000 since 2015, including the aforementioned annual allowances and attendance fees corresponding to him.

C. Attendance fees

By resolution of the board, at the proposal of the remuneration committee, the amount of attendance fees applicable to meetings of the board and its committees (excluding the executive committee, for which no fees are provided) during the last two years was as follows:

Attendance fees per director per meeting in euros	2019	2018
Board of directors	2,600	2,600
Audit committee and risk supervision, regulation and compliance committee	1,700	1,700
Other committees (excluding executive committee)	1,500	1,500

D. Breakdown of bylaw-stipulated emoluments

The total amount accrued for bylaw-stipulated emoluments and attendance fees was EUR 4.9 million in 2019 (EUR 4.6 million in 2018), which is 19% less than the amount approved at the general shareholders' meeting. The individual amount accrued for each director for these items is as follows:

			Amount in euros										
			2019										2018
			Annual allotment										
Directors	Executive	Non-executive	Board [H]	EC	AC	ASC	RC	RSRCC	RBSCC	Total	Board and committee attendance fees	Total by-law stipulated emoluments and attendance fees	
Ms Ana Botín-Sanz de Sautuola y O'Shea			90,000	170,000	—	—	—	—	15,000	275,000	58,800	333,800	307,000
Mr José Antonio Álvarez Álvarez			90,000	170,000	—	—	—	—	—	260,000	52,800	312,800	294,000
Mr Bruce Carnegie-Brown		I	392,700	170,000	—	25,000	25,000	—	—	612,700	87,300	700,000	732,000
Mr Rodrigo Echenique Gordillo [A]		N	90,000	56,667	—	16,667	—	—	—	163,334	55,800	219,134	293,000
Mr Guillermo de la Dehesa Romero		N	90,000	170,000	—	25,000	25,000	—	—	310,000	88,800	398,800	441,000
Ms Homaira Akbari		I	90,000	—	40,000	—	—	—	15,000	145,000	80,900	225,900	199,000
Mr Ignacio Benjumea Cabeza de Vaca		N	90,000	170,000	—	—	25,000	40,000	15,000	340,000	92,700	432,700	432,000
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea [B]		N	90,000	—	—	—	—	—	—	90,000	46,800	136,800	121,000
Ms Sol Daurella Comadrán		I	90,000	—	—	25,000	25,000	—	15,000	155,000	84,700	239,700	215,000
Ms Esther Giménez-Salinas i Colomer		I	90,000	—	—	4,368	—	40,000	15,000	149,368	79,400	228,768	196,000
Ms Belén Romana García		I	160,000	170,000	40,000	—	—	40,000	15,000	425,000	99,600	524,600	414,000
Mr Ramiro Mato García-Ansorena		I	140,000	170,000	40,000	—	—	40,000	15,000	405,000	95,300	500,300	450,000
Mr Álvaro Cardoso de Souza [C]		I	160,000	—	—	—	—	40,000	15,000	215,000	60,500	275,500	148,000
Mr Henrique de Castro [D]		I	41,129	—	7,849	—	4,368	—	—	53,346	33,400	86,746	—
Mrs Pamela Ann Walkden [E]		I	15,726	—	6,989	—	—	—	—	22,715	11,200	33,915	—
Mr Carlos Fernández González [f]		I	74,274	—	33,011	20,632	20,632	—	—	148,549	64,700	213,249	266,000
Mr Juan Miguel Villar Mir [G]		I	—	—	—	—	—	—	—	—	—	—	108,000
Total			**1,793,829**	**1,246,667**	**167,849**	**116,667**	**125,000**	**200,000**	**120,000**	**3,770,012**	**1,092,700**	**4,862,712**	**4,616,000**

A. Ceased to be an executive director on 30 April 2019. Non-executive director since 1 May 2019.
B. All amounts received were reimbursed to Fundación Botín.
C. Director since 1 April 2018.
D. Director since 17 July 2019.
E. Director since 29 October 2019.
F. Ceased to be a director on 28 October 2019
G. Ceased to be a director on 1 January 2019
H. Includes committees chairmanship and other role emoluments.
P: Proprietary I: Independent N: Non-external (neither proprietary nor independent).
EC: Executive committee AC: Audit committee ASC: Appointments committee RC: Remuneration committee RSRCC: Risk supervision, regulation and compliance committee. RBSCC: Responsible Banking, sustainability and culture committee.

6.3 Remuneration of directors for the performance of executive duties

The policy applied to the remuneration of directors in 2019 for the performance of executive duties was approved by the board of directors and submitted to a binding vote at the general shareholders' meeting of 12 April 2019, with 91,64% of the votes in favour. The table below summarises the remuneration policy and its implementation.

Component	Type of component	Policy	Implementation in 2019
Gross annual salary	Fixed	• Paid in cash on a monthly basis.	• Ana Botin: EUR 3,176 thousand. • José Antonio Álvarez: EUR 2,541 thousand. • Rodrigo Echenique: EUR 600 thousand. Ceased to be an executive director on 30 April 2019. Figure includes his gross annual salary until he ceased to be a director.

Variable remuneration	Variable	• Individual benchmark reference.
		• Calculated against a set of annual quantitative metrics and a qualitative assessment with input of individual performance.
		• 50% of each payment is made in shares subject to a one-year retention. The number of shares is determined at the time of the award.
		• 40% paid in 2020; 60% deferred in five years.
		  • 24% paid in equal parts in 2021 and 2022.
		  • 36% paid in equal parts in 2023, 2024 and 2025 subject to the compliance with a set of long-term objectives (2019-2021).
			• See section 6.3 B ii) for details of annual metrics and assessment.
			• See section 6.3 B iv) for details of the long-term metrics.
			• See section 6.3 B iii) for details of the individual awards.

Benefit system	Fixed	• Annual contribution at 22% of base salary. • Mr Echenique´s contract did not provide for any pension benefit, without prejudice to his pension rights before he was appointed executive director.	
	Variable	• Annual contribution at 22% of the 30% of the average of the last three-years variable remuneration	• See section 6.3 C for details of the annual contributions and pension balance.
Other remuneration	Fixed	• Includes life and accident and medical insurance, including any tax due on benefits. • Includes a fixed remuneration supplement in cash (not salary nor pensionable) as part of the elimination of the death and disability supplementary benefits.	• No change from 2018 for Ana Botín or José Antonio Álvarez.
		• Payment for non-compete commitment	• Due to his termination as executive director on 30 April 2019 Rodrigo Echenique has received an amount of € 1,800 thousand in compensation for his two year non-compete commitment.
Shareholding policy	N/A	• 200% of the net tax amount of the annual gross basic salary. • Five years from 2016 to demonstrate the shareholding.	• No change from 2018.

A. Gross annual salary

The board resolved to maintain the same gross annual salary for Ms Ana Botín and Mr José Antonio Álvarez for 2019 as in 2018.

As regards fixed pension contributions, the 22% contribution of the gross annual salary agreed for 2018 has been maintained for 2019.

In summary, the executive directors' gross annual salary and fixed annual contribution to pension for 2019 and 2018 were as follows:

	2019			2018		
EUR thousand	Gross annual salary	Fixed annual pension contribution	Total	Gross annual salary	Fixed annual pension contribution	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	3,176	699	3,875	3,176	699	3,875
Mr José Antonio Álvarez Álvarez	2,541	559	3,100	2,541	559	3,100
Mr Rodrigo Echenique Gordillo[A]	600	—	600	1,800	—	1,800
Total	**6,317**	**1,258**	**7,575**	**7,517**	**1,258**	**8,775**

A. Ceased to be an executive director on 30 April 2019. Non-executive director since 1 May 2019. Figure includes his gross annual salary until he ceased to be an executive director.

B. Variable remuneration

i) General policy for 2019

The board approved the variable remuneration of the executive directors, at the proposal of the remuneration committee, in consideration of the approved policy:

- The variable components[1] of the total remuneration of executive directors in 2019 amounts to less than 200% of the fixed components, as established by resolution of the general shareholders' meeting of 12 April 2019.
- At the request of the remuneration committee, at the beginning of 2020 the board approved the final amount of the incentive for 2019, based on the agreed bonus pool, in accordance with the following:
  - A group of short-term quantitative metrics measured against annual objectives.
  - A qualitative assessment which cannot adjust the quantitative result by more than 25 percentage points upwards or downwards.
  - Where applicable, an exceptional adjustment that will be supported by the substantiated evidence.
  - The individual reference variable remuneration is fixed based on the individual benchmark variable remuneration figure of the executive director, in accordance with the current model and taking into account (i) their individual objectives, which in general terms coincide with those of the Group, covering financial metrics, risk management metrics, client satisfaction metrics and social impact related metrics, such as being among the Top 10 companies to work for in the main geographies were the Group is present or financial empowerment objectives, as well (ii) as how they are achieved, taking into account the management of employees and the adherence to the corporate behaviours.

A. Where applicable, an exceptional adjustment based on substantiated evidence

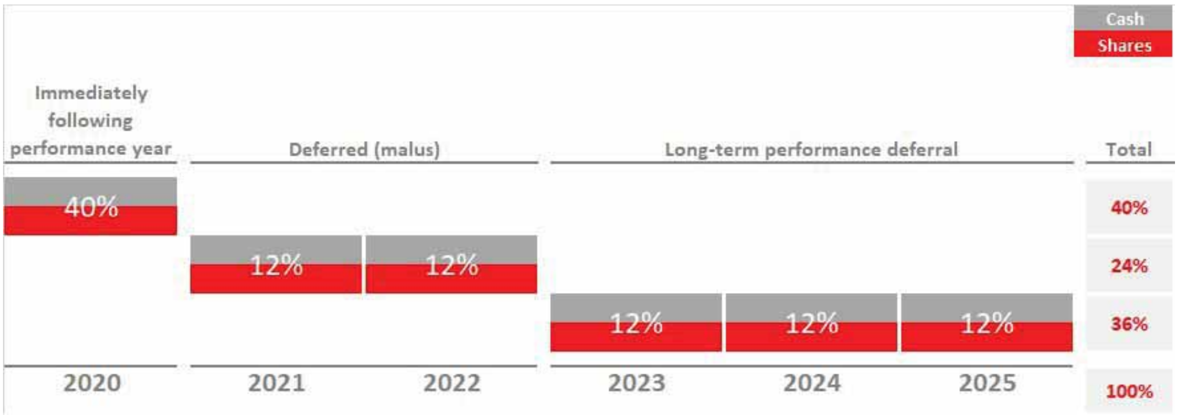
The quantitative metrics and the elements of the qualitative assessment are described below.

- The approved incentive is paid 50% in cash and 50% in shares[2], 40% shall be paid in 2020, once the final amount has been determined, and the remaining 60% shall be deferred in equal parts over five years and subject to long term metrics , as follows:
  - Payment of the amount deferred over the first two years (24% of the total), payable in 2021 and 2022, where applicable, shall be conditional on none of the malus clauses described below being triggered.
  - The amount deferred over the next three years (36% of the total), payable in 2023, 2024 and 2025, where applicable, shall be conditional not only on the malus clauses not being triggered but also on the achievement of the multi-year targets described below. These objectives can only decrease the amounts and the number of deferred shares.
  - When the deferred amount is paid in cash, the beneficiary may be paid the adjustment for inflation through the date of payment.
  - All payments in shares are subject to a one-year retention period after being delivered.
  - The hedging of Santander shares received during the retention and deferral periods is expressly prohibited. The sale of shares is also prohibited for one year from the receipt thereof.

1 As stated in the initial table of this section 6.3, contributions to below of this section of the report, contributions to the benefits systems for two executive directors include both fixed components and variable components, which become part of the total variable remuneration.

2 Since variable remuneration involves the delivery of shares of the Bank, the board of directors submitted to the shareholders at the 2019 annual general shareholders' meeting, which so approved, the application of the fourth cycle of the Deferred Variable Remuneration Plan Linked to Multi-Year Targets, through which the aforementioned variable remuneration for executive directors is instrumented.

The payment schedule of the incentive is illustrated below.



All deferred payments, whether or not subject to long-term objectives, are subject to malus.

Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in the Group's malus and clawback policy.

ii) Quantitative metrics and qualitative assessment for 2019

The variable remuneration for executive directors in 2019 factored in the quantitative metrics and qualitative factors approved by the board at the beginning of 2019 at the proposal of the remuneration committee[3], which has taken into account the policy referred to in the paragraphs above and the work of the human resources committee[4]. The result of aggregating the quantitative and qualitative weighted results is as follows:

3 Before determining the variable remuneration of executive directors and other senior managers, the committee receives a joint report from the risk compliance, audit and financial control functions of the Group identifying material errors which occurred during the year and satisfying itself that this has been appropiately reflected in the compensation proposals for each of these executives.

4 This committee was aided by members of senior management who are also responsible for different functions in the Group, including risk, internal audit, compliance, general secretariat and human resources, financial management, financial accounting and control. Their role in this committee consisted of analysing quantitative metrics information, undertaking a qualitative analysis, and considering whether or not to apply exceptional adjustments. This analysis included different matters related to risk, capital, liquidity, quality and recurrence of results, and other compliance and control matters.

Category and (weight)	Quantitative metrics			Qualitative		Total weighted score[B]
	Metrics	Assessment	Weighted assessment[A]	Component	Assessment	
Customers (20%)	Net Promoter Score (NPS)[C]	105.2%	10.5%	Effective compliance with the objectives of the rules on risk conduct in respect of customers.	+3% - Strengthened management of conduct risk, including internal governance processes	23.6%
	Number of loyal customers[D]	101.3%	10.1%			
Risks (10%)	Non-performing loans ratio	108.0%	5.4%	Appropriate management of risk appetite and excesses recognised.	+1.3%. No relevant non-compliance in risk appetite. Improvement of fundamental controls	12.0%
	Cost of Credit Ratio (IFRS9)	106.2%	5.3%			
Capital (20%)	Capital ratio (CET1)	147.5%	29.5%	Efficient capital management.	+3.6%- Exceeded capital plan, with more sustainable growth, while complying with enhanced regulatory capital requirements	33.1%
Return (50%)	Ordinary net profit (ONP)[E]	97.6%	19.5%	Suitability of business growth compared to the previous year, considering the market environment and competitors.	+3.1%	52.5%
	RoTE - Return on Tangible Equity	96.0%	28.8%	Sustainability and solidity of results. Efficient cost management and achievement of efficiency goals.	+1.1%	
Exceptional adjustment		Elements (non-exhaustive) under consideration: macro-economic environment, general control environment, compliance with internal and external regulations, prudent and efficient liquidity and capital planning management.		Although the underlying business performance resulted in a bonus calculus of 121.26%, there has been a management proposal, supported by the Remuneration Committee and approved by the Board of Directors, to exercise downward discretion to the 2019 variable remuneration to better align with challenging market environment and subsequent attributable profit and shareholder returns. This results in a 12% reduction of total variable remuneration for the Chairwoman and the CEO in 2019.		(-14.5%)
TOTAL						**106.7%**

A. The weighted assessment is the result of multiplying the assessment of each objective by the weight of each objective. When there is more than one objective in the category and save for Note E below, the weight of each objective in the category is the same.
B. Result of adding or substracting the qualitative assessment to the weighted assessment.
C. Net Promoter Core (NPS) measures the customers' willingness to recommend Santander. The assessment is based on the number of the Group's main markets were Santander NPS scores in top 3. The objectives for this metric were exceeded in 2019, with top 3 NPS score in 8 of the 9 main markets of the Group.
D. The number of loyal clients at closing of 2019 has been 21,556 thousand, exceeding budget in 267 thousand.
E. For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.
The specific weight of ONP in the total scorecard is 20% and RoTE is 30%.

The individual variable remuneration approved by the board is set out in the section below.

iii) Determination of the individual variable remuneration for executive directors in 2019

The board approved the variable remuneration of the executive directors, at the proposal of the remuneration committee, taking into account the policy referred to in the paragraphs above and the result of the quantitative metrics and qualitative assessment set out in the section above.

It was also verified that none of the following circumstances have occurred:

- The Group's ONP[5] for 2019 was not less than 50% of that for 2018. If this had occurred, the variable remuneration would not have been greater than 50% of the benchmark incentive.
- The Group's ONP has not been negative. If this had occurred, the incentive would have been zero.

For Ms Ana Botín and Mr José Antonio Álvarez the board resolved to maintain in 2019 the same benchmark incentive as in 2018.

[5] For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.

Variable contributions to pensions have not been modified in 2019, so the amounts are the 22% of the 30% of the last three assigned bonus' average.

As a result of the aforementioned process, and following a proposal by the remuneration committee, the board of directors has approved a reduction in the variable remuneration of the Chairman and CEO of 12% from 2018, as shown in the following chart, which includes the amounts of variable remuneration payable immediately and deferred amounts not linked to long-term metrics, as well as in the chart following the one below, which includes variable remuneration deferred and linked to linked to long-term objectives:

Immediately payable and deferred (not linked to long-term objectives) variable remuneration

	2019			2018		
EUR thousand	In cash	In shares	Total	In cash	In shares	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	2,084	2,084	4,168	2,368	2,368	4,736
Mr José Antonio Álvarez Álvarez	1,393	1,393	2,786	1,582	1,582	3,164
Mr Rodrigo Echenique Gordillo	640	640	1,280	1,256	1,256	2,512
Total	**4,117**	**4,117**	**8,234**	**5,206**	**5,206**	**10,412**

A. Ceased to be an executive director on 30 April 2019. Non-executive director since 1 May 2019. Immediate and deferred variable remuneration (not linked to long-term objectives) included until termination date as executive director.
B. The share amounts in the foregoing table correspond to a total of 1,122 thousand shares in Banco Santander (1,211 thousand shares in 2018).

The deferred portion of the variable remuneration, which will only be received, in 2023, 2024 and 2025, if the aforementioned long-term multi-year targets are met (see section 6.3 B iv)), on condition that the beneficiaries continue to be employed at the Group, in the terms agreed by the Shareholders Meeting, and provided malus and clawback clauses have not been triggered, is stated at its fair value in the following chart[6]:

Deferred variable remuneration linked to long-term objectives

	2019			2018		
EUR thousand	In cash	In shares	Total	In cash	In shares	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	821	821	1,642	932	932	1,864
Mr José Antonio Álvarez Álvarez	548	548	1,096	623	623	1,246
Mr Rodrigo Echenique Gordillo	252	252	504	495	495	990
Total	**1,621**	**1,621**	**3,242**	**2,050**	**2,050**	**4,100**

A. Ceased to be an executive director on 30 April 2019. Non-executive director since 1 May 2019. Immediate and deferred variable remuneration (not linked to long-term objectives) included until termination date as an executive director.
B. The share amounts in the foregoing table correspond to a total of 442 thousand shares in Banco Santander (477 thousand shares in 2018).

[6] Corresponding to the fair value of the maximum amount to be received over a total of 3 years, subject to continued service -with the exceptions envisaged-, non-applicability of malus clauses and compliance with the defined goals. Fair value was estimated at the plan award date, taking into account various possible scenarios for the different variables contained in the plan during the measurement periods.

The fair value has been determined at the grant date based on the valuation report of an independent expert, Willis Towers Watson. According to the design of the plan for 2019 and the levels of achievement of similar plans in comparable entities, the expert concluded that the reasonable range for estimating the initial achievement ratio is in the range of 60% - 80%. Accordingly, it has been considered that the fair value is 70% of the maximum.

The maximum total number of shares relating to the plan (1,753 shares without the fair value adjustment) is within the maximum limit of 3,134 thousand shares authorised for executive directors by the shareholders at the general shareholders' meeting of 12 April 2019, and has been calculated on the basis of the average weighted daily volume of the average weighted listing prices of Santander shares for the 15 trading sessions prior to the Friday (not inclusive) before 28 January 2020 (the date on which the board approved the bonus for the executive directors for 2019), which was 3.67 euros per share.

iv) Multi-year targets linked to the payment of deferred amounts in 2023, 2024 and 2025

The multi-year targets linked to the payment of the deferred amounts payable in 2023, 2024 and 2025 are summarised as follows:

	Metrics	Weight	Target and compliance scales (metrics ratios)
A	Earnings per share (EPS) growth in 2021 vs 2018	33%	If EPS growth ≥ 15%, then metric ratio is 1 If EPS growth ≥ 10% but < 15%, then metric ratio is 0 – 1[C] If EPS growth < 10%, then metric ratio is 0
B	Relative Total Shareholder Return (TSR)[A] in 2019-2021 within a peer group	33%	If ranking of Santander above percentile 66, then metric ratio is 1 If ranking of Santander between percentiles 33 and 66, then ratio is 0 – 1[D] If ranking of Santander below percentile 33, then metric ratio is 0
C	Fully loaded target common equity Tier 1 ratio (CET1)[B] for 2021	33%	If CET1 is ≥ 12%, then metric ratio is 1 If CET1 is ≥ 11.50% but < 12%, then metric ratio is 0 – 1[E] If CET1 is < 11.5%, then metric ratio is 0

A. For this purpose, TSR refers to the difference (expressed as a percentage) between the final value of an investment in ordinary shares of Banco Santander and the initial value of the same investment. This will be calculated factoring into the calculation of the final value the dividends or other similar instruments (such as the Santander Scrip Dividend Programme) received by the shareholder in relation to this investment during the corresponding period of time, as if an investment had been made in more shares of the same type at the first date on which the dividend or similar concept was payable to shareholders and the weighted average share price at that date. To calculate TSR, the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to 1 January 2019 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 1 January 2022 (exclusive) (to calculate the final value).
The peer group comprises the following 9 entities: BBVA, BNP Paribas, Citi, Credit Agricole, HSBC, ING, Itaú, Scotia Bank and Unicredit.
B. To verify compliance with this objective, possible increases in CET1 resulting from capital increases shall be disregarded (with the exception of those related to the Santander Scrip Dividend programme). Further, the CET1 ratio as at 31 December 2021 could be adjusted to strip out the impact of any regulatory changes affecting its calculation implemented until that date.
C. Linear increase in the EPS ratio based on the specific percentage that EPS growth in 2021 represents with respect to 2018 EPS within this bracket of the scale.
D. Proportional increase in the TSR ratio based on the number of positions moved up in the ranking.
E. Linear increase in the CET1 coefficient as a function of the CET1 ratio in 2021 within this bracket of the scale.

To determine the annual amount of the deferred portion linked to objectives corresponding to each board member in 2023, 2024 and 2025, the following formula shall be applied to each of these payments ('Final annuity') without prejudice to any adjustment deriving from the malus clauses:

Final annuity = Amt. x (1/3 x A + 1/3 x B + 1/3 x C)

where:

- 'Amt.' is one third of the variable remuneration amount deferred conditional on performance (i.e. Amt. will be 12% of the total variable remuneration set in early 2020).
- 'A' is the EPS ratio according to the scale in the table above, based on EPS growth in 2021 vs 2018.
- 'B' is the TSR ratio according to the scale in the table above, according to the relative performance of the Bank's TSR within its peer group in 2019-2021.
- 'C' is the CET1 ratio according to compliance with the CET1 target for 2021 described in the table above.

v) Malus and clawback

Accrual of the deferred amounts (whether or not linked to multi-year targets) is also conditional upon the beneficiary's continued service in the Group[7], as well as upon none of the circumstances arising, in the period prior to each payment, that give rise to the application of malus arrangements in accordance with the section on malus and clawback clauses in the Group's remuneration policy. Similarly, the variable

7 When the relationship with Banco Santander or another Santander Group entity is terminated due to retirement, early retirement or pre-retirement of the beneficiary, a dismissal considered by the courts to be improper, unilateral withdrawal for good cause by an employee (which includes, in any case, the situations set forth in article 10.3 of Royal Decree 1382/1985, of 1 August, governing the special relationship of senior management, for the persons subject to these rules), permanent disability or death, or as a result of an employer other than Banco Santander ceasing to belong to the Santander Group, as well as in those cases of mandatory redundancy, the right to receive shares and deferred amounts in cash and, where applicable, the amounts arising from the adjustment for inflation of the deferred amounts in cash shall remain under the same conditions in force as if none of such circumstances had occurred. In the case of death, the right shall pass to the successors of the beneficiary.
In cases of justified temporary leave due to temporary disability, suspension of the contract due to maternity or paternity leave, or leave to care for children or a relative, there shall be no change in the rights of the beneficiary. If the beneficiary goes to another Santander Group company (including through international assignment and/or expatriation), there shall be no change in the rights thereof. If the relationship is terminated by mutual agreement or because the beneficiary obtains a leave not referred to in any of the preceding paragraphs, the terms of the termination or temporary leave agreement shall apply.
None of the above circumstances shall give the right to receive the deferred amount in advance. If the beneficiary or the successors thereof maintain the right to receive the deferred remuneration in shares and cash and, where applicable, the amounts arising from the adjustment for inflation of the deferred amounts in cash, it shall be delivered within the periods and under the terms provided in the rules for the plans.

remuneration already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in said policy, all under the terms and conditions provided.

The variable remuneration corresponding to 2019 is subject to clawback until the beginning of 2026.

Malus and clawback clauses are triggered in situations in which there is poor financial performance of the Bank as a whole or a specific division or area thereof or of the exposure generated by staff, taking into account at least the following:

Category	Factors
Risk	Significant failures in risk management by the Bank, or by a business or risk control unit.
Capital	An increase in capital requirements at the Bank or one of its business units not planned at the time that exposure was generated.
Regulation and internal codes	Regulatory penalties or legal convictions for events that might be attributable to the unit or staff responsible for them. In addition, failure to comply with the Bank's internal codes of conduct.
Conduct	Improper conduct, whether individual or collective. Negative effects deriving from the marketing of unsuitable products and the liability of persons or bodies making such decisions will be considered especially significant.

The application of malus or clawback clauses for executive directors shall be determined by the board of directors, at the proposal of the remuneration committee, and cannot be proposed once the retention period related to the final payment in shares in accordance with the plan has elapsed in the beginning of 2026. Consequently, the board of directors, at the proposal of the remuneration committee and depending on the level of compliance with the aforementioned conditions regarding malus clauses, shall determine the specific amount of the deferred incentive to be paid and, where applicable, the amount that could be subject to clawback.

C. Main features of the benefit plans

The executive directors other than Mr Rodrigo Echenique participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death.

In the event of pre-retirement and up until the retirement date, the executive directors other than Mr Rodrigo Echenique have the right to receive an annual allotment. In the case of Ms Ana Botín, this allotment is the sum of her fixed remuneration and 30% of the average of the three remunerations as a maximum. In the case of Mr José Antonio Álvarez, this allotment is the fixed remuneration paid as senior vice president.

According to the 2012 system, executive director contracts (and of other members of the Bank's senior management) with defined benefit pension commitments were amended to transform them into a defined contribution system, under which the Bank makes annual contributions to the benefit plans . The new system gives executive directors the right to receive benefits upon retirement regardless of whether or not they are active at the Bank at such time, based on contributions to the system, and replaced their previous right to receive a pension supplement in the event of retirement.

The initial balance for each of the executive directors in the new defined benefits system corresponded to the market value of the assets from which the provisions corresponding to the respective accrued obligations had materialised on the date on which the old pension commitments were transferred into the new benefits system.

Since 2013, the Bank has made annual contributions to the benefits system in favour of executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement). The pensionable base for the purposes of the annual contributions for the executive directors is the sum of fixed remuneration plus 30% of the average of their last three variable remuneration amounts (or, in the event of Mr José Antonio Álvarez's pre-retirement, his fixed remuneration as a senior executive vice president). The contributions will be 22% of the pensionable bases in all cases.

Mr Rodrigo Echenique's contract does not provide for any charge to Banco Santander regarding benefits, without prejudice to the pension rights to which he was entitled prior to his appointment as executive director.

Further to applicable remuneration regulations, the contributions calculated on the basis of variable remuneration are subject to the discretionary pension benefits scheme. Under this scheme, these contributions are subject to malus and clawback clauses in accordance with the policy in place at any given time and during the same period in which variable remuneration is deferred. Furthermore, they must be invested in shares of the Bank for a period of five years from the date that the executive director leaves the Group, regardless of whether or not they leave to retire. Once that period has elapsed, the amount invested in shares will be reinvested, along with the remainder of the cumulative balance corresponding to the executive director, or it will be paid to the executive director or to their beneficiaries in the event of a contingency covered by the benefits system.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability. The contracts of these directors do not provide for any severance payment in the event of termination other than as may be required by law, and, in the case of pre-retirement, to the aforementioned annual allotment.

Until March 2018, the system also included a supplementary benefits scheme for cases of death (death of spouse and death of parent) and permanent disability of serving directors envisaged in the contracts of Ms Ana Botín and Mr José Antonio Álvarez.

As per the director's remuneration policy approved at the 23 March 2018 general shareholder´s meeting, the system includes contributions at 22% of the respective pensionable base (which consists in the sum of the fixed remuneration plus 30% of the average of the last three variable remuneration payments), and supplementary benefits scheme were eliminated from 1 April 2018, increasing the sum insured in the life accident insurance and setting a fixed remuneration supplement in cash reflected in "Other remuneration".

The provisions recognised in 2019 for retirement pensions a amounted to 2,003 thousand euros (2,284 thousand euros in 2018), as broken down below.

EUR thousand	2019	2018
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,145	1,234
Mr José Antonio Álvarez Álvarez	858	1,050
Mr Rodrigo Echenique Gordillo	—	—
Total	**2,003**	**2,284**

The balance in the benefits system corresponding to each of the executive directors at 31 December 2018 and 2017 is as follows:

EUR thousand	2019	2018
Ms Ana Botín-Sanz de Sautuola y O'Shea	48,104	46,093
Mr José Antonio Álvarez Álvarez	17,404	16,630
Mr Rodrigo Echenique Gordillo	13,268	13,614
Total	**78,776**	**76,337**

A. Mr Rodrigo Echenique does not participate in the defined pensions scheme described in the preceding paragraphs. However, as a previous executive director and for informational purposes, this year's table includes the rights to which he was entitled prior to his designation as such. The payments made to him in 2018 with respect to his participation in this plan amounted to EUR 0.9 million euros (EUR 0.9 million euros in 2017).

D. Other remuneration

In addition to the above, the Group has insurance policies for life, health and other contingencies for the executive directors of the Bank. This other remuneration component also includes the fixed supplement approved for Ms Ana Botín and Mr José Antonio Álvarez to replace the supplementary benefits in the benefit systems eliminated in 2018, as well as the cost for insuring death or disability until their retirement date. Similarly, the executive directors are covered under the civil liability insurance policy contracted by the Bank.

Mr. Rodrigo Echenique has received an amount of 1,800 thousand euros in compensation for his two year non-compete commitment from the date he has ceased in his role as executive director, 30 April 2019.

Note 5 to the Group´s consolidated financial statements provides more detailed information about other benefits received by the executive directors.

E. Holding shares

Following a proposal submitted by the remuneration committee, in 2016 the board of directors approved a share holding policy aimed at strengthening the alignment of executive directors with shareholders' long-term interests.

According to this policy, each executive director active on 1 January 2016 would have five years in which to demonstrate that their personal assets include an investment in the Bank's shares equivalent to twice the net tax amount of their gross annual salary at the same date.

The shareholding policy also reflects the executive directors' commitment to maintaining a significant personal investment in the Bank's shares while they are actively performing their duties within the Group.

F. Remuneration of board members as representatives of the Bank

By resolution of the executive committee, all remuneration received by the Bank's directors who represent the Bank on the boards of directors of companies in which it has an interest and which relates to appointments made after 18 March 2002, will accrue to the Group. The executive directors of the Bank received no remuneration from this type of representation in 2019 or 2018.

On the other hand, Mr, Alvaro Cardoso de Souza, as non-executive Chairman of Banco Santander (Brasil) S.A., received in 2019 a remuneration of 1.752 thousand Brazilian reales (397 thousand euros), and Mr. Rodrigo Echenique, received a remuneration of 666 thousand euros for his role as Chairman of the board of the Santander Spain business unit for the period from 1 May 2019 to 31 December 2019.

G. Individual remuneration of directors for all items in 2019

The detail, by Bank director, of salary remuneration payable in the short term (or immediately) and of deferred remuneration not linked to long-term goals for 2019 and 2018 is provided below. The Note 5 to the Group consolidated financial statements contains disclosures on the shares delivered in 2019 by virtue of the deferred remuneration schemes in place in previous years, the conditions for delivery of which were met in the related years.

	EUR thousand									
	2019									2018
	Bylaw-stipulated emoluments		Salary remuneration of executive directors							
Directors	Board and board committees annual allotment	Board and committee attendance fees	Fixed	Immediate payment (50% in shares)	Deferred payment (50% in shares)	Total	Pension contribution	Other remuneration[H]	Total	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	275	59	3,176	2,605	1,563	7,344	1,145	1,131	9,954	10,483
Mr José Antonio Álvarez Álvarez	260	53	2,541	1,741	1,044	5,326	858	1,773	8,270	8,645
Mr Bruce Carnegie-Brown	613	87	0	0	0	0	0	0	700	732
Mr Rodrigo Echenique Gordillo (A)	163	56	600	800	480	1,880	0	2,775	4,874	4,830
Mr Guillermo de la Dehesa Romero	310	89	0	0	0	0	0	0	399	441
Ms Homaira Akbari	145	81	0	0	0	0	0	0	226	199
Mr Ignacio Benjumea Cabeza de Vaca	340	93	0	0	0	0	0	91	524	513
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea (B)	90	47	0	0	0	0	0	0	137	121
Ms Sol Daurella Comadrán	155	85	0	0	0	0	0	0	240	215
Ms Esther Giménez-Salinas i Colomer	149	79	0	0	0	0	0	0	228	196
Ms Belén Romana García	425	100	0	0	0	0	0	0	525	414
Mr Ramiro Mato García-Ansorena	405	95	0	0	0	0	0	0	500	450
Mr Álvaro Cardoso de Souza (C)	215	61	0	0	0	0	0	0	276	148
Mr Henrique Manuel Drummond Borges Cirne de Castro (D)	53	33	0	0	0	0	0	0	86	0
Mrs Pamela Ann Walkden (E)	23	11	0	0	0	0	0	0	34	0
Mr Carlos Fernández González (F)	149	65	0	0	0	0	0	0	214	266
Mr Juan Miguel Villar Mir (G)	0	0	0	0	0	0	0	0	0	108
Total 2019	**3,770**	**1,094**	**6,317**	**5,146**	**3,087**	**14,550**	**2,003**	**5,770**	**27,187**	**0**
Total 2018	**3,744**	**872**	**7,517**	**6,508**	**3,904**	**17,929**	**2,284**	**2,932**	**0**	**27,761**

A. Ceased to be an executive director on 30 April 2019. Non-executive director since 1 May 2019.
B. All amounts received were reimbursed to Fundación Botín.
C. Director since 23 March 2018.
D. Director since 17 July 2019.
E. Director since 29 October 2019.
F. Ceased to be a director on 28 October 2019
G. Ceased to be a director on 1 January 2019
H. Includes committee chairmanship and other role emoluments.

In addition, the following table provides the individual detail of the salary remuneration of executive directors linked to multi-year targets, which will only be paid if the conditions of continued service at the Group, non-applicability of the malus clauses and compliance with the defined multi-year targets are fulfilled (or, as applicable, of the minimum thresholds of these, with the consequent reduction of the agreed amount at the end of the year).

	EUR thousand	
	2019 (50% in shares)	2018 (50% in shares)
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,641	1,864
Mr José Antonio Álvarez Álvarez	1,097	1,246
Mr Rodrigo Echenique Gordillo	504	990
Total	**3,242**	**4,100**

A. Fair value of the maximum amount receivable over a total of 3 years (2023, 2024 and 2025), which was estimated at the plan award date, taking into account various possible scenarios for the different variables contained in the plan during the measurement periods.
B. Ceased to be an executive director on 30 April 2019. non-executive director since 1 May 2019.

H. Ratio of variable to fixed components of remuneration in 2019

Shareholders at the general shareholders' meeting of 23 March 2018 approved a maximum ratio between variable and fixed components of executive directors' remuneration of 200%.

The following table shows the percentage of the variable components of total remuneration compared to the fixed components for each executive director in 2019. As a result of the 12% reduction in Ms. Ana Botín's and Mr. José Antonio Álvarez's variable remuneration from 2018 detailed in B.iii above, this ratio has been reduced from 2018 in 15%, in the case of Ms. Ana Botín, and in 9% in the case of Mr. José Antonio Álvarez.

Executive directors	Variable Components / fixed components (%)
Ms Ana Botín-Sanz de Sautuola y O'Shea	130%
Mr José Antonio Álvarez Álvarez	90%
Mr Rodrigo Echenique Gordillo	112%

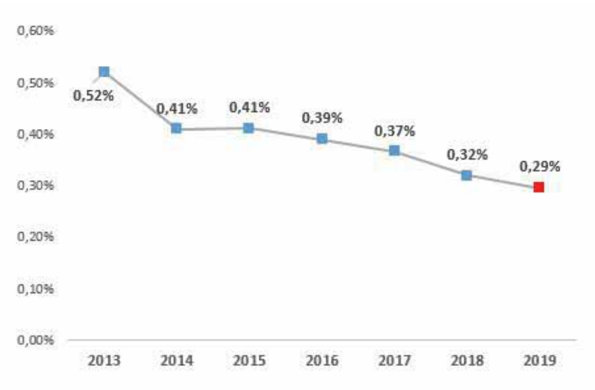
For these purposes:

- The variable components of remuneration include all items of this nature, including the portion of contributions to the benefits system that are calculated on the variable remuneration of the related director.
- The fixed components of remuneration include the other items of remuneration that each director receives for the performance of executive duties, including contributions to the benefits systems calculated on the basis of fixed remuneration and other benefits, as well as all bylaw-stipulated emoluments that the director in question is entitled to receive in his or her capacity as such.

I. Summary of remuneration of executive directors and underlying attributable profit

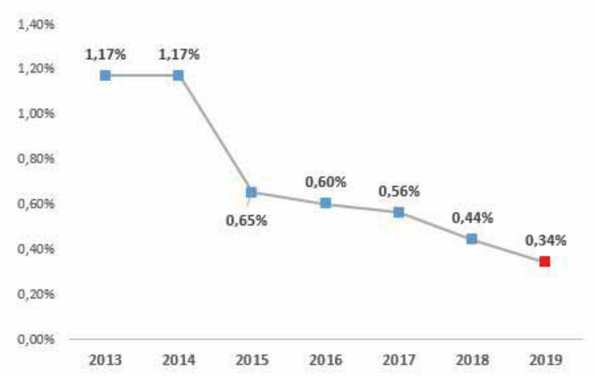
The following chart shows an overview of the compensation (short-term remuneration, deferred variable remuneration and/or deferred variable remuneration linked to multi-year targets) of the directors performing executive duties as compared with underlying attributable profit.

Executive directors' total remuneration as % of underlying attributable profit



The variable remuneration received by the executive directors is also shown below as a percentage of the cash dividends paid.

Variable remuneration for all executives directors as % of cash dividends



J. Summary of link between risk, performance and reward

Banco Santander's remuneration policy and its implementation in 2019 promote sound and effective risk management while supporting business objectives. The key elements of the remuneration policy for executive directors making for alignment between risk, performance and reward in 2019 were as follows:

Key words	Risk, performance and reward alignment element
Metrics balance	The balance of quantitative metrics and qualitative assessment, including customer, risk, capital and risk related profitability, used to determine the executive directors´ variable remuneration.
Financial thresholds	The adjustment to variable remuneration if certain financial thresholds are not reached, which may limit the variable remuneration to 50% of the previous year´s amount or lead to it not being awarded at all.
Long-term objectives	The long-term objectives linked to the last three portions of the deferred variable remuneration. These objectives are directly associated with return to shareholders relative to a peer group, earnings per share and maintaining a sound capital base.
Individual performance	The discretion of the board to consider the performance of each executive director in the award of their individual variable remuneration.
Variable remuneration cap	200% of fixed remuneration.
Control functions involvement	The work undertaken by the human resources committee aided by members of senior management leading control functions in relation to the analysis of quantitative metrics information and undertaking qualitative analysis.
Malus and clawback	Malus can be applied to unvested deferred awards and clawback can be applied to vested or paid awards under the conditions and in situations set out in the Group´s remuneration policy.
Payment in shares	At least 50% of variable remuneration is paid in shares subject to a one-year retention period after delivery.

6.4 Directors remuneration policy for 2020, 2021 and 2022 that is submitted to a binding vote of the shareholders

Principles of the remuneration policy and remuneration system

A.Remuneration of directors in their capacity as such

The director remuneration system is regulated by article 58 of the Bylaws of Banco Santander and article 33 of the rules and regulations of the board. No changes in the principles or composition of the remuneration of directors for the performance of supervisory and collective decision-making duties are planned in 2020, 2021 and 2022 with respect to those in 2019. They are set forth in sections 6.1 and 6.2.

B. Remuneration of executive directors

For the performance of executive duties, executive directors shall be entitled to receive remuneration (including, if applicable, salaries, incentives, bonuses, possible severance payments for early termination from such duties, and amounts to be paid by the Bank for insurance premiums or contributions to savings schemes) which, following a proposal from the remuneration committee and by resolution of the board of directors, is deemed to be appropriate, subject to the limits of applicable law. No changes in the principles of the remuneration of executive directors for the performance of executive duties are planned in 2020, 2021 and 2022. They are set forth in sections 6.1 and 6.3.

Banco Santander performs an annual comparative review of the total compensation of executive directors and other senior executives above. The 'peer group' will comprise in 2020 the following entities: BBVA, BNP Paribas, Citi, Credit Agricole, HSBC, ING, Itaú, Scotia Bank and Unicredit.

Remuneration of directors for 2020

A. Remuneration of directors in their capacity as such

In 2020, the directors, in their capacity as such, shall continue to receive remuneration for the performance of supervisory and collective decision-making duties for a collective amount of up to 6 million euros as authorised by the shareholders at the 2019 annual general shareholders' meeting (and again subject to approval by the shareholders at the 2020 general shareholders' meeting), with two components:

- Annual allocation; and
- Attendance fees.

The specific amount payable for the above-mentioned items to each of the directors and the form of payment thereof shall be determined by the board of directors under the terms set forth in section 6.2 above, bearing in mind the specific circumstances of each case .

In addition, as stated in the description of the director remuneration system, the Bank will pay in 2020 the premium for the civil liability insurance for its directors, obtained upon customary market terms and proportional to the circumstances of the Bank.

B. Remuneration of directors for the performance of executive duties

i) Fixed components of remuneration

A) Gross annual salary

At the proposal of the committee, the board resolved that Ms Ana Botín and Mr José Antonio Álvarez would maintain their same gross annual salaries in 2020 as in 2019.

In any event, their gross annual salary may be increased as a consequence of a change in the mix of fixed components of remuneration, based on the criteria approved at any given time by the remuneration committee, provided that modification does not entail an increase in costs for the Bank.

B) Other fixed components of remuneration

- Benefits systems: defined contribution plans[8] as set out in section 'Pre-retirement and benefit plans'.
- Fixed salary supplement: Ms Ana Botín will receive a fixed salary supplement approved in 2018 when the death and disability supplementary benefits systems was eliminated for an amount of 525 thousand euros in 2020 and Mr José Antonio Álvarez will receive 710 thousand euros in the same year.
- Social welfare benefits: executive directors will also receive certain social welfare benefits such as life insurance premiums, medical insurance and, if applicable, the allocation of remuneration for employee loans, in accordance with the customary policy established by the Bank for senior management and in identical terms as the rest of employees. Additional information is included in the 'Pre-retirement and benefit plans' section.

ii) Variable components of remuneration

The variable remuneration policy for executive directors for 2020, which was approved by the board at the proposal of the remuneration committee, is based on the principles of the remuneration policy described in section 6.3.

The variable remuneration of executive directors consists of a single incentive scheme[9], linked to the achievement of short-and long-term goals, structured as follows:

- The final amount of the variable remuneration shall be determined at the start of the following year (2021) based on the benchmark amount and subject to compliance with the annual objectives described in section B) below.
- 40% of the incentive shall be paid immediately once the final amount has been determined and the remaining 60% shall be deferred in equal parts over five years, and subject to long term metrics, as follows:
  - The payment of the amount deferred over the first two years (24% of the total), payable in the two following years, 2022 and 2023, shall be conditional on none of the malus clauses described in section 6.3 B vi) above being triggered.
  - The amount deferred over the next three years (36% of the total), payable in 2024, 2025 and 2026, shall be conditional not only on the malus clauses not being triggered but also on the executive achieving the long-term objectives described in section the D) below (deferred incentive subject to long-term performance objectives).

Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in the Group's malus and clawback policy, to which section 6.3 B vi) above refers.

Exceptionally, in the case of the hiring of a new director with an executive role in Banco Santander, the variable remuneration may include sign-on bonus and/or buyouts.

The variable components of the executive directors' total remuneration for 2020 must not exceed the limit of 200% of the fixed components which is submitted for approval by the 2020 general shareholders meeting. Although the European regulation on remuneration allows certain variable components of an exceptional nature to be excluded.

A) Benchmark incentive

Variable remuneration for executive directors in 2020 shall be determined based on a standard benchmark incentive conditional upon compliance with 100% of the established targets. The board of directors, at the proposal of the remuneration committee and based on market and internal contribution criteria, may review the benchmark variable remuneration.

B) Setting the final incentive based on results for the year

Based on the aforementioned benchmark standard, the 2020 variable remuneration for executive directors shall be set on the basis of the following key factors:

- A group of short-term quantitative metrics measured against annual objectives.
- A qualitative assessment which cannot adjust the quantitative result by more than 25% upwards or downwards.
- An exceptional adjustment that must be supported by substantiated evidence and that may involve changes prompted by deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.

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8 As stated in the section below, contributions to the benefits systems for the executive directors include both fixed components and variable components.

9 In addition, and as stated in section below, contributions to the benefits systems for the executive directors include both fixed components and variable components, which become part of the total variable remuneration.

The detailed quantitative metrics, qualitative assessment factors and weightings are indicated in the following scorecard:

Category and weighting		Quantitative metrics	Qualitative assessment
Customers (20%)		NPS/CSI[A] Number of loyal customers	Effective compliance with the objectives of the rules on risk conduct in respect of customers.
Shareholders (80%)	Risks (10%)	Non-performing loans ratio Cost of credit ratio (IFRS 9)	Appropriate management of risk appetite and excesses recognised. Adequate management of operational risk.
	Capital (20%)	Capital ratio (CET1) [B]	Efficient capital management.
	Return (50%)	Ordinary net profit (ONP)[C] (20%) RoTE: return on tangible equity[B] (30%)	Suitability of business growth compared to the previous year, considering the market environment and competitors. Sustainability and solidity of results. Progress against the 11 public commitments for responsible banking included in the 2019 Highlights section of the responsible banking report. Efficient cost management and achievement of efficiency goals.

A. Net promoter score / customer satisfaction index.
B. For this purpose, the capital ratio (CET1) and the RoTE will be adjusted upwards or downwards to reflect the adjustments made to the ONP pursuant to note C.
C. For this purpose, ONP is attributed ordinary net profit, adjusted upwards or downwards for those transactions that, in the opinion of the board, have an impact outside of the performance of the directors being evaluated, whereby extraordinary profit, corporate transactions, special allowances, or accounting or legal adjustments that may occur during the year are evaluated for this purpose.

Lastly, and as additional conditions, in determining the incentive, verification is required on whether or not the following circumstances have occurred:

- If the Group's ONP for 2019 is less than 50% of the ONP for 2018, the incentive would in no case exceed 50% of the benchmark incentive for 2019.
- If the Group's ONP is negative, the incentive would be zero.

When determining individual bonuses, the board will also take into account whether any restrictions to the dividend policy have been imposed by supervisory authorities.

C) Form of payment of the incentive

Variable remuneration is paid 50% in cash and 50% in shares, one portion in 2021 and the deferred portion over five years and subject to long-term metrics, as follows:

a) 40% of the incentive is paid in 2021 net of taxes, half in cash and half in shares.

b) 60% is paid, if applicable, in five equal parts in 2022, 2023, 2024, 2025 and 2026, net of taxes, half in cash and half in shares, subject to the conditions stipulated in section E) below.

The last three payments shall also be conditional upon the long-term objectives described in section D) below.

The portion paid in shares may not be sold until one year has elapsed from delivery thereof.

D) Deferred variable remuneration subject to long-term objectives

As indicated above, the amounts deferred in 2024, 2025 and 2026 shall be conditional upon, in addition to the terms described in section E) below, compliance with the Group's long-term objectives for 2020-2022. The long-term metrics are as follows:

(a) Compliance with the consolidated **EPS** growth target of Banco Santander in 2022 vs. 2019. The **EPS ratio** relating to this target is obtained as shown in the table below:

EPS growth in 2022 (% vs. 2019)	'EPS Ratio'
≥ 15%	1.5
≥ 10% but < 15%	1 – 1.5[A]
≥ 5% but < 10%	0 - 1[A]
< 5%	0

A. Straight-line increase in the EPS ratio based on the specific percentage that EPS growth in 2022 represents with respect to 2019 EPS within this bracket of the scale. In addition, total or partial compliance of this objective requires that EPS growth in 2020 and 2021 is higher than 0%.

(b) Relative performance of the Bank's total shareholder return (**TSR**) in 2020-2022 compared to the weighted TSR of a peer group comprising 9 credit institutions, applying the appropriate TSR ratio according to the Bank's TSR within the peer group.

Ranking of Santander TSR	'TRS Ratio'
Above percentile 66	1
Between percentiles 33 and 66 (both inclusive)	0 – 1[A]
Below percentile 33	0

A. Proportional increase in the TSR ratio based on the number of positions moved up in the ranking.

TSR[10] measures the return on investment for shareholders as a sum of the change in share price plus dividends and other similar items (including the Santander Scrip Dividend

10 TSR is the difference (expressed as a percentage) between the end value of an investment in ordinary shares of Banco Santander and the initial value of the same investment, factoring in to the calculation of the final value the dividends or other similar instruments (such as the Santander Scrip Dividend Programme) received by the shareholder in relation to this investment during the corresponding period of time as if an investment had been made in more shares of the same type at the first date on which the dividend or similar concept was payable to shareholders and the weighted average share price at that date. To calculate TSR, the average weighted daily volume of the average weighted listing prices for the fifteen trading sessions prior to 1 January 2020 (exclusive) is taken into consideration (to calculate the initial value) and that of the fifteen trading sessions prior to 1 January 2023 (exclusive) (to calculate the final value).

programme) that shareholders may receive during the period in question.

The peer group comprises the following entities: BBVA, BNP Paribas, Citi, Credit Agricole, HSBC, ING, Itaú, Scotiabank y Unicredit.

(c) Compliance with the Santander Group's consolidated fully loaded target common equity tier 1 ratio (CET1) for 2022. The **CET1 ratio** relating to this target is obtained as described below:

CET1 in 2022	CET1 ratio
≥ 12%	1
≥ 11% but < 12%	0 - 1[A]
< 11%	0

A. Linear increase in the CET1 ratio based on the CET1 ratio for 2022 within this range of the scale.

To verify compliance with this objective, possible increases in CET1 resulting from capital increases shall be disregarded (with the exception of those related to the Santander Scrip Dividend programme). Furthermore, the CET1 ratio at 31 December 2022 could be adjusted to strip out the impact of any regulatory changes implemented until that date which affect its calculation.

To determine the annual amount of the deferred variable remuneration tied to corresponding performance , if applicable, to each executive director in 2024, 2025 and 2026, the following formula shall be applied to each of these payments ('Final annuity') without prejudice to any adjustment derived from the application of the malus policy described in section 6.3 B vi) above:

Final annuity = Amt. x (1/3 x A + 1/3 x B + 1/3 x C)

where:

- 'Amt.' is one third of the variable remuneration amount deferred conditional on performance (i.e., Amt. will be 12% of the total incentive set in early 2020).
- 'A' is the EPS ratio according to the scale in section (a) above, based on EPS growth in 2022 vs. 2019.
- 'B' is the TSR ratio according to the scale in section (b) above, according to the relative performance of the TSR within its peer group in 2020-2022.
- 'C' is the CET1 ratio according to compliance with the CET1 target for 2021 described in section (c) above.
- Assuming in any event that if the result of (1/3 x A + 1/3 x B + 1/3 x C) is greater than 1, the multiplier will be 1.

The estimated maximum amount to be delivered in shares to executive directors is 11.5 million euros.

E) Other terms of the incentive

Accrual of the deferred amounts, including amounts linked to long-term objectives, shall also be conditional upon the beneficiary's continued service in the Group and upon none of the circumstances arising that give rise to the application of malus arrangements in accordance with the section on malus and clawback clauses in the Group's remuneration policy, all under terms similar to those indicated for 2019. Similarly, the incentives already paid will be subject to clawback by the Bank in the scenarios and for the period set forth in said policy, all under the terms and conditions provided.

The hedging of Santander shares received during the retention and deferral periods is expressly prohibited.

The effect of inflation on the deferred amounts in cash may be offset.

The sale of shares is also prohibited for at least one year from the receipt thereof.

The remuneration committee may propose to the board adjustments in variable remuneration under exceptional circumstances due to internal or external factors, such as regulatory requirements or requests or recommendations issued by regulatory or supervisory bodies. These adjustments shall be described in detail in the corresponding report of the remuneration committee and in the annual report on director´s remuneration submitted each year to an advisory vote of the shareholders at the general shareholders' meeting.

iii) Holding shares

No changes in the holding shares policy are planned with respect to the terms in place for 2019 and set out in section 6.3 E.

Remuneration of directors for 2021 and 2022

A. Remuneration of directors in their capacity as such

No changes to the remuneration of directors in their capacity as such for 2021 and 2022 with respect to the remuneration described for 2020 are expected, without prejudice to the fact that shareholders at the 2021 or 2022 annual general meeting may approve an amount higher than the six million euros currently in force, or that the board may determine, within such limit, a different distribution thereof among directors.

B. Remuneration of directors for the performance of executive duties

Remuneration of executive directors shall conform to principles similar to those applied in 2020, with the differences described below.

i) Fixed components of remuneration

A) Gross annual salary

The annual gross fixed remuneration may be revised each year based on the criteria approved at any given time by the remuneration committee, whereby the maximum increase for 2021 and 2022 for each executive director may not exceed 5% of their annual gross salary for the previous year. In any event, the gross annual salary may be increased as a consequence of a change in the mix of fixed components of remuneration, provided that modification does not entail an increase in costs for the Bank.

The 5% increase mentioned above may be higher for one or several directors provided that, when applying the rules or requirements or supervisory recommendations that may be applicable, and if so proposed by the remuneration committee, it is appropriate to adjust their remuneration mix and, in particular, their variable remuneration in view of the functions they perform.

Any such increase/s should not lead to an increase in the total remuneration of these directors.

If this were to occur, it shall be described in detail in the corresponding report of the remuneration committee and in the annual report on director's remuneration submitted each year to an advisory vote at the general shareholders' meeting.

B) Other fixed components of remuneration

No changes planned with respect to the terms in place for 2020.

ii) Variable components of remuneration

The policy on variable remuneration for executive directors for 2021 and 2022 will be based on much the same principles as in 2020, following the same single-incentive scheme described above, and subject to the same rules of operation and limitations.

A) Setting the variable remuneration

Variable remuneration for 2021 and 2022 for executive directors shall be determined based on a benchmark incentive approved for each year which takes into account:

- A group of short-term quantitative metrics measured against annual objectives. These metrics shall be aligned with the Group strategic plan and include, at least, shareholder return targets, risk objectives, capital and customers. The metrics may be measured at Group level, and where applicable, at division level if the executive director is responsible for managing a specific business division. The results of each metric may be compared to both the budget established for the financial year as well as to growth compared to the prior year.
- A qualitative assessment which cannot adjust the quantitative result by more than 25% upwards or downwards. The qualitative assessment shall be performed on the same categories as the quantitative metrics, including shareholder returns, risk and capital management and customers.
- Potential exceptional adjustments that must be based on substantiated evidence and that may involve changes prompted by deficiencies in control and/or risks, negative assessments from supervisors or unexpected material events.

The quantitative metrics, qualitative assessment and potential extraordinary adjustments will ensure that the main objectives are considered from the perspective of different stakeholders, and that the importance of risk and capital management is factored in.

Lastly, in determining the incentive, verification is required as to whether or not the following circumstances have occurred:

- If the quantitative metrics linked to profit do not reach a certain compliance threshold, the incentive may not be greater than 50% of the benchmark incentive for a given year.
- If the results of the metrics linked to profit are negative, the incentive shall be zero.
- When determining individual bonuses, the board will also take into account whether any restrictions to the dividends policy have been imposed by supervisory authorities.

B) Form of payment of the incentive

No changes in the form of payment are planned with respect to the terms in place for 2020.

C) Deferred variable remuneration subject to long-term objectives

The last three annual payments of the deferred amount of each variable remuneration shall be conditional upon, in addition to the terms described in section E) above, compliance with the Group's long-term objectives for at least a three-year period, compliance with which may only confirm or reduce the amounts and number of deferred shares.

Long-term metrics shall at least include objectives relating to value creation and return for shareholders and capital in a multi-year period of at least three years. These metrics shall be aligned with the Group's strategic plan and reflect its main priorities from its stakeholders' perspective.

These metrics may be measured at the level of the Group or of the country or business, when appropriate, and the performance thereof may be compared against a peer group.

The portion paid in shares of the incentives may not be sold until at least one year has elapsed from delivery thereof.

D) Other terms of the incentive

No changes in form of payment are planned with respect to the continuity, malus and clawback terms in place for 2020 and that are described in section E) of the remuneration policy for 2020.

In addition, no changes are planned to the hedging prohibition or the inflation-related adjustments on cash deferred amounts terms set out in the same section.

iii) Holding shares

The share holding policy approved in 2016 shall apply in 2021 and 2022, unless the remuneration committee, under exceptional circumstances such as regulatory requirements or requests or recommendations issued by regulatory or supervisory bodies, were to propose amendments to this policy to the board. Any potential amendments would be described in detail in the corresponding remuneration committee report and in the annual report on director's remuneration submitted each year to an advisory vote at the general shareholders' meeting.

Terms and conditions of executive directors' contracts

The terms for the provision of services by each of the executive directors are governed by the contracts signed by each of them with the Bank, as approved by the board of directors.

The basic terms and conditions of the contracts of the executive directors, besides those relating to the remuneration mentioned above, are the following:

A. Exclusivity and non-competition

Executive directors may not enter into contracts to provide services to other companies or entities except where expressly authorised by the board of directors. In all cases, a duty of non-competition is established with respect to companies and activities similar in nature to those of the Bank and its consolidated Group.

In addition, executive director contracts provide for certain prohibitions against competition and enticing of clients, employees and suppliers that may be enforced for two years after the termination in their executive duties for reasons other than retirement or a breach by the Bank. The compensation to be paid by the Bank for this duty of non-competition is 80% of the fixed remuneration, 40% payable on termination of the contract and 60% at the end of the two-year period for Ms Ana Botín and Mr José Antonio Álvarez.

B. Code of Conduct

There is an obligation to strictly observe the provisions of the Group's General Code and of the code of conduct in securities markets, in particular with respect to rules of confidentiality, professional ethics and conflicts of interest.

C. Termination

The executive directors' contracts are of indefinite duration and do not provide for any severance payment in the case of termination other than as may be required by law.

In the event of termination of her contract by the Bank, Ms Ana Botín must remain available to the Bank for a period of four months to ensure a proper transition, during which period she would continue to receive her gross annual salary.

D. Pre-retirement and benefit plans

The contracts of the following executive directors acknowledge their right to pre-retire under the terms stated below when they have not yet reached retirement age:

- Ms Ana Botín will be entitled to pre-retirement in the event of leaving her post for reasons other than breach of duty. In this case, she will be entitled to an annual allotment equal to the sum of her fixed remuneration and 30% of the average amount of her last variable remuneration, to a maximum of three. This allotment shall be reduced by 8% in the event of voluntary termination prior to the age of 60. This allotment is subject to the malus and clawback provisions in place for a period of five years.
- Mr José Antonio Álvarez will be entitled to pre-retire in the event of leaving his post for reasons other than his own free will or breach of duty. In that case, he will be entitled to an annual allocation equivalent to the fixed remuneration corresponding to him as senior executive vice-president . This allotment is subject to the malus and clawback provisions in place for a period of five years.

The executive directors participate in the defined contribution system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of the executive directors who participate in the benefit system. The annual contributions are calculated in proportion to the respective pensionable bases of the executive directors, and shall continue to be made until they leave the Group or until their retirement within the Group, or their death or disability (including, if applicable, during pre-retirement). The pensionable base for the purposes of the annual contributions for the executive directors is the sum of fixed remuneration plus 30% of the average of their last three variable remuneration amounts (or, in the event of Mr José Antonio Álvarez's pre-retirement, his fixed remuneration as a senior executive vice president). The contributions will be 22% of the pensionable bases in all cases.

The pension amount corresponding to contributions linked to variable remuneration will be invested in Santander shares for a period of five years on the retirement date or, if earlier, the cessation date, and shall be paid in cash after five years have elapsed or, if subsequent, on the retirement date. Moreover, the malus and clawback clauses corresponding to contributions linked to variable remuneration shall be applied for the same period as the bonus or incentive upon which said contributions depend.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability. The contracts of these directors do not provide for any severance payment in the case of termination other than as may be required by law, and, in the case of pre- retirement, the aforementioned annual allotment.

E. Insurance and other remuneration and benefits in kind

Ms Ana Botín and Mr José Antonio Álvarez will receive the fixed remuneration supplement approved as a result of the elimination of the life and health supplementary benefitsin 2018. This supplement will be paid in 2020, 2021 and 2022 in the same amount as in 2019 and will continue to be paid until their retirement age, even if the director is then still active.

The Group has arranged life and health insurance policies for the directors.

The premiums for 2020 corresponding to this insurance include the standard life insurance and the life insurance coverage for the aforementioned fixed remuneration supplement. In 2021 and 2022, these premiums could vary in the event of a change in the fixed remuneration of directors or in their actuarial circumstances.

Similarly, executive directors are covered by the Bank's civil liability insurance policy.

Finally, executive directors may receive other benefits in kind (such as employee loans) in accordance with the Bank's general policy and the corresponding tax treatment.

F. Confidentiality and return of documents

A strict duty of confidentiality is established during the relationship and following termination , pursuant to which executive directors must return to the Bank any documents and items related to their activities that are in their possession.

G. Other terms and conditions

The advance notice periods contained in the contracts with the executive directors are as follows:

	By decision of the Bank (months)	By decision of the director (months)
Ms Ana Botin-Sanz de Sautuola y O'Shea	—	4
Mr José Antonio Álvarez Álvarez	—	—

Payment clauses in place of pre-notice periods are not contemplated.

Appointment of new executive directors

The components of remuneration and basic structure of the agreements described in this remunerations policy will apply to any new director that is given executive functions at Banco Santander, notwithstanding the possibility of amending specific terms of agreements so that, overall, they contain conditions similar to those previously described.

In particular, the total remuneration of the director for performing executive duties may not be greater than the highest remuneration received by the current executive directors of the Bank pursuant to the remuneration policy approved by the shareholders. The same rules shall apply if a director assumes new duties that said director did not previously discharge or becomes an executive director.

If executive responsibilities are assumed with respect to a specific division or country, the board of directors, at the proposal of the remuneration committee, may adapt the metrics used for the establishment and accrual of the incentive in order to take into account not just the Group but also the respective division or country.

Remuneration paid to directors in that capacity shall be included within the maximum distributable amount set by the shareholders and be distributed by the board of directors as described above.

Additionally, if the new director comes from an entity that is not part of the Santander Group, they could be the beneficiary of a buyout to offset the loss of variable remuneration corresponding to their prior post if they have not accepted a contract with the Group or of a sign-on bonus to attract them to join Banco Santander.

This compensation could be paid fully or partly in shares, subject to the delivery limits approved at the general shareholders' meeting. Therefore, authorisation is expected to be sought at the next general shareholders' meeting to deliver a specified maximum number of shares as part of any hires of executive directors or other employees to which the buyout regulation applies.

In addition, sign-on bonuses can only be paid once to new executive directors, in cash or in shares, and in each case they will not exceed the sum of the maximum variable remuneration awarded for all executive directors the preceding year.

6.5 Preparatory work and decision-making process with a description of the participation of the remuneration committee

Section 4.7 'Remuneration committee activities for 2019', which constitutes the remunerations committee's report, details the following:

- Pursuant to the Bylaws and the Rules and regulations of the board of the Bank, the duties relating to the remuneration of directors performed by the remuneration committee.
- The composition of the remuneration committee as at the date of approving this report.
- The number of meetings with the risk supervision, regulation and compliance committee held in 2019, including those held jointly with the risk, compliance and regulation supervision committee.
- The date of the meeting when this report was approved.
- The 2018 annual report on directors´ remuneration was approved by the board of directors and submitted to a binding vote at the general shareholders' meeting of 12 April 2019, with 91.07% of the votes in favour. The detail of vote was as follows:

	Number	% of total[A]
Votes cast	10,740,924,312	96,57%

	Number	% of total[A]
Votes against	598,890,812	5.38%
Votes in favour	10,130,003,843	91.07%
Abstentions	381,915,614	3.43%

A. Percentage on total valid votes and abstentions.

6.6 Remuneration of non-director members of senior management

At its meeting of 27 January 2020, the remuneration committee agreed to propose to the board of directors the approval of the variable remuneration for 2019 of members of senior management who are not directors. The committee's proposal was approved by the board at its meeting of 28 January 2020.

The Bank's general remuneration policy was applied in order to determine this variable remuneration, as well as the specificities corresponding to senior management. In general, their variable remuneration packages were calculated on the same balance of quantitative metrics and qualitative assessment used for executive directors described in section 6.3 B ii).

The contracts of some of the senior management were modified in 2018 with the same purpose and with the same amendments indicated in 6.3C and D in relation to Ms. Ana Botín and Mr. José Antonio Alvarez, so that the system includes contributions at 22% of the respective pensionable base, supplementary benefits scheme were eliminated from 1 April 2018, the sum insured in the life accident insurance was increased and a fixed remuneration supplement in cash reflected in "Other remuneration" was set.

The table below shows the amounts of short-term remuneration (immediately payable) and deferred remuneration (excluding that linked to multi-year targets) for members of senior management as at 31 December 2019 and 2018, excluding remuneration corresponding to the executive directors shown previously:

EUR thousand

		Short-term and deferred salary remuneration					
Year	Number of people	Fixed	Immediately receivable variable remuneration (50% in shares)[A]	Deferred variable remuneration (50% in shares)[B]	Pension contributions	Other remuneration[C]	Total[D]
2019	18	22,904	15,337	6,673	6,282	7,491	58,687
2018	18	22,475	16,748	7,582	6,193	7,263	60,261

A. The amount of immediate payment in shares for 2019 was 2,091 thousand Santander shares (1,936 thousand Santander shares in 2017).
B. The amount of deferred shares for 2019 was 910 thousand Santander shares.
C. Includes other items of remuneration such as life insurance premiums, health insurance and relocation packages.

The following table shows a breakdown of the salary remuneration linked to multi-year targets for members of senior management at 31 December 2019 and 2018. This remuneration will only be received if the terms of continued service, non-applicability of malus clauses, and compliance with long-term goals are met in the corresponding deferral periods.

Thousands of euros

Year	Number of people	Deferred variable remuneration subject to long-term metrics[A] (50% in shares)[B]
2019	18	7,007
2018	18	7,962

A. In 2019, this corresponds to the fair value of the maximum annual payments for 2023, 2024 and 2025 of the fourth cycle of the deferred variable remuneration plan linked to multi-year targets. In 2018, this corresponds to the estimated fair value of the maximum annual payments for 2022, 2023 and 2024 of the third cycle of the deferred variable remuneration plan linked to multi-year targets. The fair value has been determined at the grant date based on the valuation report of an independent expert, Willis Towers Watson. Depending on the design of the plan for 2019 and the levels of achievement of similar plans in comparable entities, the expert concluded that the reasonable range for estimating the initial achievement ratio is around 60% - 80%. It has been determined that the fair value is 70% of the maximum.
B. The amount of shares of the deferred variable remuneration subject to long-term metrics shown in the table above is of 955 thousand Santander shares in 2019 (921 thousand Santander shares in 2018).

The long-term goals are the same as those for executive directors. They are described in section 6.3 B iv).

Senior executive vice presidents that ceased to carry out their duties in 2019 and who were not members of senior management at year-end, consolidated salary remuneration and other remuneration relating to the cessation of their duties for a total amount of 6,789 thousand euros during the year (1,861 thousand euros for those leaving their posts in 2018). Such senior managers also have the right to receive variable remuneration subject to long-term objectives for an amount of 922 thousand euros (this right was not generated in respect of any senior manager who ceased to carry out his/her duties during 2018).

In addition, the shareholders meeting of 12 April 2019 approved the 2019 Digital Transformation Incentive, which is a variable compensation system that includes the delivery of Santander shares and share options subject to meeting certain important milestones of the Group's digital roadmap.

Three senior executives are included within this plan, which is aimed at a larger group of up to 250 employees whose performance is considered essential to the growth and digital transformation of Santander Group. The three employees have been awarded a total overall amount of 2,100 thousand euro[1], which will be provided to them in thirds, on the third, fourth and fifth anniversary of the granting date (2023, 2024 and 2025).

See Note 47 to the 2019 Group's consolidated financial statements for further detail on the Digital Transformation Incentive.

In 2019, the ratio between the variable components of remuneration to the fixed components was 98% of the total for senior managers, in all cases respecting the upper limit of 200% set by the shareholders.

See note 5 of the Group's 2019 consolidated financial statements for further details.

1 The 2,100 thousand euro amount is implemented in 286,104 Santander shares and 1,495,726 options over Santander shares, using for these purposes the fair value of the options at the moment of their grant (0.702 euros).

6.7 Prudentially significant disclosures document

The board of directors is responsible for approving, at the proposal of the remuneration committee, the key elements of the remuneration of managers or employees who, while not belonging to senior management, take on risks, carry out control functions (i.e. internal audit, risk management and compliance) or who receive global remuneration that places them in the same remuneration bracket as senior management and employees who take on risk. These are typically those whose professional activities may have an important impact on the Group's risk profile (all of these together with the senior management and the Bank's board of directors form the so called identified staff or material risk takers).

Every year, the remuneration committee reviews and, if applicable, updates the composition of the identified staff in order to identify the individuals in the organisation who fall within the aforementioned parameters. The Remuneration Policies chapter of the 2019 Pillar III disclosures report[11] of Banco Santander, S.A. describes the criteria used for identifying staff and the applicable regulation for the same purpose.

According to these criteria, at the 2019 year-end, this group comprised 1,359 executives across the Group (including executive directors and non-director senior managers) (1,384 in 2018), accounting for 0.69% of total staff (0.68% in 2018).

The directors that are identified staff other than executive directors are subject to the same remuneration standards applicable to the latter described in sections 6.1 and 6.3, except for:

- The various deferral percentages and terms that apply based on their category.
- The possibility that in 2019 certain categories of managers do not have the deferred incentive subject to long-term performance metrics, but only to malus and clawback clauses.
- As occurred with the bonuses in previous years, the variable remuneration amount that is paid or deferred in shares to the executives of the Group in Brazil, Chile, Mexico, Poland, and Santander Consumer US, can be delivered in shares or similar instruments of their own listed entities.

In the financial year 2020, the board of directors will maintain its flexibility for agreeing total or partial payment in shares or similar instruments of Banco Santander and/or the respective subsidiary in the proportion it considers appropriate in each case (subject, in any event, to the maximum number of Santander shares to be delivered as agreed by shareholders at the general meeting and any regulatory restrictions applicable in each jurisdiction).

The aggregate amount of the 2019 variable remuneration of identified staff, the amounts deferred in cash and in instruments and the ratio between the variable components of remuneration to the fixed components are detailed in the remuneration policies chapter of the 2019 Pillar III disclosures report mentioned above.

11 The 2019 Pillar III disclosures report is published at our corporate website.

7. Group structure and internal governance

The structure of the Santander Group is a model of legally independent subsidiaries whose parent is Banco Santander, S.A. The registered address is in the city of Santander (Cantabria, Spain) and the Corporate Centre is in Boadilla del Monte (Madrid, Spain).

The Group has established a Group-Subsidiary Governance Model (GSGM) and good governance practices for its main subsidiaries. Any reference to subsidiaries in this section refers to the Bank's most significant subsidiaries.

The key features of the GSGM are as follows:

- The governing bodies of each subsidiary shall ensure that their company is managed rigorously and prudently, while ensuring their economic solvency and upholding the interests of their shareholders and other stakeholders.
- Management of the subsidiaries is a local matter carried out by local management teams which provide extensive knowledge and experience in relation to local customers and markets, while also benefiting from the synergies and advantages of belonging to the Santander Group.
- The subsidiaries are subject to the regulation and supervision of their respective local authorities, without prejudice to the global supervision of the Group by the ECB.
- Customer funds are secured by virtue of the deposit guarantee funds in place in the relevant country, in accordance to the applicable laws.

Subsidiaries finance themselves autonomously when it comes to both capital and liquidity. The Group's capital and liquidity positions are coordinated by the corporate committees. Intra-group exposure is limited and transparent and any such transactions are invariably arranged under arm's length conditions. Moreover, the Group has listed subsidiaries in certain countries, in which it always retains a controlling stake.

The subsidiaries' autonomy limits the contagion risk between the Group's different units, which reduces systemic risk. Each subsidiary has its own recovery plan.

7.1 Corporate centre

The GSGM of Banco Santander is further complemented with a corporate centre that brings together Group control and support units tasked with functions relating to strategy, risk, auditing, technology, human resources, legal services, communications and marketing, among others. The corporate centre adds value to the Group by:

- Making its governance more robust, through corporate frameworks, models, policies and procedures that allow a corporate strategy to be implemented and ensure effective supervision of the Group.
- Making the Group's units more efficient by unlocking cost management synergies, economies of scale and achieving a common brand.
- Sharing the best commercial practices, focusing on global connectivity, launching global commercial initiatives and fostering digitalisation throughout the Group.

7.2 Internal governance of the Group

Santander has an internal governance model that establishes a set of principles that regulate relations and the interaction that must exist between the Group and its subsidiaries on three levels:

- On the governing bodies of the subsidiaries, where the Group has devised rules and procedures regulating the structure, composition, make-up and functioning of the boards and their committees (audit, appointments, remuneration and risk), in accordance with international standards and good governance practices. In addition, other rules and regulations concerning the appointment, remuneration and succession planning of members of governing bodies, in full compliance with the regulations and local supervisory criteria, are embedded.
- Between the regional and country heads and the Group´s CEO, and between the local and global heads of the key control functions: chief risk officer (CRO); chief compliance officer (CCO); chief audit executive (CAE); chief financial officer (CFO); chief accounting officer (CAO) and key support functions (IT, Operations, HR, General Secretary's office, Legal Services, Marketing, Communications and Strategy) as well as business functions (SCIB, Wealth Management and Digital and Innovation).

The governance model establishes, among other aspects, the relevant rules and regulations to be followed in relation to their appointment, setting of targets, assessment, and fixing of variable remuneration and succession planning. It also explains how Group officers and their counterparts at the subsidiaries should liaise and interact.

Santander also has thematic frameworks (corporate frameworks) for matters considered to be important due to their impact on the Group's risk profile, which include areas including risk, capital, liquidity, compliance, technology, auditing, accounting, finance, strategy, human resources, cybersecurity and communications brand. These frameworks specify:

- The way the Group exercises oversight and control over its subsidiaries.

- The Group's involvement in certain of the subsidiaries' important decisions, as well as the subsidiaries' involvement in the Group's decision-making processes.

The aforementioned governance model and corporate frameworks effectively make up the internal governance system and are approved by the board of directors of Banco Santander, S.A. for subsequent adherence to it by the governing bodies of the subsidiaries, with due regard to any local requirements to which these subsidiaries may be subject. Both the model and the frameworks are maintained up to date on an ongoing basis through the annual review of the Bank's board and the recurring adoption of legislative changes and international best practices. They are subject to annual review by the Group board of directors.

Based on the corporate frameworks, the functions included in the governance model prepare internal regulatory documents that are given to the Group's subsidiaries as reference and development documentation, ensuring that the frameworks are effectively implemented and embedded at a local level, and in full compliance with local law and supervisory expectations. This approach also drives a consistent application throughout the Group.

An Internal Governance office at Group level and the subsidiaries' general secretaries are responsible for promoting the effective embedding of the governance model and corporate frameworks. The extent and completeness of this activity is assessed by the Group on an annual basis with associated reporting to relevant governing bodies.

In 2019, a new policy for the governance of non-GSGM subsidiaries and investees was approved. This policy completes and enhances the governance and control system that has been applied to these companies until now.

8. Internal control over financial reporting (ICFR)

This section describes key aspects of the internal control and risk management systems in place at Santander Group with respect to the financial reporting process, specifically addressing the following aspects:

- Control environment.
- Risk assessment in financial reporting.
- Control activities.
- Information and communication.
- Monitoring.
- External auditor report.

8.1 Control environment

Governance and responsible bodies

The board of directors approves the financial information that, due to its status as a listed company, Banco Santander must periodically make public and is responsible for overseeing and guaranteeing the integrity of the internal information and control systems, as well as the accounting and financial information systems. This includes operational and financial control and compliance with applicable legislation.

The board of directors has set up an audit committee that assists the board in supervising the financial reporting process and internal control systems. See section 4.5 'Audit committee activities in 2019'.

In addition, the audit committee discusses with the external auditor any significant deficiencies in the internal control system that may be detected in the course of the audit and ensures that the external auditor issues a report regarding the internal control system for financial information.

The existence of an adequate internal control over financial reporting (ICFR), prepared and coordinated by the non-financial risk control area, covers the entire organisational structure with control relevance, through a direct scheme of individually assigned responsibilities. In addition, the financial accounting and management control units in each of the countries in which the Group operates -each led by a financial controller- have an important role in complying with the standard. The section below includes more information on the functions carried out by each organisational structure, the controllers and the non-financial risk control area.

Responsible functions, General Code of Conduct, whistleblowing channel and training

Responsible functions

The Group, through the corporate organisation area and the organisational units for each country/entity or business, defines, implements and maintains the organisational structures, catalogue of job positions and size of units. Specifically, the corporate organisation function defines a reference management and staff structure, which serves as a manual across the Group.

The business and support areas channel any initiative related to their structure through these organisational units. These units are responsible for analysing, reviewing and, where appropriate, incorporating any structural modifications into the corporate technology tools. The organisational units are responsible for identifying and defining the main functions under the responsibility of each structural unit.

Based on this assignment, each of the business/support areas identify and document the necessary tasks and controls in its area within the Internal Control Model (ICM), based on its knowledge and understanding of its activities, processes and potential risks.

Each unit thus detects the potential risks associated with those processes, which are covered by the ICM. This detection is based on the knowledge and understanding that management has of the business and associated process.

It also has to define those persons responsible for the various controls, tasks and functions of the documented processes, so that all the members of the division have clearly assigned responsibilities.

The purpose of this is to try to ensure, among other things, that the organisational structure provides a solid model of ICFR.

With respect to the specific process of preparing its financial information, the Group has defined clear lines of responsibility and authority. The process entails exhaustive planning, including, among other things, the distribution of tasks and functions, the required timeline and the various reviews to be performed by each manager. To this end, the Group has financial accounting and control units in each of its operating markets; these are headed up by a financial controller whose duties include the following:

- Integrating the corporate policies defined at the Group level into their management, adapting them to local requirements as required.
- Ensuring that organisational structures in place are conducive to performance of the tasks assigned, including a suitable hierarchical-functional structure.
- Deploying critical procedures (control models), leveraging the Group's corporate IT tools to this end.
- Implementing the corporate accounting and management information systems, adapting them to each entity's specific needs as required.

In order to preserve their independence, the controllers report to their country heads and to the Group's Financial Accounting and Control division.

In addition, to support the existence of adequate documentation for the Group's ICM, the corporate non-financial risk control department is responsible for establishing and reporting the methodology governing the process of documenting, evaluating and certifying the internal control model that covers the ICFR system, among other regulatory and legal requirements. It is also responsible for keeping all necessary documentation fully up to date including organizational and regulatory changes. In addition, together with the Financial Accounting and Control division and, if appropriate, the representatives of the divisions and/or companies concerned, it is responsible for presenting the conclusions of the ICM evaluation process to the audit committee. There are similar functions at each unit that report to the corporate non-financial risk control department.

General Code of Conduct

The Group's General Code of Conduct is approved by the Bank's board of directors, setting out behavioural guidelines of ethical principles and rules of conduct that govern the actions of all Santander Group employees and, therefore, constitutes the central pillar of the Group compliance and conduct function. It also establishes guidelines for conduct, among other matters, in relation to accounting obligations and financial information. The Code can be consulted on the corporate website (www.santander.com).

This Code is binding for all members of the Group's governance bodies and all employees of Banco Santander, S.A., who acknowledge so when they join the Group, notwithstanding the fact that some of these individuals are also bound by the Code of Conduct in Securities Markets and other codes of conduct specific to the area or business in which they work.

The Group provides all its employees with e-learning courses on the aforementioned General Code of Conduct. Moreover, the compliance and conduct function is available to address any queries with respect to its application. The General Code of Conduct sets out the functions of the Group's governance bodies, units and areas required to implement the Code, in addition to the compliance function.

The Human Resources function is responsible for imposing disciplinary measures for any breaches of the General Code and proposing corrective actions, which may lead to labour-offence sanctions, notwithstanding any administrative or criminal sanctions that may also result from such a breach. The function is assisted in this regard by a Human Resources Committee comprise of representatives from various parts of the Group.

Whistleblowing channel

Banco Santander has a whistleblowing channel, called 'Canal Abierto', through which employees can report, confidentially and anonymously, any allegedly unlawful acts or breaches of the General Code of Conduct as well as behaviours not aligned with the corporate ones that comes to their knowledge during the course of their professional activities.

In addition, through this whistleblowing channel, employees can confidentially and anonymously report irregularities in accounting or auditing matters, in accordance with SOX. When reports concerning accounting or auditing matters are received, the compliance and conduct function will report them to the audit committee to adopt the appropriate measures.

To preserve the confidentiality of communications prior to their examination by the audit committee, the procedure does not require the inclusion of personal data from the sender. In addition, only certain persons in the compliance and conduct function review the content of the communication in order to determine whether it is related to accounting or auditing matters, and, if applicable, submit it to the audit committee.

Training

Group employees involved in preparing and reviewing its financial information participate in training programmes and regular refresher courses which are specifically designed to provide them with the knowledge required to allow them to discharge their duties properly.

The training and refresher courses are mostly promoted by the Financial Accounting and Control division itself and are designed and overseen together with the corporate learning and career development unit which is, in turn, part of the HR department and is responsible for coordinating and imparting training across the Group.

These training initiatives take the form of a mixture of e-learning and on site sessions, all of which are monitored and overseen by the aforementioned corporate unit in order to guarantee they are duly taken and that the concepts taught have been properly assimilated.

The training and periodic update programmes taught in 2019 have focused, among other subjects, on: risk analysis and management, accounting and financial statement analysis, the business, banking and financial environment, financial management, costs and budgeting, numerical skills, calculations and statistics and financial statement auditing, among other matters directly and indirectly related to the financial information process.

45,061 employees from the Group's entities in the various countries in which it operates were involved in these training programmes, involving over 1,000,000 training hours at the corporate centre in Spain and remotely (e-learning). In addition, each country develops its own training programme based on that developed by the parent.

8.2 Risk assessment in financial reporting

Santander Group's ICM is defined as the process carried out by the board of directors, senior management and the rest of the Group's employees to provide reasonable assurance that their targets will be attained.

The Group's ICM complies with the most stringent international standards and specifically complies with the guidelines established by the Committee of Sponsoring Organisations of the Tradeway Commission (COSO) in its most recent framework published in 2013, which addresses control targets in terms of operations effectiveness and efficiency, financial information reliability and compliance with applicable rules and regulations.

ICM documentation is implemented in the main Group companies using standard and uniform methodology to ensure inclusion of appropriate controls and covers all material financial information risk factors.

The risk identification process takes into account all classes of risk. Its scope is greater than all of the risks directly related to the preparation of the Group's financial information.

The identification of potential risks that must be covered by the ICM is based on the knowledge and understanding that management have of the business and its operating processes, taking into account criteria associated with the type, complexity or the structure of the business itself.

In addition, the Bank ensures the existence of controls covering the potential risk of error or fraud in the issuance of the financial information, i.e., potential errors in terms of: i) the existence of the assets, liabilities and transactions as at the corresponding date; ii) the fact that the assets are Group goods or rights and the liabilities Group obligations; iii) proper and timely recognition and correct measurement of its assets, liabilities and transactions; and iv) the correct application of the accounting rules and standards and adequate disclosures.

The following aspects of the Group's ICM model are worth highlighting:

- It is a corporate model involving the whole organisational structure through a direct scheme of responsibilities assigned individually.
- The management of the ICM documentation is decentralised, being delegated to the Group's various units, while its coordination and monitoring is the duty of the non-financial risk control department. This department issues general criteria and guidelines to ensure uniformity and standardisation of the documentation of procedures, control assessment tests, criteria for the classification of potential weaknesses and rule changes.
- It is an extensive model with a global scope of application, which not only documents the activities relating to generation of the consolidated financial information, its core scope of application, but also other procedures developed by each entity's support areas. These do not generate a direct impact on the accounting process but could cause possible losses or contingencies in the case of incidents, errors, regulatory breaches and/ or fraud.
- It is dynamic and updated continually to mirror the reality of the Group's business as it evolves, the risks to which it is exposed and the controls in place to mitigate these risks.
- It generates comprehensive documentation of all the processes falling under its scope of application and includes detailed descriptions of the transactions, evaluation criteria and checks applied to the ICM.

All of the Group companies' ICM documentation is compiled into a corporate IT application which is accessed by employees of differing levels of responsibility in the evaluation and certification process of Santander Group's internal control system.

The Group has a specific process for identifying the companies that should be included within its scope of consolidation. This is mainly monitored by the Financial Accounting and Control division and the office of the general secretary and human resources.

This procedure enables the identification of not just those entities over which the Group has control through voting rights from its direct or indirect holdings, but also those over which it exercises control through other channels, such as mutual funds, securitisations and other structured vehicles. This procedure analyses whether the Group has control over the entity, has rights over, or is exposed to, its variable returns, and whether it has the capacity to use its power to influence the amount of such variable returns. If the procedure concludes that the Group has such control, the entity is included in the scope of consolidation, and is fully consolidated. If not, it is analysed to identify whether there is significant influence or joint control. If this is the case, the entity is included in the scope of consolidation, and consolidated using the equity method.

Finally, the audit committee is responsible for supervising the Bank and Group's regulated financial information process and internal control system.

In supervising this financial information, particular attention is paid to its integrity, compliance with regulatory requirements and accounting criteria, and the correct definition of the scope of consolidation. The internal control and risk management systems are regularly reviewed to ensure their effectiveness and adequate identification, management and reporting.

8.3 Control activities

Procedures for reviewing and authorising financial information

The audit committee and the board of directors oversee the process of preparing and presenting the mandatory financial information regarding the Bank and the Group.an assessment of its competences, compliance with regulatory requirements and accounting standards which, together, ensure its accuracy and timely update on the Bank's website.

The process of creating, reviewing and authorising the financial information and the description of the ICFR is documented in a corporate tool which integrates the control model into risk management, including a description of the activities, risks, tasks and the controls associated with all of the transactions that may have a material effect on the financial statements. This documentation covers recurrent banking transactions and one-off transactions (stock trading, property deals, etc.), as well as aspects related to judgements and estimates, covering the registration, assessment, presentation and disclosure of financial information. The information in the tools is updated to reflect changes in the methodology for, reviewing and authorising procedures for generating financial information.

The audit committee has the duty to report to the board, prior to its adoption of the decisions, regarding the financial information that the Group must periodically make public, ensuring that such information is prepared in accordance with the same principles and practices used to prepare the financial statements with the same degree of reliability.

The most significant aspects of the accounting close process and review of material judgements, estimates, measurements and projections used are as follows:

- Impairment losses on certain assets;
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations;
- The useful life of the tangible and intangible assets;
- The measurement of goodwill arising on consolidation;
- The calculation of provisions and the consideration of contingent liabilities;
- The fair value of certain unquoted assets and liabilities;
- The recoverability of tax assets; and
- The fair value of the identifiable assets acquired, and the liabilities assumed, in business combinations.

Our Group chief accounting officer presents the Group's financial information to the audit committee for validation on a quarterly basis, providing explanations of the main criteria employed for estimates, valuations and value judgements.

The information provided to directors prior to board meetings, including information on value judgements, estimates and forecasts relating to the financial information, is prepared specifically for the purposes of these meetings.

The Group has in place an assessment and certification process which verifies that the ICM is working properly and is effective in practice. This assessment starts with an evaluation of the control activities by the staff responsible for them. Depending on the conclusions drawn, the tasks and functions related to the generation of financial information are certified so that, having analysed all such certifications, the chief executive officer, the chief financial officer and the chief accounting officer/financial controller certify the effectiveness of the ICM.

There is also a committee called accounting and financial management information committee which is responsible for the governance and supervision of matters relating to accounting, financial management and control, and for ensuring that the Bank makes appropriate and adequate financial disclosures of these matters in accordance with laws and regulations, ensuring that such disclosure is fair, accurate and not misleading.

The annual process identifies and assesses the criticality of risks and the effectiveness of the controls identified in the Group.

The Non-Financial Risk Control unit prepares a report detailing the conclusions reached as a result of the certification process conducted by the units, taking the following aspects into consideration:

- Detail of the certifications obtained at all levels.
- Any additional certifications considered necessary.
- Specific certification of all significant outsourced services.
- Tests about the design and operation of ICM performed by those responsible for its maintenance and/or by independent experts.

This report also itemises the main deficiencies identified throughout the certification process by any of the parties involved, indicating whether these deficiencies have been properly resolved or, if not, what remedition plans are in place to correct them in a satisfactory manner.

The conclusions of these evaluation processes are presented to the audit committee by the non-financial risk control department, together with Financial Accounting and Control division and, if appropriate, the sponsors of the divisions and/or work companies concerned, after having been presented to the risk control committee.

Lastly, based on this report, the Group's chief accounting officer / controller, chief financial officer and its chief executive officer certify the effectiveness of the ICM in terms of preventing or detecting errors which could have a material impact on the consolidated financial information.

Since 2018, the Group has worked to strengthen the identification and documentation of the most relevant controls relating to the internal control over financial reporting (special monitoring controls). This has included the reinforcement of existing mechanisms within the organization to promote a culture of preventive risk identification and management in a more precise way.

Finally, during 2019, the Group defined within its governance scheme a new meeting called 'Internal Control Steering Meeting' where the main stakeholders of the Group´s ICM monitor progress with the main control deficiencies and the strategy and evolution of the Group´s ICM.

Internal control policies and procedures for IT systems

The Technology and Operations Division draws up the corporate policies relating to the Group's information systems which, directly or indirectly, relate to the financial statements, guarantee, at all times, through a specific internal control system, the correct preparation and publication of financial information.

For internal control purposes, are particularly relevant the policies relating to the following aspects:

- Internal policies and procedures, updated and disseminated, relating to system security and access to applications and computer systems, based on roles and in accordance with the functions and ratings assigned to each unit/position, in order to ensure adequate segregation of duties.
- The Group's methodology ensures that the development of new applications and the modification or maintenance

of existing applications is through a circuit of definition, development and testing that ensures the reliable processing of financial information.

- In this way, once the development of the applications has been completed based on the standardised definition of requirements (detailed documentation of the processes to be implemented), comprehensive tests are carried out by a specialist development laboratory in this field.
- Subsequently, in a pre-production environment (computer environment that simulates real situations) and prior to their definitive implementation, a complete software testing cycle is run, which includes: technical and functional tests, performance tests, user acceptance tests and pilot and prototype tests that are defined by the entities, before making the applications available to end users.

- Based on corporate methodology, the Group guarantees the existence of continuity plans to ensure the performance of key functions in the event of disasters or events that may suspend or interrupt activity. To this end, there are back-up systems with a high degree of automation that guarantee the continuity of critical systems with minimum human intervention, thanks to redundant systems, high availability systems and redundant communication lines.

Internal control policies and procedures over outsourced activities and valuation services from independent experts

The Group has established an action framework and specific implementation policies and procedures to ensure the adequate coverage of the risks associated with subcontracting activities to third parties.

This framework is in line with the EBA's requirements for outsourcing arrangements and risk management with third parties, and must be complied within all companies of the Group.

The relevant processes include:

- The performance of tasks relating to the initiation, recording, processing, settlement, reporting and accounting of asset valuations and transactions.
- The provision of IT support in its various manifestations: software development, infrastructure maintenance, incident management, IT security and IT processing.
- The provision of other material support services not directly related to the generation of financial information: supplier management, property management, HR management, etc.

The main control procedures in place to ensure adequate coverage of the risks intrinsic to these processes are:

- Relations among Group companies are documented in contracts which detail exhaustively the type and level of service provided.
- All of the Group's service providers document and validate the main processes and controls related to the services they provide.
- Entities to which activities are outsourced document and validate their controls in order to ensure that the material risks associated with the outsourced services are kept within reasonable levels. Thus enables the identification and implementation of inherent risk mitigation plans to ensure that residual risk is within the entity's risk appetite.

The Group assesses its evaluation internally according to the control model guidelines mentioned. Whenever it considers it advisable to hire the services of a third party to help with specific matters, it does so having verified their expertise and independence, for which procedures are in place, and having validated their methods and the reasonableness of the assumptions made.

Furthermore, the Group put in place controls to ensure the integrity and quality of information for external suppliers providing significant services that might impact the financial statements and are detailed in the service level agreements reflected in the respective contracts with third parties.

8.4 Information and communication

Function in charge of accounting policies

The Financial Accounting and Control division includes the accounting policies area, the head of which reports directly to the financial controller and has the following exclusive responsibilities:

- Defining the accounting treatment of the transactions that constitute the Bank's business in keeping with their economic substance and the regulations governing the financial system.
- Defining and updating the Group's accounting policies and resolving any questions or conflicts deriving from their interpretation.
- Enhancing and standardising the Group's accounting practices.
- Assisting and advising the professionals responsible for new IT developments with respect to accounting requirements and ways of presenting information for internal consumption and external distribution and on how to maintain these systems as they relate to accounting issues.

The Corporate Accounting, Financial Reporting and Management Framework sets out the principles, guidelines and procedures for accounting, financial reporting and management that apply to all entities of the Santander Group as a key pillar of good governance. The structure of the Group calls for the application of consistent principles, guidelines and procedures so that each Group entity can rely on effective consolidation methods and apply uniform accounting policies. The principles set out in this Framework are appropriately implemented and specified in the Group's accounting policies.

Accounting policies must be treated as a supplement to the financial and accounting standards that apply in the given jurisdiction. Their overarching objectives are as follows: (i) financial statements and other financial information made available to management bodies, regulators and third parties must provide accurate and reliable information for decision-making relating to the Group, and (ii) all Group entities must be enabled to comply in a timely manner with legal duties and obligations and regulatory requirements. The Accounting Policies are subject to revision whenever the reference regulations are modified and, at least, once a year.

Additionally, on a monthly basis, the accounting policies area publishes an internal bulletin that contains relevant news on accounting matters, including both new published regulations and the most relevant guidance. These documents are stored in an accounting standards library, which is accessible to all Group units.

The Financial Accounting and Control division has put in place procedures to ensure it has all the information it needs to update the accounting plan to cover the issue of new products and regulatory and accounting changes that make it necessary to adapt the plan and accounting principles and policies.

The Group entities, through the heads of their operations or accounting units, maintain an on-going and fluid dialogue with the financial regulation and accounting processes area and with the other areas of the management control unit.

Mechanisms for the preparation of financial information

The Group's computer applications are configured into a management model which, using an IT system structure appropriate for a bank, is divided into several 'layers', which supply different kinds of services, including:

- General information systems: these provide information to division/business unit heads.
- Management systems: these produce information for business monitoring and control purposes.
- Business systems: software encompassing the full product-contract-customer life cycle.
- Structural systems: these support the data shared and are used by all the applications and services. These systems include all necessary accounting and financial information.

All these systems are designed and developed in accordance with the following IT architecture:

- General software architecture, which defines the design patterns and principles for all systems.
- Technical architecture, including the mechanisms used in the model for design outsourcing, tool encapsulation and task automation.

One of the overriding purposes of this model is to provide the Group's IT systems with the right software infrastructure to manage all the transactions performed and their subsequent entry into the corresponding accounting registers, with the resources needed to enable access to, and consultation of, the various levels of supporting data.

The software applications do not generate accounting entries per se; they are based on a model centred on the transaction itself and a complementary model of accounting templates that specifies the accounting entries and movements to be made for the transaction. These accounting entries and movements are designed, authorised and maintained by the Financial Accounting and Control division.

The applications execute all the transactions performed in a given day across various distribution channels (branches, internet, telephone banking, e-banking, etc.) into the 'daily transaction register'.

This register generates the transaction accounting entries and movements on the basis of the information contained in the accounting template, uploading it directly into the accounting infrastructure application.

This application carries out other processes necessary to generate financial information, including: capturing and balancing the movements received, consolidating and reconciling with application balances, cross-checking the software and accounting information for accuracy, complying with the accounting allocation structural model, managing and storing auxiliary accounting data and making accounting entries for retention in the accounting system itself.

Some applications do not use this process. These rely instead on their own account assistants who upload the general accounting data directly by means of account movements, so that the definition of these accounting entries resides in the applications themselves.

In order to control this process, before inputting the movements into the general accounting system, the accounting information is uploaded into a verification system which performs a number of controls and tests.

This accounting infrastructure and the aforementioned structural systems generate the processes needed to formulate, disclose and store all the financial information required of a financial institution for regulatory and internal purposes, all of which under the guidance, supervision and control of the Financial Accounting and Control division.

To minimise the attendant operational risks and optimise the quality of the information produced in the consolidation process, the Group has developed two IT tools which it uses in the financial statement consolidation process.

The first channels information flows between the units and the Financial Accounting and Control division, while the second performs the proper consolidation on the basis of the information provided by the former.

Each month, all of the entities within the Group's scope of consolidation report their financial statements, in keeping with the Group's audit plan.

The Group's audit plan, which is included in the consolidation application, generally contains the disclosure needed to comply with the disclosure requirements imposed on the Group by Spanish and international authorities.

The consolidation application includes a module that standardises the accounting criteria applied so that the units make the accounting adjustments needed to make their financial statements consistent with the accounting criteria followed by the Group.

The next step, which is automated and standardised, is to convert the financial statements of the entities that do not operate in euros into the Group's functional currency.

The financial statements of the entities comprising the scope of consolidation are subsequently aggregated.

The consolidation process identifies intragroup items, ensuring they are correctly eliminated. In addition, in order to ensure the quality and comprehensiveness of the information, the consolidation application is configured to make investment-equity elimination adjustments and to eliminate intragroup transactions, which are generated automatically in keeping with the system settings and checks.

Lastly, the consolidation application includes another module (the annex module) which allows all units to upload the accounting and non-accounting information not specified in the aforementioned audit plan and which the Group deems necessary for the purpose of complying with applicable disclosure requirements.

This entire process is highly automated and includes automatic controls to enable the detection of incidents in the consolidation process. The Financial Accounting and Control division also performs additional oversight and analytical controls.

8.5 Monitoring

2019 ICFR monitoring activities and results

The board has approved a corporate internal audit framework for the Santander Group, defining the global function of internal audit and how it is to be carried out.

In accordance with this, internal audit is a permanent function and independent from all other functions and units. Its mission is to provide the board of directors and senior management with independent assurances with regard to the quality and efficacy of the systems and processes of internal control, risk management (current and emerging) and governance, thereby helping to safeguard the organisation's value, solvency and reputation. Internal audit reports to the board audit committee and to the board of directors on a regular basis and at least twice a year, as an independent unit, has free and unfettered direct access to the board whenever it deems it appropriate.

Internal audit evaluates:

- The efficacy and efficiency of the processes and systems cited above;
- Compliance with applicable legislation and requirements of supervisory bodies;
- The reliability and integrity of financial and operating information; and
- The integrity of assets.

Internal audit is the third line of defence, independent of the other two. The scope of its work encompasses:

- All Group entities over which it exercises effective control;
- Separated assets (for example, mutual funds) managed by the entities mentioned in the previous section; and
- All entities (or separated assets) not included in the previous points, for which there is an agreement for the Group to provide internal audit functions.

This scope, subjectively defined, includes the activities, businesses and processes carried out (either directly or through outsourcing), the existing organisation and any commercial networks. In addition, and also as part of its mission, internal audit can undertake audits in other subsidiaries not included among the points above, when the Group has reserved this right as a shareholder, and in outsourced activities pursuant to the agreements reached in each case.

The board audit committee supervises the Group's internal audit function. See section 4.5 'Audit committee activities in 2019'.

As at the 2019 year-end, internal audit employed 1,268 people, all dedicated exclusively to this service. Of these, 268 were based at the Corporate Centre and 1,000 in local units situated in the principal geographic areas in which the Group is present, all of who work exclusively at those locations.

Each year, Internal Audit prepares an audit plan based on a self-assessment exercise of the risks to which the Group is exposed. Internal Audit is solely responsible for executing the plan. From the reviews carried out, audit recommendations may be prepared. These are prioritised according to their relative importance and are monitored continuously until their complete implementation.

At its meeting on 24 February 2020, the audit committee considered and approved the audit plan for 2020, which was submitted to, and approved by, the board at the meeting held on 27 February 2020.

The main objectives of the internal audit reviews were to:

- Verify compliance with sections 302, 404, 406, 407 and 806 of the Sarbanes-Oxley Act.
- Check the existing governance on information related to the internal control system over financial information.
- Review the functions performed by the internal control departments and other departments, areas or divisions involved in compliance with the SOX Act.
- Check that the SOX support documentation is updated.
- Verify the effectiveness of a sample of controls based on an Internal Audit risk assessment methodology.
- Evaluate the accuracy of the certifications carried out by the different units, especially their consistency with any observations and recommendations set forward by Internal audit, the auditors of the statutory accounts and different supervisors.
- Verify the implementation of the recommendations issued in the execution of the audit plan.

In 2019, the board audit committee and the board of directors were kept informed of the work carried out by the Internal Audit division on its annual plan and other issues related to the audit function. See section 4.5 'Audit committee activities in 2019'.

Detection and management of deficiencies

The board audit committee is officially tasked with overseeing the financial information process and the internal control systems. It deals with any control deficiencies that might affect the reliability and accuracy of the financial statements. To this end, it can call in the various areas of the Group involved to provide the necessary information and clarifications. The committee also takes stock of the potential impact of any flaws detected in the financial information.

The board audit committee, as part of its remit to oversee the financial reporting process and the internal control systems, is responsible for discussing with the external auditors any significant weaknesses detected in the course of the audit.

As part of its supervision work, our board audit committee assesses the results of the work of the Internal Audit division, and can take action as necessary to correct any deficiencies identified in the financial information.

In 2019, the board audit committee was informed about the evaluation and certification of the ICM corresponding to year 2018. See section 4.5 'Audit committee activities in 2019'.

8.6 External auditor report

The external auditor has issued an independent reasonable assurance report on the design and effectiveness of the ICFR and the description on the ICFR that is provided in this section 8 of the annual corporate governance report.

This report is included in the next pages.

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent reasonable assurance report on the design and effectiveness of Internal Control over Financial Reporting (ICFR)

To the Board of Directors of Banco Santander, S.A.:

We have carried out a reasonable assurance engagement of the design and effectiveness of the Internal Control over Financial Reporting (hereinafter, ICFR) and the description that is included in the attached Report that forms part of the corresponding section of Corporate Governance Report of the Directors' Report accompanying the consolidated financial statements of Banco Santander, S.A., (hereinafter, the Parent Company) and its subsidiaries (hereinafter, the Group or Santander Group) as at December 31, 2019.

This system is based on the criteria and policies defined by the Group in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control-Integrated Framework" report, in its most recent framework published in 2013.

An Internal Control over Financial Reporting is a process designed to provide reasonable assurance over the reliability of financial information in accordance with the applicable financial reporting framework and includes those policies and procedures that: (i) enable the records reflecting the transactions performed to be kept accurately and with a reasonable level of detail; (ii) provide reasonable assurance as to the proper recognition of transactions to make it possible to prepare the financial information in accordance with the accounting principles and standards applicable to it and (iii) provide reasonable assurance in relation to the prevention or timely detection of unauthorised acquisitions, use or sales of the Group assets that could have material effect on the financial information.

Inherent limitations

In this regard, it should be borne in mind that, given the inherent limitations of any system of Internal Control over Financial Reporting, regardless of the quality of the design and operation of the system, it can only allow reasonable, but not absolute security, in relation to the objectives it pursues, which may lead to errors, irregularities or fraud that may not be detected. On the other hand, the projection to future periods of the evaluation of internal control is subject to risks such as such internal control being inadequate as a result of future changes in the applicable conditions, or that in the future the level of compliance of the established policies or procedures may be reduced.

Director's responsibility

The Parent Company's Directors are responsible for taking the necessary measures to reasonably guarantee the implementation, maintenance and supervision of an adequate Internal Control over Financial Reporting, as well as the evaluation of its effectiveness, the development of improvements of ICFR and the preparation and establishment of the content of the attached information relating to the ICFR.

Our Responsibility

Our responsibility is to issue a reasonable assurance report on the design and effectiveness of the Internal Control over Financial Reporting of the Group, based on the work we have performed and on the evidence we have obtained. We have performed our reasonable assurance engagement in accordance with "International Standard on Assurance Engagements 3000 (ISAE 3000)" (Revised), "Assurance Engagements other than Auditing or Reviews of Historical Financial Reporting", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

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Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

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A reasonable assurance report includes the understanding of the Internal Control over Financial Reporting, assessing the risk of material weaknesses in the internal control, that the controls are not properly designed or they do not operate effectively, the execution of tests and evaluations on the design and effective implementation of this ICFR, based on our professional judgment, and the performance of such other procedures as may be deemed necessary.

We believe that the evidence we have obtained provides a sufficient and adequate basis for our opinion.

Our Independence and Quality Control

We have complied with the independence requirements and other ethical requirements of the Accounting Professionals Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior.

Our firm applies the "International Standard on Quality Control 1 (ISQC 1)" and maintains an exhaustive qualitative control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory provisions.

Opinion

In our opinion, Santander Group, maintained as at December 31, 2019, in all material respects, a system of Internal Control relating to Financial Reporting included in the consolidated financial statements of the Group as at December 31, 2019 effective, which is based on the criteria and the policies defined by the Group´s management in accordance with the guidelines established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its "Internal Control - Integrated Framework" report, in its most recent framework published in 2013.

In addition, the attached description of the ICFR Report as at December 31, 2019, has been prepared, in all material respects, in accordance with the requirements established by article 540 of the Consolidated Text of the Capital Companies Act and with the Circular 5/2013 of June 12, 2013 of the CNMV, as amended by CNMV Circular No. 7/2015 dated December 22, 2015 and Circular No 2/2018 dated June 12 of the CNMV for the purposes of the description of the ICFR in the Annual Reports of Corporate Governance.

This work does not constitute an audit of accounts nor is it subject to the regulations governing the activity of the audit in force in Spain, so we do not express any audit opinion in the terms provided in the aforementioned regulations. However, we have audited under separate engagement, in accordance with the regulations governing the audit activity in force in Spain, the consolidated financial statements of Santander Group prepared by the Parent Company's Directors in accordance with the International Financial Reporting Standards adopted by the European Union and other provisions of the financial reporting standards applicable to the Group, and our report dated February 28, 2020 expresses a favorable opinion on those consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L.

Alejandro Esnal Elorrieta

February 28, 2020

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9. Other corporate governance information

As indicated in the introduction of this chapter 'Redesigned corporate governance report', since 12 June 2018 (Circular 2/2018) the CNMV allows the annual corporate governance and directors' remuneration reports mandatory for Spanish listed companies to be drafted in a free format. As in 2018, we have opted for a free format for our 2019 corporate governance directors' remuneration reports.

The CNMV requires any issuer opting for a free format to provide certain information in a format established by the CNMV so that it can be aggregated for statistical purposes. This information is included (i) for corporate governance matters, under section 9.2 'Statistical information on corporate governance required by the CNMV', which also covers the section 'comply with the recommendations in the Spanish Corporate Governance Code for Listed Companies or explain', and (ii) for remuneration matters, under section 9.5 'Statistical information on remuneration required by the CNMV'.

In addition, given some shareholders or other stakeholders may be used to the formats of the corporate governance and directors' remuneration reports set the by the CNMV, sections 9.1 'Reconciliation with the CNMV's corporate governance report model' and 9.4 'Reconciliation to the CNMV's remuneration report model' include, for each section of such formats, a cross reference to where this information may be found in this 2019 annual corporate governance report, drafted in a free format, or elsewhere in this annual report.

Moreover, we have traditionally filled in the 'comply or explain' section for all recommendations in the Spanish Corporate Governance Code for Listed Companies to establish where we comply and also the few instances where we do not comply or we comply partially. Therefore, we have included in section 9.3 'Table on compliance with, and of, explanations of recommendations in corporate governance' a chart with cross-references showing where the information supporting each response can be found in this 2019 corporate governance chapter or elsewhere in this annual report.

9.1 Reconciliation with the CNMV's corporate governance report model

Section in the CNMV model	Included in statistical report	Comments
A. OWNERSHIP STRUCTURE		
A.1	Yes	See section 2.1.
A.2	Yes	See section 2.3 where we explain there are no significant shareholders on their own account.
A.3	Yes	See 'Tenure, committee membership and equity ownership' in section 4.2 and section 6.
A.4	No	See section 2.3 where we explain there are no significant shareholders on their own account so this section does not apply.
A.5	No	See section 2.3 where we explain there are no significant shareholders on their own account so this section does not apply.
A.6	No	See section 2.3 where we explain there are no significant shareholders on their own account so this section does not apply.
A.7	Yes	See section 2.4.
A.8	Yes	Not applicable.
A.9	Yes	See section 2.5.
A.10	No	See section 2.5.
A.11	Yes	See section 2.1 and statistical information.
A.12	No	See section 3.2.
A.13	No	See section 3.2.
A.14	Yes	See section 2.6.
B. GENERAL SHAREHOLDERS' MEETING		
B.1	No	See 'Quorum and majorities required for passing resolutions at the GSM' in section 3.2.
B.2	No	See 'Quorum and majorities required for passing resolutions at the GSM' in section 3.2.
B.3	No	See 'Rules governing amendments to our Bylaws' in section 3.2.

Section in the CNMV model	Included in statistical report	Comments
B.4	Yes	See sections 3.4 and 3.5 in relation to 2019.
B.5	Yes	See sections 3.4 and 3.5.
B.6	Yes	See 'Participation of shareholders at the GSM' in section 3.2.
B.7	No	See 'Quorum and majorities required for passing resolutions at the GSM' in section 3.2.
B.8	No	See 'Corporate website' in section 3.1.
C. MANAGEMENT STRUCTURE		
C.1 Board of directors		
C.1.1	Yes	See 'Size' in section 4.2.
C.1.2	Yes	See 'Tenure, committee membership and equity ownership' in section 4.2.
C.1.3	Yes	See sections 2.4, 4.1 and 'Executive directors', 'Independent non-executive directors', 'Other external directors' and 'Composition by type of director' in section 4.2.
C.1.4	Yes	See section 1.4 and 'Diversity' in 4.2.
C.1.5	No	See 'Diversity' in section 4.2 and section 4.6 and regarding top executive positions, see 'Responsible banking' chapter.
C.1.6	No	See 'Diversity' in section 4.2 and section 4.6.
C.1.7	No	See section 1.4 and 'Diversity' in section 4.2.
C.1.8	No	Not applicable.
C.1.9	No	See section 'Group executive chairman and chief executive officer' in section 4.3 and 'Executive committee' in section 4.4.
C.1.10	No	See section 4.1.
C.1.11	Yes	See section 4.1.
C.1.12	Yes	See 'Board and committees attendance' in section 4.3.
C.1.13	Yes	See section 6 and, additionally, note 5 c) to our 'consolidated financial statements'.
C.1.14	Yes	See sections 5 and 6.
C.1.15	Yes	See 'Rules and regulations of the board' in section 4.3.
C.1.16	No	See 'Election, renewal and succession of directors' in section 4.2.
C.1.17	No	See 'Assessment of the board' in section 4.3 and section 4.6.
C.1.18	No	See 'Assessment of the board' in section 4.3.
C.1.19	No	See 'Election, renewal and succession of directors' in section 4.2.
C.1.20	No	See 'Proceedings of the board' in section 4.3.
C.1.21	Yes	Not applicable.
C.1.22	No	See 'Diversity' in section 4.2.
C.1.23	Yes	See 'Election, renewal and succession of directors' in section 4.2.
C.1.24	No	See 'Proceedings of the board' in section 4.3.
C.1.25	Yes	See 'Lead independent director' and 'Board and committees attendance' in section 4.3 and sections 4.4, 4.5, 4.6, 4.7, 4.8, 4.9 and 4.10.
C.1.26	Yes	See 'Board and committees attendance' in section 4.3.
C.1.27	Yes	See statistical information.
C.1.28	No	See 'Duties and activities in 2019' in section 4.5.
C.1.29	Yes	See 'Secretary of the board' in section 4.3.
C.1.30	No	See sections 3.1, 'Duties and activities in 2019' in section 4.5, and section 9.6.
C.1.31	Yes	See 'External auditor' in section 4.5.
C.1.32	Yes	See 'Duties and activities in 2019' in section 4.5.
C.1.33	Yes	Not applicable.
C.1.34	Yes	See statistical information.
C.1.35	Yes	See 'Proceedings of the board' and 'Proceedings of the committees' in section 4.3.
C.1.36	No	See 'Election, renewal and succession of directors' in section 4.2.
C.1.37	No	Not applicable.
C.1.38	No	Not applicable.

Section in the CNMV model	Included in statistical report	Comments
C.1.39	Yes	See sections 6.4. and 6.7.
C.2 Board committees		
C.2.1	Yes	See 'Board committees structure' and 'Proceedings of the committees' in section 4.3 and sections 4.4, 4.5, 4.6, 4.7, 4.8, 4.9 and 4.10.
C.2.2	Yes	See statistical information.
C.2.3	No	See 'Board committees structure' in section 4.3 and sections 4.4, 4.5, 4.6, 4.7, 4.8, 4.9 and 4.10.
D. RELATED PARTY AND INTRAGROUP TRANSACTIONS		
D.1	No	See 'Related-party transactions' in section 4.12.
D.2	Yes	Not applicable.
D.3	Yes	See 'Related-party transactions' in section 4.12.
D.4	Yes	See statistical information.
D.5	Yes	See 'Related-party transactions' in section 4.12.
D.6	No	See 'Conflicts of interests' in section 4.12.
D.7	Yes	Not applicable.
E. CONTROL AND RISK MANAGEMENT SYSTEMS		
E.1	No	See chapter 'Risk management and control' of this annual report, in particular section 2 'Risk management and control model' and sections 'Our strong corporate culture: The Santander Way' and 'Tax contribution' in the 'Responsible banking' chapter.
E.2	No	See note 54 to our consolidated financial statements, in particular section Risk governance, and sections 'Our strong corporate culture: The Santander Way' and 'Tax contribution' in the 'Responsible banking' chapter.
E.3	No	See chapter 'Risk management and control' of this annual report, in particular section 2.2 'Risk factors',and the 'Responsible banking' chapter and for our capital needs, see also 'Economic capital' in section 3.5 of the 'Economic and financial review' chapter.
E.4	No	See chapter 'Risk management and control' of this annual report, in particular section 2.4 'Management processes and tools' and sections 'Our strong corporate culture: The Santander Way' and 'Tax contribution' in the 'Responsible banking' chapter.
E.5	No	See chapter 'Risk management and control' of this annual report, in particular sections 3, 4, 5, 6, 7, 8 and 9 of such chapter for each risk. Additionally, see note 25e.i to our consolidated financial statements.
E.6	No	See chapter 'Risk management and control' of this annual report, in particular section 2 'Risk management and control model', and sections 3, 4, 5, 6, 7, 8 and 9 of such chapter for each risk.
F. ICFRS		
F.1	No	See section 8.1.
F.2	No	See section 8.2.
F.3	No	See section 8.3.
F.4	No	See section 8.4.
F.5	No	See section 8.5.
F.6	No	Not applicable.
F7	No	See section 8.6.
G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS		
G	Yes	See 'Degree of compliance with the corporate governance recommendations' in section 9.2 and section 9.3.
H. OTHER INFORMATION OF INTEREST		
H	No	See sections 'Tax Contribution' and 'Main international initiatives we support' in chapter 'Responsible Banking'

9.2 Statistical information on corporate governance required by the CNMV

Unless otherwise indicated all data as of 31 December 2019.

A. OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (euros)	Number of shares	Number of voting rights
09/10/2019	8,309,057,291	16,618,114,582	16,618,114,582

Indicate whether different types of shares exist with different associated rights:

Yes ☐ **No** ☑

A.2 List the direct and indirect holders of significant ownership interests at year-end, excluding directors:

	% of voting rights attributed to shares		% of voting rights through financial instruments		
Name or corporate name of sharerholder	Direct	Indirect	Direct	Indirect	Total % of voting rights
BlackRock Inc.	0	5.08%	0	3.46%	5.43%

Details of the indirect shares:

Name or corporate name of the indirect shareholder	Name or corporate name of the direct shareholder	% of voting rights attributed to shares	% of voting rights through financial instruments	Total % of voting rights
BlackRock Inc.	Subsidiaries of BlackRock Inc.	5.08%	3.46%	5.43%

A.3 Complete the following tables on company directors holding voting rights through company shares:

	% of voting rights attributed to shares		% of voting rights through financial instruments			% of voting rights that may be transferred through financial instruments	
Name or corporate name of director	Direct	Indirect	Direct	Indirect	Total % of voting rights	Direct	Indirect
Ms Ana Botín-Sanz de Sautuola y O'Shea	0.00	0.15	0.00	0.00	0.15	0.00	0.00
Mr José Antonio Álvarez Álvarez	0.01	0.00	0.00	0.00	0.01	0.00	0.00
Mr Bruce Carnegie-Brown	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ms Homaira Akbari	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Ignacio Benjumea Cabeza de Vaca	0.02	0.00	0.00	0.00	0.02	0.00	0.00
Mr Javier Botín-Sanz de Sautuola y O'Shea	0.03	0.53	0.00	0.00	0.56	0.00	0.00
Mr Álvaro Cardoso de Souza	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ms Sol Daurella Comadrán	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Guillermo de la Dehesa Romero	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Henrique de Castro	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Rodrigo Echenique Gordillo	0.01	0.00	0.00	0.00	0.01	0.00	0.00
Ms Esther Giménez-Salinas i Colomer	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mr Ramiro Mato García Ansorena	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ms Belén Romana García	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Mrs Pamela Walkden	0.00	0.00	0.00	0.00	0.00	0.00	0.00

% total voting rights held by the board of directors	0.75%

A.7 Indicate whether the company has been notified of any shareholders' agreements pursuant to Articles 530 and 531 of the Spanish Companies Act (LSC). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes ☑ **No** ☐

Parties to the shareholders' agreement	% of share capital affected	Brief description of agreement	Expiry date, if applicable
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea (directamente y a través de Agropecuaria El Castaño, S.L.U.) Mr Emilio Botín-Sanz de Sautuola y O'Shea, Puente San Miguel, S.L.U. Ms Ana Botín-Sanz de Sautuola y O'Shea, CRONJE, S.L.U. Nueva Azil, S.L. Ms Carmen Botín-Sanz de Sautuola y O'Shea Ms Paloma Botín-Sanz de Sautuola y O'Shea Bright Sky 2012, S.L.	0.56%	Transfer restrictions and syndication of voting rights as described under section 2.4 'Shareholders' agreements' of the Corporate governance chapter in the annual report. The communications to CNMV relating to this shareholders' agreement can be found in material facts with entry numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703, 226968 and 285567 filed in CNMV on 17 February 2006, 3 August 2012, 19 November 2012, 17 October, 2013, 3 October 2014, 6 February 2015, 29 May 2015, 29 July 2015 and 31 December 2019, respectively.	01/01/2056

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes ☑ **No** ☐

Participants in the concerted action	% of share capital affected	Brief description of concerted action	Expiry date, if applicable
D. Francisco Javier Botín-Sanz de Sautuola y O'Shea (directamente y a través de Agropecuaria El Castaño, S.L.U.) Mr Emilio Botín-Sanz de Sautuola y O'Shea, Puente San Miguel, S.L.U. Ms Ana Botín-Sanz de Sautuola y O'Shea, CRONJE, S.L.U. Nueva Azil, S.L. Ms Carmen Botín-Sanz de Sautuola y O'Shea Ms Paloma Botín-Sanz de Sautuola y O'Shea Bright Sky 2012, S.L.	0.56%	Transfer restrictions and syndication of voting rights as described under section 2.4 'Shareholders' agreements' of the Corporate governance chapter in the annual report. The communications to CNMV relating to this shareholders' agreement can be found in material facts with entry numbers 64179, 171949, 177432, 194069, 211556, 218392, 223703, 226968 and 285567 filed in CNMV on 17 February 2006, 3 August 2012, 19 November 2012, 17 October, 2013, 3 October 2014, 6 February 2015, 29 May 2015, 29 July 2015 and 31 December 2019, respectively.	01/01/2056

A.8 Indicate whether any individual or entity currently exercises control or could exercise control over the company in accordance with article 5 of the Spanish Securities Market Act. If so, identify them:

Yes ☐ **No** ☑

A.9 Complete the following tables on the company's treasury shares:

At year end:

Number of shares held directly	Number of shares held indirectly*	% of total share capital
0	8,430,425	0.05%

(*)Through:

Name or corporate name of the direct shareholder	Number of shares held directly
Pereda Gestión, S.A.	6,500,000
Banco Santander Río, S.A.	849,652
Banco Santander México, S.A.	1,080,773
Total:	**8,430,425**

A.11 Estimated free float:

	%
Estimated free float	93.77%

A.14 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes ☑ **No** ☐

B. GENERAL SHAREHOLDERS' MEETING

B.4 Indicate the attendance figures for the general shareholders' meetings held during the fiscal year to which this report relates and in the two preceding fiscal years:

Date of General Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
04/07/2017	0.90 %	47.48%	0.37%	15.27%	64.02%
of which free float:	0.26 %	47.48%	0.37%	15.27%	63.38%

Date of General Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
03/23/2018	0.82%	47.61%	0.38%	15.74%	64.55%
of which free float:	0.18%	47.61%	0.38%	15.74%	63.91%

Date of General Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
04/12/2019	0.77%	65.30%	0.57%	1.86%	68.49%
of which free float:	0.63%	64.30%	0.57%	1.86%	67.36%

Date of General Meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
07/23/2019	0.65%	41.82%	0.30%	16.45%	59.22%
of which free float:	0.58%	41.82%	0.30%	16.45%	58.15%

B.5 Indicate whether in the general shareholders' meetings held during the fiscal year to which this report relate there has been any matter submitted to them which, for any reason, has not been approved by the shareholders.

Yes ☐ **No** ☑

B.6 Indicate whether the bylaws require a minimum holding of shares to attend to or to vote remotely in the general shareholders' meeting:

Yes ☐ **No** ☑

C. MANAGEMENT STRUCTURE

C.1 Board of directors

C.1.1 Maximum and minimum number of directors provided for in the Bylaws:

Maximum number of directors	**17**
Minimum number of directors	**12**
Number of directors fixed by GSM	**15**

C.1.2 Complete the following table with the directors' details:

Name or corporate name of director	Representative	Category of director	Position in the board	Date of first appointment	Date of last appointment	Election procedure
Ms Ana Botín-Sanz de Sautuola y O'Shea	N/A	Executive	Chairman	04/02/1989	07/04/2017	Vote in general shareholders' meeting
Mr José Antonio Álvarez Álvarez	N/A	Executive	Chief executive officer	25/11/2014	12/04/2019	Vote in general shareholders' meeting
Mr Bruce Carnegie-Brown	N/A	Non-executive independent	Lead independent director	25/11/2014	12/04/2019	Vote in general shareholders' meeting
Ms Homaira Akbari	N/A	Non-executive independent	Director	27/09/2016	23/03/2018	Vote in general shareholders' meeting
Mr Ignacio Benjumea Cabeza de Vaca	N/A	Other external	Director	30/06/2015	23/03/2018	Vote in general shareholders' meeting
Mr Javier Botín-Sanz de Sautuola y O'Shea	N/A	Other external	Director	25/07/2004	12/04/2019	Vote in general shareholders' meeting
Mr Álvaro Cardoso de Souza	N/A	Non-executive independent	Director	01/04/2018	01/04/2018	Vote in general shareholders' meeting
Ms Sol Daurella Comadrán	N/A	Non-executive independent	Director	25/11/2014	23/03/2018	Vote in general shareholders' meeting
Mr Guillermo de la Dehesa Romero	N/A	Other external	Director	24/06/2002	23/03/2018	Vote in general shareholders' meeting
Mr Henrique de Castro	N/A	Non-executive independent	Director	07/07/2019	07/07/2019	Vote in general shareholders' meeting
Mr Rodrigo Echenique Gordillo	N/A	Other external	Director	07/10/1988	07/04/2017	Vote in general shareholders' meeting
Ms Esther Giménez- Salinas i Colomer	N/A	Non-executive independent	Director	30/03/2012	07/04/2017	Vote in general shareholders' meeting
Mr Ramiro Mato García-Ansorena	N/A	Non-executive independent	Director	28/11/2017	12/04/2019	Vote in general shareholders´ meeting
Ms Belén Romana García	N/A	Non-executive independent	Director	22/12/2015	12/04/2019	Vote in general shareholders' meeting
Mrs Pamela Walkden	N/A	Non-executive independent	Director	29/10/2019	29/10/2019	Co-option

Total number of directors	15

Indicate any directors who have left during the fiscal year to which this report relates, regardless of the reason (whether for resignation, removal or any other):

Name or corporate name of director	Category of director at the time he/her left	Date of last appointment	Date of leave	Board committees he or she was a member of	Indicate whether he or she has left before the expiry of his or her term
Mr Juan Miguel Villar Mir	Non-executive independent	27/03/2015	1/1/2019	N/A	NO
Mr. Carlos Fernández González	Non-executive independent	23/03/2018	28/10/2019	Audit Committee, Appointments Committee, Remuneration Committee	YES

C.1.3 Complete the following tables for the directors in each relevant category:

Executive directors

Name or corporate name of director	Position held in the company	Profile
Ms Ana Botín-Sanz de Sautuola y O'Shea	Group executive chairman	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Mr José Antonio Álvarez Álvarez	CEO	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.

Total number of executive directors	2
% of the Board	13.33%

Proprietary non-executive directors

Name or corporate name of director	Name or corporate name of significant shareholder represented or having proposed his or her appointment	Profile
N/A	N/A	N/A

Total number of proprietary non-executive directors	0
% of the Board	0%

Independent non-executive directors

Name or corporate name of director	Profile
Mr Bruce Carnegie-Brown	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Ms Homaira Akbari	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Mr Álvaro Cardoso de Souza	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Ms Sol Daurella Comadrán	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Mr Henrique de Castro	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Ms Esther Giménez-Salinas i Colomer	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Mr Ramiro Mato García-Ansorena	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Ms Belén Romana Garcia	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Mrs Pamela Walkden	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.

Total number of independent directors	9
% of the Board	60%

Identify any independent director who receives from the company or its group any amount or perk other than his or her director remuneration or who maintain or have maintained during the fiscal year covered in this report a business relationship with the company or any group company, either in his or her own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained such a business relationship.

In such a case, a reasoned statement from the Board on why the relevant director(s) is able to carry on their duties as independent director(s) shall be included.

Name or corporate name of director	Description of the relationship	Reasoned statement
Ms Sol Daurella	Financing	When assessing the annual verification of the independence of directors with this condition, the appointments committee analysed the business relationships between Santander Group and the companies in which they are or have previously been significant shareholders, directors or executives. The committee concluded that the funding granted by Santander Group to companies in which Ms Sol Daurella is or has been a significant shareholder or director in 2019, did not have the condition of significant among other reasons because: (i) it does not generate a situation of economic dependence on the companies involved in view of the substitutability of this funding by other sources, whether they are banking or other types, (ii) it is aligned with the market share of the Santander Group in the corresponding market, and (iii) have not reached certain comparable materiality thresholds used in other jurisdictions: e.g. NYSE, Nasdaq and Canada's Bank Act.
D. Henrique de Castro		When assessing the annual verification of the independence of directors with this condition, the appointments committee analysed the business relationships between Santander Group and the companies in which they are or have previously been significant shareholders, directors or executives. The committee concluded that business relationships between Santander Group with companies in which Mr Henrique de Castro is or has been an administrator in 2019, were not significant among other reasons becasuse they have not reached certain comparable materiality thresholds used in other jurisdictions: e.g. NYSE and Nasdaq.

Ms Belén Romana	Business	When assessing the annual verification of the independence of directors with this condition, the appointments committee analysed the business relationships between Santander Group and the companies in which they are or have previously been significant shareholders, directors or executives. The committee concluded that business relationships between Santander Group with companies in which Ms Belén Romana has been an administrator in 2019, were not significant among other reasons becasuse they have not reached certain comparable materiality thresholds used in other jurisdictions: e.g. NYSE and Nasdaq.

Other non-executive directors

Identify all other non-executive directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders:

Name or corporate name of director	Reasons for not qualifying under other category	Entity, executive or shareholder with whom it maintains a relationship	Profile
Mr Ignacio Benjumea Cabeza de Vaca	Because the requirements established in paragraph 3 of article 529 duodecies LSC are not met, and as a prudence criteria, despite having elapsed the legal period required since his professional relationship with the Bank ceased (other than that derived from his position as director of the Bank and Santander Spain)	Banco Santander, S.A.	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Mr Javier Botín-Sanz de Sautuola y O'Shea	Because the requirements established in paragraph 3 of article 529 duodecies LSC are not met, and he has held the position of director for more than 12 years.	Banco Santander, S.A.	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Mr Guillermo de la Dehesa Romero	Because the requirements established in paragraph 3 of article 529 duodecies LSC are not met, and he has held the position of director for more than 12 years.	Banco Santander, S.A.	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Mr Rodrigo Echenique Gordillo	Because the requirements established in paragraph 3 of article 529 duodecies LSC are not met, and he has held the position of director for more than 12 years and for not having elapsed the required term since he ceased his executive functions.	Banco Santander, S.A.	See section 4.1 'Our directors' in the Corporate governance chapter in the annual report.
Total number of other non-executive directors			4
% of the Board			26.67%

List any changes in the category of a director which have occurred during the period covered in this report.

Name or corporate name of director	Date of change	Previous category	Current category
Mr Rodrigo Echenique Gordillo	01/05/2019	Executive director	Other external director

C.1.4 Complete the following table on the number of female directors at the end of each the past four years and their category:

	Number of female directors				% of total directors of each category			
	FY 2019	**FY 2018**	**FY 2017**	**FY 2016**	**FY 2019**	**FY 2018**	**FY 2017**	**FY 2016**
Executive	1	1	1	1	50.00%	33.33%	33.33%	25.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	5	4	4	5	55.55%	44.44%	50.00%	62.50%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	6	5	5	6	40.00%	33.33%	35.71%	40.00%

C.1.11 Identify those directors (or individuals representing the director in the case of directors who are body corporates) who hold a directorship of other non-group companies that are listed on official securities markets (or who are the individuals representing a body corporate holding such a directorship), if communicated to the company:

Name or corporate name of director	Name of the listed company	Position
Ms Ana Botín-Sanz de Sautuola y O'Shea	The Coca-Cola Company	Director
Mr Rodrigo Echenique Gordillo	Industria de Diseño Textil, S.A. (Inditex)	Director
Mr Guillermo de la Dehesa Romero	Amadeus IT Group, S.A.	Vice Chairman
Ms Homaira Akbari	Landstar System, Inc.	Director
Ms Sol Daurella Comadrán	Coca-Cola European Partners plc.	Chairman
Mr Henrique de Castro	Fiserv Inc.	Director
	Target Corporation	Director
Ms Belén Romana García	Aviva plc.	Director

C.1.12 Indicate and, if applicable explain, if the company has established rules on the maximum number of directorships its directors may hold and, if so, where they are regulated:

Yes ☑ **No** ☐

The maximum number of directorships is established, as provided for in article 30 of the Rules and regulations of the board, in article 26 of Spanish Law 10/2014 on the ordering, supervision and solvency of credit institutions. This rule is further developed by articles 29 and subsequent of Royal Decree 84/2015 and by Rules 30 and subsequent of Bank of Spain Circular 2/2016.

C.1.13 Identify the following items of the total remuneration of the board of directors:

Board remuneration accrued in the fiscal year (EUR thousand)	27,187
Amount of accumulated pension rights of current directors (EUR thousand)	78,776
Amount of accumulated pension rights of former directors (EUR thousand)	65,694

C.1.14 Identify the members of the company's senior management who are non executive directors and indicate total remuneration they have accrued during the fiscal year:

Name or corporate name	Position (s)	
Mr Rami Aboukhair Hurtado	Country head - Santander Spain	
Ms Lindsey Tyler Argalas	Head of Santander Digital	
Mr Juan Manuel Cendoya Méndez de Vigo	Group head of Communications, Corporate Marketing and Research	
Mr José Fransisco Doncel Razola	Group head of Accounting and Financial Control	
Mr Keiran Paul Foad	Group Chief Risk Officer	
Mr José Antonio García Cantera	Group Chief Financial Officer	
Mr Juan Guitard Marín	Group Chief Audit Executive	
Mr José Maria Linares Perou	Global head of Corporate & Investment Banking	
Ms Mónica Lopez-Mónís Gallego	Group head of Supervisory and Regulatory Relations	
Mr Javier Maldonado Trinchant	Group head of Costs	
Mr Dirk Marzluf	Group head of Technology and Operations	
Mr Víctor Matarranz Sanz de Madrid	Global head of Wealth Management	
Mr José Luis de Mora Gil-Gallardo	Group head of Strategy and Corporate Development and Head of Consumer Finance (Santander Consumer Finance)	
Mr José María Nus Badía	Risk adviser to Group executive chairman	
Mr Jaimé Pérez Renovales	Group head of General Secretariat and Human Resources	
Mr Javier San Félix García	Head of Santander Global Payments Services	
Ms Jennifer Scardino	Head of Global communications. Group deputy head of Communications, Corporate Marketing and Research	
Ms Marjolien van Hellemondt-Gerdingh	Group Chief Compliance Officer	
Total remuneration accrued by the senior management (EUR thousand)		60,787

C.1.15 Indicate whether any changes have been made to the board Rules and regulations during the fiscal year:

Yes ☑ **No** ☐

C.1.21 Indicate whether there are any specific requirements, other than those applying to directors generally, to be appointed chairman.

Yes ☐ **No** ☑

C.1.23 Indicate whether the bylaws or the board Rules and regulations set a limited term of office (or other requirements which are stricter than those provided for in the law) for independent directors different than the one provided for in the law.

Yes ☐ **No** ☑

C.1.25 Indicate the number of board meetings held during the fiscal year and how many times the board has met without the chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	18
Number of board meetings held without the chairman's attendance	0

Indicate the number of meetings held by the lead independent director with the rest of directors without the attendance or representation of any executive director.

Number of meetings	3

Indicate the number of meetings of the various board committees held during the fiscal year.

Number of meetings of the audit committee	13
Number of meetings of the responsible banking, sustainability and culture committee	4
Number of meetings of the innovation and technology committee	4
Number of meetings of the appointments committee	13
Number of meetings of the remuneration committee	11
Number of meetings of the risk supervision, regulation and compliance committee	14
Number of meetings of the executive committee	42

C.1.26 Indicate the number of board meetings held during the fiscal year and data about the attendance of the directors.

Number of meetings with at least 80% of directors being present	18
% of votes cast by members present over total votes in the fiscal year	96.92%
Number of board meetings with all directors being present (or represented having given specific instructions)	17
% of votes cast by members present at the meeting or represented with specific instructions over total votes in the fiscal year	99.61%

C.1.27 Indicate whether the company´s consolidated and individual financial statements are certified before they are submitted to the board for their formulation.

Yes ☑ **No** ☐

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their formulation by the board:

Name	Position
Mr José Francisco Doncel Razola	Group head of Accounting and Financial Control

C.1.29 Is the secretary of the board also a director?

Yes ☐ **No** ☑

If the secretary of the board is not a director fill in the following table:

Name or corporate name of the secretary	Representative
Mr Jaime Pérez Renovales	N/A

C.1.31 Indicate whether the company has changed its external audit firm during the fiscal year. If so, identify the incoming audit firm and the outgoing audit firm:

Yes ☐ **No** ☑

C.1.32 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

Yes ☑ **No** ☐

	Company	Group companies	Total
Amount of non-audit work (EUR thousand)	0.199	2,824	3,023
Amount of non-audit work as a % of amount of audit work	0.2%	2.6%	2.8%

C.1.33 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the chairman of the audit committee to the shareholders in the general shareholders meeting to explain the content and scope of those reservations or qualifications.

Yes ☐ **No** ☑

C.1.34 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Individual financial statements	Consolidated financial statements
Number of consecutive years	4	4

	Company	Group
Number of years audited by current audit firm/Number of years the company's or its Group financial statements have been audited (%)	10.81%	10.81%

C.1.35 Indicate and if applicable explain whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes ☑ **No** ☐

Procedures
Our Rules and regulations of the board stipulate that members of the board and committees are provided with the relevant documentation for each meeting sufficiently in advance of the meeting date, thereby ensuring the confidentiality of the information.

C.1.39 Identify, individually in the case of directors, and in the aggregate in all other cases, and provide detailed information on, agreements between the company and its directors, executives and employees that provide indemnification, guarantee or golder parachute clause in the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of transaction.

Number of beneficiaries	18
Type of beneficiary	**Description of the agreement:**
Employees	The Bank has no commitments to provide severance pay to directors. A number of employees have a right to compensation equivalent to one to two years of their basic salary in the event of their contracts being terminated by the Bank in the first two years of their contract in the event of dismissal on grounds other than their own will, retirement, disability or serious dereliction of duties. In addition, for the purposes of legal compensation, in the event of redundancy a number of employees are entitled to recognition of length of service including services provided prior to being contracted by the Bank; this would entitle them to higher compensation than they would be due based on their actual length of service with the Bank itself.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group beyond the procedures provided for in applicable law. If applicable, specify the process applied, the situations in which they apply, and the bodies responsible for approving or communicating those agreements:

	Board of directors	General Shareholders' Meeting
Body authorising clauses	√	

	YES	NO
Is the general shareholders' meeting informed of such clauses?	√	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, independent and other external directors.

Executive committee

Name	Position	Type
Ms Ana Botín-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr José Antonio Álvarez Álvarez	Member	Executive director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Other external director
Mr Bruce Carnegie-Brown	Member	External independent director
Mr Guillermo de la Dehesa Romero	Member	Other external director
Mr Ramiro Mato García-Ansorena	Member	External independent director
Ms Belén Romana García	Member	External independent director
	Member	
	Member	

% of executive directors	28.57%
% of proprietary directors	0%
% of independent directors	42.86%
% of other non-executive directors	28.57%

Audit committee

Name	Position	Type
Ms Belén Romana García	Chairman	External independent director
Ms Homaira Akbari	Member	External independent director
Mr Henrique de Castro	Member	External independent director
Mr Ramiro Mato García-Ansorena	Member	External independent director
Mrs Pamela Walkden	Member	External independent director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	100%
% of other non-executive directors	0%

Identify those directors in the audit committee who have been appointed on the basis of their knowledge and experience in accounting, audit or both and indicate the date of appointment of the committee chairman.

Name of directors with accounting or audit experience	Ms Belén Romana García Ms Homaira Akbari Mr Ramiro Mato García-Ansorena Mr Henrique de Castro Mrs Pamela Walkden
Date of appointment of the committee Chairman for that position	26 April 2016

Appointments committee

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	External independent director
Mr Guillermo de la Dehesa Romero	Member	Other external director
Ms Sol Daurella Comádran	Member	External independent director
Mr Rodrigo Echenique Gordillo	Member	Other external director
Ms Esther Giménez-Salinas i Colomer	Member	External independent director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	60.00%
% of other executive directors	40.00%

Remuneration committee

Name	Position	Type
Mr Bruce Carnegie-Brown	Chairman	External independent director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Other external director
Mr Guillermo de la Dehesa Romero	Member	Other external director
Ms Sol Daurella Comadrán	Member	External independent director
Mr Henrique de Castro	Member	External independent director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	60.00%
% of other external directors	40.00%

Risk supervision, regulation and compliance committee

Name	Position	Type
Mr Álvaro Cardoso de Souza	Chairman	External independent director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Other external director
Ms Esther Giménez- Salinas i Colomer	Member	External independent director
Mr Ramiro Mato García-Ansorena	Member	External independent director
Ms Belén Romana García	Member	External independent director

% of executive directors	0%
% of proprietary directors	0%
% of independent directors	80.00%
% of other external directors	20.00%

Responsible banking, sustainability and culture committee

Name	Position	Type
Mr Ramiro Mato García-Ansorena	Chairman	External independent director
Ms Ana Botín-Sanz de Sautuola y O'Shea	Member	Executive director
Ms Homaira Akbari	Member	External independent director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Other external director
Mr Álvaro Cardoso de Souza	Member	External independent director
Ms Sol Daurella Comadrán	Member	External independent director
Ms Esther Giménez-Salinas i Colomer	Member	External independent director
Ms Belén Romana García	Member	External independent director

% of executive directors	12.50%
% of proprietary directors	0%
% of independent directors	75%
% of other external directors	12.50%

Innovation and technology committee

Name	Position	Type
Ms Ana Botin-Sanz de Sautuola y O'Shea	Chairman	Executive director
Mr José Antonio Álvarez Álvarez	Member	Executive director
Mr Bruce Carnegie-Brown	Member	External independent director
Ms Homaira Akbari	Member	External independent director
Mr Ignacio Benjumea Cabeza de Vaca	Member	Other external director
Mr Guillermo de la Dehesa Romero	Member	Other external director
Ms Belén Romana García	Member	External independent director

Mr Henrique de Castro	Member	External independent director

% of executive directors	25.00%
% of proprietary directors	0%
% of independent directors	50.00%
% of other external directors	25.00%

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female directors							
	FY 2019		FY 2018		FY 2017		FY 2016	
	Number	%	Number	%	Number	%	Number	%
Audit committee	3	60.00%	2	50.00%	2	50.00%	2	50.00%
Responsible banking, sustainability and culture committee	5	62.50%	5	62.50%	—	—	—	—
Innovation and technology committee	3	37.50%	3	42.85%	4	44.40%	3	33.33%
Appointments committee	2	40.00%	1	25.00%	1	20.00%	1	20.00%
Remuneration committee	1	20.00%	1	20.00%	1	20.00%	2	40.00%
Risk supervision, regulation and compliance committee	2	40.00%	2	33.30%	2	33.30%	2	28.57%
Executive committee	2	28.50%	2	25.00%	1	14.29%	2	25.00%

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.2 List any significant transactions, by virtue of their amount or relevance, between the company or its group of companies and the company's significant shareholders:

Not applicable.

D.3 List any significant transactions, by virtue of their amount or relevance, between the company or its group of companies and the company's directors or executives:

Not applicable.

D.4 List any significant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

Corporate name of the group company	Brief description of the transaction	Amount (EUR thousand)
Banco Santander (Brasil) S.A. (Cayman Islands Branch)	This chart shows the transactions and the results obtained by the Bank at 31 December 2019 with Group entities resident in countries or territories that were considered tax havens Pursuant to Spanish legislation, at such date. These results, and the balances indicated below, were eliminated in the consolidation process. See note 3 to the 2019 Consolidated financial statements for more information on off-shore entities. The amount shown on the right corresponds to positive results relating to contracting of derivatives (includes branches in New York and London of Banco Santander, S.A.) The referred derivatives had a net positive market value of EUR 226 million in the Bank and covered the following transactions: - 91 Non Delivery Forwards. - 167 Swaps. - 165 Cross Currency Swaps. - 102 Forex.	56,353
	The amount shown on the right corresponds to negative results relating to deposits with the New York branch of Banco Santander, S.A. (liability). These deposits had a principal of EUR 908 million at 31 December 2019.	20,892
	The amount shown on the right corresponds to positive results relating to deposits with the London branch of Banco Santander, S.A. (asset). These deposits had a principal of EUR 118 million at 31 December 2019.	3,779
	The amount shown on the right corresponds to positive results relating to fixed income securities - subordinated instruments (asset). This relates to the investment in November 2018 in two subordinated instruments (Tier I Subordinated Perpetual Notes and Tier II Subordinated Notes due 2028) with an amortised cost of EUR 2.247 million as at 31 December 2019.	148,862
	The amount shown on the right corresponds to negative results relating to interests and commissions concerning correspondent accounts (includes Hong Kong branch of Banco Santander, S.A.) (liability). This relates to correspondent accounts with a credit balance of EUR 42 million at 31 December 2019.	463

D.5 List any significant transactions, by virtue of their amount or relevance, between the company or its group and other related parties, not reported in the previous sections.

Not applicable.

D.7 Is more than one group company listed in Spain?

Yes ☐ No ☑

G. DEGREE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the recommendations of the good governance code for listed companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies ☑ Explain ☐

2. When a parent company and a subsidiary are both listed, the two provide detailed disclosure on:

a) The activity they engage in and any business dealings between them, as well as between the subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☑

3. During the AGM the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies ☑ Partially complies ☐ Explain ☐

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisers that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies ☑ Partially complies ☐ Explain ☐

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

And that whenever the board of directors approves an issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable mercantile law.

Complies ☐ Partially complies ☑ Explain ☐

Our 2018 AGM authorised the board to increase share capital with the authority to exclude pre-emptive rights for shareholders, with a limit of 20% of the share capital. This limit is further reduced to 10% of the share capital in connection with capital increases to convert bonds or other convertible securities or instruments. As an exception, these limits for the issuance without pre-emptive rights do not apply to capital increases to allow the potential conversion of contingent convertible preferred securities (which can only be converted into newly-issued shares when the CET1 ratio falls below a pre-established threshold).

The board of directors is proposing to have this authority renewed at our 2020 AGM as it may expire before we hold our 2021 AGM. The Bank publishes in its website the reports relating to the exclusion of pre-emptive rights when it makes use of this authority in the terms established in the recommendation. See section 2.2 'Authority to increase capital'.

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the AGM, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the appointments and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy.

Complies ☑ Partially complies ☐ Explain ☐

7. The company should broadcast its general meetings live on the corporate website.

Complies ☑ Explain ☐

8. The audit committee should strive to ensure that the board of directors can present the Company's accounts to the general meeting without limitations or qualifications in the auditor's

report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies ☑ Partially complies ☐ Explain ☐

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies ☑ Partially complies ☐ Explain ☐

10. When a shareholder so entitled exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the standard attendance card or proxy appointment or remote voting form, duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☑

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies ☑ Partially complies ☐ Explain ☐

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies ☑ Explain ☐

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.

c) Favors a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The appointments committee should carry an annual verification on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies ☑ Partially complies ☐ Explain ☐

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies ☑ Partially complies ☐ Explain ☐

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies ☑ Explain ☐

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies ☑ Explain ☐

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Complies ☑ Partially complies ☐ Explain ☐

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the number of the latter should be reduced accordingly.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies ☑ Explain ☐

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies ☑ Partially complies ☐ Explain ☐

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

24. Directors who leave before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board rules and regulations should lay down the maximum number of company boards on which directors can serve.

Complies ☑ Partially complies ☐ Explain ☐

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies ☑ Partially complies ☐ Explain ☐

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Complies ☑ Partially complies ☐ Explain ☐

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minutes book if the person expressing them so requests.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies ☑ Partially complies ☐ Explain ☐

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies ☑ Explain ☐ Not applicable ☐

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or obtain the information they consider appropriate.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies ☑ Partially complies ☐ Explain ☐

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies ☑ Partially complies ☐ Explain ☐

33. The chairman, as the person responsible for the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, of the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies ☑ Partially complies ☐ Explain ☐

34. When a lead independent director has been appointed, the bylaws or the Rules and regulations of the board of directors should grant him or her the following powers over and above those conferred by law: to chair the board of directors in the absence

of the chairman or vice chairman; to give voice to the concerns of non-executive directors; to maintain contact with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and to coordinate the chairman's succession plan.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies ☑ Explain ☐

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competencies.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send to the board of directors, while that of the board itself should start from the report of the appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies ☑ Partially complies ☐ Explain ☐

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Complies ☐ Partially complies ☑ Explain ☐ Not applicable ☐

The secretary of the executive committee is the secretary of the board. While the distribution of categories of directors in the executive committee is not exactly the same as in the board, the Bank considers it complies with the spirit of the recommendation since the current composition reflects all categories of directors, including a majority of external directors and three independent directors, but retaining all executive directors to maintain the efficiency in the discharge of the executive functions of the committee. Moreover, based on said reasons of efficiency and adequate functioning of the executive committee, the CNMV has proposed to amend this recommendation so that the committee is composed of at least two external directors, at least one of which should be independent. If this proposal had been already approved, we would be fully complying with this recommendation.

38. The board should be kept fully informed of the matters discussed and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee seats should be held by independent directors.

Complies ☑ Partially complies ☐ Explain ☐

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies ☑ Partially complies ☐ Explain ☐

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information of the company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor, does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material fact, accompanied by a statement of any disagreements arising with the outgoing auditor and if applicablen, the contents thereof.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provisions of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies ☑ Partially complies ☐ Explain ☐

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another manager.

Complies ☑ Partially complies ☐ Explain ☐

44. The audit committee should be informed of any structural changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

45. The risk control and management policy should identify at least:

a) The different types of risk, financial and non-financial (including operational, technological, legal, social, environmental, political and reputational risks), the company is exposed to, with the inclusion under financial or economic, risks of contingent liabilities and other off-balance-sheet risks.

b) The setting of the risk level that the company deems acceptable.

c) Measures in place to mitigate the impact of risk events should they occur.

d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies ☑ Partially complies ☐ Explain ☐

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other specialised board committee. This internal department or unit should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies ☑ Partially complies ☐ Explain ☐

47. Members of the appointments and remuneration committee-or of the appointments committee and remuneration committee, if separately constituted - should be chosen procuring they have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies ☑ Partially complies ☐ Explain ☐

48. Large cap companies should have formed separate appointments and remuneration committees.

Complies ☑ Explain ☐ Not applicable ☐

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

Complies ☑ Partially complies ☐ Explain ☐

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies ☑ Partially complies ☐ Explain ☐

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies ☑ Partially complies ☐ Explain ☐

52. The rules regarding composition and functioning of supervision and control committees should be set out in the regulations of the board of directors and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a special committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of other stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in this respect.

f) Monitor and evaluate the company's interaction with its stakeholders.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies ☑ Partially complies ☐ Explain ☐

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relating to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.

d) The methods or systems for monitoring the results of the practices referred to above and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies ☑ Partially complies ☐ Explain ☐

55. The company should report on corporate social responsibility developments in its management's report or in a separate document, using an internationally accepted methodology.

Complies ☑ Partially complies ☐ Explain ☐

56. Director remuneration should be sufficient to attract and retain directors with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies ☑ Explain ☐

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans, retirement accounts or any other retirement plan should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies ☑ Partially complies ☐ Explain ☐

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the achivement of short, medium and long-term targets, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one off, occasional or extraordinary events.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration, and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies ☑ Partially complies ☐ Explain ☐ Not applicable ☐

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes ☐ No ☑

I declare that the information included in this statistical annex are the same and are consistent with the descriptions and information included in the annual corporate governance report published by the company.

9.3 Table on compliance with or explanations of recommendations on corporate governance

Recommendation	Comply / Explain	Information
1	Comply	See section 3.2.
2	Not applicable	See 'Group companies' in section 4.12.
3	Comply	See section 3.1.
4	Comply	See section 3.1.
5	Partially comply	Our 2018 AGM, authorised the board to increase share capital with the authority to exclude pre-emptive rights for shareholders, with a limit of 20% of the share capital. This limit is further reduced to 10% of the share capital in connection with capital increases to convert bonds or other convertible securities or instruments. As an exception, these limits for the issuance without pre-emptive rights do not apply to capital increases to allow the potential conversion of contingent convertible preferred securities (which can only be converted into newly-issued shares when the CET1 ratio falls below a pre-established threshold). The board of directors is proposing to have this authority renewed at our 2020 AGM as it may expire before we hold our 2021 AGM. The Bank publishes in its website the reports relating to the exclusion of pre-emptive rights when it makes use of this authority in the terms established in the recommendation. See section 2.2.
6	Comply	See sections 4.5, 4.6, 4.7, 4.8, 4.9, 4.10, 4.12 and 'Responsible Banking'chapter.
7	Comply	See section 3.6.
8	Comply	See section 4.5.
9	Comply	See 'Participation of shareholders at the GSM' in section 3.2.
10	Comply	See section 3.2.
11	Not applicable	See section 3.6.
12	Comply	See section 4.3.
13	Comply	See 'Size' in section 4.2.
14	Comply	See 'Election, renewal and succession of directors' and 'Diversity' in section 4.2.
15	Comply	See 'Composition by type of director'; 'Independent non-executive directors' and 'Election, renewal and succession of directors' in section 4.2.
16	Comply	See 'Composition by type of director' in section 4.2.
17	Comply	See 'Composition by type of director'; 'Independent non-executive directors' and 'Election, renewal and succession of directors' in section 4.2.
18	Comply	See 'Corporate website' in section 3.1 and section 4.1.
19	Comply	See 'Composition by type of director' and 'Tenure, committee membership and equity ownership' in section 4.2.
20	Comply	See 'Election, renewal and succession of directors' in section 4.2.
21	Comply	See 'Election, renewal and succession of directors' in section 4.2.
22	Comply	See 'Election, renewal and succession of directors' in section 4.2.
23	Comply	See 'Election, renewal and succession of directors' in section 4.2.
24	Comply	See 'Election, renewal and succession of directors' in section 4.2.
25	Comply	See 'Board and committees attendance' in section 4.3 and in section 4.6.
26	Comply	See 'Proceedings of the board' and 'Board and committees attendance' in section 4.3.
27	Comply	See 'Proceedings of the board' and 'Board and committees attendance' in section 4.3.
28	Comply	See 'Proceedings of the board' in section 4.3.
29	Comply	See 'Proceedings of the board' in section 4.3.
30	Comply	See 'Training of directors and induction programme for new directors' in section 4.3.
31	Comply	See 'Rules and regulations of the board' and 'Board and committees attendance' in section 4.3.
32	Comply	See section 3.1.
33	Comply	See 'Proceedings of the board', 'Training of director and induction program for new directors' and 'Assessment of the board' in section 4.3.
34	Comply	See 'Lead independent director' in section 4.3.
35	Comply	See 'Secretary of the board' in section 4.3.
36	Comply	See 'Assessment of the board' in section 4.3.

Recommendation	Comply / Explain	Information
37	Partially comply	The secretary of the executive committee is the secretary of the board. While the distribution of categories of directors in the executive committee is not exactly the same as in the board, the Bank considers it complies with the spirit of the recommendation since the current composition reflects all categories of directors, including a majority of external directors and three independent directors, but retaining all executive directors to maintain the efficiency in the discharge of the executive functions of the committee. Moreover, based on said reasons of efficiency and adequate functioning of the executive committee, the CNMV has proposed to amend this recommendation so that the committee is composed of at least two external directors, at least one of which should be independent. If this proposal is approved, we will fully comply with this recommendation. See section 4.4.
38	Comply	See section 4.4.
39	Comply	See 'Composition' and 'Duties and activities in 2019' in section 4.5.
40	Comply	See 'Duties and activities in 2019' in section 4.5.
41	Comply	See 'Duties and activities in 2019' in section 4.5.
42	Comply	See 'Duties and activities in 2019' in section 4.5.
43	Comply	See 'How the committee works' in section 4.3.
44	Comply	See 'Duties and activities in 2019' in section 4.5.
45	Comply	See 'Duties and activities in 2019' in section 4.5. and 'Duties and activities in 2019' in section 4.8.
46	Comply	See 'Duties and activities in 2019' in section 4.5. and 'Duties and activities in 2019' in section 4.8.
47	Comply	See 'Composition' in section 4.6 and 'Composition' in section 4.7.
48	Comply	See 'Board committees structure' in section 4.3.
49	Comply	See 'Duties and activities in 2019' in section 4.6.
50	Comply	See 'Duties and activities in 2019' in section 4.7.
51	Comply	See 'Duties and activities in 2019' in section 4.7.
52	Comply	See 'Rules and regulations of the board' in section 4.3 and sections 4.5, and 4.8.
53	Comply	See 'Duties and activities in 2019' in section 4.6 and 'Duties and activities in 2019' in section 4.9.
54	Comply	See section 4.9 and 'Responsible Banking'chapter.
55	Comply	See section 4.9 and 'Responsible Banking'chapter.
56	Comply	See sections 6.2 and 6.3.
57	Comply	See sections 6.2 and 6.3.
58	Comply	See section 6.3.
59	Comply	See section 6.3.
60	Comply	See section 6.3.
61	Comply	See section 6.3.
62	Comply	See section 6.3.
63	Comply	See section 6.3.
64	Comply	See sections 6.1 and 6.3.

9.4 Reconciliation to the CNMV's remuneration report model

Section in the CNMV model	Included in statistic	Further information elsewhere and comments
A. Remuneration policy for the present fiscal year		
A.1	No	• See section 6.4. • See sections 4.7 and 6.5. • See 'Summary of link between risk, performance and reward' in section 6.3.
A.2	No	See section 6.4.
A.3	No	See section 6.4.
A.4	No	See section 6.5.
B. Overall summary of application of the remuneration policy over the last fiscal year		
B.1	No	See sections 6.1, 6.2. and 6.3.
B.2	No	See 'Summary of link between risk, performance and reward' in section 6.3.
B.3	No	See sections 6.2 and 6.3.
B.4	No	See section 6.5.
B.5	No	See section 6.2 and 6.3
B.6	No	See 'Gross annual salary' in section 6.3.
B.7	No	See 'Variable remuneration' in section 6.3.
B.8	No	Not applicable.
B.9	No	See 'Main features of the benefit plans' in section 6.3.
B.10	No	See 'Other remuneration' in section 6.3.
B.11	No	See 'Terms and conditions of executive directors´ contracts' in section 6.4.
B.12	No	No remuneration for this component.
B.13	No	See note 5 to the consolidated financial statements.
B.14	No	See 'Insurance and other remuneration and benefits in kind' in section 6.4.
B.15	No	See 'Remuneration of board members as representatives of the Bank' in section 6.3.
B.16	No	No remuneration for this component.
C. Breakdown of the individual remuneration of directors		
C	Yes	See section 9.5.
C.1 a) i)	Yes	See section 9.5.
C.1 a) ii)	Yes	See section 9.5.
C.1 a) iii)	Yes	See section 9.5.
C.1 a) iii)	Yes	See section 9.5.
C.1 b) i)	Yes	See section 9.5.
C.1 b) ii)	No	Not awarded.
C.1 b) iii)	No	Not awarded.
C.1 b) iv)	No	Not awarded.
C.1 c)	Yes	See section 9.5.
D. Other information of interest		
D	No	See section 4.7

9.5 Statistical information on remuneration required by the CNMV

B. OVERALL SUMMARY OF HOW REMUNERATION POLICY WAS APPLIED DURING THE YEAR ENDED

B.4 Report on the result of consultative vote at General Shareholders´ Meeting on annual report on remuneration from previous year, indicating the number of votes against, as the case may be.

	Number	% of total
Votes cast	10,740,924,312	96,57%

	Number	% of total
Votes against	598,890,812	5.38%
Votes in favour	10,130,003,843	91.07%
Abstentions	381,915,614	3.43%

C. ITEMISED INDIVIDUAL REMUNERATION ACCRUED BY EACH DIRECTOR

Directors	Type	Period of accrual in year 2019
Ms Ana Botín-Sanz de Sautuola y O'Shea	Executive	From 01/01/2019 to 31/12/2019
Mr José Antonio Álvarez Álvarez	Executive	From 01/01/2019 to 31/12/2019
Mr Bruce Carnegie-Brown	Independent	From 01/01/2019 to 31/12/2019
Mr Rodrigo Echenique Gordillo	Executive Independent	From 01/01/2019 to 30/04/2019 From 01/05/2019 to 31/12/2019
Mr Guillermo de la Dehesa Romero	Other external	From 01/01/2019 to 31/12/2019
Ms Homaira Akbari	Independent	From 01/01/2019 to 31/12/2019
Mr Ignacio Benjumea Cabeza de Vaca	Other external	From 01/01/2019 to 31/12/2019
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea	Other external	From 01/01/2019 to 31/12/2019
Ms Sol Daurella Comadrán	Independent	From 01/01/2019 to 31/12/2019
Ms Esther Giménez-Salinas i Colomer	Independent	From 01/01/2019 to 31/12/2019
Ms Belén Romana García	Independent	From 01/01/2019 to 31/12/2019
Mr Ramiro Mato García-Ansorena	Independent	From 01/01/2019 to 31/12/2019
Mr Álvaro Cardoso de Souza	Independent	From 01/01/2019 to 31/12/2019
Mr Henrique Manuel Drummond Borges Cirne de Castro	Independent	From 17/07/2019 to 31/12/2019
Mrs Pamela Ann Walkden	Independent	From 29/10/2019 to 31/12/2019
Mr Carlos Fernández González	Independent	From 01/01/2019 to 28/10/2019

C.1 Complete the following tables on individual remuneration of each director (including the remuneration for exercising executive functions) accrued during the year.

a) Remuneration from the reporting company:

I) Remuneration in cash (thousand euros)

Name	Fixed remune ration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total year 2019	Total year 2018
Ms Ana Botín-Sanz de Sautuola y O'Shea	90	59	185	3,176	2,084	—	—	525	6,119	6,245
Mr José Antonio Álvarez Álvarez	90	53	170	2,541	1,393	—	—	710	4,957	4,949
Mr Bruce Carnegie-Brown	393	87	220	—	—	—	—	—	700	732
Mr Rodrigo Echenique Gordillo	90	56	73	600	640	—	1,800	667	3,926	3,349
Mr Guillermo de la Dehesa Romero	90	89	220	—	—	—	—	—	399	441
Ms Homaira Akbari	90	81	55	—	—	—	—	—	226	199
Mr Ignacio Benjumea Cabeza de Vaca	90	93	250	—	—	—	—	91	524	513
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea	90	47	—	—	—	—	—	—	137	121
Ms Sol Daurella Comadrán	90	85	65	—	—	—	—	—	240	215
Ms Esther Giménez-Salinas i Colomer	90	79	59	—	—	—	—	—	228	196
Ms Belén Romana García	160	100	265	—	—	—	—	—	525	414
Mr Ramiro Mato García-Ansorena	140	95	265	—	—	—	—	—	500	450
Mr Álvaro Cardoso de Souza	160	61	55	—	—	—	—	—	276	148
Mr Henrique Manuel Drummond Borges Cirne de Castro	41	33	12	—	—	—	—	—	86	—
Mrs Pamela Ann Walkden	16	11	7	—	—	—	—	—	34	—
Mr Carlos Fernández González	74	65	75	—	—	—	—	—	214	266
Mr Juan Miguel Villar Mir	—	—	—	—	—	—	—	—	—	108

II) Table of changes in share-based remuneration schemes and gross profit from consolidated shares or financial instruments

		Financial instruments at start of year 2019		Financial instruments granted at start of year 2019		Financial instruments consolidated during 2019				Instruments matured but not exercised	Financial instruments at end of year 2019	
Name	Name of Plan	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares / handed over	Price of the consolidated shares	Net proft from shares handed over or consolidated fnancial instruments (EUR thousand)	No. of instruments	No. of instruments	No of equivalent shares
Ms Ana Botín-Sanz de Sautuola y O'Shea	1st cycle of deferred variable remuneration plan linked to multi-year targets (2016)	216,309	216,309	—	—	—	—	—	—	—	216,309	216,309
	2nd cycle of deferred variable remuneration plan linked to multi-year targets (2017)	206,775	206,775	—	—	—	—	—	—	—	206,775	206,775
	3rd cycle of deferred variable remuneration plan linked to multi-year targets (2018)	309,911	309,911	—	—	—	—	—	—	—	309,911	309,911
	4th cycle of deferred variable remuneration plan linked to multi-year targets (2019)	—	—	887,193	887,193	567,803	567,803	3.670	2,084	—	319,390	319,390

		Financial instruments at start of year 2019		Financial instruments granted at start of year 2019		Financial instruments consolidated during 2019				Instruments matured but not exercised	Financial instruments at end of year 2019	
Name	Name of Plan	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares / handed over	Price of the consolidated shares	Net proft from shares handed over or consolidated fnancial instruments (EUR thousand)	No. of instruments	No. of instruments	No of equivalent shares
Mr José Antonio Álvarez Álvarez	1st cycle of deferred variable remuneration plan linked to multi-year targets (2016)	145,998	145,998	—	—	—	—	—	—	—	145,998	145,998
	2nd cycle of deferred variable remuneration plan linked to multi-year targets (2017)	138,283	138,283	—	—	—	—	—	—	—	138,283	138,283
	3rd cycle of deferred variable remuneration plan linked to multi-year targets (2018)	207,097	207,097	—	—	—	—	—	—	—	207,097	207,097
	4th cycle of deferred variable remuneration plan linked to multi-year targets (2019)	—	—	592,915	592,915	379,464	379,464	3.670	1,393	—	213,451	213,451

		Financial instruments at start of year 2019		Financial instruments granted at start of year 2019		Financial instruments consolidated during 2019				Instruments matured but not exercised	Financial instruments at end of year 2019	
Name	Name of Plan	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares	No. of instruments	No. of equivalent shares / handed over	Price of the consolidated shares	Net proft from shares handed over or consolidated fnancial instruments (EUR thousand)	No. of instruments	No. of instruments	No of equivalent shares
Mr Rodrigo Echenique Gordillo	1st cycle of deferred variable remuneration plan linked to multi-year targets (2016)	108,134	108,134	—	—	—	—	—	—	—	108,134	108,134
	2nd cycle of deferred variable remuneration plan linked to multi-year targets (2017)	107,764	107,764	—	—	—	—	—	—	—	107,764	107,764
	3rd cycle of deferred variable remuneration plan linked to multi-year targets (2018)	164,462	164,462	—	—	—	—	—	—	—	164,462	164,462
	4th cycle of deferred variable remuneration plan linked to multi-year targets (2019)	—	—	272,480	272,480	174,386	174,386	3.670	640	—	98,094	98,094

Comments

The amount corresponding to the 1st cycle of deferred variable remuneration plan linked to multi-year targets (2016) includes the maximum amount of shares that may be delivered at end of year 2019. The final amount of consolidated shares to be delivered, after approval by the board of directors of January 2020 of the degree of compliance with metrics linked to this plan, will be included, as consolidated shares, in the Consolidated Annual Report at 31 December 2020. These shares shall be delivered in thirds, in 2020, 2021 and 2022.

III) Long-term saving systems

Name	Remuneration from consolidation of rights to savings system
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,145
Mr José Antonio Álvarez Álvarez	858
Mr Rodrigo Echenique Gordillo	—

	Contribution over the year from the company (EUR thousand)				Amount of accumulated funds (EUR thousand)			
			Savings systems with unconsolidated economic rights		2019		2018	
Name	2019	2018	2019	2018	Systems with consolidated economic rights	Systems with unconsolidated economic rights	Systems with consolidated economic rights	Systems with unconsolidated economic rights
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,145	1,234	—	—	48,104	—	46,093	—
Mr José Antonio Álvarez Álvarez	858	1,050	—	—	17,404	—	16,630	—
Mr Rodrigo Echenique Gordillo	—	—	—	—	13,268	—	13,614	—

iv) Details of other items (EUR thousand)

Name	Item	Amount remunerated
Ms Ana Botín-Sanz de Sautuola y O'Shea	Life and accident insurance and fixed remuneration supplement insurance	323
	Other remuneration	283

Name	Item	Amount remunerated
Mr José Antonio Álvarez Álvarez	Life and accident insurance and fixed remuneration supplement insurance	579
	Other remuneration	483

Name	Item	Amount remunerated
Mr Rodrigo Echenique Gordillo	Life and accident insurance	167
	Other remuneration	141

b) Remuneration of the company directors for seats on the boards of other group companies:

i) Remuneration in cash (EUR thousand)

Name	Fixed remuneration	Per diem allowances	Remuneration for membership of Board's committees	Salary	Short-term variable remuneration	Long-term variable remuneration	Severance pay	Other grounds	Total year 2019	Total year 2018
Mr Álvaro Cardoso de Souza	372	24	—	—	—	—	—	1	397	354

ii) Table of changes in share/based remunerations schemes and gross profit from consolidated shares of financial instruments

Not applicable

iii) Long term saving systems

Not applicable

iv) Detail of other items (EUR thousand)

Not applicable

c) Summary of remuneration (EUR thousand)

The summary should include the amounts corresponding to all the items of remuneration included in this report that have been accrued by the director, in thousand euros.

	Remuneration accrued in the company					Remuneration accrued in group companies						
Name	Total cash remuneration	Gross profit on consolidated shares or financial instruments	Contributions to the long-term savings plan	Remuneration for other items	Total 2019	Total 2018	Total cash remuneration	Gross profit on consolidated shares or financial instruments	Contributions to the long-term savings plan	Remuneration for other items	Total 2019	Total 2018
Ms Ana Botín-Sanz de Sautuola y O'Shea	6,119	2,084	1,145	606	9,954	11,011	—	—	—	—	—	—
Mr José Antonio Álvarez Álvarez	4,957	1,393	858	1,062	8,270	9,001	—	—	—	—	—	—
Mr Bruce Carnegie-Brown	700	—	—	—	700	732	—	—	—	—	—	—
Mr Rodrigo Echenique Gordillo	3,926	640	—	308	4,874	5,095	—	—	—	—	—	—
Mr Guillermo de la Dehesa Romero	399	—	—	—	399	441	—	—	—	—	—	—
Ms Homaira Akbari	226	—	—	—	226	199	—	—	—	—	—	—
Mr Ignacio Benjumea Cabeza de Vaca	524	—	—	—	524	513	—	—	—	—	—	—
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea	137	—	—	—	137	121	—	—	—	—	—	—
Ms Sol Daurella Comadrán	240	—	—	—	240	215	—	—	—	—	—	—
Ms Esther Giménez-Salinas i Colomer	228	—	—	—	228	196	—	—	—	—	—	—
Ms Belén Romana García	525	—	—	—	525	414	—	—	—	—	—	—
Mr Ramiro Mato García-Ansorena	500	—	—	—	500	450	—	—	—	—	—	—
Mr Álvaro Cardoso de Souza	276	—	—	—	276	148	397	—	—	—	397	—
Mr Henrique Manuel Drummond Borges Cirne de Castro	86	—	—	—	86	—	—	—	—	—	—	—
Mrs Pamela Ann Walkden	34	—	—	—	34	—	—	—	—	—	—	—
Mr Carlos Fernández González	214	—	—	—	214	266	—	—	—	—	—	—
Mr Juan Miguel Villar Mir	—	—	—	—	—	108	—	—	—	—	—	—
Total	**19,091**	**4,117**	**2,003**	**1,976**	**27,187**	**28,910**	**397**	**—**	**—**	**—**	**397**	**—**

This annual report on remuneration has been approved by the board of directors of the company, at its meeting on 27 February 2020.

State if any directors have voted against or abstained from approving this report.

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Economic and financial review

1. Economic, regulatory and competitive context

Santander carried out its business in 2019 in a slowing economic environment (3% estimated in 2019 vs. 3.6% in 2018) due to trade tensions between the US and China and the uncertainty regarding the manner in which the UK would leave the EU. Uncertainty reduced at year end: the US and China reached a trade agreement and the result of the UK elections confirmed its exit from the European Union on 31 January 2020. This reduction in uncertainty, together with the expansionary monetary policy measures, allowed activity to stabilise.

The evolution by geographic area was:

- **Eurozone** (GDP: +1.2% in 2019 vs. +1.9% in 2018). The negative impact from the external environment weakened GDP, driven by cyclical depletion. Inflation remained stagnant at around 1%. The European Central Bank (ECB) reacted with another set of monetary easing measures, including a cut in interest rates and the resumption of the asset purchase programme.
- **Spain** (GDP: +2.0% in 2019 vs. +2.4% in 2018). Economic expansion continued, although at more moderate rates. The unemployment rate fell to 13.8% in Q4'19. The economy is not showing inflationary pressures due to the fall in energy prices and a compression of business margins which have offset wage rises.
- **United Kingdom** (GDP: +1.2% estimated in 2019 vs +1.4% in 2018). Economic performance was very volatile throughout the year, influenced by the attempts to exit the EU. The main element supporting growth was private consumption backed by real wage increases, which were higher as inflation fell (1.3% in December). The unemployment rate (3.8% in Q3'19) remained at historical lows. The base rate stood at 0.75%.
- **Portugal** (GDP: +1.9% estimated in 2019 vs. +2.4% in 2018). The economy moderated its growth supported by private consumption and investment, whose momentum generated an increase in imports that reduced the contribution of the external sector to GDP. The jobless rate continued to fall (6.1%) and inflation stood at just 0.4% in December.
- **Poland** (GDP: +4.0% estimated in 2019 vs. +5.1% in 2018). The economy continued to grow at a good pace, although at more modest rates, backed by domestic demand. The unemployment rate was at a historic low (close to 3%). Inflation rose sharply in December to 3.4% although it is expected to moderate, so the central bank held its key interest rate at 1.5%.
- **United States** (GDP: +2.3% in 2019 vs. +2.9% in 2018). GDP decelerated by sixty basis points in the year due to lower global growth, geopolitical uncertainty and the dilution of fiscal stimuli. Unemployment remained low and inflation below target. The Fed made an adjustment by cutting interest rate by 75 bps to 1.50-1.75%.
- **Mexico** (GDP: 0.1% estimated in 2019 vs +2.1% in 2018). Economic growth was stagnant in 2019 due to a fall in investment and fiscal adjustment. Inflation moderated to 2.8%, below the central bank's target, which began to cut its key rate in August, until it ended 2019 at 7.25% (-100 bps in the year). The process for the ratification of the trade agreement between Mexico, the US and Canada is at an advanced stage, ending the uncertainty about the economic relationship between the three countries.
- **Brazil** (GDP: +1.2% estimated in 2019 vs +1.3% in 2018). The recovery gained momentum as the year progressed, driven by private consumption and investment. Inflation picked up (4.31% in December and below the target of 4.25%) but underlying inflation fell (3.4%). The central bank cut its benchmark rate by 200 bps to 4.5%. S&P improved the outlook for sovereign rating (at BB-) to positive from stable, given the progress in fiscal consolidation measures.
- **Chile** (GDP: +1.2% estimated in 2019 vs. +4% in 2018). The economy was impacted by the social protests that began in mid-October, although it recovered in the last months of the year. Inflation rose to 3.0% in line with the central bank's target, which cut the official rate to 1.75% (2.75% in late 2018) and established an exchange rate intervention programme to control the peso's volatility.
- **Argentina** (GDP: -2.3% estimated in 2019 vs. -2.4% in 2018). GDP shrank as a result of financial volatility since August, which dampened consumption and investment and caused inflation to rise. The central bank introduced capital controls, which allowed it to cut interest rates in the final few months of the year, reversing the previous rise.

The following table shows the exchange rates against the euro of the main currencies in which we operate in 2019 and 2018:

Exchange rates: 1 euro / currency parity

	Average		Period-end	
	2019	2018	2019	2018
US dollar	1.119	1.180	1.123	1.145
Pound sterling	0.877	0.885	0.851	0.895
Brazilian real	4.410	4.294	4.516	4.444
Mexican peso	21.549	22.688	21.220	22.492
Chilean peso	785.558	756.661	845.673	794.630
Argentine peso	52.572	31.164	67.258	43.121
Polish zloty	4.297	4.261	4.257	4.301

In this environment, **financial markets** registered several episodes of risk aversion, but closed 2019 on a more positive note.

The US market's development was shaped by geopolitical tensions, increased uncertainty and slower growth. The Fed's rate cuts and the reduction in commercial risks led to a steeper yield curve at the end of the year and a return to record highs in the stock market.

In the Eurozone, the ECB adopted a comprehensive set of expansive monetary measures in response to weakening economic growth and the fact that inflation (and the inflation outlook) has been persistently deviating from its target. The most notable measures were a cut in interest rates (the interest rate on the deposit facility was reduced to -0.50% from -0.40%), the resumption of the asset purchase programme and a new set of long-term liquidity auctions for banks.

In the United Kingdom (UK), markets supported the reduction of uncertainty following the general election results, which confirmed the UK's exit from the European Union on 31 January 2020, with rises in stock markets and the appreciation of the pound.

Latin American currencies had a heterogeneous evolution during 2019, mostly depreciations but with appreciation recorded in the last few months of the year, reflecting the improved international climate.

The international **banking environment** continued to be marked by the strengthening of balance sheets by improving solvency and liquidity and reducing non-performing assets, which resulted in a sector better prepared to confront an eventual economic downturn, such as that demonstrated by the stress tests conducted by the various supervisory bodies.

Profitability had an uneven performance across geographical areas, although it was generally affected by the deteriorating economic outlook and the easing of monetary policies. Increasing profitability continues to be one of the sector's main challenges, particularly in Europe, where institutional development and structural reforms are necessary in order to bolster profitability and market valuation of the banking sector.

In emerging markets profitability remains high and was able to withstand the deterioration of the economic environment and the episodes of instability during the year.

The digital challenge is changing the way customers interact with banks. Competition and efficiency processes continue to demand high levels of investment. The banking sector must adapt itself to the ageing of mature economies and make the most of new technology to increase the growing middle classes' access to banking services in developing economies.

Regarding **the regulatory agenda** in 2019, the most noteworthy milestone of the year was the approval of the revision of capital regulations and resolution in Europe after more than two years of intense debate, while work continued on the implementation of Basel III.

Europe continued to make progress on the implementation of the crisis management framework, including the approval of the reform of the European Stability Mechanism (ESM), as well as in the discussions on the creation of a European Deposit Guarantee Scheme, the treatment of sovereign debt, harmonisation of insolvency laws and the need for an instrument that provides liquidity in case of resolution.

In the digital field, the fintech phenomenon and the need to review the regulatory and supervisory framework are increasingly present on the international authorities' agenda. During 2019, the most relevant reports published by the different authorities (FSB, BIS) were on the consequences that the entry of bigtechs could have on financial services. They put forward ideas such as the need to review the suitability of the regulatory and supervisory framework, and the potential risks to financial stability arising from the use of the cloud by financial institutions and the small number of dominant players worldwide.

Taxes: in the context of a digital economy, there is an international debate as to how tax systems should ensure a fair contribution to society from all companies.

Significant progress is being made on sustainable funding, especially in Europe where the key elements of the European Commission's 2018 Action Plan are being implemented. The Regulation on disclosure requirements for sustainable investments and sustainability risks in the financial service sector has been adopted. This is expected to remain a priority in Europe, and will intensify following the Commission's announcement of the European Green Deal, which sets out how to make Europe the first climate neutral continent by 2050.

Finally, both at international and European level, the authorities strengthened the message on the need to enhance the framework for the prevention of money laundering and terrorist financing, and the relevance of its connection with the prudential area.

2. Group selected data

BALANCE SHEET (EUR million)	2019	2018	% 2019/2018	2017
Total assets	**1,522,695**	1,459,271	4.3	1,444,305
Loans and advances to customers	**942,218**	882,921	6.7	848,915
Customer deposits	**824,365**	780,496	5.6	777,730
Total funds [A]	**1,050,765**	980,562	7.2	985,702
Total equity	**110,659**	107,361	3.1	106,832

INCOME STATEMENT (EUR million)	2019	2018	% 2019/2018 [B]	2017
Net interest income	**35,283**	34,341	2.7	34,296
Total income	**49,229**	48,424	1.7	48,355
Net operating income	**25,949**	25,645	1.2	25,362
Profit before tax	**12,543**	14,201	(11.7)	12,091
Attributable profit to the parent	**6,515**	7,810	(16.6)	6,619

UNDERLYING INCOME STATEMENT [C] (EUR million)	2019	2018	% 2019/2018 [D]	2017
Net interest income	**35,283**	34,341	2.7	34,296
Total income	**49,494**	48,424	2.2	48,392
Net operating income	**26,214**	25,645	2.2	25,473
Profit before tax	**14,929**	14,776	1.0	13,550
Attributable profit to the parent	**8,252**	8,064	2.3	7,516

EPS, PROFITABILITY AND EFFICIENCY (%)	2019	2018	% 2019/2018	2017
EPS (euros)	**0.362**	0.449	(19.4)	0.404
Underlying EPS (euros) [C]	**0.468**	0.465	0.7	0.463
RoE	**6.62**	8.21		7.14
RoTE	**9.31**	11.70		10.41
Underlying RoTE [C]	**11.79**	12.08		11.82
RoA	**0.54**	0.64		0.58
RoRWA	**1.33**	1.55		1.35
Underlying RoRWA [C]	**1.61**	1.59		1.48
Efficiency ratio [C]	**47.0**	47.0		47.4

SOLVENCY AND NPLs (%)	2019	2018	2017
Fully loaded CET1 [E]	**11.65**	11.30	10.84
Fully loaded total capital ratio [E]	**15.02**	14.77	14.48
NPL ratio	**3.32**	3.73	4.08
Coverage ratio	**68**	67	65

THE SHARE, MARKET CAPITALISATION AND DIVIDEND	2019	2018	% 2019/2018	2017
Number of shareholders	**3,986,093**	4,131,489	(3.5)	4,029,630
Shares (millions)	**16,618**	16,237	2.3	16,136
Share price (euros)	**3.730**	3.973	(6.1)	5.479
Market capitalisation (EUR million)	**61,986**	64,508	(3.9)	88,410
Dividend per share (euros) [F]	**0.23**	0.23	0.2	0.22
Tangible book value per share (euros)	**4.36**	4.19		4.15
Price / Tangible book value per share (X)	**0.86**	0.95		1.32

CUSTOMERS (thousands)	2019	2018	% 2019/2018	2017
Total customers	**144,795**	139,450	3.8	133,252
Loyal customers [G]	**21,556**	19,832	8.7	17,254
Loyal retail customers	**19,762**	18,095	9.2	15,759
Loyal SME & corporate customers	**1,794**	1,736	3.3	1,494
Digital customers [H]	**36,817**	32,014	15.0	25,391

OPERATING DATA	2019	2018	% 2019/2018	2017
Number of employees	**196,419**	202,713	(3.1)	202,251
Number of branches	**11,952**	13,217	(9.6)	13,697

A. Includes customer deposits, mutual funds, pension funds and managed portfolios.

B. In constant euros: Net interest income: +3.5%; Total income: +2.6%; Net operating income: +1.9%; Attributable profit: -15.9%.

C. In addition to IFRS measures, we present non-IFRS measures including those which we refer to as underlying measures. These underlying measures in our view allow, among other reasons, a better year-on-year comparability as they exclude items outside the ordinary course performance of our business which are grouped in the 'management adjustment' line and are further detailed at the end of section 3.2 and in section 8 – Alternative Performance Measures – of this chapter.

D. In constant euros: Net interest income: +3.5%; Total income: +3.2%; Net operating income: +3.0%; Attributable profit: +3.2%.

E. 2019 and 2018 data applying the IFRS 9 transitional arrangements.

F. Total dividend charged against the year. The dividend charged to 2019 results is subject to 2020 AGM approval.

G. Active customers who receive most of their financial services from the Group according to the commercial segment to which they belong. Various engaged customer levels have been defined taking profitability into account.

H. Every physical or legal person, that, being part of a commercial bank, has logged in its personal area of internet banking or mobile phone or both in the last 30 days.

3. Group financial performance

As described in note 1.b to the consolidated financial statements, our reported results are prepared in accordance with IFRS and the analysis of our financial situation and performance in this consolidated directors' report is mainly based on those IFRS results. However, to measure our performance we also use non-IFRS measures and APMs or Alternative Performance Measures. While section 8 – Alternative Performance Measures of this chapter provides a more detailed view of all those measures, the following are the main adjustments we make to our IFRS results when providing non-IFRS measures:

- **Underlying results measures.** We present what we call underlying results measures which, in our view, allow better year-on-year comparisons as they exclude items outside the ordinary course performance of our business which are grouped in the management adjustments line, and are further detailed at the end of section 3.2 of this chapter.

  In addition, the results by business areas in section 4 below are presented only on an underlying basis in accordance with IFRS 8, and reconciled on an aggregate basis to our IFRS consolidated results in note 52.c to the consolidated financial statements.

- **Local currency measures.** We make use of certain financial measures in local currency to help in the assessment of our ongoing operating performance. These non-IFRS financial measures include the results of operations of our subsidiary banks located outside the Eurozone, excluding the impact of foreign exchange. Because changes in foreign currency exchange rates have a non-operating impact on the results, we believe that evaluating their performance on a local currency basis provides an additional and meaningful assessment of performance to both management and the company's investors. Section 8 – Alternative Performance Measures of this chapter explains how we exclude the exchange rate impact from financial measures in local currency.

On the other hand, certain figures contained in this consolidated directors' report, including financial information, have been subject to rounding to enhance their presentation. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this consolidated directors' report may not conform exactly to the total figure given for that column or row.

3.1 Situation of Santander

Santander is one of the largest banks in the Eurozone. As at end December 2019, our market capitalisation was EUR 61,986 million, and had approximately four million shareholders. We have a EUR 1,522,695 million of assets on our balance sheet and control EUR 1,050,765 million of total funds.

Our main purpose is to help people and businesses prosper. We do not merely meet our legal and regulatory obligations, but we aspire to exceed people's expectations. As such, we focus on the areas where, as a Group, our activity can have the greatest impact, helping more people and businesses prosper, in an inclusive and sustainable way.

This means that the Group engages in all types of activities, operations and services that are typical of the banking business in general. Our scale, business model and diversification enable us to aim to be the best open digital financial services platform, acting responsibly and earning the lasting loyalty of our stakeholders (customers, shareholders, people and communities).

We have close to 200,000 employees who serve more than 145 million customers worldwide, including individuals, private banking clients, SMEs, businesses and large corporates, whenever, wherever and however the customer needs. To do this, our strategy focuses on continuing to strengthen loyalty and digitalisation.

We interact with our customers through a global network of 11,952 branches, the largest branch network among international banks. The distribution network has both universal offices as well as specialised ones aimed at certain customer segments and new collaborative spaces with increased digital capabilities. Examples of these are the *Work Café* branches, *SmartBank* and *Ágil* branches.

As well as the branch network, we have contact centres which have received various awards for their quality of service.

In addition, our progress in the digitalisation process which combines our commercial network strength with that of our technology, is key to increasing our number of customers and improving their experience.

As a result, our loyal and digital customers continued to grow this year. The number of loyal customers reached 21.6 million (+9% in the year), with an increase in both individuals and corporates. Digital customers rose 15% in the year to close to 37 million.

On average, our customers accessed digital touchpoints five times per week and digital sales increased to 36% of total sales. We also aim to be one of the top three banks for customer satisfaction in our main countries.

In April 2019, we presented our strategic plan for the medium term to drive growth and increase profitability by accelerating digitalisation, improving operational performance and continuing to improve capital allocation. We will invest over EUR 20 billion in digital transformation and technology over the next four years with the aim of improving and personalising customer experience and, as a consequence, increasing trust and loyalty while at the same time reducing costs.

In this strategic plan, we laid out a new organisational structure, three geographical regions and a new reporting unit segment, Santander Global Platform (SGP), which will enable us to accelerate our commercial and digital transformation, while making progress towards our financial and non-financial objectives.

This new simplified management structure for Europe, North America and South America, together with a management committee with increased business focus will allow better and more agile execution throughout the Group.

Europe primarily includes Spain, the UK, Portugal, Poland and Santander Consumer Finance (SCF). The latter also plays a significant role in consumer finance in 15 European countries.

Given the current environment characterised by lower for longer interest rates, we are progressing toward a common organisational structure under which we can take advantage of the strengths, innovation and leadership of each market, applying what we learn in one country to the rest and avoiding overlaps.

North America includes the US and Mexico. Both countries are increasing coordination with each other and capturing new opportunities, reducing cost duplication and improving efficiency.

South America includes Brazil, Chile, Argentina, Uruguay and Andean Region (Peru and Colombia).

The focus is to accelerate profitable growth and lead the retail financial industry. To this end, we have a strategy that seeks to strengthen a more connected regional network and facilitate the expansion of successful businesses to other countries in the region.

Finally, with the creation of SGP we are taking another step forward in our digital transformation, which combines our experience in banking and technology. Our goal is to extend the benefits of the talent and scale of the Group to the payments and digital businesses with the highest growth potential. We are building platforms only once to be used by all countries, which will allow us to be best-in-class, and provide faster and better digital banking and global payment solutions to individuals and SMEs.

In addition, we have two transversal global businesses which add value to our local businesses: Santander Corporate and Investment Banking (SCIB) and Wealth Management and Insurance (WM&I).

SCIB is the global business division for corporate and institutional customers who require a tailored service and value-added wholesale products suited to their complexity and sophistication. It is a business with high levels of profitability and with resilient returns through the economic cycle.

WM&I includes the asset management, private banking and insurance businesses. It is a very capital efficient business with significant growth potential and high returns.

3.2 Results

2019 Highlights

- Attributable profit to the parent of EUR 6,515 million, down 17% from 2018, affected by EUR 1,737 million of net results that are outside the ordinary course performance of our business (EUR -254 million in 2018). Excluding these, underlying attributable profit amounted to EUR 8,252 million 2% higher year-on-year, up 3% excluding the exchange rate impact, as follows:
  - Total income reached a record high and increased yet again (+3%) backed by net interest income (+4%) and net fee income (+5%). This performance reflected our greater loyal and digital customer base, the increased activity and an active management of spreads.
  - Operating expenses rose 3% due to higher investments in transformation and digitalisation. We continued to improve our operational capacity while optimising our cost base, which, in real terms (excluding inflation and perimeter impacts[1]), fell slightly (-0.4%). We continued to be one of the most efficient global banks in the world, with an efficiency ratio of 47%.
  - Loan-loss provisions rose in line with volumes and the cost of credit remained near historic lows.
- Nine of our ten core markets grew their underlying profit year-on-year in local currency terms, five of them at double-digit rates.
- RoTE stood at 9.3% and RoRWA at 1.33% (11.7% and 1.55%, respectively in 2018). Earnings per share (EPS) was EUR 0.362, compared to EUR 0.449 in 2018.
- On an underlying basis, RoTE was 11.8%, RoRWA 1.61% and EPS was EUR 0.468 (12.1%, 1.59% and EUR 0.465, respectively, in 2018).

Summarised income statement

EUR million

			Change			
	2019	2018	Absolute	%	% excl. FX	2017
Net interest income	35,283	34,341	942	2.7	3.5	34,296
Net fee income (commission income minus commission expense)	11,779	11,485	294	2.6	4.6	11,597
Gains or losses on financial assets and liabilities and exchange differences (net)	1,531	1,797	(266)	(14.8)	(11.0)	1,665
Dividend income	533	370	163	44.1	44.0	384
Share of results of entities accounted for using the equity method	324	737	(413)	(56.0)	(55.2)	704
Other operating income / expenses	(221)	(306)	85	(27.8)	22.5	(291)
Total income	**49,229**	**48,424**	**805**	**1.7**	**2.6**	**48,355**
Operating expenses	(23,280)	(22,779)	(501)	2.2	3.4	(22,993)
Administrative expenses	(20,279)	(20,354)	75	(0.4)	0.7	(20,400)
Staff costs	*(12,141)*	*(11,865)*	*(276)*	*2.3*	*3.2*	*(12,047)*
Other general administrative expenses	*(8,138)*	*(8,489)*	*351*	*(4.1)*	*(2.8)*	*(8,353)*
Depreciation and amortisation	(3,001)	(2,425)	(576)	23.8	25.5	(2,593)
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)	(9,352)	(8,986)	(366)	4.1	4.3	(9,259)
o/w: net loan-loss provisions	*(9,321)*	*(8,873)*	*(448)*	*5.0*	*5.3*	*(9,111)*
Impairment on other assets (net)	(1,623)	(207)	(1,416)	684.1	677.2	(1,273)
Provisions or reversal of provisions	(3,490)	(2,223)	(1,267)	57.0	68.8	(3,058)
Gain or losses on non-financial assets and investments (net)	1,291	28	1,263	—	—	522
Negative goodwill recognised in results	—	67	(67)	(100.0)	(100.0)	—
Gains or losses on non-current assets held for sale not classified as discontinued operations	(232)	(123)	(109)	88.6	84.2	(203)
Profit or loss before tax from continuing operations	**12,543**	**14,201**	**(1,658)**	**(11.7)**	**(10.7)**	**12,091**
Tax expense or income from continuing operations	(4,427)	(4,886)	459	(9.4)	(7.8)	(3,884)
Profit from the period from continuing operations	**8,116**	**9,315**	**(1,199)**	**(12.9)**	**(12.3)**	**8,207**
Profit or loss after tax from discontinued operations	—	—	—	—	—	—
Profit for the period	**8,116**	**9,315**	**(1,199)**	**(12.9)**	**(12.3)**	**8,207**
Attributable profit to non-controlling interests	(1,601)	(1,505)	(96)	6.4	6.3	(1,588)
Attributable profit to the parent	**6,515**	**7,810**	**(1,295)**	**(16.6)**	**(15.9)**	**6,619**

1. Integration of the retail and SME business acquired from Deutsche Bank Polska.

Detail of the main income statement items

Total income

Total income reached a record high of EUR 49,229 million, 2% higher than in 2018. Excluding the exchange rate impact it rose 3%. Net interest income and net fee income accounted for 95% of total income, well above the average of our competitors, enabling consistent and recurrent growth while limiting the impact that periods of high volatility can have on gains on financial transactions.

Net interest income

Net interest income amounted to EUR 35,283 million, up 3% compared to 2018. The following tables show the average balances for each year, obtained as the average of the months in the period, which in our opinion, should not materially differ from those obtained using daily balances, as well as the interest generated.

They also include, by domicile of the Group entity at which the relevant assets or liabilities are accounted for, our average balances and average interest rates obtained in 2019 and 2018. Domestic balances are those of Group entities domiciled in Spain, which reflect our domestic activity, and international balances are those of Group entities domiciled outside of Spain, which reflect our foreign activity. Within the latter, mature markets include Europe (except Spain and Poland) and the US. On the other hand, developing markets include South America, Mexico and Poland.

The average balance of interest-earning assets was EUR 1,304,264 million in 2019, 5% higher year-on-year (EUR 1,246,189 million in 2018). The increase was due to the 7% growth in the international activity of our entities in both mature markets (mainly lending activity in the UK, the US and SCF) and emerging markets (also due to lending activity, with overall growth in all countries).

Average balance sheet - assets and interest income

EUR million

	2019			2018		
Assets	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Cash and deposits on demand and loans and advances to central banks and credit institutions	**203,809**	**3,920**	**1.92%**	**192,669**	**4,051**	**2.10%**
Domestic	84,412	598	0.71%	75,250	784	1.04%
International - Mature markets	66,093	910	1.38%	66,326	733	1.11%
International - Developing markets	53,304	2,412	4.52%	51,093	2,534	4.96%
Loans and advances to customers	**910,327**	**46,180**	**5.07%**	**861,327**	**43,489**	**5.05%**
Domestic	236,132	5,420	2.30%	240,845	5,366	2.23%
International - Mature markets	491,479	18,426	3.75%	451,034	17,287	3.83%
International - Developing markets	182,716	22,334	12.22%	169,448	20,836	12.30%
Debt securities	**190,128**	**6,378**	**3.35%**	**192,193**	**6,429**	**3.35%**
Domestic	61,498	599	0.97%	70,746	1,007	1.42%
International - Mature markets	56,935	829	1.46%	55,173	792	1.44%
International - Developing markets	71,695	4,950	6.90%	66,274	4,630	6.99%
Hedging income		**232**			**305**	
Domestic		59			(37)	
International - Mature markets		161			(37)	
International - Developing markets		12			379	
Other interest		**75**			**51**	
Domestic		23			21	
International - Mature markets		31			16	
International - Developing markets		21			14	
Total interest-earning assets	**1,304,264**	**56,785**	**4.35%**	**1,246,189**	**54,325**	**4.36%**
Domestic	382,042	6,699	1.75%	386,841	7,141	1.85%
International - Mature markets	614,507	20,357	3.31%	572,533	18,791	3.28%
International - Developing markets	307,715	29,729	9.66%	286,815	28,393	9.90%
Other assets	**203,903**			**196,672**		
Assets from discontinued operations	**—**			**—**		
Average total assets	**1,508,167**	**56,785**		**1,442,861**	**54,325**	

Domestic activity fell 1%, affected by the sector's deleveraging.

The average return on total interest-earning assets remained virtually stable at 4.35% (4.36% in 2018), as the rise in profitability in international mature markets (+3 bps to 3.31%, mainly driven by higher profitability on cash and deposits on demand and loans and advances to central banks and credit institutions) was offset by lower domestic market activity (-10 bps at 1.75% due to lower debt securities profitability) and international activity in developing markets (-24 bps to 9.66%, with lower profitability in all lines).

The average balance of interest-bearing liabilities was EUR 1,252,228 million in 2019, a 5% increase year-on-year (EUR 1,193,108 million in 2018). Widespread growth (domestic: +2%, mature international: +6% and developing international: +8%) was driven by the performance of customer deposits, with increases in most geographic areas in which we operate, and marketable debt securities.

Average balance sheet - liabilities and interest expense

EUR million

	2019			2018		
Liabilities and stockholders' equity	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Deposits from central banks and credit institutions	**181,651**	**3,248**	**1.79%**	**191,073**	**3,218**	**1.68%**
Domestic	86,635	496	0.57%	101,728	691	0.68%
International - Mature markets	59,155	884	1.49%	57,768	677	1.17%
International - Developing markets	35,861	1,868	5.21%	31,577	1,850	5.86%
Customer deposits	**811,151**	**10,137**	**1.25%**	**773,578**	**9,062**	**1.17%**
Domestic	263,016	665	0.25%	250,470	882	0.35%
International - Mature markets	366,003	2,659	0.73%	351,873	2,085	0.59%
International - Developing markets	182,132	6,813	3.74%	171,235	6,095	3.56%
Marketable debt securities	**246,133**	**6,679**	**2.71%**	**221,196**	**6,073**	**2.75%**
Domestic	84,217	1,580	1.88%	75,752	1,555	2.05%
International - Mature markets	125,022	3,011	2.41%	111,863	2,550	2.28%
International - Developing markets	36,894	2,088	5.66%	33,581	1,968	5.86%
Other interest-bearing liabilities	**13,293**	**418**	**3.14%**	**7,261**	**186**	**2.56%**
Domestic	8,774	213	2.43%	5,470	91	1.66%
International - Mature markets	2,131	25	1.17%	799	5	0.63%
International - Developing markets	2,388	180	7.54%	992	90	9.07%
Hedging expenses		**0**			**24**	
Domestic		(21)			(83)	
International - Mature markets		25			(108)	
International - Developing markets		(4)			215	
Other interest		**1,020**			**1,421**	
Domestic		222			304	
International - Mature markets		150			109	
International - Developing markets		648			1,008	
Total interest-bearing liabilities	**1,252,228**	**21,502**	**1.72%**	**1,193,108**	**19,984**	**1.67%**
Domestic	**442,642**	**3,155**	**0.71%**	**433,420**	**3,440**	**0.79%**
International - Mature markets	**552,311**	**6,754**	**1.22%**	**522,303**	**5,318**	**1.02%**
International - Developing markets	**257,275**	**11,593**	**4.51%**	**237,385**	**11,226**	**4.73%**
Other liabilities	**146,386**			**143,798**		
Non-controlling interests	**11,096**			**10,884**		
Shareholders´ equity	**98,457**			**95,071**		
Liabilities from discontinued operations	—			—		
Average total liabilities and equity	**1,508,167**	**21,502**		**1,442,861**	**19,984**	

The average cost of interest-bearing liabilities was 5 bps higher to 1.72% due to growth in international mature markets (costs rose 20 bps to 1.22% and rises in all lines). On the other hand, there was a reduction in costs in the domestic market (-8 bps to 0.71%) and international developing markets (-22 bps to 4.51%).

The change in interest income / (expense) shown in the table below was calculated as follows:

- The change in volumes is obtained by applying the previous period's interest rates to the difference between the average balances of the current and previous periods.
- The change in interest rate is obtained by applying the difference between the rates of the current and previous periods to the average balance for the previous year.

In 2019, the performance of interest income and interest was the following:

- Interest income increased EUR 2,460 million due to higher volumes, as the exchange rate impact was negative. Growth in mature and developing markets (EUR 2,902 million), was slightly offset by domestic activity (EUR -442 million).
- Interest expense rose EUR 1,518 million, driven by both interest rates and volumes. As was the case with interest income, growth was recorded in mature and developing markets (EUR 1,803 million), with decreases in the domestic component (EUR -285 million), the latter driven by reduced costs stemming from lower interest rates.
- As a result, net interest income was EUR 942 million higher primarily due to developing markets, and to a lesser extent, mature markets, both underpinned by greater volumes, as the interest rate impact was negative in an environment of low interest rates in many countries and rates were still negative in Europe.
- Finally, it is important to remember that the application of IRFS 16 had a negative impact (EUR -265 million) on net interest income.

Volume and profitability analysis

EUR million

	2019/2018		
	Increase (decrease) due to changes in		
Interest income	Volume	Rate	Net change
Cash and deposits on demand and loans and advances to central banks and credit institutions	**142**	**(273)**	**(131)**
Domestic	87	(273)	(186)
International - Mature markets	(51)	228	177
International - Developing markets	106	(228)	(122)
Loans and advances to customers	**3,150**	**(459)**	**2,691**
Domestic	(106)	160	54
International - Mature markets	1,634	(495)	1,139
International - Developing markets	1,622	(124)	1,498
Debt securities	**204**	**(255)**	**(51)**
Domestic	(119)	(289)	(408)
International - Mature markets	(52)	89	37
International - Developing markets	375	(55)	320
Hedging income	**(73)**	**—**	**(73)**
Domestic	96	—	96
International - Mature markets	198	—	198
International - Developing markets	(367)	—	(367)
Other interest	**24**	**—**	**24**
Domestic	2	—	2
International - Mature markets	15	—	15
International - Developing markets	7	—	7
Total interest-earning assets	**3,447**	**(987)**	**2,460**
Domestic	**(40)**	**(402)**	**(442)**
International - Mature markets	**1,744**	**(178)**	**1,566**
International - Developing markets	**1,743**	**(407)**	**1,336**

Volume and cost analysis

EUR million

	2019/2018		
	Increase (decrease) due to changes in		
Interest expense	Volume	Rate	Net change
Deposits from central banks and credit institutions	**68**	**(38)**	**30**
Domestic	(95)	(100)	(195)
International - Mature markets	(73)	280	207
International - Developing markets	236	(218)	18
Customer deposits	**446**	**629**	**1,075**
Domestic	42	(259)	(217)
International - Mature markets	5	569	574
International - Developing markets	399	319	718
Marketable debt securities	**683**	**(77)**	**606**
Domestic	165	(140)	25
International - Mature markets	329	132	461
International - Developing markets	189	(69)	120
Other interest-bearing liabilities	**195**	**37**	**232**
Domestic	69	53	122
International - Mature markets	18	2	20
International - Developing markets	108	(18)	90
Hedging expenses	**(24)**	**—**	**(24)**
Domestic	62	—	62
International - Mature markets	133	—	133
International - Developing markets	(219)	—	(219)
Other interest	**(401)**	**—**	**(401)**
Domestic	(82)	—	(82)
International - Mature markets	41	—	41
International - Developing markets	(360)	—	(360)
Total interest-bearing liabilities	**967**	**551**	**1,518**
Domestic	**161**	**(446)**	**(285)**
International - Mature markets	**453**	**983**	**1,436**
International - Developing markets	**353**	**14**	**367**

Net interest income. Summary of volume, profitability and cost analysis

EUR million

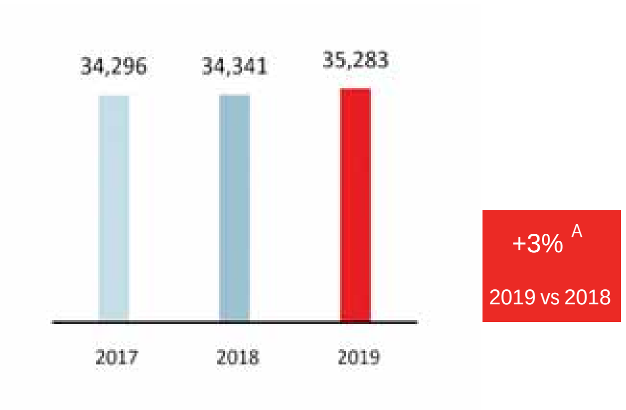
	2019/2018		
	Increase (decrease) due to changes in		
	Volume	Rate	Net change
Interest income	**3,447**	**(987)**	**2,460**
Domestic	(40)	(402)	(442)
International - Mature markets	1,744	(178)	1,566
International - Developing markets	1,743	(407)	1,336
Interest expense	**967**	**551**	**1,518**
Domestic	161	(446)	(285)
International - Mature markets	453	983	1,436
International - Developing markets	353	14	367
Net interest income	**2,480**	**(1,538)**	**942**
Domestic	**(201)**	**44**	**(157)**
International - Mature markets	**1,291**	**(1,161)**	**130**
International - Developing markets	**1,390**	**(421)**	**969**

Excluding the exchange rate impact, net interest income rose 4%. By geographic areas, growth was recorded in six of the ten core markets, as follows:

- Of note was growth in Argentina (+127%), driven by high interest rates and greater central bank note volumes and in Poland (+19%) grew supported by the improvement in the cost of deposits and lending dynamics.
- Additionally, Mexico (+9%), Brazil (+6%), SCF (+4%) and the US (+2%) also increased. Portugal and Chile remained virtually unchanged.
- There were falls in the UK (-8%), affected by the pressure on mortgage spreads and the attrition of Standard Variable Rate (SVR) balances and in Spain (-4%) due to low interest rates, reduced ALCO portfolio, lower institution volumes and the impact of IFRS 16.

Net interest income

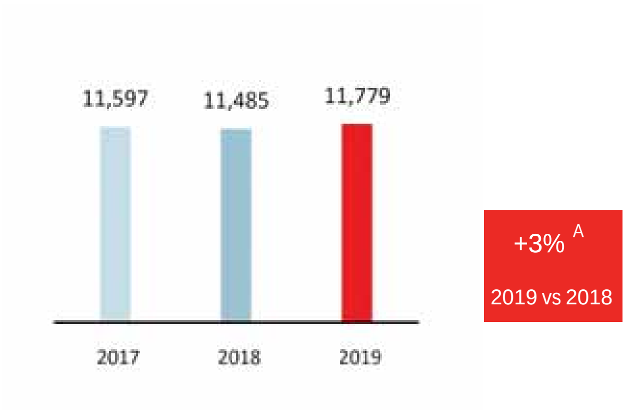
EUR million



A. Excluding exchange rate impact: +4%.

Net fee income

EUR million



A. Excluding exchange rate impact: +5%.

Net fee income

EUR million

	2019	2018	Change Absolute	Change %	Change % excl. FX	2017
Asset management business, funds and insurance	3,815	3,654	161	4.4	5.4	3,406
Credit and debit cards	2,242	2,156	86	4.0	5.5	2,124
Securities and custody services	931	794	138	17.3	18.3	841
Account management and availability fees	1,675	1,662	13	0.8	5.5	1,773
Cheques and payment orders	633	613	20	3.3	10.2	603
Foreign exchange	612	546	66	12.0	24.8	471
Charges for past-due/unpaid balances and guarantees	522	672	(150)	(22.4)	(20.9)	801
Bill discounting	316	323	(7)	(2.1)	(0.8)	357
Other	1,033	1,066	(33)	(3.1)	(7.0)	1,221
Net fee income	**11,779**	**11,485**	**294**	**2.6**	**4.6**	**11,597**

Net fee income

Net fee income amounted to EUR 11,779 million, 3% more than in 2018. Excluding the exchange rate impact, net fee income was 5% higher, reflecting greater customer loyalty, as well as the strategy of growth in services and higher value-added products.

Of note was the growth in the most transactional businesses from payments, insurance, foreign currency, cheques and transfers. Also, there were increases in fees from securities and custody services. On the other hand, there was a decline in net fee income from guarantees and overdrafts, in part affected by regulatory impacts.

By global businesses, excluding the exchange rate impact, the total fee income generated by WM&I, including those transferred to the branch network, rose 6% in the year (representing 30% of the Group's total). Fee income from SCIB increased 1% in 2019, reflecting a clear trend of improvement during the year, as shown by the fact that fee income in the second half of the year was 12% higher than in the first half.

By region, the increase in net fee income was backed mainly by South America, which grew at double-digit rates. Of note was Brazil (+12%) with growth in almost all lines, especially in cards and insurance, and Argentina (+84%), driven by greater foreign currency transactions and fee income from accounts and cash deposits. Net fee income also rose in North America, with a positive trend in both the US and Mexico. On the other hand, falls in Europe driven by Spain (due to lower activity at SCIB) and in the UK (due to overdrafts and mutual funds).

Gains / (losses) on financial assets and liabilities and exchange differences (net)

Gains / (losses) on financial assets and liabilities and exchange differences (net), which account for 3% of total income, decreased 15% (-11% excluding the exchange rate impact) to EUR 1,531 million compared to 2018 mainly due to the higher cost of foreign currency hedging in 2019, combined with the positive performance of markets in the first half of 2018.

In this line item, gains and losses on financial assets and liabilities are due to the following: trading portfolio and marked-to-market derivative instruments, including spot market foreign exchange transactions, sales of investment securities and liquidation of our hedging or other derivative positions.

For further details, see note 44 to the consolidated financial statements.

Exchange rate differences primarily show the gains / (losses) on currency dealings, the differences that arise in the conversion of monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal. The Group manages the currencies to which it is exposed together with the arrangement of derivative instruments and, accordingly, the changes in this line item should be analysed together with those recognised under Gains / (losses) on financial assets and liabilities.

For further details, see note 45 to the consolidated financial statements.

Dividend income

Dividend income was EUR 533 million in 2019, 44% more than in 2018 (EUR 370 million) mainly due to higher dividends from the trading portfolio.

Share of results of entities accounted for by the equity method

The share of results of entities accounted for by the equity method was EUR 324 million in 2019, 56% lower than in 2018 (EUR 737 million) mainly driven by the sale of Testa and WiZink as well as losses in real estate equity.

For further information, see note 13 and note 41 to the consolidated financial statements.

Other operating income / (expenses)

Losses on net other operating income in 2019 of EUR 221 million (losses of EUR 306 million in 2018). Included in this item are income and expenses from insurance activity, non-financial services and other fees and contributions to the Deposit Guarantee Fund and the Single Resolution Fund.

For further information, see note 46 to the consolidated financial statements.

Operating expenses

EUR million

	2019	2018	Change Absolute	Change %	Change % excl. FX	2017
Staff costs	12,141	11,865	276	2.3	3.3	12,047
Other administrative expenses	*8,138*	*8,489*	*(351)*	*(4.1)*	*(2.8)*	*8,353*
Information technology	*2,161*	*1,550*	*611*	*39.4*	*41.3*	*1,257*
Communications	*518*	*527*	*(9)*	*(1.6)*	*1.6*	*529*
Advertising	*685*	*646*	*39*	*6.0*	*6.9*	*757*
Buildings and premises	*859*	*1,846*	*(987)*	*(53.5)*	*(53.0)*	*1,798*
Printed and office material	*116*	*122*	*(6)*	*(5.0)*	*(4.3)*	*133*
Taxes (other than tax on profits)	*522*	*557*	*(35)*	*(6.3)*	*(3.6)*	*583*
Other expenses	*3,277*	*3,240*	*37*	*1.1*	*2.3*	*3,296*
Administrative expenses	**20,279**	**20,354**	**(75)**	**(0.4)**	**0.7**	**20,400**
Depreciation and amortisation	3,001	2,425	576	23.8	25.5	2,593
Operating expenses	**23,280**	**22,779**	**501**	**2.2**	**3.4**	**22,993**

Operating expenses

Operating expenses totalled EUR 23,280 million, 2% higher year-on-year. Administrative expenses remained fairly stable, and depreciation and amortisation increased 24%.

Excluding the exchange rate impact, operating expenses rose 3% as a result of higher investments in transformation and digitalisation, together with the improvements made to the distribution networks, the slight impact from the integration of the retail and SME business acquired from Deutsche Bank Polska and the impact in Argentina of high inflation.

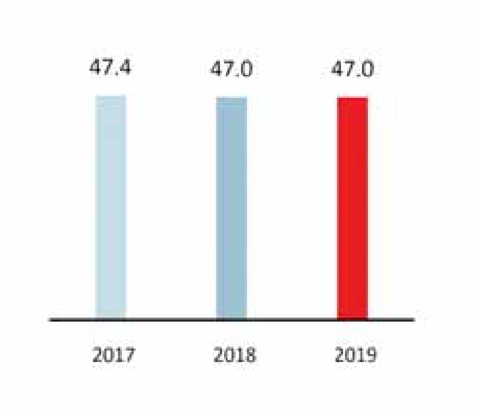
In real terms (excluding inflation and acquisitions), costs fell slightly, the third year running in which they fell or remained flat thanks to our cost management (-0.4% in 2019, -0.5% in 2018 and +0.3% in 2017).

The Group's aim is to improve our operational capacity and at the same time manage our costs more efficiently and adapted to each region, via an exemplary execution of the integrations and fostering the use of shared services.

In 2019, we continued to be one of the world's most efficient global banks, maintaining our efficiency ratio at 47.0%.

Efficiency ratio (cost to income)

EUR million



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2019 vs 2018

For a better comparison, the trends by region and market are detailed below, excluding the exchange rate impact:

- In **Europe**, costs are beginning to reflect the synergies of integrations, and fell 1% in nominal terms and 2.4% in real terms. Of note were the decreases in Spain (-8%) and Portugal (-4%), due to the efficiencies resulting from the integration of Banco Popular and the optimisation efforts, and in the UK (-3%) reflecting the cost savings from our transformation programme.

  The main increases were in Poland (+7%), impacted by the previously mentioned integration of Deutsche Bank Polska's retail and SME business. Excluding this impact, costs rose very slightly, with a relatively good performance in an environment with high single-digit wage pressure at the national level.

  In SCF, costs rose 2%, although at a slower pace than business growth, benefiting from the efficiency projects carried out in the year.

  The efficiency ratio in the region was practically stable.

- In **North America**, costs were 5% higher in nominal terms affected by inflation. In real terms, they rose 3% mainly driven by Mexico (+4%), spurred by the three-year investment plan, while in the US they rose 2%. The increase in revenue is enabling us to maintain the efficiency ratio in the region.

- Lastly, in **South America**, the increase in costs was significantly distorted by the very high inflation in Argentina. Excluding it, the increase was 4.6% in nominal terms and 1% in real terms, with Brazil and Chile performing well, combining investments to improve distribution capacity with close to zero growth in costs.

We believe this management by region will enable us to continue to optimise costs, which should be reflected in further improvements in the cost-to-income ratio, and at the same time improve customer experience.

Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)

Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net) was EUR 9,352 million in 2019, a 4% increase compared to 2018 both in euros and excluding the exchange rate impact.

In this item, net loan-loss provisions were 5% higher at EUR 9,321 million. Excluding the exchange rate impact, they also rose 5%, with the following detail by country:

- The largest increase was recorded in Europe, while in North and South America, the increases were more moderate, both below the rise in lending volumes.
- Credit quality ratios performed well in the year. The NPL ratio improved to 3.32% from 3.73% in 2018, the coverage ratio increased to 68% from 67% a year earlier, while the cost of credit stood at 1.00%, the same as in 2018.
- By country, the NPL ratio remained stable or improved in the three main regions, with declines in most units, except for Brazil and Argentina. The cost of credit fell in North and South America and increased slightly in Europe, although it remained near record lows (0.28% compared to 0.24% in 2018).

For further details, see the 'Credit risk' section in the Risk Management and control chapter.

Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (net)

EUR million

	2019	2018	2017
Financial assets at fair value through other comprehensive income	12	1	
Financial assets at amortised cost	9,340	8,985	
Financial assets measured at cost			8
Financial assets available-for-sale			10
Loans and receivables			9,241
Held-to-maturity investments			—
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net gains and losses from changes	**9,352**	**8,986**	**9,259**

Impairment on other assets (net)

EUR million

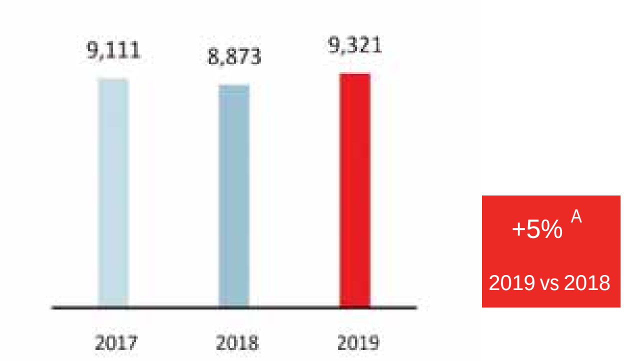
	2019	2018	2017
Impairment of investments in subsidiaries, joint ventures and associates, net	**—**	**17**	**13**
Impairment on non-financial assets, net	**1,623**	**190**	**1,260**
Tangible assets	*45*	*83*	*72*
Intangible assets	*1,564*	*117*	*1,073*
Others	*14*	*(10)*	*115*
Impairment on other assets (net)	**1,623**	**207**	**1,273**

Cost of credit

%

Net loan-loss provisions

EUR million



A. Excluding exchange rate impact: +5%.

Impairment on other assets (net)

Impairment on other assets in 2019 was EUR 1,623 million after recording the impairment of goodwill ascribed to the UK of EUR 1,491 million. In 2018, this item amounted to EUR 207 million.

Provisions or reversal of provisions

Provisions (net of reversal provisions) rose 57% in 2019, to EUR 3,490 million (EUR 2,223 million in 2018). Excluding the exchange rate impact, 69% increase primarily due to restructuring charges mainly in Spain and the UK and higher provisions for legal claims in Brazil.

For further details, see note 25 to the consolidated financial statements.

Gains or losses on non-financial assets and investments (net)

Net gains on non-financial assets and investments were EUR 1,291 million in 2019, compared to EUR 28 million in 2018. The increase was mainly due to the recording of capital gains from the agreement with Crédit Agricole S.A. for the integration of the custody businesses and from the sale of 51% of our stake in Prisma Medios de Pago S.A. and the revaluation of the rest of the stake (49%).

For further details, see note 49 to the consolidated financial statements.

Negative goodwill recognised in results

In 2019, EUR 0 million compared to the EUR 67 million recorded in 2018 due to the difference between the fair value of the net assets acquired with the acquisition of Deutsche Bank Polska's retail and SME business in Poland and the transaction value.

Gains or losses on non-current assets held for sale not classified as discontinued operations

This item, which mainly includes the impairment of foreclosed assets recorded and the sale of properties acquired upon foreclosure, were EUR -232 million in 2019, compared to EUR -123 million in 2018.

Profit before tax

Profit before tax was 12% lower than in 2018, at EUR 12,543 million. Excluding the exchange rate impact, it dropped 11%, conditioned by the aforementioned results that are outside the ordinary course performance of our business.

Income tax

Corporate income tax was EUR 4,427 million in 2019, a 9% decrease year-on-year. The effective tax rate for the Group as a whole rose to 35.3% from 34.4% in 2018.

Attributable profit to non-controlling interests

The attributable profit to non-controlling interests was EUR 1,601 million, 6% higher than in 2018. Excluding the exchange rate impact, it also rose 6%.

For further details, see note 28 to the consolidated financial statements.

Attributable profit to the parent

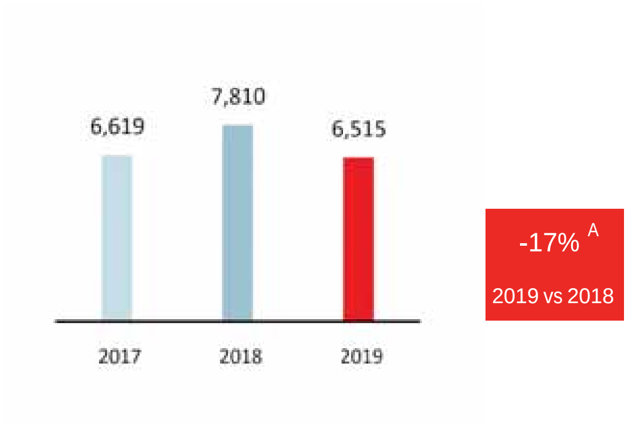
Attributable profit to the parent of EUR 6,515 million, 17% less compared to 2018. Excluding the exchange rate impact, attributable profit was 16% lower year-on-year.

RoE was 6.6%, RoTE 9.3% and RoRWA 1.33% (8.2%, 11.7% y 1.55%, respectively in 2018).

Earnings per share was EUR 0.362, EUR 0.449 in 2018.

Attributable profit to the parent

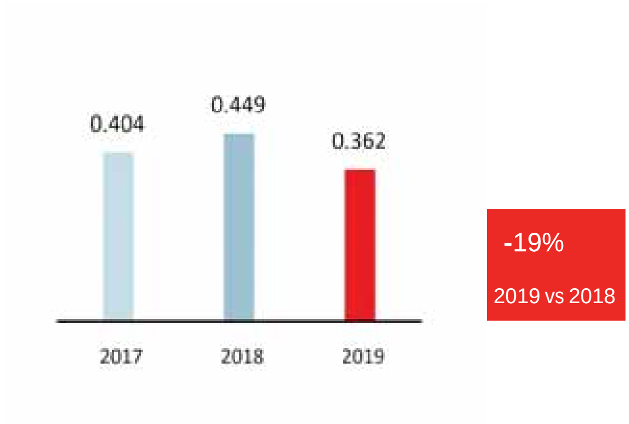
EUR million



A. Excluding exchange rate impact: -16%.

Earnings per share

EUR

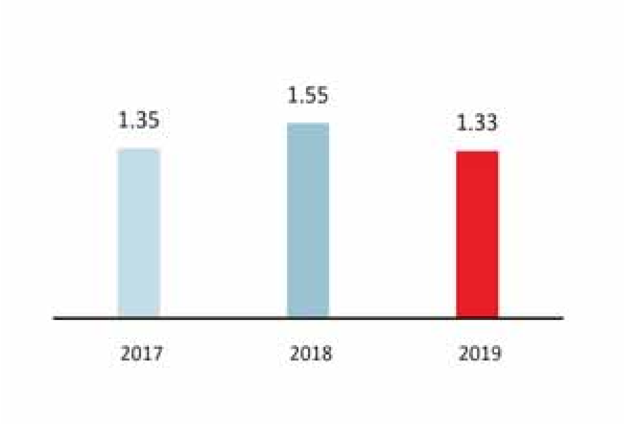


RoTE

%

RoRWA

%



Underlying attributable profit to the parent

The attributable profit to the parent recorded in 2019 and 2018 were affected by the following results (net of tax), that are outside the ordinary course performance of our business and distort the year-on-year comparison:

1. **Results recorded in 2019** for EUR -1,737 million, net of tax, as follows:

    - As part of our annual planning and in accordance with accounting rules, we reviewed the goodwill ascribed to Santander UK, which resulted in the recording of an impairment of EUR 1,491 million in the Corporate Centre.
    - Net charge of EUR 183 million for payment protection insurance (PPI) provisions in the UK.
    - Restructuring costs related to integration and optimisation processes in the branch network (mainly Banco Popular in Spain), for a net amount of EUR -864 million, detailed by countries in the table below.
    - Losses related to real estate assets and stakes in Spain, with a net impact of EUR -405 million.
    - Net charge of EUR 174 million for intangible assets, Swiss franc denominated mortgages and other provisions.
    - Capital gains from the sale of 51% of our stake in the Argentinian entity Prisma Medios de Pago S.A. and the revaluation of the remaining 49%, generating a capital gain of EUR 136 million in the year.
    - Net capital gains of EUR 693 million related to the agreement with Crédit Agricole S.A. to integrate the custody businesses.
    - Net positive results of EUR 551 million in Brazil related to DTA recoveries due to changes in tax regulation.

2. **These results in 2018** had a net impact of EUR -254 million on profit, as follows:

    - Restructuring costs: EUR -280 million in Spain and EUR -40 million at the Corporate Centre, both related to the integration of Banco Popular.
    - Positive results for the integration in Portugal (EUR 20 million) and the negative goodwill adjustment in Poland (EUR 45 million).

For further details, see note 52.c to the consolidated financial statements.

Detail of management adjustments

EUR million

2019 (net of tax)		
• Restructuring costs		-864
– Spain	-600	
– United Kingdom	-127	
– Brazil	-90	
– Poland	-23	
– Consumer	-16	
– United States	-8	
• Real Estate assets and stakes (Spain)		-405
• PPI United Kingdom		-183
• Intangibles and other		-174
• Capital gains Prisma - Argentina		136
• Custody		693
• Tax reform Brazil		551
Subtotal		**-246**
• Goodwill United Kingdom		-1,491
NET: EUR -1,737 million		

2018 (net of tax)		
• Restructuring costs		-320
– Spain	-280	
– Corporate Centre	-40	
• Portugal integration		20
• Badwill Poland		45
NET: EUR -254 million		

Excluding these results from the different P&L lines where they are recorded, and including them separately in the management adjustments line, **underlying attributable profit to the parent rose 2% to EUR 8,252 million in 2019 (EUR 8,064 million in 2018). Excluding the exchange rate impact, it was 3% higher.**

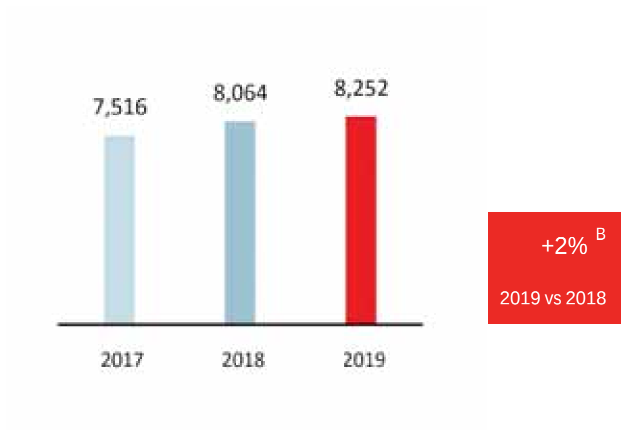
By region, and excluding the exchange rate impact, of note was double-digit growth in North America (+21%) and South America (+18%), while in Europe, in a more complicated business environment, there was a 3% decline.

By market, nine of the ten core markets increased in their local currency, and at double-digit rates in Poland, the US, Mexico, Brazil, Poland and Argentina. The only decrease was in the UK, mainly because of competitive pressure on revenue.

In 2019, the Group's underlying RoTE was 11.8% (12.1% in 2018), the underlying RoRWA rose to 1.61% from 1.59% in 2018, and underlying earnings per share EUR 0.468, 1% higher than in 2018.

Underlying attributable profit to the parent[A]

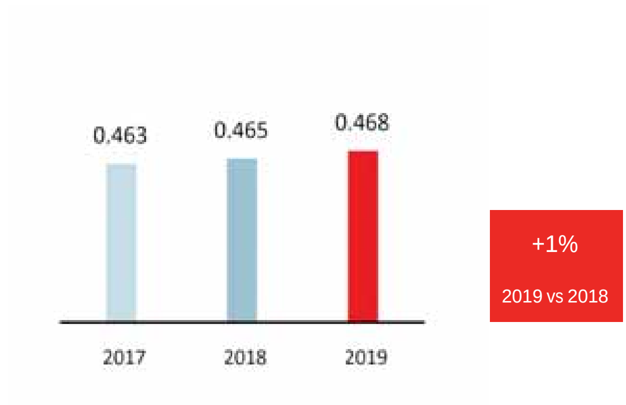
EUR million



A. Excluding management adjustments.
B. Excluding exchange rate impact: +3%.

Underlying earnings per share[A]

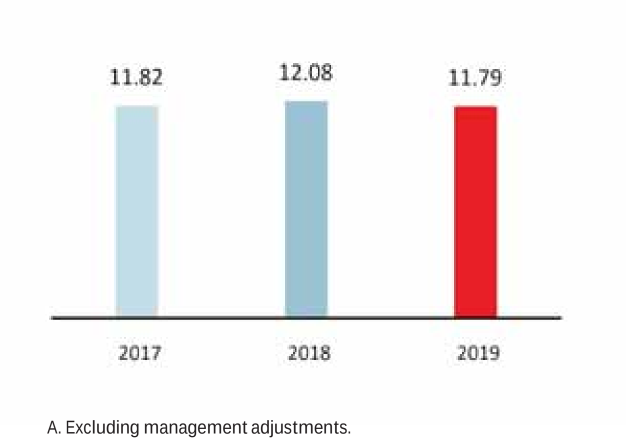
EUR



A. Excluding management adjustments.

Underlying RoTE[A]

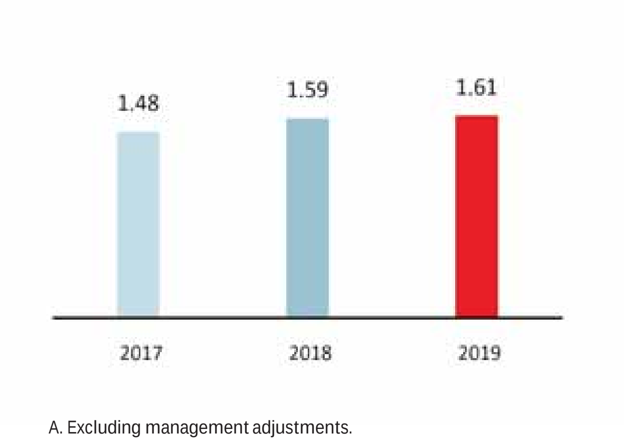
%



A. Excluding management adjustments.

Underlying RoRWA[A]

%



A. Excluding management adjustments.

Below is the summarised income statement adjusted to the items outside the ordinary course performance of our business (included in the management adjustments line) as detailed in note 52.c of the consolidated financial statements, where the reconciliation of the aggregate underlying consolidated results of our segments to the statutory consolidated results is presented.

Summarised underlying income statement

EUR million

	2019	2018	Change			2017
			Absolute	%	% excl. FX	
Net interest income	35,283	34,341	942	2.7	3.5	34,296
Net fee income	11,779	11,485	294	2.6	4.6	11,597
Gains (losses) on financial transactions and exchange differences	1,531	1,797	(266)	(14.8)	(11.0)	1,703
Other operating income	901	801	100	12.5	(1.4)	796
Total income	**49,494**	**48,424**	**1,070**	**2.2**	**3.2**	**48,392**
Administrative expenses and amortisations	(23,280)	(22,779)	(501)	2.2	3.4	(22,918)
Net operating income	**26,214**	**25,645**	**569**	**2.2**	**3.0**	**25,473**
Net loan-loss provisions	(9,321)	(8,873)	(448)	5.0	5.3	(9,111)
Other gains (losses) and provisions	(1,964)	(1,996)	32	(1.6)	(0.5)	(2,812)
Profit before tax	**14,929**	**14,776**	**153**	**1.0**	**2.0**	**13,550**
Tax on profit	(5,103)	(5,230)	127	(2.4)	(0.9)	(4,587)
Profit from continuing operations	**9,826**	**9,546**	**280**	**2.9**	**3.6**	**8,963**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**9,826**	**9,546**	**280**	**2.9**	**3.6**	**8,963**
Non-controlling interests	(1,574)	(1,482)	(92)	6.2	6.0	1,447
Underlying attributable profit to the parent	**8,252**	**8,064**	**188**	**2.3**	**3.2**	**7,516**
Management adjustments	(1,737)	(254)	(1,483)	583.9	582.8	(897)
Attributable profit to the parent	**6,515**	**7,810**	**(1,295)**	**(16.6)**	**(15.9)**	**6,619**

3.3 Balance sheet

Balance sheet [A]

EUR million

Assets	2019	2018	Change Absolute	Change %	2017
Cash, cash balances at central banks and other deposits on demand	101,067	113,663	(12,596)	(11.1)	110,995
Financial assets held for trading	108,230	92,879	15,351	16.5	125,458
Non-trading financial assets mandatorily at fair value through profit or loss	4,911	10,730	(5,819)	(54.2)	
Financial assets designated at fair value through profit or loss	62,069	57,460	4,609	8.0	34,782
Financial assets at fair value through other comprehensive income	125,708	121,091	4,617	3.8	
Financial assets available-for-sale					133,271
Financial assets at amortised cost	995,482	946,099	49,383	5.2	
Loans and receivables					903,013
Investments held-to-maturity					13,491
Hedging derivatives	7,216	8,607	(1,391)	(16.2)	8,537
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,702	1,088	614	56.4	1,287
Investments	8,772	7,588	1,184	15.6	6,184
Assets under insurance or reinsurance contracts	292	324	(32)	(9.9)	341
Tangible assets	35,235	26,157	9,078	34.7	22,974
Intangible assets	27,687	28,560	(873)	(3.1)	28,683
Tax assets	29,585	30,251	(666)	(2.2)	30,243
Other assets	10,138	9,348	790	8.5	9,766
Non-current assets held for sale	4,601	5,426	(825)	(15.2)	15,280
Total assets	**1,522,695**	**1,459,271**	**63,424**	**4.3**	**1,444,305**
Liabilities and equity					
Financial liabilities held for trading	77,139	70,343	6,796	9.7	107,624
Financial liabilities designated at fair value through profit or loss	60,995	68,058	(7,063)	(10.4)	59,616
Financial liabilities at amortised cost	1,230,745	1,171,630	59,115	5.0	1,126,069
Hedging derivatives	6,048	6,363	(315)	(5.0)	8,044
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	269	303	(34)	(11.2)	330
Liabilities under insurance or reinsurance contracts	739	765	(26)	(3.4)	1,117
Provisions	13,987	13,225	762	5.8	14,489
Tax liabilities	9,322	8,135	1,187	14.6	7,592
Other liabilities	12,792	13,088	(296)	(2.3)	12,591
Liabilities associated with non-current assets held for sale	—	—	—	—	—
Total liabilities	1,412,036	1,351,910	60,126	4.4	1,337,472
Shareholders' equity	122,103	118,613	3,490	2.9	116,265
Other comprehensive income	(22,032)	(22,141)	109	(0.5)	(21,776)
Minority interests	10,588	10,889	(301)	(2.8)	12,344
Total equity	110,659	107,361	3,298	3.1	106,833
Total liabilities and equity	**1,522,695**	**1,459,271**	**63,424**	**4.3**	**1,444,305**

A. Due to the application of IFRS 9 from 1 January 2018 and the decision to not restate the financial statements, as permitted in the regulation, the balance sheet of December 2017 is not comparable with 2018-2019. Note 1.d to the consolidated financial statements includes a reconciliation of balances as of 31 December 2017 under IAS 39 and the corresponding balances as of 1 January 2018 under IFRS 9 where the effect of the first application of the rule is broken down.

2019 Highlights

- Loans and advances to customers increased 7% year-on-year. The Group uses gross loans excluding reverse repurchase agreements (repos) for the purpose of analysing the traditional retail banking loans.
  - The latter, excluding the exchange rate impact, grew 4% and in eight of the ten core units, particularly in North and South America, which grew 10% and 9%, respectively.
  - The loan portfolio maintained a balanced structure: individuals (47%), consumer credit (17%), SMEs and corporates (24%) and SCIB (12%).
- Customer deposits were 6% higher year-on-year. The Group uses customer deposits, excluding repos, and mutual funds, for the purpose of analysing the traditional retail banking funds:
  - Customer funds, excluding the exchange rate impact, rose 6%, with nine of the ten core markets growing. There were increases in demand deposits as well as mutual funds.
  - The customer funds mix is also well diversified by product: demand deposits (61%), time deposits (20%) and investment funds (19%).
- The net loan-to-deposit ratio was 114% (113% in 2018) reflecting the retail nature of our balance sheet.

Loans and advances to customers totalled EUR 942,218 million in December 2019, a 7% increase compared to EUR 882,921 million at the end of 2018.

The Group uses gross loans excluding reverse repurchase agreements for the purpose of analysing traditional commercial banking loans. In order to facilitate the evaluation of the Group management over the review period, the comments below do not take into account exchange rates, as usual.

Gross loans and advances to customers, excluding the exchange rate impact and reverse repos, increased 4%, explained by:

– In **Europe**, moderate growth (+2%), with different performance by units. Increases in SCF (+7%, with all countries growing), Poland (+5%) and the UK (+4%), where the increase in mortgages and other retail loans was partially offset by lower exposure to commercial real estate. On the other hand, there were declines in Spain (-6%), due to lower wholesale balances and with institutions, and in Portugal (-1%), affected by the sale of non-productive portfolios.

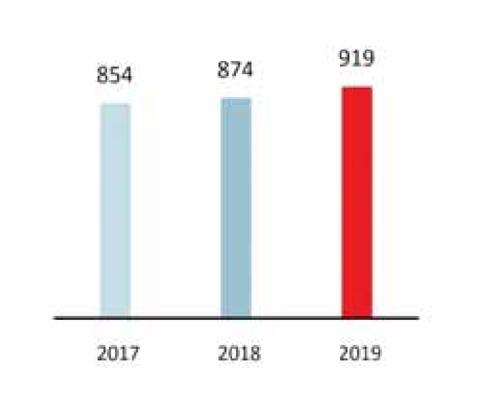
Loans and advances to customers

EUR million

			Change		
	2019	2018	Absolute	%	2017
Commercial bills	37,753	33,301	4,452	13.4	29,287
Secured loans	513,929	478,068	35,861	7.5	473,936
Other term loans	267,138	265,696	1,442	0.5	257,441
Finance leases	35,788	30,758	5,030	16.4	28,511
Receivable on demand	7,714	8,794	(1,080)	(12.3)	6,721
Credit cards receivable	23,876	23,083	793	3.4	21,809
Impaired assets	32,559	34,218	(1,659)	(4.8)	36,280
Gross loans and advances to customers (excl. reverse repos)	**918,757**	**873,918**	**44,839**	**5.1**	**853,985**
Reverse repos	45,703	32,310	13,393	41.5	18,864
Gross loans and advances to customers	**964,460**	**906,228**	**58,232**	**6.4**	**872,849**
Loan-loss allowances	22,242	23,307	(1,065)	(4.6)	23,934
Net loans and advances to customers	**942,218**	**882,921**	**59,297**	**6.7**	**848,915**

Gross loans and advances to customers (excluding reverse repos)

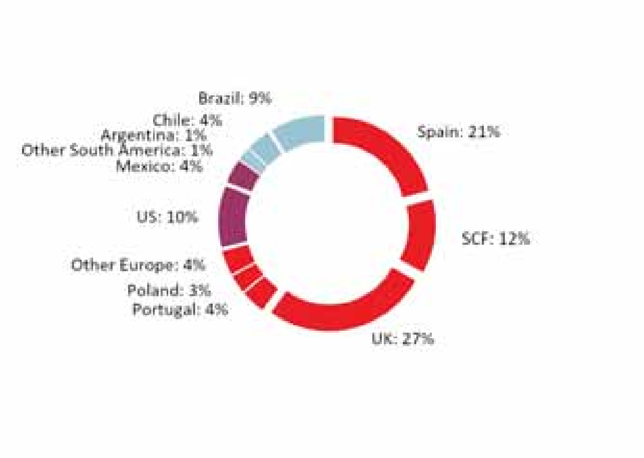
EUR billion



A. Excluding exchange rate impact: +4%.

Gross loans and advances to customers (excluding reverse repos)

% of operating areas. December 2019



- In **North America**, the increase was 10%, mainly driven by the 12% increase in the US, with growth in Santander Consumer USA (SC USA) and Santander Bank (SBNA). Mexico also grew 5%.
- Growth in **South America** was 9%, with Brazil and Chile growing 8% and Argentina 40%, the latter driven by peso balances and the impact of the currency's depreciation on dollar balances.

Loans and advances to customers excluding reverse repos maintained a balanced structure: individuals (47%), consumer credit (17%), SMEs and corporates (24%) and SCIB (12%).

At 2019 year-end, 51% of total loans and advances to customers maturing in more than a year were linked to floating interest rates, while the remaining 49% to fixed rates, with the following detail by country:

- In Spain, 68% of loans and advances to customers are linked to floating rates and 32% are fixed.
- Internationally, 46% of loans and advances to customers are at floating rates and 54% at fixed rates.

For further information on the distribution of customer loans and advances by business line, see note 10.b to the consolidated financial statements.

Tangible assets amounted to EUR 35,235 million in December 2019, increasing EUR 9,078 million and 35% from December 2018 (EUR 26,157 million), mainly driven by the impact of the first application of IFRS 16 and, to a lesser extent, by the increase recorded in the US from assets associated with leasing business.

Intangible assets rose to EUR 27,687 million, of which EUR 24,246 million corresponds to goodwill, which decreased EUR 1,220 million in the year (-5%) as a net result of the deterioration of the goodwill impairment ascribed to Santander UK and the increase from exchange differences.

Loans and advances to customers facilities with maturities exceeding one year at year-end of 2019

EUR million

	Domestic		International		TOTAL	
	Amount	Weight over the total	Amount	Weight over the total	Amount	Weight over the total
Fixed	49,531	32%	291,703	54%	341,234	49%
Variable	105,129	68%	244,777	46%	349,906	51%
TOTAL	**154,660**	**100%**	**536,480**	**100%**	**691,140**	**100%**

Total customer funds

EUR million

EUR million	2019	2018	Change Absolute	Change %	2017
Demand deposits	588,534	548,711	39,823	7.3	525,072
Time deposits	196,920	199,025	(2,105)	(1.1)	199,649
Mutual funds [A]	180,405	157,888	22,517	14.3	165,413
Customer funds	**965,859**	**905,624**	**60,235**	**6.7**	**890,134**
Pension funds [A]	15,878	15,393	485	3.2	16,166
Managed portfolios [A]	30,117	26,785	3,332	12.4	26,393
Repos	38,911	32,760	6,151	18.8	53,009
Total funds	**1,050,765**	**980,562**	**70,203**	**7.2**	**985,702**

A. Including managed and marketed funds.

On the liabilities side, customer deposits amounted to EUR 824,365 million in December 2019, 6% higher than December 2018 (EUR 780,496 million).

The Group uses customer deposits, excluding repos, and including mutual funds (customer funds) for the purposes of analysing the traditional retail banking funds.

Customer funds, excluding the effect of exchange rate movements, rose 6%. The main highlights, in constant euros, were as follows:

- The strategy to increase loyalty was reflected in demand deposits (+6%), which increased in all units except Mexico. Time deposits remained overall virtually unchanged overall. Mutual funds rose 15%, with growth in all core markets.
- By markets, customer funds rose in all of them except Mexico, which remained stable. Of note were Argentina (+24%), Brazil and Chile (+12% in both) and the US (+11%). There was more moderate growth in Portugal and Santander Consumer Finance (+8% in both), Poland (+6%) and Spain (+3%).

The mix of customer funds is also well diversified by product: 61% corresponds to demand deposits, 20% to time deposits and 19% to mutual funds.

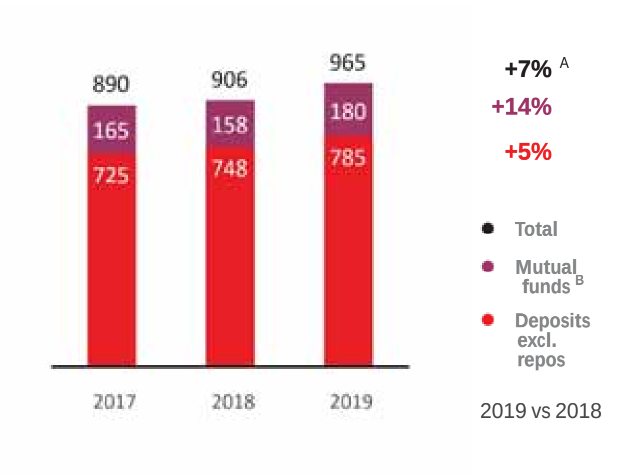
The net loan-to-deposit ratio stands at 114%, compared to 113% in December 2018.

In addition to attracting customer deposits, the Group applies a strategy of maintaining a selective issuance policy in international fixed-income markets, striving to adapt the frequency and volume of market operations to both the structural liquidity requirements of each unit and market demand.

For more information on debt issuances and maturities, see the following section on liquidity and funding management.

Customer funds (excluding repos)

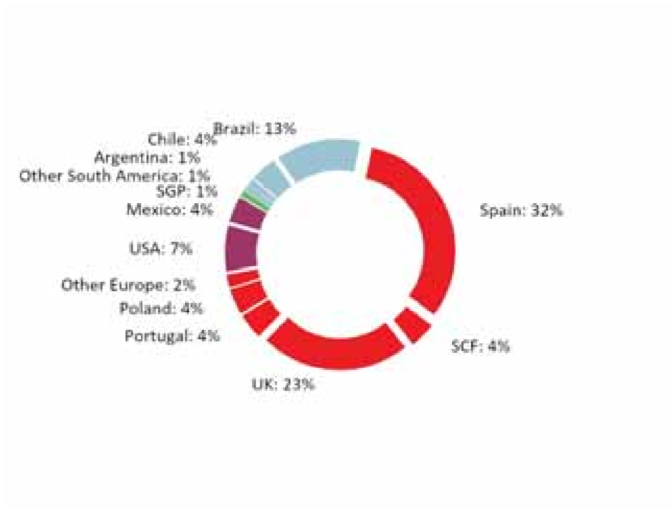
EUR billion



A. Excluding exchange rate impact: +6%.
B. Including managed and marketed funds.

Customer funds (excluding repos)

% of operating areas. December 2019



3.4 Liquidity and funding management

- The Group's liquidity remains at comfortable levels, well above regulatory requirements.
- Recovery in lending in most countries where the Group operates.
- Medium- and long-term funding activity prioritised diversification and cost optimisation.
- The Group's moderate encumbrance of assets continued in the structural funding sources of the balance sheet.

First, we present the Group's **liquidity management**, the principles on which it is based and the framework in which it is included.

We then look at the **funding strategy developed by the Group and its subsidiaries**, with particular attention on the **liquidity evolution in 2019**. We examine changes in the liquidity management ratios and the business and market trends that gave rise to these over the last year.

The section ends with a qualitative description of the **outlook** for funding in 2020 for the Group and its main countries.

Liquidity management in Grupo Santander

Structural **liquidity management** aims to fund the Group's recurring activity optimising maturities and costs, while avoiding taking on undesired liquidity risks.

Santander's liquidity management is based on the **following principles**:

- Decentralised liquidity model.
- Medium- and long-term (M/LT) funding needs must be covered by medium- and long-term instruments.
- High contribution from customer deposits due to the retail nature of the balance sheet.
- Diversification of wholesale funding sources by instruments/ investors, markets/currencies and maturities.
- Limited recourse to short-term funding.
- Availability of sufficient liquidity reserves, including standing facilities/discount windows at central banks to be used in adverse situations.
- Compliance with regulatory liquidity requirements both at Group and subsidiary level, as a new factor conditioning management.

The effective application of these principles by all institutions comprising the Group required the development of a unique **management framework** built upon three fundamental pillars:

- A **solid organisational and governance model** that ensures the involvement of the subsidiaries' senior management in decision-taking and its integration into the Group's global strategy. The decision-making process for all structural risks, including liquidity and funding risk, is carried out by local Asset and Liability Committees (ALCOs) in coordination with the global ALCO, which is the body empowered by the Bank's board in accordance with the corporate Asset and Liability Management (ALM) framework.

  This governance model has been reinforced as it has been included within Santander's Risk Appetite Framework. This framework meets demands from regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.
- In-depth **balance sheet analysis and measurement of liquidity risk**, supporting decision-taking and its control. The objective is to ensure the Group maintains adequate liquidity levels necessary to cover its short- and long-term needs with stable funding sources, optimising the impact of their costs on the income statement.

  The Group's liquidity risk management processes are contained within a conservative risk appetite framework established in each geographic area in accordance with its commercial strategy. This risk appetite establishes the limits within which the subsidiaries can operate in order to achieve their strategic objectives.
- **Management adapted** in practice to the **liquidity needs of each business**. Every year, based on business needs, a liquidity plan is developed which seeks to achieve:
  - a solid balance sheet structure, with a diversified presence in the wholesale markets;
  - the use of liquidity buffers and limited encumbrance of assets;
  - compliance with both regulatory metrics and other metrics included in each entity's risk appetite statement.

Over the course of the year, all dimensions of the plan are monitored.

The Group continues to develop the **ILAAP** (Internal Liquidity Adequacy Assessment Process), an internal self-assessment of liquidity adequacy which must be integrated into the Group's other risk management and strategic processes. It focuses on both quantitative and qualitative matters and is used as an input to the SREP (Supervisory Review and Evaluation Process). The ILAAP evaluates the liquidity position both in ordinary and stressed scenarios.

As a result of the aforementioned process, a regulatory requirement is that once a year the Group must send the supervisor a document, approved by the board of directors, that concludes that the Group's funding and liquidity structure remains solid in all scenarios and that the internal processes are suitable to ensure sufficient liquidity. This conclusion is the result of analysis carried out by each of the subsidiaries, following the Group's autonomous liquidity management model.

The Group has a robust governance structure suited to the identification, management, monitoring and control of liquidity risks, established through common frameworks, conservative principles, clearly defined roles and responsibilities, a consistent committee structure, effective local lines of defence and a well-coordinated corporate supervision.

Additionally, frequent and detailed liquidity monitoring reports are generated for management, control, informational and steering purposes. The most relevant information is periodically sent to senior management, the executive committee and the board of directors.

Over the last few years, the Group and each of its subsidiaries have developed a comprehensive special situations management framework which centralises the Group's governance in these scenarios. Contingency funding plans are integrated within this governance model, detailing a series of actions which are feasible, pre-assessed, with an established execution timeline, categorised, prioritised and sufficient both in terms of volumes as well as time frames to mitigate stress scenarios.

Funding strategy and liquidity evolution in 2019

Funding strategy and structure

Our funding activity over the last few years has focused on extending our management model to all Group subsidiaries, including new incorporations.

We have developed a funding model based on autonomous subsidiaries responsible for covering their own liquidity needs.

This structure has made it possible for us to take advantage of our solid retail banking business model in order to maintain comfortable liquidity positions at Group level and in our main units, even during periods of market stress.

Over the last few years, it has been necessary to adapt funding strategies to reflect commercial business trends, market conditions and new regulatory requirements.

In 2019, we continued to improve in specific aspects, with no significant changes in liquidity management or funding policies or practices. All of this enables us to face 2020 from a strong starting point, with no growth restrictions.

In general terms, the **funding strategies** and liquidity management approaches implemented by our subsidiaries **remain**:

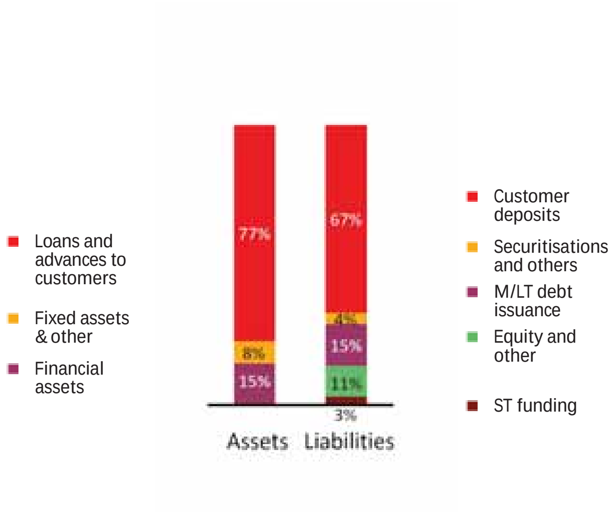
- Maintain adequate and stable medium- and long-term wholesale funding levels.
- Ensure a sufficient volume of assets which can be discounted in central banks as part of the liquidity buffer.
- Generate liquidity from the commercial business.

All these developments, enable us to enjoy a **very robust funding structure** today. The basic features of this are:

- **Customer deposits are the Group's main source of funding**, representing just over two-thirds of the Group's net liabilities (i.e. of the liquidity balance sheet) and slightly more than 87% of loans and advances to customers as of end-2019. Moreover, these deposits are highly stable due to the fact that they mainly arise from retail client activity. Their weight as a percentage of loans and advances to customers remained in line with end-2018. Further detail can be found in the section on 'Evolution of liquidity in 2019'.

Santander liquidity balance sheet

%. December 2019



- **Medium- and long-term funding accounts for over 19% of the Group's net liabilities** as at end-2019, a similar level to 2018, and amply covers the loans and advances to customers not funded by customer deposits (commercial gap).

The outstanding balance of M/LT debt placed in the market (non-Group third parties) as at end-2019 was EUR 180,064 million, with a comfortable maturity profile, well balanced by instruments and markets and a weighted average maturity of 4.4 years, slightly below the weighted average maturity at the end of 2018 of 4.6 years.

The distribution of this funding by instrument over the last three years and maturity profile are as follows:

Medium- and long-term debt issuance. Santander Group [A]

EUR million

	2019	2018	2017
Preferred	9,411	11,508	10,365
Subordinated	12,640	13,218	12,049
Senior debt	107,166	98,827	85,962
Covered bonds	50,847	46,272	45,585
Total	**180,064**	**169,825**	**153,961**

A. Placed in markets. Excluding securitisations, agribusiness notes and real estate credit notes.

Distribution by contractual maturity. December 2019. Santander Group [A]

EUR million

	0-1 month	1-3 months	3-6 months	6-9 months	9-12 months	12-24 months	2-5 years	more than 5 years	Total
Preferred	—	—	—	—	—	—	—	9,411	**9,411**
Subordinated	—	—	—	—	—	—	1,428	11,213	**12,640**
Senior debt	3,056	9,286	2,893	4,495	6,144	15,795	44,196	21,301	**107,166**
Covered bonds	—	—	3,694	1,282	1,912	8,505	17,184	18,270	**50,847**
Total	**3,056**	**9,286**	**6,587**	**5,777**	**8,056**	**24,300**	**62,808**	**60,194**	**180,064**

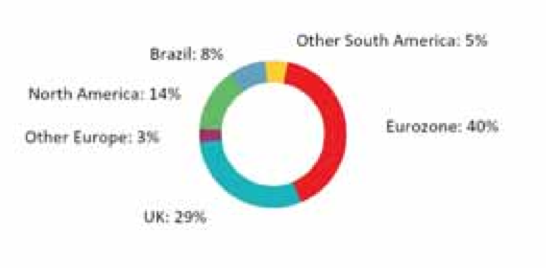
A. If an issuance has a put option in favour of the holder, the maturity of the put is considered rather than the contractual maturity.
Note: there are no additional guarantees for any of the debt issued by the Group's subsidiaries.

In addition to the debt issuances of the medium- and long-term wholesale funding, the Bank has securitisations placed in the market, collateralised funding and other specialist funding amounting to a total of EUR 56,082 million (which includes EUR 8,418 million of debt placed with private banking clients in Brazil). The average maturity was 1.4 years.

The following charts show the similarity of the geographic distribution of the Group's loans and advances to customers and its medium- and long-term wholesale funding. This remained largely unchanged compared to 2018, with the exception of a slight decrease in the UK's M/LT wholesale funding weight and an increase in the weight of the Eurozone.

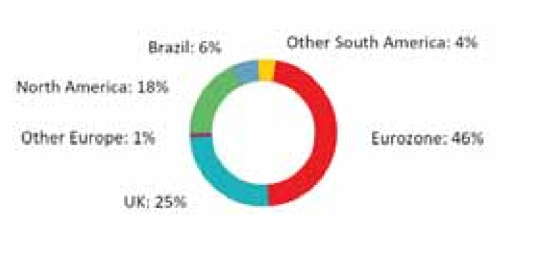
Loans and advances to customers

%. December 2019



M/LT wholesale funding

%. December 2019



Wholesale funding stemming from **short-term issuance programmes** is a residual part of the Group's funding structure, related to treasury activities and comfortably covered by liquid assets.

The outstanding balance at the end of December 2019 was EUR 33,413 million, distributed as follows: European Commercial Paper, US Commercial Paper and domestic programmes issued by the parent bank, 44%; various certificates of deposit and commercial paper programmes in the UK, 20%; Santander Consumer Finance commercial paper programmes, 23%; and issuance programmes in other units, 13%.

Evolution of liquidity in 2019

The main aspects of liquidity in 2019 can be summarised as follows:

i. Basic liquidity ratios remain at comfortable levels.

ii. We continue to meet regulatory ratios ahead of schedule.

iii. Moderate use of encumbered assets in funding operations.

i. Basic liquidity ratios at comfortable levels

As at end-2019, Santander recorded:

- A stable credit to net assets ratio (total assets minus trading derivatives and inter-bank balances) of 77%, similar to recent years. This high level in comparison with European competitors reflects the retail nature of the Group's balance sheet.

- Net loan-to-deposit ratio (LTD) of 114%, at a very comfortable level (below 120%). This stability shows a balanced growth between assets and liabilities.
- The ratio of customer deposits plus M/LT funding to net loans and advances was stable at 113%.
- Limited recourse to short-term wholesale funding. The weight was slightly under 3%, in line with previous years.
- Lastly, the Group's structural surplus (i.e. the excess of structural funding sources - deposits, M/LT funding and capital - as a percentage of structural liquidity needs - fixed assets and loans-) averaged EUR 163,933 million in the year.

As at 31 December 2019, the consolidated structural surplus stood at EUR 156,346 million. This consists of fixed-income assets (EUR 172,853 million) and equities (EUR 17,866 million), partly offset by short-term wholesale funding (EUR -33,413 million) and net interbank deposits (EUR -961 million). In relative terms, the total volume was equivalent to around 13% of the Group's net liabilities, similar to 2018 year-end.

The table shows the evolution of the basic liquidity monitoring metrics at the Group level over the last few years:

Group's liquidity monitoring metrics

%

	2019	2018	2017
Loans [A] / Total assets	77%	76%	75%
Loans [A] to Deposit ratio (LTD)	114%	113%	109%
Customer deposits and medium and long term funding / Loans [A]	113%	114%	115%
Short term wholesale funding / Net liabilities	3%	2%	2%
Structural liquidity surplus (% / Net liabilities)	13%	13%	15%

A. Loans and advances to customers.

Having covered the principal liquidity ratios at Group level, the following table sets out the ratios for Santander's main units as at end-December 2019:

Main units' liquidity metrics

%. December 2019

	LTD ratio	Deposits + M/LT funding / Loans [A]
Parent bank	77%	170%
Santander Consumer Finance	258%	69%
United Kingdom	119%	105%
Portugal	90%	121%
Poland	90%	118%
United States	156%	104%
Mexico	99%	109%
Brazil	101%	118%
Chile	141%	97%
Argentina	68%	148%
Group	**114%**	**113%**

A. Loans and advances to customers.

The **key drivers** behind the evolution of the Group's liquidity and that of its subsidiaries in **2019** (excluding the fx effect) were:

- Recovery in credit in the majority of countries where the Group is present and generalised increases in customer deposits, with the exception of Mexico. The combination of these two, excluding repurchase agreements, resulted in a commercial gap that scarcely generates liquidity needs.
- Debt issuance continued at a strong pace, particularly in Europe. Of note, was the lower weight of new issuances in the UK as a percentage of the Group's total compared to previous years. This is due to the fact that the UK front loaded some of its 2019 issuance activity in 2018 due to the anticipated capital market turbulence related to the UK's exit from the European Union, at the time expected in 2019.

In 2019, the Group as a whole issued EUR 52,039 million, calculated using year-average exchange rates. Additionally, the contractual maturity of EUR 1,200 million of securitisations was extended.

By **instrument**, the stock of medium- and long-term fixed income (covered bonds, senior debt, subordinated debt and capital hybrid instruments) decreased by around 13% to EUR 32,847 million at the end of the year. Fewer issuances of TLAC eligible senior debt and of subordinated and capital hybrid instruments, were offset by increased activity in the issuance of covered bonds and senior preferred debt. Securitisation and structured finance activity totalled EUR 19,191 million in 2019, a 7% decrease compared to 2018.

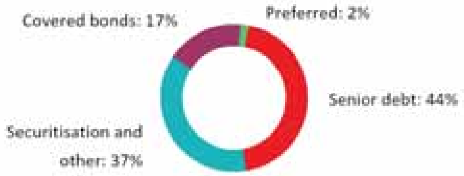
By **country**, the main issuers of medium- and long-term fixed income (excluding securitisations) were Spain and Santander Consumer Finance, followed by the UK. In the year, Spain and Santander Consumer Finance had the greatest increase in absolute terms. The main decreases were in the UK, for the aforementioned reasons, and in Brazil due to commercial dynamics and tightly managed liquidity metrics. In relative terms, of note was the US which more than doubled its volume of issuances in 2018.

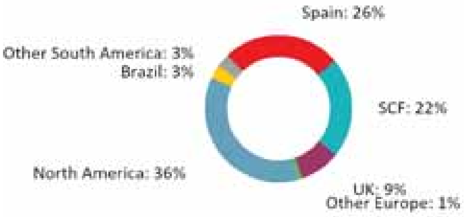
The main issuers of securitisations were SCF and SC USA.

The charts below set out in greater detail their **distribution by instruments and region**:

Distribution by instrument and region

%. December 2019





The weight of covered bonds issued in 2019 was 17% of total issuance, considerably higher than the 11% last year. As in 2018, the main issuers of this instrument were Spain and the UK. In the case of senior debt, in total its weight was 44% compared to 48% in 2018. In qualitative terms, it is worth mentioning that in 2019 the weight of senior preferred, compared with TLAC eligible senior, is greater than in 2018.

In 2019, the Group issued EUR 3,850 million of subordinated instruments (at year-average exchange rates), of which EUR 2,778 million was senior issued from the holding in the US and EUR 1,072 million was AT1 eligible hybrid instruments issued by the parent bank. There were no issuances of subordinated debt.

The increased relative weight of instruments purely for funding purposes in 2019 is consistent with the information communicated to the market, taking into account diversification and cost optimisation criteria.

In summary, Santander retained its comfortable access to the different markets in which it operates. In 2019, there were debt and securitisation issuances in 16 different currencies, involving 23 relevant issuers from 13 countries, with an average maturity of 4.2 years, slightly higher than last year.

ii. Compliance with regulatory ratios ahead of schedule

Under its liquidity management model, over the last few years Santander has been managing the implementation, monitoring and compliance with the new liquidity requirements established under international financial regulations ahead of schedule.

LCR (Liquidity Coverage Ratio)

The regulatory requirement for this metric has been at the maximum level, established at 100%, since 2018. As a result, the Group, both at the consolidated and subsidiary level, has its risk appetite level set at 110%.

The strong short-term liquidity starting position, combined with autonomous management in all major markets, enabled compliance levels of more than 100% to be maintained throughout the year, at both the consolidated and individual levels. As at end-2019, the Group's LCR ratio was 147%, comfortably exceeding regulatory requirements. The following table provides detail of the LCR ratio by market which shows a considerable excess over requirements in each one, as well as the evolution over the last year. The UK's 2018 ratio includes activities that are excluded from the Ring-Fenced Bank according to the Financial Services and Markets Act 2000.

Liquidity Coverage Ratio (LCR)

%

	December 2019	December 2018
Parent bank	143%	153%
Santander Consumer Finance	248%	269%
United Kingdom	145%	164%
Portugal	134%	152%
Poland	149%	151%
United States	133%	135%
Mexico	133%	174%
Brazil	122%	133%
Chile	143%	152%
Argentina	196%	308%
Group	**147%**	**158%**

NSFR (Net Stable Funding Ratio)

Although the final definition of the net stable funding ratio (NSFR) was approved by the Basel Committee in October 2014, as at end 2019, the Basel requirement still had not been transposed into the Capital Requirements Regulation (CRR).

On 7 June 2019, in the Official Journal of the European Union the Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities,counterparty risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 was published.

The new Regulation states that entities must have a net stable funding ratio, as defined in the same document, greater than 100% from June 2021.

The NSFR constitutes a structural measure that aims at fostering longer-term stability by incentivising banks to adequately manage their maturity mismatches by funding long-term assets with long-term liabilities.

The ratio is defined as the quotient of Available Stable Funding (ASF) and Required Stable Funding (RSF).

The Available Stable Funding comprises those sources of funding - capital and other liabilities - which can be deemed stable over a period of time of one year. The Required Stable Funding primarily encompasses those assets than can be considered illiquid over the above-mentioned period of time, thus needing to be matched with stable sources of funding.

In 2019, the Group had a defined management limit of 100% both at the consolidated and subsidiary level.

With regards to this ratio, Santander benefits from a high weight of customer deposits, which are more stable, permanent liquidity needs deriving from commercial activity funded by medium- and long-term instruments and limited recourse to short-term funding. Taken together, this has enabled us to maintain a balanced liquidity structure, reflected in NSFR ratios higher than 100%, both at Group and individual levels as at end 2019.

The following table provides detail by country as well as the evolution over the year, as defined by the Basel framework. The UK's 2018 ratio includes activities that are excluded from the Ring-Fenced Bank according to the Financial Services and Markets Act 2000.

Net Stable Funding Ratio

%

	December 2019	December 2018
Parent bank	103%	105%
Santander Consumer Finance	106%	107%
United Kingdom	124%	128%
Portugal	104%	108%
Poland	130%	131%
United States	111%	114%
Mexico	121%	130%
Brazil	112%	109%
Chile	108%	110%
Argentina	154%	141%
Group	**112%**	**114%**

III. Asset Encumbrance

Lastly, it is worth highlighting Santander's moderate use of assets as collateral in the structural funding sources of the balance sheet.

In line with the 2014 European Banking Authority (EBA) guidelines on disclosure of encumbered and unencumbered assets, the concept of asset encumbrance includes both on-balance sheet assets pledged as collateral in operations to obtain liquidity as well as those off-balance sheet assets received and re-used for a similar purpose, in addition to other assets associated with liabilities other than for funding reasons.

The following tables present the asset encumbrance data the Group is required to report to the EBA as at end 2019:

Group. Disclosure on asset encumbrance as at December 2019

EUR billion	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets	**321.5**	**—**	**1,201.2**	**—**
Loans and advances	215.9	—	906.2	—
Equity instruments	6.5	6.5	12.1	12.1
Debt instruments	64.7	64.8	119.9	119.6
Other assets	34.4	—	163.0	—

Group. Collateral received as at December 2019

EUR billion	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	**77.0**	**55.8**
Loans and advances	0.8	—
Equity instruments	5.6	8.2
Debt instruments	70.6	47.6
Other collateral received	—	—
Own debt securities issued other than own covered bonds or ABSs	**—**	**1.2**

Group. Encumbered assets / collateral received and associated liabilities

EUR billion	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encumbrance (carrying amount)	**302.5**	**398.6**

On-balance sheet encumbered asset amounted to EUR 321.5 billion, of which 67% are loans and advances (mortgages, corporate loans, etc.). Off-balance sheet encumbrance stood at EUR 77.0 billion and mainly corresponds to debt securities received as collateral in reverse repurchase agreements and rehypothecated.

The total for both types is EUR 398.6 billion of encumbered assets, giving rise to a volume of associated liabilities of EUR 302.5 billion.

As at end 2019, total asset encumbrance in funding operations represented 24.1% of the Group's extended balance sheet under EBA criteria (total asset plus guarantees received: EUR 1,655.6 billion). This is less than the 24.8% in 2018. This reduction is due in part to the repayment of funding from the European Central Bank via the TLTRO-II programme.

Rating agencies

The Group's access to wholesale financing markets, as well as the cost of its issuances, depends in part on the ratings granted by rating agencies.

These agencies regularly review the Group's ratings. The rating of its debt depends on a series of factors that are endogenous to the institution (business model, strategy, capital, income generation capacity, liquidity, etc.) and on other exogenous factors related to the overall economic environment, the situation in the sector and sovereign risk in the geographic areas in which it operates.

In certain cases, the methodology applied by these agencies limits the rating a bank can receive to the sovereign rating assigned to the country in which it is headquartered.

Santander's rating remained above the sovereign debt rating for the country in which it is headquartered by DBRS and Moody's and in line with it by Fitch and S&P. These ratings above sovereign debt reflect the financial strength and diversification of the Group.

At the end of 2019, the ratings with the main agencies were as follows:

Rating agencies

	Long term	Short term	Outlook
DBRS	A (High)	R-1 (Middle)	Stable
Fitch Ratings	A-(SeniorA)	F2 (Senior F1)	Stable
Moody's	A2	P-1	Stable
Standard & Poor's	A	A-1	Stable
Scope	AA-	S-1+	Stable
JCR Japan	A+	—	Stable

During 2019, there were no modifications to ratings and the above ratings were confirmed by Fitch, Moody's, S&P, Scope and JCR Japan.

Funding outlook for 2020

Santander begins 2020 with a comfortable liquidity position and good prospects for the year. However, some uncertainties remain, namely those related to geopolitics and financial regulation.

As a whole, the Group expects similar credit growth to previous years, in an environment in which customer deposits are expected to increase somewhat less. The combination of both factors is expected to result in increased liquidity needs from commercial banking than in previous years. The greatest liquidity needs will come from the largest units: Spain, the UK, Brazil and Santander Consumer Finance.

The Group's focus in the next few years will be on repaying the ECB and Bank of England's long term funding programmes.

With manageable maturities in the coming quarters, aided by limited recourse to short term funding and the necessary medium- and long-term issuances which, for the aforementioned reasons, is expected to be of greater intensity than last year but in line with other years, the Group will manage each country, optimising liquidity in a way that maintains a solid balance sheet structure in all the units and at the Group level.

In its issuance plan, the Group takes into account costs as well as diversification by instrument, country, market, as well as the construction of liability buffers with the ability to absorb losses in resolution, regardless of whether they are capital eligible.

The Group's funding plans ensure that we meet regulatory requirements as well as those stemming from its risk appetite framework at all times.

For example, Banco Santander, S.A.'s 2020-2021 funding plan incorporates the build-up of the stock of TLAC eligible issuances to manage increasing requirements and pre-finance issuances which lose TLAC eligibility in 2021, as well as ensure AT1 and T2 buffers are fulfilled subject to risk weighted assets (RWA) growth. Furthermore, the plan covers balance sheet growth, repayment of ECB funds (TLTRO) and replacing maturing debt issuances.

3.5 Capital management and adequacy. Solvency ratios[1]

- At year-end, the CET1 ratio reached 11.65% after increasing 35 bps in the year. In the year, record gross generation of 97 bps partially offset by regulatory impacts (-62 bps).
- The fully loaded total capital ratio was 15.02% (+25 bps in the year).
- We continued to strengthen our active capital management culture at all levels of the organisation.

Santander's capital management and adequacy seeks to guarantee solvency and maximise profitability, ensuring compliance with the Group's internal objectives as well as regulatory requirements.

It is a key strategic tool for taking decisions at the local and corporate levels and enables us to set a common framework of actions, defining and standardising capital management criteria, policies, functions, metrics and processes.

The function of the Group's capital is carried out at two levels:

- **Regulatory capital**: regulatory management stems from an analysis of the capital base, the solvency ratios under the prevailing regulatory criteria and the scenarios used for capital planning. The objective is to make the capital structure as efficient as possible both in terms of cost as well as compliance with the regulatory requirements.

  Active capital management includes strategies to use and assign capital efficiently to businesses as well as securitisations, asset sales and issuances of capital instruments (capital hybrids and subordinated debt).

- **Economic capital**: the economic capital model aims to guarantee that the Group adequately assigns its capital to all risks to which it is exposed as a result of its activity and risk appetite. Its purpose is to optimise value creation for the Group and its business units.

The real economic measurement of capital needed for an activity, together with its return, promotes value creation optimisation by selecting those activities that maximise the return on capital. This is carried out under different economic scenarios, both expected as well as unlikely but plausible, and with the solvency level decided by the Group.

The Group considers the following magnitudes related to the capital concept:

Regulatory capital

- **Capital requirements:** the minimum volume of own funds required by the regulator to ensure the solvency of the entity, depending on its credit, market and operational risks.
- **Eligible capital:** the volume of own funds considered eligible by the regulator to meet capital requirements. The main elements are accounting capital and reserves.

Economic capital

- **Self-imposed capital requirement:** the minimum volume of own funds required by the Group to absorb unexpected losses resulting from current exposure to the risks assumed by the entity at a particular level of probability (this may include other risks in addition to those considered in regulatory capital).
- **Available capital:** the volume of own funds considered eligible by the entity under its management criteria to meet its capital needs.

Cost of capital

The minimum return required by investors (shareholders) as remuneration for the opportunity cost and risk assumed by investing capital in the entity. The cost of capital represents a 'cut-off rate' or 'minimum return' to be achieved, enabling analysis of the activity of business units and evaluation of their efficiency.

Leverage ratio

This is a regulatory metric that monitors the soundness and robustness of a financial institution by comparing the size of the entity to its capital. This ratio is calculated dividing Tier 1 capital by the leverage exposure, taking into account the size of the balance sheet with adjustments for derivatives, funding of securities operations and off-balance sheet items.

Return on risk adjusted capital (RoRAC)

This is the return (net of tax) on economic capital required internally. Therefore, an increase in economic capital decreases the RoRAC. For this reason, the Group requires transactions or business involving higher capital consumption to deliver higher returns.

This considers the risk of the investment, and is therefore a risk adjusted measurement of returns.
Using the RoRAC enables the Group to manage its business more effectively, assess the real returns on its business - adjusted for the risk assumed - and to be more efficient in its business decisions.

Return on risk-weighted assets (RoRWA)

This is the return (net of tax) on risk-weighted assets for a particular business.
The Group uses RoRWA to establish regulatory capital allocation strategies, while seeking maximum return.

Value creation

The profit generated in excess of the cost of economic capital. The Group creates value when the RoRAC exceeds its cost of capital, and destroys value when the reverse occurs. This measures risk adjusted returns in absolute terms (monetary units), complementing the RoRAC approach.

Expected loss

This is the loss due to insolvency that the entity will suffer on average over an economic cycle. Expected loss considers insolvencies to be a cost that can be reduced by appropriate selection of loans.

1. 2018 and 2019 data calculated using the IFRS 9 transitional arrangements, unless otherwise indicated. Had the IFRS 9 transitional arrangement not been applied, the total impact on the fully loaded CET1 at 2019 year end would have been -24 bps.

Priorities and main activities in the Group's capital management

The Group's most notable capital management activities are:

- Establishing solvency objectives and the capital contributions aligned with the minimum regulatory requirements and internal policies, in order to guarantee a solid level of capital, coherent with the Group's risk profile, and an efficient use of capital to maximise shareholder value.
- Developing a capital plan to meet the objectives coherent with the strategic plan. Capital planning is an essential part of executing the three-year strategic plan.
- Assessing capital adequacy in order to ensure that the capital plan is coherent with the Group's risk profile and with its risk appetite framework also in stress scenarios.
- Developing the annual capital budget as part of the Group's budgetary process.
- Monitoring and controlling budget execution at the Group and country level and drawing up action plans to correct any deviation from the budget.
- Calculating capital metrics.
- Drawing up internal capital reports, as well as reports for the supervisory authorities and for the market.

The main measures taken in 2019 are set out below:

Issuances of capital hybrid instruments

In February 2019, Banco Santander, S.A. issued a USD 1.2 billion contingent convertible bond (CoCo) to replace the early amortisation of a similarly sized USD issuance from 2014.

There is no longer a requirement to obtain pre-approval to compute third-country issuances (Spanish Royal Decree 309/2019). As such, EUR 800 million of T2 issuances from Chile and Mexico are now eligible and have been included in the total capital calculation.

Dividend policy

In February 2019, the board of directors announced that its intention was:

- to set a pay-out ratio of 40-50% of the underlying profit in the medium-term, increasing it from a pay-out ratio of 30-40%,
- that the proportion of dividend paid in cash would not be lower than that of 2018;
- and, as was announced in the 2018 AGM, to make two payments against the 2019 results.

Greater detail in section 3.3 'Dividends' on the Corporate governance chapter.

Strengthen active capital management culture

The continuous improvement in the capital ratios reflects the Group's profitable growth strategy and a culture of active management of capital at all levels of the organisation.

Of note:

- The strengthening of dedicated capital management teams and greater coordination between the Corporate Centre and local teams.
- All countries and business units developed their individual capital plans focused on having businesses that maximise the return on capital.
- A greater weight of capital in incentives. To this end, certain aspects related to capital management and its profitability are taken into account in the variable pay of senior management:
  - Among the metrics taken into account are the Group's fully loaded CET1, the contribution of the countries to the Group's capital ratio and the return on equity (RoTE) and assets (RoRWA).
  - Among the qualitative aspects are adequate management of regulatory changes in capital, effective capital management in business decisions, generation of sustainable capital and effective capital allocation.

At the same time, we are developing a programme to continuously improve the infrastructure, processes and methodologies that support all aspects related to capital in order to further strengthen active capital management, respond more agilely to the numerous and increasing regulatory requirements and conduct all activities associated with this sphere more efficiently.

Fully loaded CET1

%

Evolution of capital ratios in 2019

The phased-in ratios are calculated by applying the CRR transitory schedules, while the fully-loaded ratios are calculated without applying any schedule (i.e. with the final regulations).

On 1 January 2018, IFRS 9 came into force, which implied several accounting changes affecting the capital ratios. Santander chose to apply the phase-in using transitional arrangements, which means a five-year transition period.

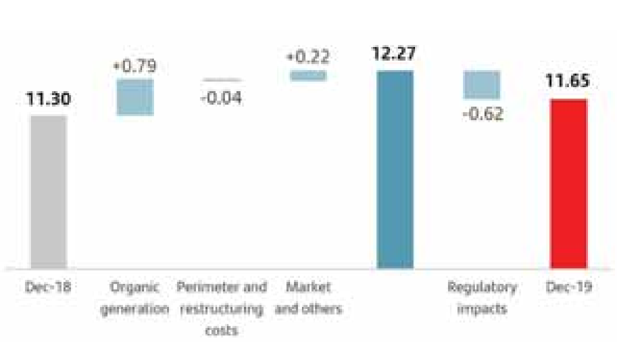
Applying this criteria, the fully-loaded CET1 was 11.65% as at end-December. The 35 basis point increase in the year was mainly due to underlying profit generation and proactive RWA management, resulting in an organic generation of 79 bps.

Additionally, there was a favourable evolution from markets (+22 bps) due to recovery in the Held to Collect & Sell portfolios (driven by falls in interest rates) and a positive 11 basis point perimeter impact (mainly related to increased minority interests in Mexico and the incorporation of the custody business), in part offset by the negative impact from restructuring costs (-15 bps).

As a result, there was a 97 basis point increase in the year, bringing the fully-loaded CET1 ratio to 12.27% in December before accounting and regulatory impacts (-62 bps, primarily due to IFRS 16 and TRIM (Targeted Review of Internal Models).

FL CET1 performance in 2019

%



The fully-loaded total capital ratio was 15.02%, up 25 bps during the year.

The fully loaded leverage ratio stood at 5.1% in December (5.1% in 2018).

The phased-in eligible capital was EUR 91,067 million as at 31 December 2019. This represents a total capital ratio of 15.05% and phased-in common equity tier 1 (CET1) of 11.65%.

Main capital and solvency ratios

EUR million

	Fully loaded		Phased-in	
	2019	2018	2019	2018
Common equity (CET1)	70,497	66,904	70,497	67,962
Tier1	78,964	75,838	79,536	77,716
Eligible capital	90,937	87,506	91,067	88,725
Risk-weighted assets	605,244	592,319	605,244	592,319
CET1 capital ratio	11.65%	11.30%	11.65%	11.47%
T1 capital ratio	13.05%	12.80%	13.14%	13.12%
Total capital ratio	15.02%	14.77%	15.05%	14.98%
Leverage ratio	5.11%	5.10%	5.15%	5.22%

Regulatory capital (phased-in). Flow statement

EUR million

	2019
Capital Core Tier 1	
Starting amount (31/12/2018)	67,962
Shares issued in the year and share premium	1,644
Treasury shares and own shares financed	1
Reserves	(2,185)
Attributable profit net of dividends	3,092
Other retained earnings	89
Minority interests	(540)
Decrease/(increase) in goodwill and other intangible assets	166
Other deductions	269
Ending amount (31/12/2019)	70,497
Additional Capital Tier 1	
Starting amount (31/12/2018)	9,754
AT1 eligible instruments	(457)
T1 excesses - subsidiaries	(258)
Residual value of intangible assets	—
Deductions	—
Ending amount (31/12/2019)	9,039
Capital Tier 2	
Starting amount (31/12/2018)	11,009
T2 eligible instruments	1,054
Generic funds and surplus loan-loss provisions-IRB	—
T2 excesses - subsidiaries	(532)
Deductions	—
Ending amount (31/12/2019)	11,531
Deductions from total capital	—
Total capital ending amount (31/12/2019)	**91,067**

Total risk weighted assets comprising the denominator of capital requirements based on risk, are set out below, as well as their distribution by geographic segment.

Risk weighted assets

EUR million

	RWAs		Minimum capital requirements
	2019	2018	2019
Credit risk (excluding CCR)	**483,341**	**469,074**	**38,667**
Of which standardised approach (SA)	283,385	277,394	22,671
Of which the foundation IRB (FIRB) approach [A]	35,583	37,479	2,847
Of which the advanced IRB (AIRB) approach	161,548	150,373	12,924
Of which Equity IRB under the Simple risk-weight or the IMA	2,825	3,828	226
Counterparty Risk (CCR)	**11,070**	**11,987**	**886**
Of which IRB approach	7,549	7,867	604
Of which standardised approach	2,274	1,795	182
Of which risk exposure from contributions to default fund or central counterparties (CCP)	259	233	21
Of which credit valuation adjustment (CVA)	988	2,092	79
Settlement risk	**2**	**1**	**—**
Securitisation exposure in banking book (after cap)	**6,629**	**5,014**	**530**
Of which IRB approach	2,374	4,276	190
Of which IRB supervisory formula approach (SFA)	*932*	*1,915*	*75*
Of which SEC-IRBA approach	2,030	—	162
Of which SEC-SA approach	1,014	—	81
Of which SEC-ERBA approach	866	—	69
Of which standardised approach (SA)	346	738	28
Market risk	**21,807**	**25,012**	**1,745**
Of which standardised approach	7,596	11,858	608
Of which internal model approach (IMA)	14,211	13,154	1,137
Operational risk	**59,661**	**60,043**	**4,773**
Of which standardised approach	59,661	60,043	4,773
Amounts below the thresholds for deduction (subject to 250% risk weight)	**22,734**	**21,188**	**1,819**
Floor adjustment	—	—	—
Total	**605,244**	**592,319**	**48,420**

A. Includes equity under the PD/LGD approach.

Capital requirements by geographical distribution

EUR million

	TOTAL	EUROPE	o/w: Spain	o/w: United Kingdom	NORTH AMERICA	o/w: US	SOUTH AMERICA	o/w: Brazil	Rest of the world
Credit risk	**39,271**	**23,317**	**10,523**	**5,271**	**6,920**	**5,290**	**8,362**	**5,494**	**672**
Of which internal rating-based (IRB) approach [A]	**15,644**	**13,014**	**6,340**	**3,820**	**1,176**	**434**	**868**	**587**	**586**
Central governments and central banks	67	1	1	—	—	—	11	5	55
Institutions	666	402	124	123	131	63	57	9	77
Corporates – SME	8,954	6,827	4,036	1,305	1,040	367	797	573	289
Corporates - Specialised Lending	1,485	1,158	437	428	195	33	67	1	66
Corporates – Other	7,469	5,669	3,599	877	845	334	730	572	224
Retail - Secured by real estate SME	86	84	84	—	1	1	—	—	—
Retail - Secured by real estate non-SME	3,477	3,462	1,170	2,039	3	2	2	1	11
Retail - Qualifying revolving	334	333	129	181	—	—	—	—	—
Retail - Other SME	356	355	239	—	—	—	—	—	—
Retail - Other non-SME	1,704	1,549	555	172	1	—	1	—	153
Other non-credit-obligation assets	—	—	—	—	—	—	—	—	—
Of which standardised approach (SA)	**22,671**	**9,396**	**3,277**	**1,450**	**5,744**	**4,856**	**7,445**	**4,859**	**86**
Central governments and central banks	1,116	594	579	—	89	—	433	393	—
Regional governments or local authorities	25	10	6	—	—	—	15	8	—
Public sector entities	33	4	1	—	19	18	11	—	—
Multilateral Development Banks	—	—	—	—	—	—	—	—	—
International Organisations	—	—	—	—	—	—	—	—	—
Institutions	451	160	80	12	135	107	153	126	3
Corporates	4,943	2,081	418	477	867	850	1,994	1,298	1
Retail	8,611	3,147	421	535	2,611	2,198	2,772	2,154	81
Secured by mortgages on immovable property	3,135	958	204	50	1,033	844	1,144	309	—
Exposures in default	607	215	64	14	125	94	266	157	1
Items associated with particular high risk	175	36	—	16	8	8	131	39	—
Covered bonds	17	17	—	14	—	—	—	—	—
Claims on institutions and corporates with a short-term credit assessment	—	—	—	—	—	—	—	—	—
Collective investments undertakings (CIU)	15	15	6	1	—	—	—	—	—
Equity exposures	26	19	—	—	—	—	7	—	—
Other items	3,517	2,139	1,497	331	858	736	519	374	1
Of which Equity IRB	**956**	**906**	**906**	**—**	**—**	**—**	**50**	**48**	**—**
Under the PD/LGD method	226	176	176	—	—	—	50	48	—
Under simple method	730	730	730	—	—	—	—	—	—
Counterparty credit risk	**282**	**174**	**85**	**53**	**45**	**31**	**62**	**41**	**1**
Of which mark to market method (Standardised)	182	97	19	44	39	31	45	33	1
Of which: Risk exposure amount for contributions to the default fund of a CCP	21	20	16	4	1	—	—	—	—
Of which: CVA	79	57	50	5	5	—	17	8	—
Settlement risk	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Securitisation exposures in banking book (after cap)	**530**	**462**	**184**	**63**	**41**	**41**	**27**	**—**	**—**
Market risk	**1,745**	**1,083**	**1,053**	**15**	**170**	**9**	**487**	**259**	**5**
Of which standardised approach (SA)	608	324	294	15	11	9	267	259	5
Of which internal model approaches (IMA)	1,137	759	759	—	159	—	219	—	—
Operational risk	**4,773**	**2,443**	**729**	**656**	**1,198**	**913**	**1,121**	**649**	**11**
Of which Standardised Approach	4,773	2,443	729	656	1,198	913	1,121	649	11
Amounts below the thresholds for deduction and other non-deducted investments (subject to 250% risk weight)	**1,819**	**1,161**	**1,017**	**17**	**231**	**140**	**424**	**348**	**3**
Floor adjustment	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**48,420**	**28,640**	**13,591**	**6,075**	**8,605**	**6,425**	**10,483**	**6,791**	**692**

A. Including counterparty credit risk.

The following table presents the main changes to the capital requirements by credit risk:

Credit risk capital movements [A]

EUR million

	RWAs	Capital requirements
Starting amount (31/12/2018)	**504,619**	**40,370**
Asset size	10,487	839
Model updates	(1,499)	(120)
Methodology and policy	15,209	1,217
Acquisitions and disposals	399	32
Foreign exchange movements	2,665	213
Other	(9,353)	(748)
Ending amount (31/12/2019)	**522,527**	**41,802**

A. Includes capital requirements of equity, securitisations and counterparty risk (excluding CVA and CCP).

The increase in RWAs in the year (EUR 17,908 million) is mainly due to regulatory impacts (TRIM and the application of IFRS 16) and IRB model changes in Spain. Additionally, there were greater RWAs stemming from business growth, in particular in Brazil, the US and SCF in part mitigated by decreased business in Spain.
These variations were partially offset by the origination of securitisations and the recalibration of IRB regulatory parameters.

With regards to regulatory ratios, Santander exceeds the 2019 minimum regulatory requirements by 186 bps, taking into account the shortfalls in AT1 and T2.

A. Countercyclical buffer.
B. Global systemically important banks (G-SIB) buffer.
C. Capital conservation buffer.

In short, from a qualitative point of view, Santander has solid capital ratios, aligned with its business model, balance sheet structure and risk profile.

Economic capital

Economic capital is the capital needed to support all the risks of our activity with a certain level of solvency. It is measured using an internally developed model. In our case, the solvency level is determined by the objective long-term rating of 'A' (above the Kingdom of Spain rating), which represents a confidence level of 99.95% (higher than the regulatory level of 99.90%) to calculate the necessary capital.

Santander's economic capital model incorporates in its measurement all significant risks incurred by the Group in its activity (concentration risk, structural interest rate risk, business risk, pensions risk and others that are beyond the scope of regulatory Pillar 1). Furthermore, economic capital incorporates the diversification effect which in Santander's case is key, due to the multinational nature of its activity covering many businesses, in order to appropriately determine and understand the risk profile and solvency of a group with global activity.

The fact that Santander's business activity is spread across various countries via a structure of separate legal entities, with a variety of customer and product segments, exposed to different types of risks, means that the Group results are less vulnerable to adverse situations in one of the particular markets, portfolios, customer types and risks. The economic cycles, despite the current high level of economic globalisation, are not the same nor are the different countries affected with the same intensity. In this way, groups with a global presence have more stable results and are more resistant to the eventual market or portfolio crises, which translate to lower risk. In other words, the risk and the associated economic capital of the Group as a whole are less than the sum of the individual parts.

Unlike with regulatory criteria, the Group considers certain intangible assets, such as deferred taxes, goodwill and software, to retain value, even in the hypothetical case of resolution given the geographic structure of the Group's subsidiaries. As such, the asset is valued and its unexpected loss and capital impact are estimated.

Economic capital is a key tool for internal management and development of the Group's strategy, both from the standpoint of assessing solvency as well as risk management of portfolios and businesses.

From the solvency standpoint, Santander uses its economic model, in the context of the Basel Pillar 2, for the internal capital adequacy assessment process (ICAAP). The business evolution and capital needs are planned under a central scenario and alternative stress scenarios. This ensures the Group meets its solvency objectives even in adverse scenarios.

The metrics derived from economic capital enable the risk-return objectives to be assessed, the price of operations to be set based on risk and the economic viability of projects, units and business lines to be evaluated, with the overriding objective of maximising the generation of shareholder value.

As a homogeneous risk measure, economic capital can be used to explain the distribution of risk throughout the Group, reflecting comparable activities and different types of risk in a single metric.

Given its relevance in internal management, the Group includes several metrics derived from economic capital, both from the standpoint of capital needs and risk-return, within a conservative risk appetite framework established for the Group and for the various countries.

The requirement for economic capital as of December 2019 amounts to EUR 71,253 million, which, compared to the available economic capital base of EUR 99,598 million, imply the existence of a capital surplus of EUR 28,345 million.

Reconciliation of economic and regulatory capital

EUR million

	2019	2018
Net capital and issuance premiums	60,692	59,046
Reserves and retained profits	59,016	57,939
Valuation adjustments	(23,249)	(23,606)
Minority interests	6,441	6,981
Prudential filters	(639)	(706)
Other [A]	(2,662)	(1,742)
Base economic capital available	**99,598**	**97,912**
Deductions	(31,398)	(32,398)
Goodwill	*(25,068)*	*(25,630)*
Other intangible assets	*(3,410)*	*(3,014)*
DTAs	*(2,920)*	*(3,754)*
Other	2,298	1,390
Base regulatory (FL CET1) capital available [B]	**70,497**	**66,904**
Base economic capital available	**99,598**	**97,912**
Economic capital required [C]	71,253	71,269
Capital surplus	28,345	26,643

The main difference compared to regulatory CET1 lies in the treatment of goodwill, other intangible assets and deferred tax assets, which we consider as additional capital requirements rather than a deduction from available capital.

The chart below sums up the Group's economic capital needs as at 31 December 2019, by geographic regions and risk type.

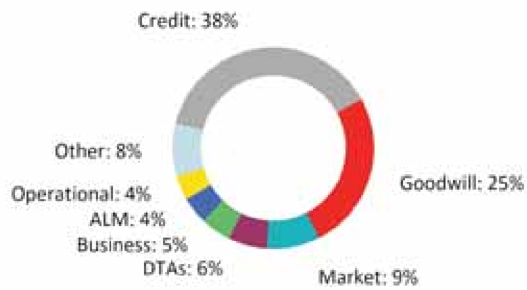
The distribution of economic capital among the main business areas reflects the diversified nature of the Group's business and risk. Europe represents 60% of the capital, North America 21% and South America 19%.

Excluding the operating areas, the main risks taken on by the Corporate Centre are goodwill and the risk derived from the exposure to structural exchange rate risk (risk stemming from maintaining stakes in subsidiaries abroad denominated in currencies other than the euro).

The benefit of diversification included in the economic capital model, including both the intra-risk diversification (similar to geographic diversification) as well as inter-risks, amounted to approximately 30%.

Distribution of economic capital needs by type of risk

%



A. Includes: Deficit of provisions over economic expected loss, Pension assets and other adjustments. Calculations using 2019 economic capital methodology.

B. Including IFRS 9 transitional arrangements.

C. In order to enhance the comparison with regulatory capital, the differences in goodwill due to fx changes are included in the required economic capital. Calculations using 2019 economic capital methodology.

Distribution of economic capital needs by geographic area and type of risk

EUR million. December 2019

Santander Group. Total requirements: 71,253

Corporate Centre [A] 25,644		Europe 27,261		North America 9,475		South America 8,873	
All risks:		All risks:		All risks:		All risks:	
Goodwill	71%	Credit	56%	Credit	63%	Credit	66%
DTAs	15%	ALM	9%	Fixed Assets	11%	ALM	8%
Market	13%	Pensions	8%	Business	10%	Operational	7%
Other	1%	Market	8%	Operational	6%	Business	6%
		Others	20%	Others	11%	Others	13%

A. Including Santander Global Platform.

RoRAC and value creation

Santander has been using RoRAC methodology since 1993 in order to:

- Calculate the consumption of economic capital and the return on it of the Group's business units, as well as for segments, portfolios and customers, in order to facilitate optimum allocation of capital.
- Measure management of the Group's units through budgetary monitoring of capital consumption and RoRAC.
- Analyse and set prices for making decisions on operations (admission) and customers (monitoring).

The RoRAC methodology enables the return on operations, customers, portfolios and businesses to be compared on a like-for-like basis, identifying those that obtain a risk-adjusted return higher than the cost of the Group's capital, thus aligning risk and business management in order to maximise value creation, which is the ultimate goal of the Group's senior management.

Santander also regularly assesses the level and evolution of value creation (VC) and the risk-adjusted return (RoRAC) of the Group and its main business units. The VC is the profit generated above the cost of economic capital (EC) employed, and is calculated as follows:

Value creation = consolidated profit – (average economic capital x cost of capital)

The profit used is obtained by making the necessary adjustments in the consolidated profit to eliminate those factors that are outside the ordinary course performance of our business, and obtain the ordinary result that each unit obtains for its activity in the year.

The minimum return on capital that a transaction must obtain is determined by the cost of capital, which is the minimum remuneration required by shareholders. This is calculated by adding to the risk-free return the premium that shareholders require to invest in Santander. This premium depends essentially on the degree of volatility in the Bank's share price with respect to the market's performance. The Group's cost of capital in 2019 was 8.30% (compared to 8.86% in 2018).

As well as reviewing the cost of capital annually, the Group's internal management also estimates a cost of capital for each business unit, taking into account each market's specific features, under the philosophy of subsidiaries autonomous in capital and liquidity, in order to evaluate whether each business is capable of generating value individually.

If an operation or portfolio obtains a positive return, it contributes to the Group's profits, but it only creates shareholder value when that return exceeds the cost of capital.

The following chart shows the value creation and RoRAC at the end of 2019 of the Group's main segments:

Value creation [A] and RoRAC

EUR million

	2019		2018	
Main segments	RoRAC	Value creation	RoRAC	Value creation
Europe	17.8%	2,698	17.9%	2,745
North America	20.3%	1,019	18.3%	709
South America	36.6%	2,658	33.9%	2,235
Total Group	**12.5%**	**3,231**	**12.6%**	**2,835**

A. The value creation is calculated with the cost of capital of each unit. The Group's total RoRAC includes the operating areas, the Corporate Centre and SGP, reflecting the Group's total economic capital and its return.

Capital planning and stress tests

Capital stress test exercises are a key tool in the dynamic evaluation of risks and the solvency of banks.

It is a forward-looking evaluation based on macroeconomic as well as idiosyncratic scenarios that are unlikely but plausible. Thus, robust planning models are required, capable of transferring the effects defined in the projected scenarios to different elements that influence the Bank's solvency.

The ultimate aim of capital stress exercises is to make a complete assessment of the risks and solvency of banks, which enables possible capital requirements to be determined in the event they are needed because of banks' failure to meet their regulatory and internal capital objectives.

Internally, Santander has a defined capital stress and planning process not only to respond to various regulatory exercises but also as a key tool integrated into the Group's management and strategy.

The objective of the internal capital stress and planning process is to ensure sufficient current and future capital, including in unlikely but plausible economic scenarios. Based on the Group's initial situation (defined by its financial statements, its capital base, risk parameters and regulatory as well as economic ratios), the envisaged results are estimated for different business environments (including severe recessions as well as expected macroeconomic environments), and the Group's solvency ratios are obtained, usually projected over a three-year period.

The planning process offers a comprehensive view of the Group's capital for the analysed time period and in each of the defined scenarios. The analysis incorporates the regulatory capital and economic capital metrics.

The structure in place is detailed in the following chart:

1	Macroeconomic scenario	• Central and recession • **Idiosyncratic:** based on specific risks facing the entity • **Multi-year** horizon • **Reverse stress tests**
2	Balance sheet and income statement forecasts	• Projection of **volumes**. Business **strategy** • **Margins** and **funding costs** • **Fees** and operating **expenses** • **Market** shocks and **operational** losses • Credit losses and **provisions**. PIT LGD and PD models • IFRS 9 models and migration among stages
3	Capital requirements forecasts	• **Consistent** with projected **balance sheet** • **Risk parameters** (PD, LGD and EAD)
4	Solvency analysis	• Available **capital base**. Profits and dividends • **Regulatory and legislative impacts** • **Capital and solvency ratios** • **Compliance** with capital **objectives**
5	Action plan	• In the event of failure to comply with internal objectives or regulatory requirements

The structure presented facilitates the attainment of the ultimate objective of capital planning, by turning it into an important strategic element for Santander which:

- Ensures current and future solvency, including in adverse economic scenarios.
- Ensures comprehensive capital management and incorporates an analysis of specific effects, facilitating their integration into the Group's strategic planning.
- Enables a more efficient use of capital.
- Supports the design of the Group's capital management strategy.
- Facilitates communication with the market and supervisors.

In addition, the whole process is developed with the maximum involvement of senior management and their close supervision, under a framework that ensures that the governance is suitable and that all the elements that configure it are subject to adequate levels of questioning, review and analysis.

One of the key elements in capital planning and stress analysis exercises, due to its particular importance in projecting the income statement under defined adverse scenarios, consists of calculating the provisions that will be needed under these scenarios, mainly those that are produced to cover losses on credit portfolios.

Specifically, in order to calculate loan-loss provisions of the credit portfolio, Santander uses a methodology that ensures the level of provisions covers all loan losses projected by its internal models of expected loss, based on exposure at default (EAD), probability of default (PD) and loss given default (LGD parameters), at all times.

This methodology is widely accepted and is similar to that used in the 2018 EBA stress test, as well as in 2011, 2014 and 2016, and in the stress test on the Spanish banking industry in 2012.

In 2018, this methodology was adapted in order to incorporate the changes of the entry into force of the international financial information IFRS 9 regulation. The Group has models to calculate balances by stages (S1, S2, S3) as well as the migration among them and the loan-loss provisions in accordance with the new standards.

Lastly, the capital planning and stress analysis process culminates with the analysis of solvency under different scenarios and over a defined time period, in order to assess capital sufficiency and ensure the Group meets its internally defined capital objectives as well as all regulatory requirements.

In the event that the capital objectives set are not met, an action plan will be drawn up which sets out the necessary measures to be able to attain the desired minimum capital. These measures are analysed and quantified as part of the internal exercises although it is not necessary to utilise them as the minimum capital thresholds are exceeded.

This internal process of stress and capital planning is carried out transversally throughout the Group, not only at the consolidated level, but also locally in the different units that comprise the Group, and which use the stress process and capital planning as an internal management tool and in response to their local regulatory requirements.

Since the beginning of the economic crisis in 2008 until December 2019, Santander underwent seven stress tests, in which its strength and solvency were demonstrated in the most extreme and severe macroeconomic scenarios. All of them showed that, thanks mainly to its business model and geographic diversification, Santander would still be capable of generating profit for its shareholders and meeting the most demanding regulatory requirements.

As well as the regulatory stress tests, Santander has conducted internal stress tests every year since 2008, within its capital self-evaluation process (Pillar 2). In all of them, the Group's capacity to confront the most difficult exercises, both at the global level as well as in the countries in which it operates, has been demonstrated.

Recovery and Resolution Plans and Special Situations Management Framework

This section summarises the main advances in the sphere of the Group's crisis management. Specifically, the main principles developed regarding Recovery Plans, Resolution Plans and the management framework governing special situations.

Recovery plans

Context. The tenth version of the corporate recovery plan was prepared in 2019. The most important part sets out the measures that Santander would have at its disposal to survive a very severe crisis on its own.

Two of the most important objectives are to test: the feasibility, effectiveness and credibility of the recovery measures identified and the degree of suitability of the recovery indicators and their respective thresholds that if surpassed entail activating the scaling of decision-making in order to cope with stress situations.

To this end, the corporate recovery plan sets out different macroeconomic and/or financial crisis scenarios in which idiosyncratic and/or systemic events important for the Group which could entail activating the Plan are envisaged.

Moreover, the Plan has been designed with the premise that, if activated, there would be no extraordinary public aid, in accordance with article 5.3 of the BRRD.

It is important to point out that the Plan should not be interpreted as an instrument independent of the rest of the structural mechanisms established to measure, manage and supervise the risk assumed by the Group. The Plan is integrated with the following tools, among others: the risk appetite framework (RAF); the risk appetite statement (RAS); the risk identification assessment (RIA), the business continuity management system (BCMS) and the internal processes for assessing the sufficiency of capital and liquidity (ICAAP and ILAAP). The Plan is also integrated into the Group's strategic plans.

Evolution in 2019. We continued the improvement work in line with the European regulator's requirements and expectations and the industry's best practices. Specifically, the following were included:

(i) Improvements to the special situations framework to include all preventative measures and better coordination between subsidiaries.

(ii) Simplification of the decision-making process during a crisis, including new tools such as the Playbook.

(iii) New methodology to estimate the feasibility and real recovery ability under different scenarios.

The main **conclusions** extracted from analysing the contents of the 2019 corporate plan confirm that:

- There are no material interdependencies between the Group's different countries.
- The measures available ensure an ample recovery capacity in all the scenarios raised in the plan. Moreover, the Group's geographic diversification model is a point in its favour from the recovery perspective.
- Each subsidiary has sufficient capacity to emerge by its own means from a recovery situation, which increases the strength of the Group's model, based on subsidiaries that are autonomous in terms of capital and liquidity.
- None of the subsidiaries, in the event of serious financial or solvency problems, can be considered as sufficiently relevant to surpass the severest levels established for the recovery indicators and which could result in activating the corporate plan.
- The Group has sufficient mitigation mechanisms to minimise the negative economic impact from potential damage to its reputation in different stress scenarios.

All of these factors underscore that the Group's model and geographic diversification strategy, based on a model of subsidiaries autonomous in liquidity and capital, continues to be strong from a recovery perspective.

Regulation and governance. The plan was developed in accordance with the current EU regulation. The plan also follows the non-binding recommendations made by international bodies such as the Financial Stability Board (FSB).

As in previous years, the Group's Plan was presented in September 2019 to the Single Supervisory Mechanism. As of then, the EBA has six months to make formal considerations.

The Group's Plan comprises both the corporate plan (which corresponds to Banco Santander, S.A.) as well as local plans for its main countries (the UK, Brazil, Mexico, the US, Germany, Argentina, Chile, Poland and Portugal), which are annexed to the corporate plan. It is important to mention that, except for Chile, all countries have to draw up a local plan as a local regulatory requirement as well as the corporate requirement to do so.

The board of Banco Santander, S.A. approved the corporate plan, though the content and relevant figures were previously presented and discussed in the Group's main management and control committees (capital committee, global ALCO and the risk supervision, regulation and compliance committee). The local plans are approved by the corresponding local bodies and always in coordination with Santander, as they must form part of the Group's plan (as they are annexed to the corporate plan).

Resolution plans

Santander continues to cooperate with the relevant authorities in preparing resolution plans, providing all the information they request.

The authorities that form part of the Crisis Management Group (CMG) maintained their decision on the strategy to follow for the resolution of the Group: the Multiple Point of Entry (MPE)[2].

This strategy is based on the legal and business structure with which Santander operates, organised into nine “Resolution Groups” which can be resolved independently without involving other parts of the Group.

In November 2019, the Single Resolution Board (SRB) communicated the preferred resolution strategy as well as the priorities of work for improving the Group's resolvability.

Regarding this, the Group continued to advance in the projects to improve its resolvability, defining the following lines of action:

1) Ensure the Group has a sufficient buffer of instruments with loss absorption capacity.

In 2019, the Bank issued debt instruments that meet the MREL eligibility requirements.

In order to avoid legal uncertainty in the execution of the bail-in power by the resolution authority, all issuances of the Bank that are governed by other than the Spanish law, include a contractual recognition clause by which the creditor recognises that the liability may be subject to the write-down and conversion powers and agrees to be bound by any reduction of the principal or outstanding amount due, conversion or cancellation that is effected by the aforementioned exercise of the bail-in power by a resolution authority.

2) Ensure that there are information systems that can quickly provide high quality necessary information in the event of resolution.

We continue to work on the systematisation and reinforcement of the governance of the information submitted to the resolution authority used to draw up the resolution plan.

Further progress was made in the ongoing projects to create data repositories on:

1. Legal entities that belong to the Group.
2. Critical suppliers.
3. Critical infrastructure.
4. Financial contracts in accordance with article 71.7 of the BRRD.

2. With the exception of the United States whose resolution plans correspond to the individual entities.

3) Guarantee operational continuity in resolution situations.

Operational continuity is being reinforced via the inclusion of clauses in contracts, with both internal and external suppliers, which stipulate that resolution is not considered an event which would trigger termination of services.

With this end, a corporate contract template has been drawn up so that any new contracts or renewals include this clause.

With regards to services provided by market infrastructure, an analysis has been done on the main contracts to confirm the continuity of services in a resolution scenario as well as understand their policies in the case of a financial deterioration prior to entering into resolution.

This analysis was carried out in conjunction with the Legal Services of the given entities.

Additionally, contingency plans are being developed for cases where a main market infrastructure ceases to provide service due to the resolution of the entity. These plans will include actions that will be taken to mitigate the risk associated with said infrastructure via (i) the identification and justification of possible substitutes/alternatives and (ii) the evaluation of possible financial or operative measures which would mitigated the risk associated with the loss of the service.

4) Foster a culture of resolvability in the Group.

Regarding this point, progress continued to be made in involving senior management by raising questions regarding the resolvability of Santander to the board and the periodic meetings of the steering committee specialised in resolution issues.

Special situations management framework

1. Santander has overhauled the Special Situations framework to expand its scope of internal regulation to cover two additional key stages to the Management of Special Situations: (i) Special Situations Preparation in BAU and (ii) Facilitating Resolution. The Framework is hereinafter referred to as the Comprehensive Special Situations Framework (CSSF), consistent with its more holistic and broad nature relative to its predecessor.

   This comprehensive approach in the Framework ensures a clear allocation of roles and responsibilities for each of the "Three Lines of Defence" in the Corporation, and of those referring to the Subsidiaries in their relation with the Corporation.

1. Santander has continued to actively engage with the Group's main subsidiaries to promote the performance of Training Sessions and execution of Crisis Simulation Exercises. The scenarios tested are generally based on the result of a severe non-financial event (e.g. cyber-attack), though increasingly both financial and communications implications are being taken into consideration in their design and execution.
2. Consolidating a robust and reliable crisis management technological infrastructure that ensures swift and prompt activation of Special Situations protocols and procedures, and the effective management of such situations, constitute a priority for the Group.

Total Loss Absorbing Capacity (TLAC) and Minimum Required Eligible Liabilities (MREL)

In November 2015, the FSB published the TLAC term sheet based on the previously published principles regarding the crisis management framework. The objective of the TLAC term sheet is to ensure that global systemically important banks (G-SIBs) have the capacity to absorb losses and the required recapitalisation ability to guarantee that, in resolution proceedings and immediately following, they are able to maintain critical functions without putting at risk depositors' money, public funds or financial stability.

The TLAC term sheet requires a minimum TLAC level to be determined individually for each G-SIB as the greater of (a) 16% of risk weighted assets as of 1 January 2019 and 18% as of 1 January 2022, and (b) 6% of the Basel III Tier 1 leverage ratio exposure measure as of 1 January 2019, and 6.75% as of 1 January 2022.

Some jurisdictions have already transposed the TLAC term sheet into legislations (as is the case in Europe via the CRR 2 and BRRD 2, and in the US). Other jurisdictions where the Bank is present, such as Brazil and Mexico, this requirement has not yet been implemented.

The phase in calendar for developing countries allows for a longer time horizon and is not required until 2025. In Europe, the final texts which modify the resolution framework were published in June: CRR 2 and BRRD 2. One of the main objectives of this revision is to implement the TLAC requirement in Europe. The CRR 2 also came into force in June 2019, while the BRRD2 is required to be transposed into Member States' legislation no later than December 2020.

For G-SIBs, the CRR 2 establishes the minimum requirement in the TLAC term sheet (16%/18%), which must be made up of subordinated liabilities, with the exception of a percentage of senior debt (2.5%/3.5%). For large banks (with total assets exceeding EUR 100 billion) the subordination requirement will be set at 13.5% of RWAs or 5% of the tier 1 Basel III leverage ratio exposure, whichever is greater. For non-systematically important entities, the subordination requirement will be determined on a case-by-case basis by the resolution authority.

For G-SIBs, an additional requirement (Pillar 2) is added to the minimum CRR requirement, which is the result of applying the MREL methodology to the BRRD 2. In other words, the Bank will still be subject to an entity specific MREL requirement (i.e. MREL Pillar 2 add-on), which could be greater than the standard TLAC requirement (which would be implemented as a Pillar 1 MREL requirement for G-SIBs).

In November 2019, the Bank of Spain formally communicated the (binding) minimum MREL requirement for the Banco Santander, S.A. Resolution Group (subconsolidated level) which needs to be met from 1 January 2020. The requirement was set at 16.81% of total liabilities and own funds based on December 2017 data, equivalent to 28.60% of the Resolution Group's RWAs. Of this MREL requirement, 11.48% of the total liabilities and own funds must be met by subordinated instruments, taking into account a concession of 2.5% of total RWAs.

As of 31 December 2019, Banco Santander, S.A. meets its MREL requirements following the MREL eligible issuances over the last two years.

4. Financial information by segments

4.1 Description of segments

The reporting by segments is based on financial information presented to the chief operating decision maker, which excludes certain items included in the statutory results that distort year-on-year comparisons and are not considered for management reporting purposes. This financial information (underlying basis) is computed by adjusting reported results for the effects of certain gains and losses (e.g.: capital gains, write-downs, impairment of goodwill, etc.). These gains and losses are items that management and investors ordinarily identify and consider separately to better understand the underlying trends in the business (see also note 52.c to the Group financial statements).

The Group has aligned the information in this operating segment section in a manner consistent with the underlying information used internally for management reporting purposes and with that presented throughout the Group's other public documents.

The Group executive committee has been determined to be the chief operating decision maker for the Group. The Group's operating segments reflect the organisational and management structures. The Group executive committee reviews the internal reporting based on these segments in order to assess performance and allocate resources.

The segments are differentiated by the geographical area where profits are earned and by type of business. The financial information of each reportable segment is prepared by aggregating the figures for the Group's various geographical areas and business units. The information relates to both the accounting data of the units integrated in each segment and that provided by management information systems. In all cases, the same general principles as those used in the Group are applied.

In 2019, we made a change to our reported segments to reflect our current organisational and management structure.

This change in our reported segments aims to align the segment information to how segments and units are managed and has no impact on accounting figures at the Group level. The main changes, which have been applied to segment information for all periods included in the consolidated financial statements, are the following:

Primary segments

1. Creation of the new geographical segment Europe that includes the existing units under the previous Continental Europe segment (Spain, Portugal, Poland and SCF) plus the UK (that was previously a segment on its own).
   - The UK is aligned with the ring-fencing structure, including products and services distributed to our retail customers and the majority of our business customers. The businesses excluded are now incorporated in the Rest of Europe.
   - Spain now includes the Real Estate Activity Spain unit, previously included in the Rest of Europe, and it excludes some treasury businesses now reported in the Rest of Europe, and the online bank Openbank is now incorporated in the new digital segment Santander Global Platform (SGP).
   - Rest of Europe, included within the Europe segment, comprises mainly (i) SCIB businesses such as Banco Santander, S.A. branches outside of Spain (including the businesses excluded from the UK as a result of ring-fencing) as well as Spain's treasury business and (ii) Private Banking's WM&I businesses in Switzerland, mutual funds in Luxemburg and Insurance in Zurich.
2. Creation of the new geographical segment North America that comprises the existing units under the previous US segment plus Mexico.
3. Creation of the new geographical segment South America that comprises the existing units under the previous Latin America segment except for Mexico.
4. Creation of a new reporting unit segment, Santander Global Platform (SGP), which includes our global digital services under a single unit:
   - Our fully digital native bank Openbank and Open Digital Services.
   - Global Payments Services: payments platform to better serve our customers with value propositions developed globally, including Superdigital, *Pago FX* and our recently launched global businesses (Global Merchant Services and Global Trade Services).
   - Digital Assets: common digital assets and Centres of Digital Expertise which help our banks in their digital transformation.

Secondary segments

5. The Real Estate Activity Spain unit, that was previously a segment reported on its own, is now included in Retail Banking.
6. The insurance business, previously included in Retail Banking, is now included in the Wealth Management segment, which has been renamed to Wealth Management & Insurance.
7. The new digital segment (SGP) is also incorporated as a secondary segment.
8. Finally, the change in reported segments also includes adjustments to the clients of the Global Customer Relationship Model between Retail Banking and SCIB and between Retail Banking and WM&I.

The changes in the secondary segments have no impact on the primary segments.

The Group restated the corresponding information of earlier periods considering the changes aforementioned in this section.

As a result, the operating business areas are structured in two levels:

Primary segments

This primary level of segmentation, which is based on the Group's management structure, comprises five reportable segments: four operating areas plus the Corporate Centre. The operating areas are:

Europe: which comprises all the business activities carried out in the region. Detailed financial information is provided on Spain, Portugal, Poland, SCF (which incorporates the region's business, including the three aforementioned countries) and the UK.

North America: which comprises all the business activities carried out in Mexico and the US, which includes the holding company (SHUSA) and the businesses of SBNA, SC USA, Banco Santander Puerto Rico, the specialised unit Banco Santander International and the New York branch.

South America: includes all the financial activities carried out by the Group through its banks and subsidiary banks in the region. Detailed information is provided on Brazil, Chile, Argentina, Uruguay, Peru and Colombia.

Santander Global Platform: includes Global Payments Services (Global Trade Services, Global Merchant Services, *Superdigital*, *Pago FX*), our fully digital bank Openbank and Open Digital Services, and Digital Assets (centres of digital expertise, *InnoVentures* and digital assets).

Secondary segments

At this secondary level of segment reporting, the Group is structured into Retail Banking, SCIB, WM&I and SGP.

Retail Banking: this covers all customer banking businesses, including consumer finance, except those of corporate banking, which are managed through SCIB, and asset management, private banking and insurance, which are managed by Wealth Management & Insurance. The results of the hedging positions in each country are also included, conducted within the sphere of each one's assets and liabilities committee.

Santander Corporate & Investment Banking (SCIB): this business reflects revenue from global corporate banking, investment banking and markets worldwide including treasuries managed globally (always after the appropriate distribution with Retail Banking customers), as well as equity business.

Wealth Management & Insurance: includes Global Payments Services (Global Trade Services, Global Merchant Services, *Superdigital*, *Pago FX*), our fully digital bank Openbank and Open Digital Services, and Digital Assets (centres of digital expertise, *InnoVentures* and digital assets).

Santander Global Platform: includes Global Payments Services (Global Trade Services, Global Merchant Services, Superdigital, *Pago FX*), our fully digital bank Openbank and Open Digital Services, and Digital Assets (Centres of Digital Expertise, *InnoVentures* and Digital Assets).

In addition to these operating units, which report by geographic area and businesses, the Group continues to maintain the Corporate Centre area that includes the centralised activities relating to equity stakes in financial companies, financial management of the structural exchange rate position, assumed within the sphere of the Group's assets and liabilities committee, as well as management of liquidity and of shareholders' equity via issuances. As the Group's holding entity, this area manages all capital and reserves and allocations of capital and liquidity with the other businesses. It also incorporates amortisation of goodwill but not the costs related to the Group's central services (charged to the areas), except for corporate and institutional expenses related to the Group's functioning.

The businesses included in each of the primary segments in this report and the accounting principles under which their results are presented here may differ from the businesses included and accounting principles applied in the financial information separately prepared and disclosed by our subsidiaries (some of which are publicly listed) which in name or geographical description may seem to correspond to the business areas covered in this report. Accordingly, the results of operations and trends shown for our business areas in this document may differ materially from those of such subsidiaries.

As described in section 3 above, the results of our business areas presented below are provided on the basis of underlying results only and generally including the impact of foreign exchange rate fluctuations. However, for a better understanding of the changes in the performance of our business areas, we also provide and discuss the year-on-year changes to our results excluding such exchange rate impacts.

4.2 Summary income statement of the Group's main business areas

2019

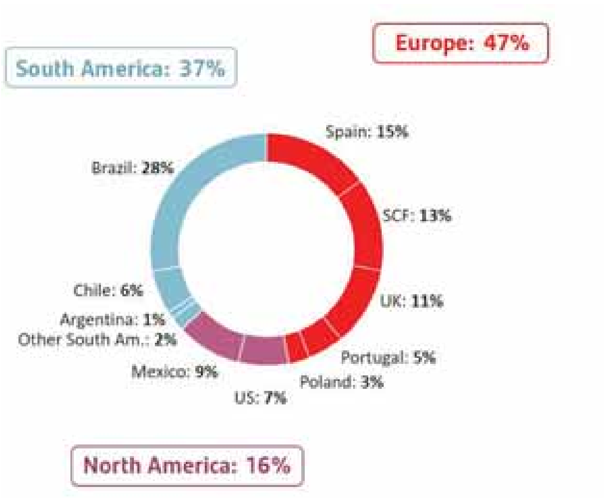
Main items of the underlying income statement

EUR million

Primary segments	Net interest income	Net fee income	Total income	Net operating income	Profit before tax	Underlying attributable profit to the parent
EUROPE	14,201	5,260	21,001	9,957	7,350	4,878
Spain	3,919	2,481	7,506	3,485	2,174	1,585
Santander Consumer Finance	3,848	823	4,710	2,672	2,215	1,314
United Kingdom	3,788	866	4,727	1,892	1,455	1,077
Portugal	856	390	1,375	751	750	525
Poland	1,171	467	1,717	1,024	681	349
Other	620	234	966	133	76	28
NORTH AMERICA	8,926	1,776	11,604	6,636	2,776	1,667
US	5,769	947	7,605	4,309	1,317	717
Mexico	3,157	829	3,998	2,327	1,459	950
SOUTH AMERICA	13,316	4,787	18,425	11,769	7,232	3,924
Brazil	10,072	3,798	13,951	9,345	5,606	2,939
Chile	1,867	404	2,539	1,508	1,129	630
Argentina	940	446	1,316	554	217	144
Other	437	138	619	362	280	212
SANTANDER GLOBAL PLATFORM	92	6	81	(159)	(166)	(120)
CORPORATE CENTRE	(1,252)	(50)	(1,617)	(1,990)	(2,262)	(2,096)
TOTAL GROUP	**35,283**	**11,779**	**49,494**	**26,214**	**14,929**	**8,252**
Secondary segments						
RETAIL BANKING	33,157	9,094	43,523	24,042	13,265	7,748
CORPORATE & INVESTMENT BANKING	2,721	1,528	5,284	3,008	2,767	1,761
WEALTH MANAGEMENT & INSURANCE	565	1,201	2,223	1,312	1,325	960
SANTANDER GLOBAL PLATFORM	92	6	81	(159)	(166)	(120)
CORPORATE CENTRE	(1,252)	(50)	(1,617)	(1,990)	(2,262)	(2,096)
TOTAL GROUP	**35,283**	**11,779**	**49,494**	**26,214**	**14,929**	**8,252**

Underlying attributable profit to the parent by primary segment distribution [A]

2019



A. As a % of operating areas. Excluding Corporate Centre and Santander Global Platform.

Underlying attributable profit to the parent 2019. Core markets

EUR million. % change YoY in constant euros

2018

Main items of the underlying income statement

EUR million

Primary segments	Net interest income	Net fee income	Total income	Net operating income	Profit before tax	Underlying attributable profit to the parent
EUROPE	14,204	5,435	21,257	10,091	7,491	5,048
Spain	4,093	2,624	7,615	3,277	2,063	1,554
Santander Consumer Finance	3,723	798	4,610	2,622	2,137	1,293
United Kingdom	4,078	912	5,132	2,295	1,803	1,272
Portugal	858	377	1,344	700	686	479
Poland	996	453	1,488	848	552	296
Other	456	272	1,068	350	251	154
NORTH AMERICA	8,154	1,615	10,476	5,988	2,337	1,304
US	5,391	859	6,949	3,930	1,113	549
Mexico	2,763	756	3,527	2,058	1,224	755
SOUTH AMERICA	12,891	4,497	17,674	11,117	6,717	3,451
Brazil	9,758	3,497	13,345	8,845	5,185	2,592
Chile	1,944	424	2,535	1,488	1,118	612
Argentina	768	448	1,209	458	183	82
Other	421	128	585	326	231	165
SANTANDER GLOBAL PLATFORM	79	7	74	(68)	(70)	(54)
CORPORATE CENTRE	(987)	(69)	(1,057)	(1,483)	(1,699)	(1,686)
TOTAL GROUP	**34,341**	**11,485**	**48,424**	**25,645**	**14,776**	**8,064**
Secondary segments						
RETAIL BANKING	32,262	8,870	42,231	22,994	12,654	7,238
CORPORATE & INVESTMENT BANKING	2,461	1,534	5,077	2,975	2,680	1,691
WEALTH MANAGEMENT & INSURANCE	526	1,142	2,099	1,226	1,211	875
SANTANDER GLOBAL PLATFORM	79	7	74	(68)	(70)	(54)
CORPORATE CENTRE	(987)	(69)	(1,057)	(1,483)	(1,699)	(1,686)
TOTAL GROUP	**34,341**	**11,485**	**48,424**	**25,645**	**14,776**	**8,064**

4.3 Primary segments

EUROPE

Underlying attributable profit

EUR 4,878 Mn

2019 Highlights

- Given the current macroeconomic environment, characterised by lower for longer interest rates, we are working on our franchises to simplify our business and structures and adapt our technology platforms.
- In terms of volumes, in an environment of lower economic growth, gross loans and advances to customers (excluding reverse repos) rose 2% year-on-year and customer funds 4%.
- Underlying attributable profit amounted to EUR 4,878 million, down 3% compared to 2018, due to lower gains on financial transactions (markets) and net fee income (mainly SCIB) and higher provisions (Spain and SCF). Conversely, net interest income increased and costs fell 2.4% in real terms, reflecting the optimisation measures.

Strategy

In Europe our subsidiaries are managed according to our local priorities. At the same time, in an environment of low demand for credit and low interest rates, we are developing initiatives to enable the simplification of our business model, shared services and cost saving measures. For example:

- Simplification of our business, reducing the number of products to gain efficiency and agility but maintaining a full value proposition that is capable of meeting the daily needs of our individual customers and offering tailored solutions for SMEs and large corporates.
- Adaptation of the technological platforms and acceleration of our digital transformation, to help improve customer experience and expand distribution channels for our products and services.
- Continued achievement of synergies from the ongoing integration processes, such as Banco Popular in Spain and Portugal and the retail and SME business of Deutsche Bank Polska in Poland.

All of this, with the medium-term objective of obtaining EUR 1 billion of savings, based on our global capabilities to strengthen operational efficiency in the region.

Of note by countries:

- In Spain, the commitment to maintain leadership in the market, strengthening customer loyalty and experience through digital transformation, while obtaining synergies.
- In Portugal and Poland, improved profitability and efficiency as a result of the successful integrations.
- In the UK, focus on volume growth in core mortgage market, the first phase of our multi-year transformation programme which is starting to be reflected in savings, and improving capital allocation.
- In SCF, leverage our position as a specialised entity, strengthening relationships with manufacturers and the perimeter of the agreements.

Loyal customers

December 2019. Thousands

9,891

36% /active customers

Digital customers

December 2019. Thousands

13,830

+9% YoY

Business performance

Loans and advances to customers rose 6%. In gross terms, excluding reverse repurchase agreements and the exchange rate impact, they rose 2% in the year, reflecting deleveraging in wholesale banking in Spain, but boosted by SCF (driven by the increase in new lending), the UK (by growth in mortgages) and Poland.

Customer deposits increased by 5% compared to 2018. Excluding repurchase agreements and the FX impact, they were up 2% with rises in all countries. Demand deposits grew 4% absorbing the 5% fall in time deposits resulting from the strategy to reduce the cost of funds in Spain and Poland.

Mutual funds (+15%) grew at double digit rates in Poland (+10%), Portugal (+59%) and the rest of Europe (+64%), boosting customer funds (+4%).

Results

Underlying attributable profit in 2019 was EUR 4,878 million (47% of the Group's total operating areas), and underlying RoTE was 10.0%.

Compared to 2018, excluding the exchange rate impact, underlying attributable profit decreased 3% affected mainly by lower revenue in the UK, as follows:

- **Total income** decreased slightly (-1%). Net interest income remained unchanged due to the positive performance of volumes in SCF and Poland and the higher revenue in SCIB, which offset the competitive pressures, the fall in SVR volumes in the UK and the impact of low interest rates in Spain, smaller ALCO portfolio and the impact of IFRS 16. Net fee income was down 3%, particularly in Spain, because of lower activity in SCIB. Gains on financial transactions were 7% lower year-on-year due to a very good performance in the markets in the first quarter of 2018.
- **Administrative expenses and amortisations** decreased 1% (-2.4% in real terms) because of the efficiencies generated by the integration of Banco Popular in Spain and Portugal and by the efforts made in the different optimisation processes.
- **Net loan-loss provisions** rose 17%, however, the cost of credit remained low (0.28%) rising only 4 basis points in the year.
- **Other gains (losses) and provisions** reduced their loss during the year, due to the releases of other provisions in SCF and the UK.

EUROPE

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	14,201	14,204	0.0	(0.1)
Net fee income	5,260	5,435	(3.2)	(3.3)
Gains (losses) on financial transactions [A]	1,035	1,115	(7.1)	(7.5)
Other operating income	505	503	0.2	0.0
Total income	**21,001**	**21,257**	**(1.2)**	**(1.3)**
Administrative expenses and amortisations	(11,044)	(11,165)	(1.1)	(1.3)
Net operating income	**9,957**	**10,091**	**(1.3)**	**(1.4)**
Net loan-loss provisions	(1,839)	(1,572)	17.0	16.9
Other gains (losses) and provisions	(768)	(1,028)	(25.2)	(25.3)
Profit before tax	**7,350**	**7,491**	**(1.9)**	**(1.9)**
Tax on profit	(1,979)	(2,020)	(2.0)	(2.1)
Profit from continuing operations	**5,371**	**5,472**	**(1.8)**	**(1.9)**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**5,371**	**5,472**	**(1.8)**	**(1.9)**
Non-controlling interests	(493)	(424)	16.4	16.7
Underlying attributable profit to the parent	**4,878**	**5,048**	**(3.4)**	**(3.4)**

Balance sheet	2019	2018	%	% excl. FX
Loans and advances to customers	676,904	639,966	5.8	3.6
Cash, central banks and credit institutions	180,389	172,298	4.7	3.5
Debt instruments	104,382	118,221	(11.7)	(12.8)
Other financial assets	53,893	49,263	9.4	9.3
Other asset accounts	41,471	40,989	1.2	(0.1)
Total assets	**1,057,038**	**1,020,737**	**3.6**	**1.8**
Customer deposits	600,380	571,834	5.0	3.0
Central banks and credit institutions	189,792	192,685	(1.5)	(2.3)
Marketable debt securities	133,544	129,574	3.1	0.3
Other financial liabilities	60,807	53,687	13.3	13.0
Other liabilities accounts	16,383	18,947	(13.5)	(14.6)
Total liabilities	**1,000,906**	**966,727**	**3.5**	**1.8**
Total equity	**56,133**	**54,010**	**3.9**	**2.2**
Pro memoria:				
Gross loans and advances to customers [B]	650,552	626,205	3.9	1.9
Customer funds	671,032	634,893	5.7	3.9
Customer deposits [C]	581,395	557,122	4.4	2.4
Mutual funds	89,637	77,771	15.3	14.6

Ratios (%) and operating data	2019	2018	%
Underlying RoTE	10.00	10.86	(0.86)
Efficiency ratio	52.6	52.5	0.1
NPL ratio	3.25	3.67	(0.42)
NPL coverage	49.8	50.1	(0.3)
Number of employees	86,574	93,021	(6.9)
Number of branches	5,336	6,753	(21.0)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Spain

Underlying attributable profit
EUR 1,585 Mn

2019 Highlights

- We successfully completed the integration of Banco Popular, with the migration of all branches and customers, and the execution of the branch network optimisation process, obtaining greater costs synergies than expected.
- We completed the reorganisation of the strategic insurance business with the end of the agreement with Allianz and the creation of the new joint ventures with Aegon and MAPFRE.
- Strong growth in SMEs and corporates, leveraging our strengths as a Group, with focus in value-added products, boosting international business 15% year-on-year.
- Underlying attributable profit increased 2% in 2019, 5% higher before tax, mainly due to sustained revenue and lower costs, reflected in an improvement of 3.4 percentage points in the efficiency ratio.

Strategy

We successfully completed the **integration** of Banco Popular, with the migration of all branches and customers to Santander, and the execution of the branch network optimisation process, resulting in greater than expected cost synergies. We closed around 1,150 branches and unified the central services and regional teams.

We continued to update the **distribution network**. Accordingly, we already have close to 600 *Smart Red* branches and 6 *Work Café* branches, where we are maximising digitalisation and exploring new customer relationship formats.

As regards the main **loyalty drivers** and **performance by segment**:

- Increased customer transactions, with growth of 4% in card turnover (after growing 22% in the last two years) and 8% in point-of-sale terminals. Consumer credit increased 24% year-on-year, driven by pre-concession and digital loans, which enabled us to increase market share by 151 bps.
- Growth in value added businesses, such as insurance (gross written premiums: +11%) and mutual funds (AuM increased EUR 5,500 million).
- In SMEs, we launched *Tresmares Capital*, a new independent alternative financing platform for this segment.
- We continued to develop *Santander Personal*, our tailored remote management service, which is now available for SMEs and Private Banking customers.
- We are working on tailored solutions for key segments, offering attractive value propositions that favour customer acquisition, loyalty and commercial dynamism (*Generation 81* for women, *SmartBank* for young people and *Santander Senior* project for the over 65s). In April, we launched the *Smith Plan* vying to become the leader in the non-resident segment, via a differentiated value proposition focused mainly on covering the needs of those who are purchasing a house in Spain.
- In SCIB, we remained market leaders in the main league tables, strengthening our capital optimisation and originate to distribute models.

Lastly, the **digital transformation process** has enabled us to increase the number of digital customers by 10% in the year and the weight of sales made through digital channels to around 29% in the year. We continued to promote our *Digilosofía* concept, helping our customers through our network in their digital transformation process.

These measures were recognised by *The Banker* with the award of Bank of the Year in Spain.

Loyal customers

December 2019. Thousands

2,540

32% /active customers

Digital customers

December 2019. Thousands

4,721

+10% YoY

Business performance

Loans and advances to customers fell 6%. In gross terms, excluding reverse repurchase agreements, they also fell 6% in the year, impacted by wholesale banking and institutions deleveraging due to the market environment and the progress towards a more capital efficient model. Additionally, new mortgage lending does not yet offset maturities, however, consumer stock increased in the last 12 months.

Customer deposits increased 1% compared to 2018. Excluding repos growth was also 1%. Demand deposits rose 4%, which offset the decrease in time deposits (-12%) as a result of a low interest rate environment. The cost of deposits fell from 34 bps in the fourth quarter of 2018 to 13 bps in the fourth quarter of 2019.

Customer funds rose 3% including the 12% increase in mutual funds. In addition, EUR 14,424 million are managed in pension plans, which grew 2% in the year.

Results

Underlying attributable profit amounted to EUR 1,585 million (15% of the Group's total operating areas) with an underlying RoTE of 10.5%.

Compared to 2018, underlying attributable profit was 2% higher. Profit before tax rose 5%, as follows:

- **Total income** fell slightly (-1%). Net interest income dropped 4%, due to lower wholesale and ALCO volumes, lower institution volumes and the impact of IFRS 16, partially offset by improved customer spreads. Excluding the IFRS 16 impact, it fell 2%.

  Net fee income was down 5%, mainly due to lower activity at SCIB. Gains on financial transactions rose 49%, driven by active portfolio management, taking advantage of market movements. Other operating income was lower mainly due to lower equity method results driven by the sale of Testa and WiZink.

- **Administrative expenses and amortisations** fell 7% due to the efficiencies resulting from the Banco Popular integration and the optimisation efforts. The efficiency ratio stood at 53.6%, 3.4 pp better than in 2018.

- **Net loan-loss provisions** rose 9%. Nevertheless, the NPL ratio improved (-38 bps in the year), cost of credit stood at low levels (43 bps) and the stock of NPLs fell by more than EUR 1,800 million.

- **Other gains (losses) and provisions** increased their losses in the year, partly due to provisions related to foreclosed assets and increased operational risk.

Spain

EUR million

Underlying income statement	2019	2018	%
Net interest income	3,919	4,093	(4.3)
Net fee income	2,481	2,624	(5.5)
Gains (losses) on financial transactions [A]	1,046	703	48.8
Other operating income	61	195	(68.9)
Total income	**7,506**	**7,615**	**(1.4)**
Administrative expenses and amortisations	(4,021)	(4,338)	(7.3)
Net operating income	**3,485**	**3,277**	**6.4**
Net loan-loss provisions	(856)	(789)	8.5
Other gains (losses) and provisions	(455)	(425)	7.1
Profit before tax	**2,174**	**2,063**	**5.4**
Tax on profit	(589)	(508)	15.9
Profit from continuing operations	**1,585**	**1,555**	**1.9**
Net profit from discontinued operations	—	—	—
Consolidated profit	**1,585**	**1,555**	**1.9**
Non-controlling interests	0	(1)	(89.7)
Underlying attributable profit to the parent	**1,585**	**1,554**	**2.0**
Balance sheet			
Loans and advances to customers	185,179	196,101	(5.6)
Cash, central banks and credit institutions	78,334	79,100	(1.0)
Debt instruments	34,288	48,849	(29.8)
Other financial assets	1,393	2,515	(44.6)
Other asset accounts	23,908	22,436	6.6
Total assets	**323,102**	**349,001**	**(7.4)**
Customer deposits	240,427	238,372	0.9
Central banks and credit institutions	25,231	56,062	(55.0)
Marketable debt securities	26,855	24,628	9.0
Other financial liabilities	8,971	6,216	44.3
Other liabilities accounts	5,222	8,916	(41.4)
Total liabilities	**306,706**	**334,193**	**(8.2)**
Total equity	**16,396**	**14,807**	**10.7**
Pro memoria:			
Gross loans and advances to customers [B]	191,280	203,288	(5.9)
Customer funds	308,747	298,860	3.3
Customer deposits [C]	240,126	237,821	1.0
Mutual funds	68,621	61,039	12.4
Ratios (%) and operating data			
Underlying RoTE	10.48	10.42	0.06
Efficiency ratio	53.6	57.0	(3.4)
NPL ratio	6.94	7.32	(0.38)
NPL coverage	41.1	43.7	(2.6)
Number of employees	27,630	31,229	(11.5)
Number of branches	3,235	4,365	(25.9)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Santander Consumer Finance

Underlying attributable profit

EUR 1,314 Mn

2019 Highlights

- SCF continues to be the European consumer finance leader, with critical mass and a Top 3 position in the markets in which it operates.
- Two strategic deals were carried out this year to strengthen presence in Europe: the agreement with Hyundai Kia in Germany to acquire 51% of its auto financing company, and the agreement with Ford Motor Company to acquire Forso AB (Fords' financial entity) in the Nordic countries.
- Underlying attributable profit rose 2% both in euros and excluding the exchange rate impact. High profitability, with a RoTE of more than 15%, RoRWA of 2.3% and a cost of credit which is low for this type of business.

Strategy

SCF is Europe's **consumer finance leader**, with a presence in 15 countries and more than 130,000 associated points of sale (auto dealers and shops). It also has a significant number of finance agreements with auto and motorcycle manufacturers and retail distribution groups.

In 2019, SCF continued to gain market share, underpinned by **a solid business model**: highly diversified by countries with a critical mass in key products, greater efficiency than competitors and a risk control and recovery system that enables it to maintain better credit quality indicators than our competitors.

Additionally, we continued to sign and develop new agreements, both with retail distributors as well as manufacturers, seeking to help them in their commercial transformation processes and thus increase the value proposition for the final customer.

Two strategic deals were carried out this year to strengthen presence in Europe and improve the product offering and services:

- An agreement with Hyundai Kia in Germany to acquire 51% of its auto financing company, strengthening SCF's position in the country.
- The agreement with Ford Motor Company to acquire Forso AB in the fourth quarter, their captive finance company in the Nordic countries, to reinforce its position in this market.

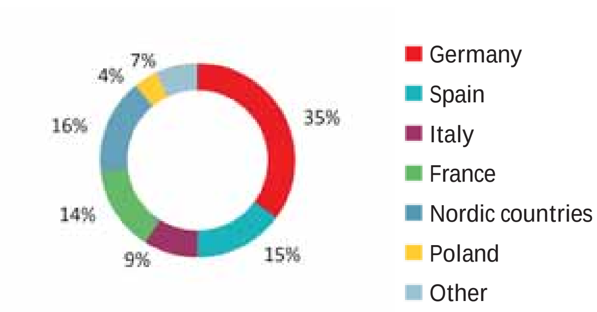
In 2019 management focused on:

- Remaining among the Top 3 in auto finance in the main markets while optimising capital consumption and strengthening pan-European relationships with 15 brands and more than 70,000 vehicle points of sale.
- Maximising capital efficiency, in a competitive environment characterised by the entry of new competitors, an excess of market liquidity and moderate GDP growth.
- Accelerating progress toward a more digital and analytical consumer finance business model, with more innovative solutions and excellent customer experience.

Of note, SCF was once again recognised as Top Employer Europe 2019 in Austria, Belgium, Germany, Italy, the Netherlands and Poland.

Loans and advances to customers by geographic area

December 2019



Business performance

The stock of loans and advances to customers rose 7% compared to 2018. Gross loans excluding reverse repurchase agreements and the impact of exchange rates, also grew 7%. Almost all countries grew their business, more than 70% of lending is in countries with the highest ratings and Germany and the Nordics account for 50% of the portfolio.

New lending increased 5% compared to 2018 (significantly better than the performance of new car sales in the European market), with growth in almost all countries driven by commercial agreements in several of them. Of note were the rises in Germany, France and Italy.

Customer deposits amounted to EUR 39,602 million and continue to be a product that sets us apart from our competitors, remaining stable in the previous quarters because of the different initiatives carried out to complete the digital transformation plan.

Recourse to wholesale funding increased strongly, with EUR 19,826 million issued in the year, once again demonstrating our capacity to access the wholesale funding markets and investor confidence in its business.

Results

Underlying attributable profit was EUR 1,314 million in 2019 (13% of the Group's total operating areas) and underlying RoTE was 15.3%.

Compared to 2018, underlying attributable profit was 2% higher in euros excluding the exchange rate impact, by lines:

- **Total income** rose 3%, driven by net interest income (+4%) due to higher volumes. Net fee income increased 3%, notably in Germany.
- **Administrative expenses and amortisations** increased 3%, impacted by the acquisition of Hyundai Kia's joint venture in Germany, but below business volume growth, benefiting from the efficiency projects carried out in several units.
- **Net loan-loss provisions** increased 32%, mainly due to lending growth, change of product mix in Spain and lower written-off portfolio sales in the Nordic countries. The cost of credit remained low for this type of business (0.48%), highlighting the good performance of portfolios. The NPL ratio and the coverage ratio stood at 2.30% and 106%, respectively, with no material change compared to December 2018.
- **Other gains (losses) and provisions** amounted to EUR +20 million compared to EUR -125 million in 2018, partly due to lower impairment losses on other assets and transformation costs.
- The largest contribution to the underlying attributable profit came from Germany (EUR 361 million), the Nordic countries (EUR 291 million) and Spain (EUR 235 million).

Santander Consumer Finance

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	3,848	3,723	3.4	3.9
Net fee income	823	798	3.1	3.2
Gains (losses) on financial transactions [A]	(8)	55	—	—
Other operating income	47	34	35.7	35.2
Total income	**4,710**	**4,610**	**2.2**	**2.6**
Administrative expenses and amortisations	(2,038)	(1,989)	2.5	2.9
Net operating income	**2,672**	**2,622**	**1.9**	**2.3**
Net loan-loss provisions	(477)	(360)	32.5	32.4
Other gains (losses) and provisions	20	(125)	—	—
Profit before tax	**2,215**	**2,137**	**3.7**	**4.2**
Tax on profit	(598)	(576)	3.8	4.3
Profit from continuing operations	**1,618**	**1,561**	**3.6**	**4.1**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**1,618**	**1,561**	**3.6**	**4.1**
Non-controlling interests	(303)	(268)	13.4	13.5
Underlying attributable profit to the parent	**1,314**	**1,293**	**1.6**	**2.2**
Balance sheet				
Loans and advances to customers	102,262	95,366	7.2	7.0
Cash, central banks and credit institutions	8,258	6,096	35.5	35.2
Debt instruments	3,197	3,325	(3.8)	(4.2)
Other financial assets	33	31	5.6	5.4
Other asset accounts	4,001	2,890	38.4	38.2
Total assets	**117,750**	**107,708**	**9.3**	**9.1**
Customer deposits	39,602	36,579	8.3	8.1
Central banks and credit institutions	25,159	24,968	0.8	0.6
Marketable debt securities	36,776	31,281	17.6	17.4
Other financial liabilities	1,413	771	83.2	83.1
Other liabilities accounts	3,865	3,520	9.8	9.7
Total liabilities	**106,815**	**97,120**	**10.0**	**9.8**
Total equity	**10,935**	**10,588**	**3.3**	**2.9**
Pro memoria:				
Gross loans and advances to customers [B]	104,783	97,707	7.2	7.0
Customer funds	39,602	36,531	8.4	8.2
Customer deposits [C]	39,602	36,531	8.4	8.2
Mutual funds	—	—	—	—
Ratios (%) and operating data				
Underlying RoTE	15.26	15.83	(0.57)	
Efficiency ratio	43.3	43.1	0.1	
NPL ratio	2.30	2.29	0.01	
NPL coverage	106.1	106.4	(0.3)	
Number of employees	14,448	14,865	(2.8)	
Number of branches	416	438	(5.0)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

United Kingdom

Underlying attributable profit

EUR 1,077 Mn

2019 Highlights

- Good business evolution: strongest mortgage growth in a decade in a highly competitive market, and increases in our retail deposits, both important loyalty drivers.
- We remained focused on improving customer service and retention, digital transformation and organisation simplification.
- The results reflect ongoing competitive income pressure, however we are delivering savings from the strategic transformation programme and maintaining a prudent approach to risk.

Strategy

We are further developing our strategy, with a focus on our core business and customer loyalty. We are investing to improve our technology and operations as well as a relentless focus on simplification, efficiency and improved returns.

We launched a multi-year **transformation programme** which aims to simplify, digitalise and automate the business by focusing on our operating model, structures and productivity.

We have already taken a number of decisive actions and plan to invest GBP 400 million in the medium-term with a 2-3 year payback. Subject to further strategic transformation opportunities, we expect to invest an additional GBP 100 million with a similar payback.

With regards to **commercial activity**:

- We continue to focus on our **core mortgage business**. In 2019, we helped 37,000 first time buyers purchase their home (+37%) through regular in-branch events to help people access information about the home-buying process. Held in branches across the UK, the events are free of charge.

  We backed a new fintech, Mortgage Engine, which is designed to redefine the mortgage process. The platform, which was built and financed by Santander, is the first fully functioning multi-decision in principle technology available in the UK mortgage market.

- For our **business** customers, we continue to support customers in realising their ambitions by our unique international proposition and expertise. We are continuing to develop our international proposition, with 100 trade events in the year and increased the number of trade corridors by 7 to 17.

We are further developing our **digital proposition** through 2019 to deliver excellent customer experience. The number of digital customers reached 5.8 million, up 6% year-on-year. In 2019 we retained 60% of refinanced mortgage loans online, an increase of 5 pp year-on-year. We also opened 52% of current accounts and 62% of credit cards through digital channels.

In addition to the focus on digitalisation, we have taken decisive steps to improve customer experience, **efficiency and competitiveness**. This year, we outlined a significant restructure to optimise our branch network for the future and we announced plans to reshape our Corporate & Commercial business in order to stay fit for the future and deepen the relationships with SME and mid-sized customers.

We believe that our strategy leaves us strongly positioned to deliver on our medium-term targets.

Loyal customers

December 2019. Thousands

4,562

32% /active customers

Digital customers

December 2019. Thousands

5,824

+6% YoY

Business performance

Loans and advances to customers increased 9% in euros compared to 2018. In gross terms, excluding reverse repurchase agreements and the exchange rate impact, they rose 4%, with the strongest mortgage growth in a decade, underpinned by our focus on pricing, customer retention and service, partially offset by managed reductions in commercial real estate exposure.

Customer deposits rose 10% year-on-year in euros and were 2% higher excluding repurchase agreements and the exchange rate impact. Demand deposits increased 2% and time deposits remained stable. Mutual funds grew 3%.

Results

Underlying attributable profit amounted to EUR 1,077 million in 2019 (11% of the Group's total operating areas), and underlying RoTE was 7.3%.

Compared to 2018, underlying attributable profit was 15% lower in euros and 16% excluding the exchange rate impact, as follows:

- **Total income** declined 9% due to lower net interest income (-8%) affected by competitive pressure on mortgage spreads and continued SVR (Standard Variable Rate) attrition.

  Net fee income fell 6%, partly due to lower income from mutual funds and regulatory changes in overdrafts. Gains on financial transactions also fell in the year.

- **Administrative expenses and amortisations** declined 1% (-2.7% in real terms), with delivery of efficiency savings from our strategic transformation programme.

- **Net loan-loss provisions** were 46% higher, however from very low levels, mainly driven by some single name cases and lower releases. Cost of credit remained at low levels (10 bps).

  The NPL ratio improved to 1.01%, backed by our prudent approach to risk and the resilience of the UK economy. The coverage ratio rose to 37% (33% in 2018).

- **Other gains (losses) and provisions** decreased 43% due to the non-repeat of charges related to retail credit business operations and to historical probate and bereavement practices in 2018.

United Kingdom

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	3,788	4,078	(7.1)	(7.9)
Net fee income	866	912	(5.1)	(5.9)
Gains (losses) on financial transactions [A]	12	88	(86.9)	(87.0)
Other operating income	62	53	16.1	15.1
Total income	**4,727**	**5,132**	**(7.9)**	**(8.7)**
Administrative expenses and amortisations	(2,835)	(2,837)	0.0	(0.9)
Net operating income	**1,892**	**2,295**	**(17.6)**	**(18.3)**
Net loan-loss provisions	(253)	(171)	47.5	46.2
Other gains (losses) and provisions	(184)	(321)	(42.7)	(43.1)
Profit before tax	**1,455**	**1,803**	**(19.3)**	**(20.0)**
Tax on profit	(355)	(506)	(29.8)	(30.4)
Profit from continuing operations	**1,100**	**1,296**	**(15.2)**	**(15.9)**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**1,100**	**1,296**	**(15.2)**	**(15.9)**
Non-controlling interests	(22)	(25)	(9.7)	(10.5)
Underlying attributable profit to the parent	**1,077**	**1,272**	**(15.3)**	**(16.0)**

Balance sheet	2019	2018	%	% excl. FX
Loans and advances to customers	273,528	249,991	9.4	4.1
Cash, central banks and credit institutions	39,314	37,246	5.6	0.4
Debt instruments	20,187	26,517	(23.9)	(27.6)
Other financial assets	943	594	58.8	51.1
Other asset accounts	8,498	9,431	(9.9)	(14.3)
Total assets	**342,470**	**323,779**	**5.8**	**0.6**
Customer deposits	229,361	208,179	10.2	4.8
Central banks and credit institutions	25,075	25,821	(2.9)	(7.6)
Marketable debt securities	64,340	67,556	(4.8)	(9.4)
Other financial liabilities	2,671	2,097	27.4	21.2
Other liabilities accounts	4,409	4,126	6.8	1.6
Total liabilities	**325,856**	**307,779**	**5.9**	**0.7**
Total equity	**16,614**	**16,000**	**3.8**	**(1.2)**
Pro memoria:				
Gross loans and advances to customers [B]	249,214	228,548	9.0	3.7
Customer funds	218,944	204,424	7.1	1.9
Customer deposits [C]	210,727	196,848	7.1	1.8
Mutual funds	8,218	7,576	8.5	3.2

Ratios (%) and operating data	2019	2018	%
Underlying RoTE	7.28	9.33	(2.05)
Efficiency ratio	60.0	55.3	4.7
NPL ratio	1.01	1.08	(0.07)
NPL coverage	36.5	32.9	3.6
Number of employees	24,490	25,534	(4.1)
Number of branches	616	755	(18.4)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Portugal

Underlying attributable profit

EUR 525 Mn

2019 Highlights

- The Bank continued its commercial and digital transformation and making processes and the commercial offering simpler, which has been reflected in greater sales and customer loyalty.
- We strengthened our position as the country's largest privately-owned bank in terms of assets and domestic loans and advances to customers, with market shares in new lending to companies and mortgages at around 20%.
- Underlying attributable profit increased 10% year-on-year due to improved efficiency and low cost of credit.

Strategy

The commercial and digital transformation strategy focused on simplifying processes and the product offering continued in 2019, and spurred growth in loyal and digital customers:

- Following the **commercial transformation** strategy, two *Work Café* branches were opened in Lisbon and Coimbra in 2019, together with a new *Smart Red* office at Lisbon's airport. In the corporate segment, we strengthened our presence in the agri-food and tourism segments.
- The **digital offering** was expanded with a number of new initiatives. Of note are the updated santander.pt website, the review of mortgage origination processes aimed at reducing concession times and increasing customer satisfaction, and the launch of *CrediSimples Negocios*, which allows companies to take out loans online.

Sales through digital channels accounted for 35% of the total sales, and *CrediSimples* accounted for 21% of new personal loans in 2019.

In **customer loyalty** we remained focused on simplifying processes and the product offering, and spurred growth in loyal and digital customers, through various commercial initiatives.

As a result, as at December 2019, we had 778,000 loyal customers and 775,000 digital customers (up 3% and 6%, respectively, in the year).

We continued to be recognised as the **best bank in Portugal** and were named the best bank in the country in 2019 by *The Banker*, *Euromoney* and *Global Finance* and Best Retail Bank in 2019 by *World Finance*.

Private Banking activity was the leader in Portugal in 2019 according to *Euromoney* and *Global Finance*.

Lastly, we were named the Best Bank and the second best company to work for in Portugal, by the *Great Place to Work Institute*.

We maintained the best **risk ratings** by the rating agencies, aligned with or above the sovereign's. S&P upgraded the long-term debt rating to BBB in March, and Moody's upgraded the deposit rating to Baa1 in July.

Loyal customers

December 2019. Thousands

778

46% /active customers

Digital customers

December 2019. Thousands

775

+6% YoY

Business performance

Loans and advances to customers activity remained strong in the year. New lending to companies and mortgages remained very dynamic, with market shares of around 20%.

Despite this strong activity, the stock of loans and advances to customers remained stable. Excluding reverse repurchase agreements, they fell 1%, impacted by a market that is still deleveraging.

Customer deposits were up 5% year on year, driven largely by demand deposits (+14%), which more than offset the decrease in time deposits (-1%). This produced growth in deposits, while the cost of deposits continued to decrease. Mutual funds also rose and, consequently, customer funds increased 8%.

In addition, EUR 1,357 million is managed in pension funds, 18% more than in 2018.

Results

Underlying attributable profit amounted to EUR 525 million **in the year** (5% of the Group's total operating areas), and underlying RoTE was 12.8%.

Compared to 2018, underlying attributable profit rose 10%, as follows:

- **Total income** increased 2%, driven by net fee income (+4%) and gains on financial transactions from ALCO portfolio sales, while net interest income remained stable, dampened by the reduction in the stock of loans and low interest rates.
- **Administrative expenses and amortisations** fell 3%, due to efficiencies generated from the integration of Banco Popular and the impacts related to the digital transformation: on the one hand, reviewing and simplifying internal processes and on the other hand, optimising the branch network in a more digital customer environment. As a result, the net margin was up 7% and the efficiency ratio improved to 45% (48% in 2018).
- **Net loan-loss provisions** were slightly positive due to higher recoveries, mainly in the first quarter of the year, resulting in a cost of credit practically at zero.

  The NPL ratio was 4.83%, after sharply falling during the year (-111 bps) due to the strategy followed after the acquisition of Banco Popular. Coverage was 53%.
- **Other gains (losses) and provisions** remained at insignificant levels.

Portugal

EUR million

Underlying income statement	2019	2018	%
Net interest income	856	858	(0.2)
Net fee income	390	377	3.6
Gains (losses) on financial transactions [A]	111	75	47.5
Other operating income	17	34	(49.0)
Total income	**1,375**	**1,344**	**2.3**
Administrative expenses and amortisations	(623)	(644)	(3.2)
Net operating income	**751**	**700**	**7.4**
Net loan-loss provisions	8	(32)	—
Other gains (losses) and provisions	(9)	18	—
Profit before tax	**750**	**686**	**9.3**
Tax on profit	(223)	(205)	9.0
Profit from continuing operations	**527**	**481**	**9.4**
Net profit from discontinued operations	—	—	—
Consolidated profit	**527**	**481**	**9.4**
Non-controlling interests	(2)	(2)	(21.5)
Underlying attributable profit to the parent	**525**	**479**	**9.6**
Balance sheet			
Loans and advances to customers	35,406	35,470	(0.2)
Cash, central banks and credit institutions	4,675	3,454	35.4
Debt instruments	12,580	12,303	2.3
Other financial assets	1,695	1,877	(9.7)
Other asset accounts	1,769	1,904	(7.1)
Total assets	**56,125**	**55,007**	**2.0**
Customer deposits	39,258	37,217	5.5
Central banks and credit institutions	8,003	8,009	(0.1)
Marketable debt securities	3,384	4,259	(20.5)
Other financial liabilities	276	257	7.7
Other liabilities accounts	1,516	1,197	26.7
Total liabilities	**52,438**	**50,938**	**2.9**
Total equity	**3,688**	**4,069**	**(9.4)**
Pro memoria:			
Gross loans and advances to customers [B]	36,321	36,568	(0.7)
Customer funds	42,324	39,143	8.1
Customer deposits [C]	39,258	37,217	5.5
Mutual funds	3,066	1,926	59.2
Ratios (%) and operating data			
Underlying RoTE	12.80	12.02	0.77
Efficiency ratio	45.3	47.9	(2.6)
NPL ratio	4.83	5.94	(1.11)
NPL coverage	52.8	50.5	2.3
Number of employees	6,582	6,705	(1.8)
Number of branches	542	572	(5.2)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Poland

Underlying attributable profit

EUR 349 Mn

2019 Highlights

- The Group continued to strengthen its position as the second largest bank in Poland in terms of assets and continues to be recognised as one of the leaders in the industry, both in traditional and digital banking.
- The main management focus is on customer relationships, maximising business income and obtaining synergies from the acquisition of Deutsche Bank Polska's retail and SME businesses.
- Underlying attributable profit rose 18% in euros and 19% excluding the exchange rate impact. Net interest income and efficiency improved.

Strategy

In November 2018, the retail and SMEs businesses were successfully acquired from Deutsche Bank Polska. During 2019, there was ongoing focus on integration of the customer base and achievement of synergies related to acquisition.

We maintained our strategy to become the **bank of first choice**, anticipating and responding to customer expectations. As part of this strategy, we continued to expand and modernise our **omni-channel strategy**:

- The **digital transformation** continued during the year with the launch of the new services such as a single login for individual and business services, a facility to customise customer login settings for internet and mobile banking, and SCA (Strong Customer Authentication).
- The credit card and loan after-sale services were digitalised.
- We now offer six cashless payment methods.
- In September, the first *Work Café* in Poland was opened.

As a result, we continued to see growth in the number of loyal and digital customers, up 12% and 14%, respectively in the year, and we once again were named one of the best banks across several categories by different publications including: first position in the *Newsweek's Friendly Bank* ranking in the Traditional Banking category and the second in the Internet Banking category; second best institution in *Forbes Best Business Bank* ranking; and Best Investment Bank in Poland in *Euromoney Awards for Excellence 2019*.

Loyal customers

December 2019. Thousands

2,010

53% /active customers

Digital customers

December 2019. Thousands

2,510

+14% YoY

Business performance

Loans and advances to customers were up 7% in euros compared to December 2018. In gross terms and excluding reverse repurchase agreements and the exchange rate impact, loans grew 5%, backed by the target segments: SMEs, individuals (driven by mortgages and cash loans) and SCIB.

Customer deposits increased 6% year-on-year in euros. Excluding repurchase agreements and at constant exchange rates, deposits rose 5%. Time deposits declined 13% due to active liquidity management and the reduction of the cost of deposits, which fell from 0.89% in the fourth quarter of 2018 to 0.74% in the same period of 2019. Demand deposits increased 15%.

Total customer funds, including mutual funds, were 6% higher.

Results

Underlying attributable profit in 2019 amounted to EUR 349 million (3% of the Group's total operating areas), and underlying RoTE was 11.2%.

Compared to 2018, underlying profit rose 18% in euros and 19% excluding the exchange rate impact. The year-on-year comparison is favoured by the acquisition of Deutsche Bank Polska's retail and SME businesses (2 months of earnings in 2018 vs full year in 2019). By lines:

- **Total income** increased 16%, driven largely by net interest income (+19%), underpinned by the Bank's key segments and net fee income (+4%) from lending and foreign currencies.

  Gains on financial transactions rose 115% (though from a low base, as it only totals EUR 93 million) and other operating income recorded greater losses impacted by the higher Deposit Guarantee Fund (BFG in Polish) contributions.

- **Administrative expenses and amortisations** grew 9%, less than growth in revenue, despite the domestic wage pressures, improving efficiency to 40% (-3 pp in the year).

- **Net loan-loss provisions** were 36% higher mainly due to the larger size of the loan portfolio after the acquisition (the average loan portfolio rose 23%). The cost of credit stood at 0.72% (0.65% in 2018), while the NPL ratio stood around 4.30% and coverage increased to 67%.

- **Other gains (losses) and provisions** were 5% lower despite an increase in Banking Tax in the year.

Poland

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	1,171	996	17.6	18.6
Net fee income	467	453	3.1	4.0
Gains (losses) on financial transactions [A]	93	44	112.9	114.7
Other operating income	(13)	(4)	218.9	221.6
Total income	**1,717**	**1,488**	**15.4**	**16.4**
Administrative expenses and amortisations	(693)	(640)	8.4	9.3
Net operating income	**1,024**	**848**	**20.7**	**21.7**
Net loan-loss provisions	(217)	(161)	34.5	35.6
Other gains (losses) and provisions	(127)	(135)	(6.2)	(5.4)
Profit before tax	**681**	**552**	**23.3**	**24.3**
Tax on profit	(170)	(131)	30.1	31.2
Profit from continuing operations	**511**	**422**	**21.2**	**22.2**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**511**	**422**	**21.2**	**22.2**
Non-controlling interests	(162)	(126)	28.8	29.9
Underlying attributable profit to the parent	**349**	**296**	**17.9**	**18.9**

Balance sheet	2019	2018	%	% excl. FX
Loans and advances to customers	30,034	28,164	6.6	5.5
Cash, central banks and credit institutions	3,398	3,260	4.2	3.1
Debt instruments	9,285	10,570	(12.2)	(13.1)
Other financial assets	630	534	17.9	16.7
Other asset accounts	1,341	1,140	17.6	16.4
Total assets	**44,688**	**43,669**	**2.3**	**1.3**
Customer deposits	33,485	33,417	0.2	(0.8)
Central banks and credit institutions	2,319	2,165	7.1	6.0
Marketable debt securities	2,171	1,789	21.3	20.1
Other financial liabilities	762	558	36.5	35.1
Other liabilities accounts	923	809	14.0	12.9
Total liabilities	**39,659**	**38,738**	**2.4**	**1.3**
Total equity	**5,029**	**4,930**	**2.0**	**0.9**
Pro memoria:				
Gross loans and advances to customers [B]	30,925	29,033	6.5	5.4
Customer funds	37,929	35,554	6.7	5.6
Customer deposits [C]	33,485	31,542	6.2	5.1
Mutual funds	4,444	4,012	10.8	9.6

Ratios (%) and operating data	2019	2018	%
Underlying RoTE	11.23	10.22	1.00
Efficiency ratio	40.4	43.0	(2.6)
NPL ratio	4.31	4.28	0.03
NPL coverage	66.8	67.1	(0.3)
Number of employees	11,049	12,515	(11.7)
Number of branches	515	611	(15.7)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

NORTH AMERICA

Underlying attributable profit

EUR 1,667 Mn

2019 Highlights

- The US and Mexico are managed according to their local strategic priorities, while increasing coordination and cooperation between the two units.
- In volumes, there was strong year-on-year volume growth, both in gross loans and advances to customers and in customer funds.
- In results, underlying attributable profit increased 28% in euros and 21% excluding the exchange rate impact, driven mainly by positive revenue performance, improved cost of credit and reduced non-controlling interests, reflecting increased stakes in both countries.

Strategy

As part of the Group's strategy to increase the weight of the most profitable areas, in 2019 we increased our stake in Mexico, following the acquisition offer, from 74.96% to 91.65%, as well as in SC USA, where we began a new stock repurchase programme.

Regarding the regional strategy, **coordination between the units** has increased as we continue to pursue **join initiatives**, such as:

- Continued development of the **USMX trade corridor**. SCIB and Commercial Banking are working to deepen relationships with existing customers and increase customer acquisition in both countries, which is reflected in corridor revenue growth (SCIB: +41%; Commercial Banking: +23%).
- **Launch** of a commission-free same-day **remittance service** from Santander US branches to beneficiaries in Mexico.
- **Cooperation** between the technology **teams** in Mexico and the US to assess areas of improvement in governance, and joint initiatives to reduce duplication and optimise costs.
- Joint programmes between the local Human Resources, Legal and Audit areas to support growth initiatives and align policies.

In addition, the US and Mexico maintain their own **strategic local priorities**:

- In the US, our retail bank **Santander Bank's (SBNA) strategy** is focused on improving profitability reducing costs and continuing to improve customer satisfaction through digital channels and branches, while strengthening commercial banking and SCIB development.

  In **SC USA**, focus is on managing origination growth while optimising profitability and promoting collaboration opportunities across the Group.
- In **Mexico**, we remained focused on strengthening the distribution network and developing digital channels through the investment plan carried out over the last three years, with the aim to attract new customers and increase loyalty.

Loyal customers

December 2019. Thousands

3,499

31% /active customers

Digital customers

December 2019. Thousands

5,180

+35% YoY

Business performance

Loans and advances to customers in North America increased 15%, with double-digit growth in both the US and Mexico.

Gross loans and advances to customers excluding reverse repurchase agreements and the exchange rate impact rose 10% mainly due to growth in the US (+12%) driven by new lending volumes in SBNA and SC USA. Mexico increased by 5% driven by rises in both loans to individuals and corporates, where companies and government were partially offset by decreases in large corporates.

Solid trend in customer deposits, increasing 8% year-on-year. Excluding repurchase agreements and the exchange rate impact, 5% higher reflecting growth in SBNA and the New York branch. Mexico dropped slightly, with a strong performance in deposits from individuals while corporate deposits contracted, reflecting the focus on reducing the cost of deposits.

Mutual funds rose 12%, boosting customer funds by 7%.

Results

Underlying attributable profit in 2019 was EUR 1,667 million (16% of the Group's total operating areas), and underlying RoTE of 8.5% (13% excluding the excess of capital).

Underlying attributable profit increased 28% in euros. Excluding the exchange rate impact, it rose 21%, with strong growth in the US and in Mexico. By lines:

- **Total income** rose 5% reflecting the positive performance in Mexico (+8%) and the US (+4%), with all P&L lines growing. In absolute terms, of note was net interest income and leasing income in SC USA.
- **Administrative expenses and amortisations** were 5% higher affected by the final stage of the investment plan in Mexico. Efficiency remained stable slightly below 43%.
- **Net loan-loss provisions** rose 1% well below volume growth. The NPL ratio improved to 2.20% (-59 bps in the year) and the cost of credit to 2.76% (-36 bps in the year) due to the positive performance in both countries. Coverage was relatively stable at high levels (153%).
- **Other income and provisions** fell 4%.
- Lastly, **non-controlling interests** were lower due to the Group's increased equity stake in Mexico and SC USA.

NORTH AMERICA

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	8,926	8,154	9.5	3.9
Net fee income	1,776	1,615	10.0	4.4
Gains (losses) on financial transactions [A]	230	173	33.0	26.3
Other operating income	672	534	25.8	19.3
Total income	**11,604**	**10,476**	**10.8**	**5.1**
Administrative expenses and amortisations	(4,968)	(4,488)	10.7	5.1
Net operating income	**6,636**	**5,988**	**10.8**	**5.2**
Net loan-loss provisions	(3,656)	(3,449)	6.0	0.6
Other gains (losses) and provisions	(205)	(202)	1.2	(4.0)
Profit before tax	**2,776**	**2,337**	**18.8**	**12.8**
Tax on profit	(683)	(599)	14.1	8.3
Profit from continuing operations	**2,092**	**1,738**	**20.4**	**14.3**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**2,092**	**1,738**	**20.4**	**14.3**
Non-controlling interests	(426)	(433)	(1.8)	(6.8)
Underlying attributable profit to the parent	**1,667**	**1,304**	**27.8**	**21.3**

Balance sheet	2019	2018	%	% excl. FX
Loans and advances to customers	133,726	116,196	15.1	11.7
Cash, central banks and credit institutions	22,885	28,845	(20.7)	(23.5)
Debt instruments	33,746	27,302	23.6	18.8
Other financial assets	10,759	9,974	7.9	3.5
Other asset accounts	22,741	18,602	22.3	19.2
Total assets	**223,856**	**200,919**	**11.4**	**7.9**
Customer deposits	98,915	91,896	7.6	4.1
Central banks and credit institutions	38,942	26,048	49.5	44.6
Marketable debt securities	44,097	43,758	0.8	(1.7)
Other financial liabilities	11,763	11,379	3.4	(1.4)
Other liabilities accounts	6,237	5,966	4.5	1.1
Total liabilities	**199,954**	**179,046**	**11.7**	**8.1**
Total equity	**23,902**	**21,872**	**9.3**	**6.2**
Pro memoria:				
Gross loans and advances to customers [B]	130,592	114,888	13.7	10.3
Customer funds	113,407	102,869	10.2	6.6
Customer deposits [C]	92,231	84,769	8.8	5.3
Mutual funds	21,175	18,100	17.0	12.3

Ratios (%) and operating data	2019	2018	%
Underlying RoTE	8.52	7.62	0.91
Efficiency ratio	42.8	42.8	0.0
NPL ratio	2.20	2.79	(0.59)
NPL coverage	153.0	137.4	15.6
Number of employees	37,866	37,168	1.9
Number of branches	2,043	2,078	(1.7)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

United States

Underlying attributable profit

EUR 717 Mn

2019 Highlights

- SBNA's strategy remains focused on improving profitability and customer experience while SC USA is focused on deepening relationships with auto manufacturers and dealer groups to improve originations.
- In volumes, the improved year-on-year trend in gross loans and advances to customers, excluding reverse repos, continued to drive higher revenue to help offset the impact of rate decreases.
- Underlying attributable profit increased 31% in euros, +24% excluding the exchange rate impact, due to a solid top line performance, a better cost of credit and lower weight of non-controlling interests.

Strategy

Santander US includes Santander Holdings USA (SHUSA, our intermediate holding company) and its subsidiaries: Santander Bank (SBNA), which is one of the largest banks in the north-eastern US, Santander Consumer USA (SC USA), an auto finance business based in Dallas, Texas, the international private banking unit in Miami, the Bank's branch in New York and the retail and commercial bank in Puerto Rico (the sale of which was agreed in H2 2019 and is expected to close mid-2020).

In 2019, Santander US continued to strengthen its regulatory foundation, improved its financial performance driven principally by SC USA profitability and continued to demonstrate its commitment to the communities in which it operates.

By main businesses, Santander US focused on the following strategic priorities:

Santander Bank:

- Focus on digital and branch transformation initiatives centred on customer experience and deepening relationships with commercial clients by leveraging international value proposition.
- In addition, SBNA aims to improve profitability through disciplined expense management and simplification of processes and organisational structure.
- SBNA's partnership with SC USA in auto finance was very successful in 2019, originating over USD 7 billion of prime auto loans in the year.

Santander Consumer USA:

- Improve profitability by managing origination growth while optimising spreads and promoting collaboration opportunities across the Group.
- SC USA originated USD 31.3 billion in 2019, helping to strengthen SC USA's partnership with Fiat Chrysler.
- As part of the share repurchase programme announced in June 2019, SC USA announced a tender offer to purchase up to USD 1 billion of shares of its common stock, at a range of USD 23 and USD 26 per share. The maximum number of shares proposed to be repurchased represents approximately 13% of its outstanding common stock (at time of announcement assuming a USD 23 per share purchase price). The offer runs from 30 January 2020 to 27 February 2020.

Loyal customers

December 2019. Thousands

332

19% /active customers

Digital customers

December 2019. Thousands

1,010

+6% YoY

Business performance

After another positive year in terms of growth, loans and advances to customers at Santander US increased 15% in euros. Excluding the exchange rate impact and reverse repurchase agreements, gross loans and advances to customers were 12% higher, due to:

- Robust auto origination volumes at SC USA and commercial lending in SCIB.
- New lending which includes the continuation of the aforementioned auto finance lending programme of SC USA and SBNA.

Customer deposits rose 10% in euros year-on-year. Excluding repurchase agreements and the exchange rate impact, customer deposits were also 10% higher, boosted by the strong growth in corporate deposits, particularly time deposits, in the New York branch and the good performance of SBNA.

Mutual funds increased 20% excluding the exchange rate impact.

As a result, customer funds rose 13% (+11% excluding the exchange rate impact).

Results

Underlying attributable profit in the year was EUR 717 million (7% of the Group's total operating areas), and underlying RoTE was 4.8% (9% adjusting for the excess of capital).

Underlying attributable profit was 31% higher in euros. Excluding the exchange rate impact, growth was 24%, underpinned largely by SC USA. By line items:

- **Total income** increased 4% due to net interest income (+2%, benefiting from higher volumes, more than offsetting the impact of lower interest rates), net fee income (+5% growth in SCIB customer activity), gains on financial transactions (+73%) and other operating income (+15%, due to higher income from leasing).
- **Administrative expenses and amortisations** increased 4% due to higher technology and origination costs due to greater volumes. In real terms, growth was 1.8%.
- **Net loan-loss provisions** rose 1%, well below volume growth, significantly improving asset quality ratios in the year: cost of credit improved to 2.85% (compared to 3.27% in 2018), NPL ratio of 2.20% (72 bps better than in 2018) and coverage at 162% (143% in 2018).
- **Other gains (losses) and provisions** fell 5% in 2019 versus 2018.
- **Non-controlling interests** remained flat compared to the 17% growth on profit from continuing operations.

United States

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	5,769	5,391	7.0	1.5
Net fee income	947	859	10.2	4.6
Gains (losses) on financial transactions [A]	131	72	82.1	72.8
Other operating income	759	628	20.9	14.7
Total income	**7,605**	**6,949**	**9.4**	**3.8**
Administrative expenses and amortisations	(3,297)	(3,019)	9.2	3.6
Net operating income	**4,309**	**3,930**	**9.6**	**4.0**
Net loan-loss provisions	(2,792)	(2,618)	6.6	1.2
Other gains (losses) and provisions	(200)	(199)	0.3	(4.8)
Profit before tax	**1,317**	**1,113**	**18.3**	**12.2**
Tax on profit	(370)	(346)	6.9	1.4
Profit from continuing operations	**947**	**767**	**23.4**	**17.1**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**947**	**767**	**23.4**	**17.1**
Non-controlling interests	(230)	(218)	5.4	0.0
Underlying attributable profit to the parent	**717**	**549**	**30.6**	**23.9**

Balance sheet	2019	2018	%	% excl. FX
Loans and advances to customers	98,707	85,564	15.4	13.2
Cash, central banks and credit institutions	12,829	16,442	(22.0)	(23.4)
Debt instruments	16,677	13,160	26.7	24.3
Other financial assets	4,320	4,291	0.7	(1.2)
Other asset accounts	18,882	15,585	21.2	18.9
Total assets	**151,415**	**135,043**	**12.1**	**10.0**
Customer deposits	63,371	57,568	10.1	8.0
Central banks and credit institutions	25,126	16,507	52.2	49.3
Marketable debt securities	37,132	37,564	(1.1)	(3.0)
Other financial liabilities	4,146	3,098	33.9	31.3
Other liabilities accounts	4,093	3,798	7.8	5.7
Total liabilities	**133,868**	**118,535**	**12.9**	**10.8**
Total equity	**17,547**	**16,508**	**6.3**	**4.3**
Pro memoria:				
Gross loans and advances to customers [B]	95,742	83,696	14.4	12.2
Customer funds	72,604	64,239	13.0	10.9
Customer deposits [C]	62,608	56,064	11.7	9.6
Mutual funds	9,996	8,176	22.3	20.0

Ratios (%) and operating data	2019	2018	%
Underlying RoTE	4.78	4.10	0.69
Efficiency ratio	43.3	43.4	(0.1)
NPL ratio	2.20	2.92	(0.72)
NPL coverage	161.8	142.8	19.0
Number of employees	17,372	17,309	0.4
Number of branches	621	660	(5.9)

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Mexico

Underlying attributable profit

EUR 950 Mn

2019 Highlights

- Our multichannel innovation and the focus on our digital channels have enhanced our value proposition with new products and services and is reflected in greater customer attraction and loyalty.
- Following the completion of the optional share buy-back offer of Santander Mexico from minority interests, Santander's stake in Santander México increased from 74.96% to 91.65%.
- Positive profit performance. Underlying attributable profit rose 26% year-on-year. Excluding the exchange rate impact, it was 19% higher, driven by the solid performance of net interest income, net fee income and loan-loss provisions.

Strategy

As regards the **commercial transformation** strategy, we completed the three-year investment plan carried out to improve multichannel offering, renew infrastructure and systems, strengthen the distribution model and launch new commercial initiatives to attract new customers and increase loyalty with more products and services.

We are developing different projects regarding the **distribution model** as a part of the strategy of being closer to our customers and improving their experience, such as:

- The transformation of 541 branches and the number of latest generation full function ATMs reaching 1,093 (12% of total ATMs).
- The opening of the first *Work Café* branch, following the Group's strategy in other countries.
- We inaugurated in partnership with FUNO, one of the main developers in the country, *Isla Financiera Santander* in several shopping centres, an innovative proposal that combines digital banking with personal advice.

In **digital strategy**, *SuperMóvil* continued to add new functionalities. Of note:

- Cardless cash withdrawals from ATMs simply, safely and free from commissions.
- *Santander Tap*, an instant messaging transfer system for transactions between our customers and for sending money to customers of other banks, with no business hours restriction and commission free.
- *Mis Metas*, a tool to help customers meet their savings goals.

Also of note is the strategic alliance with CONTAQi and InnoHub, fintech developers specialised in the **SME** segment, in order to boost out value offering and strengthen our leadership in this segment.

In addition, our **commercial strategy** was complemented with new products and services, such as:

- *Santander Plus*, our main loyalty programme, continued its positive trend and added customer benefits related to loans, insurance and commercial alliances. At year-end, more than 7 million customers, 53% of whom are new, had registered.
- *Hipoteca Plus*, a programme in which customers benefit from one of the lowest rates in the market.
- Launch of the *Legacy* credit card for **Private Banking** customers, where we are the country's first and only bank to have an alliance with American Express.

Loyal customers

December 2019. Thousands

3,168

33% /active customers

Digital customers

December 2019. Thousands

4,170

+45% YoY

- The *Tuiio* programme, our financial inclusion initiative, offers products and services specially designed for low-income and unbanked population. At the end of the year, it had 85 branches in 18 states, more than 100,000 customers and a portfolio exceeding MXN 261 million, with more than MXN 1 billion of originations since its release, being the first company of this type in the country to achieve this scale in less than two years.

These measures resulted in the strong increase in loyal and digital customers, notably mobile banking.

Business performance

Loans and advances to customers increased 14% in euros, compared to 2018. Gross loans and advances to customers, excluding reverse repurchase agreements and the exchange rate impact, rose 5% with focus on profitability and growth in loans to individuals (consumer credit +6%, credit cards +6% and mortgage loans +7%) as well as companies and government, offsetting the decrease in large corporates.

Customer deposits rose 4% in euros. Excluding repurchase agreements and the exchange rate impact, they decreased 3% reflecting the focus on reducing the cost of deposits. Mutual funds rose 6%, and customer funds remained virtually stable.

Results

Underlying attributable profit amounted to EUR 950 million in the year (9% of the Group's total operating areas), with an underlying RoTE was 20.6%.

Compared to 2018, underlying attributable profit was 26% higher. Excluding the exchange rate impact underlying attributable profit rose 19%, as follows:

- **Total income** increased 8%, driven by net interest income (+9%), backed by greater volumes and higher interest rates. Net fee income grew 4%, largely due to credit cards and insurance. Gains on financial transactions were 7% lower due to market performance.
- **Administrative expenses and amortisations** were up 8%, in line with the last stage of the three-year investment plan.
- **Net loan-loss provisions** dropped 1%, providing a significant improvement in cost of credit to 2.49% compared to 2.75% a year ago. The NPL ratio was also lower at 2.19% (2.43% in 2018).

Lastly, our extraordinary general meeting of shareholders on 23 July approved the capital increase to acquire shares of Santander México from minority interests. The acquisition offer was subscribed by 67% of the targeted shares. As a result, our stake in Santander México increased from 74.96% to 91.65%, which has already had a positive impact in attributable profit of more than EUR 60 million.

Mexico

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	3,157	2,763	14.2	8.5
Net fee income	829	756	9.7	4.2
Gains (losses) on financial transactions [A]	99	101	(1.7)	(6.7)
Other operating income	(87)	(94)	(7.1)	(11.8)
Total income	**3,998**	**3,527**	**13.4**	**7.7**
Administrative expenses and amortisations	(1,671)	(1,469)	13.8	8.1
Net operating income	**2,327**	**2,058**	**13.1**	**7.4**
Net loan-loss provisions	(863)	(830)	3.9	(1.3)
Other gains (losses) and provisions	(5)	(3)	49.9	42.4
Profit before tax	**1,459**	**1,224**	**19.2**	**13.2**
Tax on profit	(314)	(253)	23.8	17.6
Profit from continuing operations	**1,145**	**971**	**18.0**	**12.1**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**1,145**	**971**	**18.0**	**12.1**
Non-controlling interests	(196)	(215)	(9.1)	(13.7)
Underlying attributable profit to the parent	**950**	**755**	**25.7**	**19.4**
Balance sheet				
Loans and advances to customers	35,019	30,632	14.3	7.9
Cash, central banks and credit institutions	10,056	12,403	(18.9)	(23.5)
Debt instruments	17,069	14,142	20.7	13.9
Other financial assets	6,439	5,683	13.3	6.9
Other asset accounts	3,859	3,016	27.9	20.7
Total assets	**72,441**	**65,876**	**10.0**	**3.7**
Customer deposits	35,544	34,327	3.5	(2.3)
Central banks and credit institutions	13,816	9,541	44.8	36.6
Marketable debt securities	6,965	6,194	12.4	6.1
Other financial liabilities	7,617	8,281	(8.0)	(13.2)
Other liabilities accounts	2,144	2,168	(1.1)	(6.7)
Total liabilities	**66,086**	**60,512**	**9.2**	**3.0**
Total equity	**6,355**	**5,364**	**18.5**	**11.8**
Pro memoria:				
Gross loans and advances to customers [B]	34,850	31,192	11.7	5.4
Customer funds	40,803	38,630	5.6	(0.3)
Customer deposits [C]	29,624	28,705	3.2	(2.6)
Mutual funds	11,179	9,925	12.6	6.3
Ratios (%) and operating data				
Underlying RoTE	20.61	20.24	0.37	
Efficiency ratio	41.8	41.7	0.1	
NPL ratio	2.19	2.43	(0.24)	
NPL coverage	128.3	119.7	8.6	
Number of employees	20,494	19,859	3.2	
Number of branches	1,422	1,418	0.3	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

SOUTH AMERICA

Underlying attributable profit

EUR 3,924 Mn

2019 Highlights

- We are focusing on leveraging our products and services with strong expected medium-term growth. The strategy is focused on the generation profitable growth, risk control and covering customer needs and demands. Exporting positive experiences (payments and consumer financing) is key to success.
- In business volumes, there was a notable growth in the last 12 months with increases in all countries, where we are capturing new business opportunities.
- Regarding results, underlying attributable profit increased by 14% year-on-year, 18% excluding the exchange rate impact, boosted by the main revenue lines, improved efficiency and cost of credit.

Strategy

South America is a region with great growth potential. It is made up of large economies with high levels of development forecasted, with a still under-banked population and with an expected increase in its middle class in the coming years, according to the estimates of the Inter-American Development Bank (IDB).

We have extensive experience in the region, which gives us a unique growth opportunity. To this end, in the year we focused on identifying initiatives that will enable businesses to expand further, based on positive experiences in other markets, which can be exported to others, for example:

- In **auto financing**, we are leveraging our leadership and experience of our business in Brazil to boost growth in other countries. In Colombia, for example, we have signed two alliances with digital vehicle platforms to strengthen our position in this market.
- In terms of **financing goods and services**, following the good performance in Uruguay, with record sales in insurance and consumer credit, we plan to export the model developed in this country to other regions.
- *Prospera*, our micro-credit programme in Brazil, is also being exported to other regions.
- In **payments**, we continued to be one of the largest credit card issuers and merchant acquirers in the region. During the year, we explored e-commerce strategies and instant domestic and international transfers. We also worked in the roll-out of *Getnet*, our acquiring business in Brazil, to the rest of South America. On the other hand, within the strategy of establishing *Superdigital* in all the countries in the region, we completed the preliminary launch in Chile.
- We further developed the **retail franchise** through the branch network transformation and boosting the multi-channel offering:
  - Regarding the transformation process, the *Work Café* experience is being developed further, with the opening of new branches in Brazil, Chile and Argentina.
  - Within the multi-channel offering, sales through digital channels already account for a high percentage of the total in Brazil and Argentina and continued to grow in Chile, driven by the new offerings launched in the *Life* model.

As a result, the number of loyal and digital customers increased strongly in the year (+7% and +15%, respectively).

Loyal customers

December 2019. Thousands

7,919

26% /active customers

Digital customers

December 2019. Thousands

17,287

+15% YoY

Business performance

Loans and advances to customers increased 4%. Excluding reverse repos and the exchange rate impact, gross loans were 9% higher, with rises in all units: Uruguay +15%, Brazil and Chile grew 8% each.

Customer deposits grew 6% in euros compared to 2018. Excluding repurchase agreements and exchange rate impact, they rose 11% and increased across all units, mainly due to the strong performance of demand deposits (+21%). Mutual funds increased 15% enabling customer funds to increase 13%.

Results

Underlying attributable profit in the year amounted to EUR 3,924 million (37% of the Group's total operating areas), with an underlying RoTE of 20.6%.

Compared to 2018, underlying attributable profit increased 14% in euros. Excluding the exchange rate impact, it was up 18%, with growth in all countries, as follows:

- **Total income** increased 11%, underpinned by the sound customer revenue performance, driven by greater volumes, spreads management and increased loyalty. Net interest income rose 9% and net fee income increased by 15%.
- **Administrative expenses and amortisations** reflect commercial transformation plans, greater digitalisation of the retail network, reviews of collective wage agreements and high inflation in Argentina. The efficiency ratio improved 98 basis points to 36.1%.
- **Net loan-loss provisions** grew by 7%, at a slower pace than credit (+9%), enabling the cost of credit to improve by 8 bps in the year to 2.92%. In credit quality, the NPL ratio was 4.86% and coverage was 88%.
- **Other income and provisions** increased its negative impact 19%, after a greater charge for potential legal contingencies in Argentina and Brazil and lower reversals of provisions in Chile.

SOUTH AMERICA

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	13,316	12,891	3.3	9.3
Net fee income	4,787	4,497	6.4	14.6
Gains (losses) on financial transactions [A]	565	498	13.3	38.1
Other operating income	(243)	(212)	14.4	87.4
Total income	**18,425**	**17,674**	**4.2**	**10.7**
Administrative expenses and amortisations	(6,656)	(6,558)	1.5	10.2
Net operating income	**11,769**	**11,117**	**5.9**	**11.0**
Net loan-loss provisions	(3,789)	(3,736)	1.4	7.4
Other gains (losses) and provisions	(748)	(663)	12.9	19.2
Profit before tax	**7,232**	**6,717**	**7.7**	**12.2**
Tax on profit	(2,644)	(2,642)	0.1	4.6
Profit from continuing operations	**4,588**	**4,076**	**12.6**	**17.1**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**4,588**	**4,076**	**12.6**	**17.1**
Non-controlling interests	(664)	(624)	6.4	9.8
Underlying attributable profit to the parent	**3,924**	**3,451**	**13.7**	**18.4**

Balance sheet	2019	2018	%	% excl. FX
Loans and advances to customers	125,122	119,912	4.3	9.4
Cash, central banks and credit institutions	51,360	48,318	6.3	12.9
Debt instruments	45,619	45,225	0.9	3.6
Other financial assets	14,802	9,311	59.0	64.1
Other asset accounts	16,901	14,715	14.9	19.8
Total assets	**253,804**	**237,480**	**6.9**	**11.8**
Customer deposits	114,817	108,248	6.1	12.5
Central banks and credit institutions	41,989	38,584	8.8	12.0
Marketable debt securities	29,840	31,504	(5.3)	(1.9)
Other financial liabilities	34,062	28,570	19.2	23.0
Other liabilities accounts	10,613	8,699	22.0	26.3
Total liabilities	**231,321**	**215,605**	**7.3**	**12.3**
Total equity	**22,483**	**21,875**	**2.8**	**7.2**
Pro memoria:				
Gross loans and advances to customers [B]	131,048	125,830	4.1	9.2
Customer funds	170,707	158,968	7.4	12.9
Customer deposits [C]	101,575	97,325	4.4	11.3
Mutual funds	69,131	61,643	12.1	15.5

Ratios (%) and operating data	2019	2018	%	% excl. FX
Underlying RoTE	20.58	18.79	1.79	
Efficiency ratio	36.1	37.1	(1.0)	
NPL ratio	4.86	4.81	0.05	
NPL coverage	88.4	94.6	(6.2)	
Number of employees	69,508	70,337	(1.2)	
Number of branches	4,572	4,385	4.3	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Brazil

Underlying attributable profit

EUR 2,939 Mn

2019 Highlights

- In 2019, the strategic focus on customer service was reflected in sustainable revenue growth, which, combined with cost control, resulted in the best efficiency ratio of recent years.
- The accuracy of our risk models enabled us to maintain credit indicators at controlled levels and to achieve a profitable increase in market share.
- Underlying attributable profit rose 13%, up 16% excluding the exchange rate impact, and profitability improved (underlying RoTE of 21.2%) reflecting greater productivity and improved efficiency.

Strategy

We ended 2019 with a positive performance of volumes and results, with a strategy focused on customer service, combined with an effective and profitable model that has enabled us to continue growing sustainably. As a result, we reached 26 million active customers and recorded high customer satisfaction levels.

The year's main initiatives by segments included:

- We continued to **expand to strategic regions i**n the country. In Agribusiness, we reached 34 specialised shops and in *Prospera Microfinance*, we remained leaders amongst privately-owned banks, with more than 510,000 customers.
- In individuals, new payroll lending increased 26% year-on-year, reaching a market share of 11%. In mortgages, we launched a joint campaign with a large retailer and we joined the largest group of real estate web portals.
- In **auto finance**, we began *Santander Auto* transactions and started selling LOOP vehicles. In Webmotors, *Cockpit* enabled us to enhance the Bank and *Santander Financiamentos*' offer.
- In **acquiring**, we were pioneers in launching an interoperability solution that enables PoS users to take advantage of *Getnet*. We launched *SuperGet* and strengthened our e-commerce range.
- In **cards**, we increased credit turnover 18% year-on-year. The *Santander Way* app reached around 6.5 million active users, who accessed it 57 million times per month, and expanded its features, strengthening our payment platform.
- In **SMEs**, we launched *Santander Duo*, an offering linking the legal entity and natural person under a single manager. We have also carried out some actions aimed at sole traders. In **SCIB**, we increased activity and trading volumes, diversifying our income, and we were named leaders in some of the sector's most relevant rankings.
- As regards **new activities with high growth potential**, in *Ben*, we implemented food and transport vouchers, in *Pi Investimentos*, we increased the product portfolio, both in fixed income and mutual funds. In credit, we launched *Sim*, a multi-product platform focused on personal loans, and *emDia*, a debt renegotiation and financial education platform.
- Aligned with the **digital strategy**, we held the *Black Week Santander Vem que Volta*, a pioneer strategy where we offer our customers commercial benefits through strategic alliances.
- In addition, we launched *Santander On* in the app and opened some branches on weekends to offer financial advice.

Loyal customers

December 2019. Thousands

5,743

22% /active customers

Digital customers

December 2019. Thousands

13,450

+18% YoY

We were named Best Bank in Brazil and Best Bank in Latin America by *Euromoney*, the Bank that most changes the World by the *Fortune Magazine* and the Most Sustainable Bank in Brazil by *Guia Exame de Sustentabilidade*.

In 2019, we continued to strengthen our culture: we carried out one of the largest corporate events in Brazil and have intensified brand promotion. Regarding our people we were named one of the best companies to work for by *The Great Place to Work* (GPTW) ranking, for the fourth year running.

Business performance

Loans and advances to customers increased 7% in euros year-on-year. In gross terms, excluding reverse repos and excluding the exchange rate impact, they rose 8%. By segments, of note were individuals and consumer finance.

Customer deposits grew 9% in euros with respect to 2018, also 9% excluding repos and the exchange rate impact, driven by a sharp increase in both demand deposits (+24%) and time deposits (+4%). On the other hand, *letras financeiras* decreased.

This was reflected in an increase in customer funds market share.

Results

Underlying attributable profit of EUR 2,939 million in 2019 (28% of the Group's total operating areas), with an underlying RoTE of 21.2%.

Compared to 2018, underlying attributable profit rose 13% in euros. Excluding the exchange rate impact, it was 16% higher, with good performance in the main lines, as follows:

- **Total income** increased 7%, supported by net interest income (+6%) due to larger volumes which offset some spread pressures and net fee income (+12%) with positive performance in almost all lines. Of note was growth in cards (11%), insurance (13%) and mutual funds (+16%). Gains on financial transactions rose 26% compared to a weak 2018.
- **Administrative expenses and amortisations** rose 5%, in line with business growth. This increase, less than that of total income, produced the best efficiency ratio of the last six years, at 33.0% (-0.7 pp in the year).
- **Net loan-loss provisions** increased 5%, below loan growth, which was reflected in an improvement in the cost of credit (3.93%, from 4.06% in 2018). The NPL ratio remained at around 5.3% and the coverage ratio stood at 100% (107% in 2018).
- The negative impact of **other gains (losses) and provisions** increased 4%, due to higher provisions for legal claims.

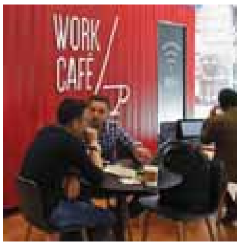
Brazil

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	10,072	9,758	3.2	6.0
Net fee income	3,798	3,497	8.6	11.5
Gains (losses) on financial transactions [A]	167	136	22.7	26.0
Other operating income	(86)	(46)	85.7	90.8
Total income	**13,951**	**13,345**	**4.5**	**7.4**
Administrative expenses and amortisations	(4,606)	(4,500)	2.3	5.1
Net operating income	**9,345**	**8,845**	**5.7**	**8.5**
Net loan-loss provisions	(3,036)	(2,963)	2.5	5.2
Other gains (losses) and provisions	(704)	(697)	0.9	3.6
Profit before tax	**5,606**	**5,185**	**8.1**	**11.0**
Tax on profit	(2,295)	(2,258)	1.6	4.4
Profit from continuing operations	**3,311**	**2,927**	**13.1**	**16.2**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**3,311**	**2,927**	**13.1**	**16.2**
Non-controlling interests	(373)	(335)	11.1	14.1
Underlying attributable profit to the parent	**2,939**	**2,592**	**13.4**	**16.4**
Balance sheet				
Loans and advances to customers	75,618	70,850	6.7	8.5
Cash, central banks and credit institutions	37,470	37,015	1.2	2.9
Debt instruments	39,611	40,718	(2.7)	(1.1)
Other financial assets	6,790	6,133	10.7	12.5
Other asset accounts	12,545	11,320	10.8	12.6
Total assets	**172,033**	**166,036**	**3.6**	**5.3**
Customer deposits	74,745	68,306	9.4	11.2
Central banks and credit institutions	30,334	29,771	1.9	3.5
Marketable debt securities	18,952	21,218	(10.7)	(9.2)
Other financial liabilities	23,589	24,241	(2.7)	(1.1)
Other liabilities accounts	8,631	7,237	19.3	21.2
Total liabilities	**156,251**	**150,773**	**3.6**	**5.3**
Total equity	**15,782**	**15,264**	**3.4**	**5.1**
Pro memoria:				
Gross loans and advances to customers [B]	80,150	75,282	6.5	8.2
Customer funds	121,752	110,243	10.4	12.2
Customer deposits [C]	61,789	57,432	7.6	9.3
Mutual funds	59,964	52,811	13.5	15.4
Ratios (%) and operating data				
Underlying RoTE	21.16	19.68	1.47	
Efficiency ratio	33.0	33.7	(0.7)	
NPL ratio	5.32	5.25	0.07	
NPL coverage	99.8	106.9	(7.1)	
Number of employees	46,682	46,914	(0.5)	
Number of branches	3,656	3,438	6.3	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Chile



Underlying attributable profit

EUR 630 Mn

2019 Highlights

- Santander remains the leading privately-owned bank by assets and customers in the country and continued to focus on enhancing the quality of service, enabling us to improve to second position in NPS and achieve a record rise in account openings.
- Business growth with acceleration in some segments, mainly mortgages, consumer finance and corporates.
- Underlying attributable profit increased 3% year-on-year, 7% excluding the exchange rate impact, driven by gains on financial transactions, cost control and improved cost of credit. In the second half of the year, of note was net interest income and net fee income.

Strategy

Santander is the largest privately-owned bank in Chile by assets and customers, with a marked retail (individuals and SMEs) and transactional focus. In 2019, we continued to develop our strategy to become the best bank for our customers, boosting loyalty, leading digitalisation and enhancing customer experience. To this end, several measures were launched in the year:

- Under the branch network **transformation strategy**, we continued to open more *Work Café* branches and pilot branches of *Work Café 2.0*, with positive initial results in efficiency and productivity. We ended the year with 53 *Work Café* branches (almost 14% of our total branch network).
- As regards **loyalty** and **customer attraction**, we boosted the *Santander Life* programme, focused on promoting solid credit performance and deepening financial education. We launched new products this year, such as *Plan Life Latam*, which allows accumulation of *MéritosLife* and Latam air miles, and *Cuenta Life*, a demand account without a credit facility which rewards good savings behaviour. In 2019, *Santander Life* achieved a record rise in new customers.

  We also launched *Superhipoteca 40 años,* a product aimed at people under the age of 35.

  In **digitalisation**, we announced the creation of *Klare*, the first digital open platform for insurance sales in Chile, which will allow our customers to take out policies in a simple, secure, personalised and transparent way.

  Under our strategy of developing global payment platforms, we completed the soft launch of the Superdigital app, our fully digital financial inclusion proposition, now publicly available and awaiting the hard launch.
- **Enhancing the customer service quality** remained one of our priorities, which is reflected in a significant increase in customer satisfaction. In 2019, we ranked second both in NPS and net satisfaction.

These initiatives led to a record rise in account openings, capturing over 26% of new account openings in the country. We also continued to improve customer loyalty and digitalisation (5% and 15% year-on-year growth, respectively).

Santander Chile is continuously striving to become the best bank for customers. *Euromoney, The Banker* and *Latin Finance* recognised these efforts naming Santander as the Best Bank in Chile.

Loyal customers

December 2019. Thousands

704

46% /active customers

Digital customers

December 2019. Thousands

1,247

+15% YoY

Business performance

Loans and advances to customers increased 2% year-on-year in euros. Excluding reverse repurchase agreements and the exchange rate impact, gross loans and advances to customers rose 8%, underpinned by mortgages, consumer finance and corporates.

Customer deposits grew 6% year-on-year, and rose 11% excluding repurchase agreements and the exchange rate impact, reflecting the positive performance of demand deposits (+19%). Mutual funds rose 15% in a low interest rate environment.

Results

Underlying attributable profit of EUR 630 million in 2019 (6% of the Group's total operating areas), with an underlying RoTE of 18.1%.

Compared to 2018, underlying attributable profit rose 3% in euros. Excluding the exchange rate impact it was 7% higher, as follows:

- **Total income** rose 4%, driven by the 85% rise in gains on financial transactions due to higher income from customer treasury. Net interest income was affected by lower inflation and historically low interest rates. Net fee income fell 1%, partly due to wholesale business in the first half of the year.
- **Administrative expenses and amortisations** increased 2%, driven by investments in technology and branches. The efficiency ratio improved 71 bps to 40.6%.
- **Net loan-loss provisions** were 3% lower, with an improvement in cost of credit of 11 bps to 1.08% in the year. The NPL ratio dropped to 4.64% and the coverage ratio was 56%.
- **Other gains (losses) and provisions** decreased by 36% primarily from reversals of provisions.

Chile

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	1,867	1,944	(4.0)	(0.3)
Net fee income	404	424	(4.6)	(0.9)
Gains (losses) on financial transactions [A]	266	149	78.4	85.2
Other operating income	2	19	(87.8)	(87.3)
Total income	**2,539**	**2,535**	**0.2**	**4.0**
Administrative expenses and amortisations	(1,031)	(1,047)	(1.6)	2.2
Net operating income	**1,508**	**1,488**	**1.4**	**5.2**
Net loan-loss provisions	(443)	(473)	(6.3)	(2.8)
Other gains (losses) and provisions	63	103	(38.5)	(36.1)
Profit before tax	**1,129**	**1,118**	**0.9**	**4.8**
Tax on profit	(210)	(219)	(4.1)	(0.5)
Profit from continuing operations	**919**	**899**	**2.2**	**6.1**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**919**	**899**	**2.2**	**6.1**
Non-controlling interests	(289)	(287)	0.7	4.6
Underlying attributable profit to the parent	**630**	**612**	**2.9**	**6.8**
Balance sheet				
Loans and advances to customers	38,584	37,908	1.8	8.3
Cash, central banks and credit institutions	7,557	4,247	78.0	89.4
Debt instruments	5,062	3,106	63.0	73.4
Other financial assets	7,856	3,164	148.3	164.2
Other asset accounts	3,091	2,486	24.3	32.3
Total assets	**62,151**	**50,911**	**22.1**	**29.9**
Customer deposits	27,344	25,908	5.5	12.3
Central banks and credit institutions	8,224	5,869	40.1	49.1
Marketable debt securities	10,722	9,806	9.3	16.4
Other financial liabilities	9,662	3,535	173.3	190.9
Other liabilities accounts	1,294	919	40.8	49.8
Total liabilities	**57,246**	**46,037**	**24.3**	**32.3**
Total equity	**4,905**	**4,874**	**0.6**	**7.1**
Pro memoria:				
Gross loans and advances to customers [B]	39,640	39,019	1.6	8.1
Customer funds	35,095	33,279	5.5	12.2
Customer deposits [C]	27,060	25,860	4.6	11.4
Mutual funds	8,035	7,419	8.3	15.3
Ratios (%) and operating data				
Underlying RoTE	18.08	18.34	(0.26)	
Efficiency ratio	40.6	41.3	(0.7)	
NPL ratio	4.64	4.66	(0.02)	
NPL coverage	56.0	60.6	(4.6)	
Number of employees	11,580	12,008	(3.6)	
Number of branches	375	381	(1.6)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Argentina

Underlying attributable profit

EUR 144 Mn

2019 Highlights

- In 2019, the Bank announced the change of its commercial brand from Santander Río to Santander.
- We continued to focus on our four strategic pillars: selective growth, customer experience, efficiency and transformation.
- In an environment of macroeconomic downturn, underlying attributable profit was EUR 144 million. Strong grow across all P&L lines due to the high inflation and interest rates, combined with efficiency improvements.

Strategy

Since August 2019, the Argentinian economy has been suffering from a relative weakening of the local currency and an increase in the risk premium, against a backdrop of a downward revision to the macroeconomic outlook, with high interest rates and inflation. In this context, we have decided to prioritise liquidity and capital, maintaining excess liquidity well above the required reserves at the Central Bank and high capitalisation.

The **commercial strategy** is focused on transactional business and customer service improvements, together with the digital transformation of the main processes and products. Our goal is to fully digitalise our platforms and incorporate cutting-edge technology in order to better know our customers and anticipate their needs. We have also redefined the value proposition, particularly in the priority segments.

This **commercial strategy** has led to the launch of various initiatives:

- *Banca VIP*: a subsegment for our high-income commercial banking customers in order to offer them a tailored customer care model and exclusive experiences.
- *iU*: dedicated proposition for 18 to 31-year-olds which includes financial and non-financial benefits, such as mentoring, scholarships and an online platform for distance learning, among others.
- *Women*, a comprehensive proposition for financial and non-financial services, which focuses on female entrepreneurs, owners of SMEs and professionals.
- The institutional campaign *Queremos ayudarte* whose aim is to strengthen the Bank's relationship with customers.

As for **digital transformation**, we launched the signing-up for digital accounts and packages in branches, a new credit card marketing model and a virtual assistant serving digital customers. Thanks to all these initiatives, the publication *Global Finance Magazine* once again named Santander as the Best Digital Bank in Argentina.

In 2020, Openbank is expected to be launched in the country.

As a result of all the above, loyal customers accounted for 47% of active customers and digital customers rose 5%.

Loyal customers

December 2019. Thousands

1,363

47% /active customers

Digital customers

December 2019. Thousands

2,196

+5% YoY

Business performance

Loans and advances to customers fell 10% year-on-year in euros. Excluding reverse repurchase agreements and the exchange rate impact, gross loans and advances to customers were 40% higher. The peso denominated portfolio increased, driven by inflation-adjusted products (mortgages, auto finance) and by cards, while dollar balances declined in the currency of origin.

Customer deposits declined 21% compared to 2018 in euros. Excluding repurchase agreements and the exchange rate impact, deposits rose 24%. Local currency deposits grew 58% (backed by demand and time deposits) and foreign currency ones declined.

Santander maintained a high dollar liquidity ratio and the excess liquidity in pesos was placed in central bank notes.

Results

Underlying attributable profit amounted to EUR 144 million in the year (1% of the Group's total operating areas), with an underlying RoTE of 22.2%.

Compared to 2018, underlying attributable profit was 75% lower in euros. Excluding the exchange rate impact, growth was 224%. Both year's results are affected by the high inflation adjustment, lower in 2019:

As regards business activity:

- **Total income** doubled, growing above inflation. Net interest income rose 127%, underpinned by higher interest rates and higher volumes of central bank notes. Net fee income rose 84%, driven by greater foreign currency transactions and income from cash deposits. Gains on financial transactions fell 12%.
- **Administrative expenses and amortisations** increased 88% hit by the inflationary environment and the peso's depreciation.
- **Net loan-loss provisions** were higher (+89%), mainly driven by the individuals segment and the aforementioned high inflation impact. The cost of credit was 5.09% (3.45% in 2018). The NPL ratio stood at 3.39% (3.17% in 2018), and the coverage ratio at 124%. Credit quality ratios were affected by the country's situation.
- **Other gains (losses) and provisions** which includes greater charges for potential legal contingencies.

Argentina

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	940	768	22.4	126.7
Net fee income	446	448	(0.5)	84.3
Gains (losses) on financial transactions [A]	80	170	(52.7)	(12.3)
Other operating income	(150)	(177)	(15.0)	57.4
Total income	**1,316**	**1,209**	**8.8**	**101.6**
Administrative expenses and amortisations	(762)	(751)	1.4	87.9
Net operating income	**554**	**458**	**21.0**	**124.1**
Net loan-loss provisions	(235)	(231)	2.0	88.9
Other gains (losses) and provisions	(101)	(45)	127.3	321.2
Profit before tax	**217**	**183**	**19.1**	**120.6**
Tax on profit	(72)	(100)	(27.6)	34.1
Profit from continuing operations	**145**	**83**	**75.3**	**224.8**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**145**	**83**	**75.3**	**224.8**
Non-controlling interests	(2)	(1)	150.8	364.8
Underlying attributable profit to the parent	**144**	**82**	**74.7**	**223.7**
Balance sheet				
Loans and advances to customers	4,792	5,334	(10.2)	40.1
Cash, central banks and credit institutions	3,911	5,096	(23.3)	19.7
Debt instruments	429	825	(48.0)	(18.9)
Other financial assets	87	6	—	—
Other asset accounts	836	742	12.7	75.8
Total assets	**10,054**	**12,003**	**(16.2)**	**30.7**
Customer deposits	7,002	8,809	(20.5)	24.0
Central banks and credit institutions	1,033	849	21.6	89.6
Marketable debt securities	71	422	(83.2)	(73.9)
Other financial liabilities	747	743	0.4	56.6
Other liabilities accounts	392	307	27.6	99.0
Total liabilities	**9,244**	**11,132**	**(17.0)**	**29.5**
Total equity	**810**	**871**	**(7.0)**	**45.1**
Pro memoria:				
Gross loans and advances to customers [B]	4,993	5,574	(10.4)	39.7
Customer funds	8,099	10,191	(20.5)	24.0
Customer deposits [C]	7,002	8,809	(20.5)	24.0
Mutual funds	1,097	1,382	(20.6)	23.8
Ratios (%) and operating data				
Underlying RoTE	22.20	11.62	10.58	
Efficiency ratio	57.9	62.1	(4.2)	
NPL ratio	3.39	3.17	0.22	
NPL coverage	124.0	135.0	(11.0)	
Number of employees	9,178	9,324	(1.6)	
Number of branches	438	468	(6.4)	

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

Uruguay

Underlying attributable profit

EUR 150 Mn

2019 Highlights

- Santander Uruguay is the country's leading privately-owned bank, with a strategy focused on improving efficiency and enhancing the quality of service, through digital transformation and commitment to the community.
- Loans and advances to customers grew in our target segments, products and currencies. Of note were commercial activity and the growth in the retail portfolio.
- Underlying attributable profit rose 14%, 24% excluding the exchange rate impact, spurred by customer revenue and improved efficiency. RoTE of 29.5%.

Strategy

In a worse economic environment, we achieved our financial targets, while improving our market reputation and customer satisfaction. We continued to progress in our technological transformation plan, offering improved products and services, helping our customers and the community in a responsible way.

In line with our strategy of innovation and contributing to people's progress, we launched *Prosperá*, which satisfies the demand for microcredits to small businesses and *Santander Locker,* a proposal that simplifies the delivery of our products.

In addition, the consolidation of our strategy enabled us, both the bank and our financial entities, to gain market share this year, and to continue to grow customer loyalty, which increased 20% in the year.

Loyal customers

December 2019. Thousands

109

26% /active customers

Digital customers

December 2019. Thousands

394

+7% YoY

Business performance

Loans and advances to customers grew 3% year-on-year in euros. Excluding reverse repurchase agreements and the exchange rate impact, gross loans and advances to customers rose 15% driven by growth in the local currency portfolio (+15%) and the target segments and products: consumer credit and cards (+12%).

Customer deposits were 8% higher in euros compared to 2018. Excluding the exchange rate impact and repurchase agreements, they increased 22%. Peso deposits grew 14% and foreign currency ones 8%.

Results

In 2019, underlying attributable profit was EUR 150 million with an underlying RoTE of 29.5%.

Compared to 2018, underlying attributable profit increased 14% in euros and 24% excluding the exchange rate impact. By line items:

- **Total income** grew 16% mainly driven by net interest income (+16%) and net fee income (+17%).
- **Administrative expenses and amortisations** rose 9%, at a slower pace than total income, improving the efficiency ratio to 42.0% (-269 bps year-on-year).
- **Net loan-loss provisions** fell slightly (-1%), the cost of credit improved to 2.31% and coverage was high (98%).

Uruguay

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	333	311	7.1	16.5
Total income	447	419	6.6	16.0
Administrative expenses and amortisations	(188)	(187)	0.2	9.0
Net operating income	259	232	11.8	21.6
Net loan-loss provisions	(63)	(69)	(8.6)	(0.6)
Profit before tax	189	159	18.8	29.3
Underlying attributable profit to the parent	**150**	**131**	**14.2**	**24.3**
Balance sheet				
Total assets	**5,051**	**4,605**	**9.7**	**23.9**
Gross loans and advances to customers [A]	2,804	2,743	2.2	15.4
Customer funds	4,197	3,893	7.8	21.8
Customer deposits [B]	4,162	3,861	7.8	21.7
Mutual funds	36	32	12.8	27.3

A. Excluding reverse repos.
B. Excluding repos.

Peru

2019 Highlights

- We continued to develop our activity focused on the corporate segment, the country's large companies and the Group's global customers.
- Underlying attributable profit rose 15% year-on-year, or 11% excluding the exchange rate impact, spurred by revenue.

Underlying attributable profit

EUR 48 Mn

Strategy

The strategy remained focused on the corporate segment, the country's large companies and the Group's global customers.

The auto loan financial entity continued to expand its business within the Group's strategy of increasing its presence in this sector.

Business performance

Loans and advances to customers increased 11% year-on-year in euros (+7% on a gross basis, excluding the exchange rate impact), and customer deposits remained largely unchanged (-4% excluding the exchange rate impact).

Results

Underlying attributable profit of EUR 48 million in euros in 2019 was 15% higher year-on-year, equivalent to an RoTE of 21.4%.

Excluding the exchange rate impact, underlying attributable profit increased 11%:

- **Total income** grew 14% driven by good performance of net interest income and gains on financial transactions.
- The efficiency ratio improved to 32.9% (-0.2 pp year-on-year).
- **Net loan-loss provisions** remained low, with a cost of credit of just 0.12%.

The NPL ratio was 0.78% and coverage was very high.

Colombia

2019 Highlights

- The strategy is focused on corporates, large corporates and SCIB customers.
- New alliances in auto finance to strengthen our position in this market with digital propositions.
- Underlying attributable profit of EUR 16 million in the year, 72% more than in 2018, 81% higher excluding the exchange rate impact.

Underlying attributable profit

EUR 16 Mn

Strategy

We remained focused on SCIB clients, large companies and corporates, contributing solutions in treasury, risk hedging, foreign trade, confirming, custody and development of investment banking products supporting the country's infrastructure plan. In 2019, we ranked first in project finance both in terms of volumes and number of transactions, outperforming all local banks and international peers.

We are also working to increase the profitability of auto finance and consolidate our position in this market with digital propositions. We have signed two alliances: the first with Chekar.co, a fully digital platform for buying and selling vehicles, and the second with Tucarro.com of Mercado Libre, where the user can request and have a loan approved in six minutes.

Business performance

Loans and advances to customers rose 1% year-on-year in euros. In gross terms and excluding the exchange rate impact they also rose 1%, of note was the rise in auto finance.

Customer deposits rose 56% in euros and 54% excluding the exchange rate impact, driven by time deposits.

Results

Underlying attributable profit of EUR 16 million in the year compared to EUR 9 million in 2018. Underlying RoTE of 11.8%.

Excluding the exchange rate impact, underlying attributable profit rose 81%, backed by total income (+63%) spurred by growth in net fee income (+92%), net interest income (+52%) and gains on financial transactions (+53%).

Administrative costs and expenses grew less than total income, enabling the efficiency ratio to improve 4.6 pp to 50%.

Cost of credit was 0.74%.

4.4 CORPORATE CENTRE

Underlying attributable profit

EUR -2,096 Mn

2019 Highlights

- The Corporate Centre's objective is to aid the operating units by adding value and carrying out the corporate function of oversight and control. It also carries out functions related to financial and capital management.
- The underlying attributable loss was higher compared to 2018, mainly due to higher costs related to foreign currency hedging and the increased stock of issuances.

Strategy and functions

The Corporate Centre contributes value to the Group in various ways:

- It makes our governance more solid, through global control frameworks and supervision.
- It fosters the exchange of best practices in management of costs and generating economies of scale. This enables us to be one of the most efficient banks.
- It contributes to the launch of projects that will be developed by global business areas, including digitalisation processes.

It also coordinates the relationship with European regulators and develops functions related to financial and capital management, as follows:

- **Financial Management functions:**
  - Structural management of liquidity risk associated with funding our recurring activity, stakes of a financial nature and management of net liquidity related to the needs of some business units.
  - This activity is carried out by the different funding sources (issuances and other), always maintaining an adequate profile in volumes, maturities and costs. The price at which these operations are made with other Group units is the market rate plus a premium, which in liquidity terms, we support by immobilising funds during the term of the operation.
  - Interest rate risk is also actively managed in order to soften the impact of interest rate changes on net interest income, conducted via high credit quality, very liquid and low capital consumption derivatives.
  - Strategic management of the exposure to exchange rates in equity and dynamic in the countervalue of the units' annual results in euros. At year-end, net investments in equity are currently hedged by EUR 26,060 million (mainly Brazil, the UK, Mexico, Chile, the US, Poland and Norway) of various instruments (spot, fx, forwards).
- **Management of total capital and reserves:** efficient capital allocation to each of the units in order to maximise shareholder return.

Global Headquarters. Boadilla del Monte

Global Headquarters. Boadilla del Monte

Results

In 2019, underlying attributable loss of EUR 2,096 million, 24% greater than in 2018, driven by:

- Higher negative impact of net interest income, from EUR -987 million in 2018 to EUR -1,252 million in 2019, mainly due to the higher stock of wholesale market debt issuances and, to a lesser extent, IFRS 16.
- Lower gains on financial transactions (EUR 307 million less), driven by the greater cost of foreign currency hedging, the counterpart of which is in the conversion of results to euros in certain countries.
- Administrative expenses and amortisations improved 12% driven by ongoing streamlining and simplification measures, continuing actions taken in previous years, which have resulted in a reduction in the cost base of around 35% over the last five years.
- Lower net loan-loss provisions, down from EUR 115 million in 2018 to EUR 36 million in 2019.
- Other gains (losses) and provisions include very diverse charges: provisions, intangible assets, cost of the state guarantee on deferred tax assets, pensions, litigation, impairment of investments, etc. The net impact went from EUR -101 million in 2018 to EUR -237 million in 2019.

Pereda building. Global Headquarters in Boadilla del Monte (Madrid)

CORPORATE CENTRE

EUR million

Underlying income statement	2019	2018	%
Net interest income	(1,252)	(987)	26.9
Net fee income	(50)	(69)	(27.8)
Gains (losses) on financial transactions [A]	(297)	11	—
Other operating income	(18)	(12)	49.5
Total income	**(1,617)**	**(1,057)**	**53.0**
Administrative expenses and amortisations	(373)	(426)	(12.5)
Net operating income	**(1,990)**	**(1,483)**	**34.2**
Net loan-loss provisions	(36)	(115)	(68.8)
Other gains (losses) and provisions	(237)	(101)	135.3
Profit before tax	**(2,262)**	**(1,699)**	**33.2**
Tax on profit	157	14	—
Profit from continuing operations	**(2,105)**	**(1,685)**	**24.9**
Net profit from discontinued operations	—	—	—
Consolidated profit	**(2,105)**	**(1,685)**	**24.9**
Non-controlling interests	9	(1)	—
Underlying attributable profit to the parent	**(2,096)**	**(1,686)**	**24.4**

Balance sheet			
Loans and advances to customers	5,764	6,509	(11.4)
Cash, central banks and credit institutions	32,803	39,840	(17.7)
Debt instruments	840	377	122.5
Other financial assets	2,406	2,113	13.8
Other asset accounts	126,539	121,775	3.9
Total assets	**168,352**	**170,614**	**(1.3)**
Customer deposits	793	235	238.2
Central banks and credit institutions	12,254	30,879	(60.3)
Marketable debt securities	54,495	41,783	30.4
Other financial liabilities	636	1,334	(52.3)
Other liabilities accounts	9,810	8,208	19.5
Total liabilities	**77,989**	**82,439**	**(5.4)**
Total equity	**90,362**	**88,175**	**2.5**

Operating data			
Number of employees	1,651	1,700	(2.9)

A. Includes exchange differences.

4.5 Secondary segments

RETAIL BANKING

Underlying attributable profit

EUR 7,748 Mn

2019 Highlights

- We continued to focus on enhancing customer satisfaction, covering their needs and boosting loyalty. At the end of December 2019, we had 145 million customers, of which more than 21 million are loyal.
- Underlying attributable profit of EUR 7,748 million in the year, 7% higher than in the same period of 2018 due to customer revenue and improved efficiency.
- We were named the Best Bank in Latin America and the Best SME Bank in Western Europe by *Euromoney* and Best Bank in the Americas and Best Bank in Western Europe by *The Banker*.

Commercial activity

We want to be the reference bank for customers of all income levels, offering services and products that best meet their needs. Furthermore, we are fostering entrepreneurship, helping SMEs and other companies via loans and non-financial support. We launched various **commercial initiatives** in the year, which have been described in the corresponding primary segments and are summarised below:

- In **individuals**, we continued to strengthen our business with new differentiated products. In Chile, for example, we launched new proposals for the mass market segment within the *Life* strategy, enabling us to significantly increase the number of new customers. In Argentina we launched *Banca VIP*, a new customer care model for our high-income commercial banking customers. In Spain we launched the *Smith Plan* in order to be the leader in the non-resident segment, via a differentiated value proposition focused mainly on covering the needs of those who are purchasing a house in Spain. In Mexico, we launched the *Legacy* credit card for private banking customers, being the first and only bank in the country to have an alliance with American Express.

Loyal customers

December 2019. Thousands

21,556

31% /active customers

Digital customers

December 2019. Thousands

36,817

+15% YoY

- In **auto finance** we continued to expand the business in certain countries. For example, SCF closed a deal with Hyundai Kia for the acquisition of 51% of the financial entity that both companies own in Germany, bolstering our leadership in this market. The agreement with Fiat Chrysler in the US was amended strengthening our partnership and new alliances were also made in Colombia to boost our position in the market.
- In the **SME** segment, we continued to move forward with products such as *Prospera* in Brazil, a microfinance and loan programme for entrepreneurs which now has more than twice as many customers as last year. This programme was also launched in Uruguay to satisfy the demand of small businesses. In Brazil, we also announced *Santander Duo*, a new product with a differentiated offering for small entrepreneurs, which combines accounts of legal and natural persons. In Argentina we launched *Women*, a comprehensive proposition for financial and non-financial services, which focuses on female entrepreneurs, owners of SMEs and professionals.
- Of note in **corporates** were strategies such as those implemented in the US with the *Lead Bank* project to strengthen our relationships with American companies. In Poland, we have introduced pre-limits for selected corporate customers, improving customer relationships shortening the decision-making process and anticipating and accommodating their basic needs better. We also formed part of the financing of one of the most important road infrastructure projects in Colombia and we led the consortium of banks for the loan to one of the main state energy companies in Poland. In addition, we contributed non-financial solutions, such as *Santander Advance Empresas* in Portugal, offering management courses for executives and a scholarship programme.

Smart Red branch, Spain

Regarding our branch network, we have 11,952 branches, making us the international bank with the largest branch network.

For years, we have been committed to boosting our multi-channel offering. The branches continue to be a very relevant channel, focusing on improving the customer experience and offering advice on everything they need.

In order to better adapt to their needs, we continue to have branches that offer specialised customer care to certain segments. In addition, we continued with the conversion of traditional bank branches into new collaborative spaces focused on customer experience and digital capabilities, such as the *Work Café* branches (Chile, Spain, Brazil, the UK, Portugal, Mexico and Argentina), *Smart Red* branches (Spain, the UK and Portugal) or *Santander Ágil* in Mexico.

All of these measures helped to boost the total number of customers to 145 million, as well as increase the number of loyal customers (+9% individuals and +3% corporates year-on-year).

Business performance

Loans and advances to customers increased 5% compared to 2018 in euros. Excluding reverse repurchase agreements and the exchange rate impact, gross loans rose 3%.

Customer deposits rose 7% in euros compared to the same period of 2018. Excluding repurchase agreements and the exchange rate impact, they were 4% higher, driven by growth in demand deposits (+5%).

Results

Underlying attributable profit amounted to EUR 7,748 million in 2019 (74% of the Group's operating areas).

Compared to 2018, underlying attributable profit rose 7% in euros. Excluding the exchange rate impact, profit also delivered a 7% increase, as follows:

- **Total income** increased 4%, driven by the main P&L lines: net interest income increased 3%, net fee income 5% and gains on financial transactions 31%.
- **Administrative expenses and amortisation**s were 3% higher, improving the efficiency ratio by 79 basis points to 44.8%.
- **Net loan-loss provisions** increased 7%, primarily due to higher volumes, maintaining good credit quality.
- **Other gains (losses) and provisions** improved 8% primarily driven by SCF and the UK.

RETAIL BANKING

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	33,157	32,262	2.8	3.3
Net fee income	9,094	8,870	2.5	4.9
Gains (losses) on financial transactions [A]	975	757	28.9	31.5
Other operating income	298	343	(13.1)	(35.3)
Total income	**43,523**	**42,231**	**3.1**	**3.8**
Administrative expenses and amortisations	(19,481)	(19,236)	1.3	2.6
Net operating income	**24,042**	**22,994**	**4.6**	**4.7**
Net loan-loss provisions	(9,154)	(8,549)	7.1	7.4
Other gains (losses) and provisions	(1,624)	(1,791)	(9.4)	(8.2)
Profit before tax	**13,265**	**12,654**	**4.8**	**4.7**
Tax on profit	(4,156)	(4,144)	0.3	1.1
Profit from continuing operations	**9,109**	**8,510**	**7.0**	**6.5**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**9,109**	**8,510**	**7.0**	**6.5**
Non-controlling interests	(1,361)	(1,272)	7.0	6.4
Underlying attributable profit to the parent	**7,748**	**7,238**	**7.0**	**6.5**

A. Includes exchange differences.

SANTANDER CORPORATE & INVESTMENT BANKING

Underlying attributable profit

EUR 1,761 Mn

2019 Highlights

- SCIB maintains its long-term strategy focused on optimising the use of capital, increasing revenue, and disciplined cost management.
- Good performance of the Global Transaction Banking (GTB) and Global Debt Financing (GDF) businesses and market activities in the Americas.
- We continued with the execution of strategic projects focused on improving internal systems, cost control and talent management.
- Underlying attributable profit was 4% higher in euros, 10% higher excluding the exchange rate impact, driven by 7% growth in total income and lower loan-loss provisions.

Strategy

SCIB is our global business for corporate clients and institutions that require tailored services and wholesale value-added products adapted to their complexity and sophistication.

Our long-term strategy remains focused on:

- Increasing the rotation and efficiency of capital, maximising the return on risk-weighted assets (1.8%). To this end, SCIB has strengthened the Private Debt Mobilisation teams in Europe and the UK, to increase the distribution of assets in the secondary market. The increase in rotation and the earlier detection of risks reduced provisions in the year.
- Increasing diversification, both by countries and by customers and products:
  - By countries, through the promotion of business in Continental Europe and the Andean Region, as well as in the UK and the US, having completed the reforms required by the regulators.
  - As for the diversification of our customer base, we are increasing our business with institutional and financial entities, offering a wide range of products throughout our markets, thus complying with the strategy of being a global bank with presence in more than 12 countries.
  - Continuing to expand the range of products to customers of the retail banking network, supporting collaboration revenues growth, +17% compared to 2018.
- Continuing to strengthen our commitment to sustainability, leading the Project Finance rankings and expanding the range of green products for our customers.

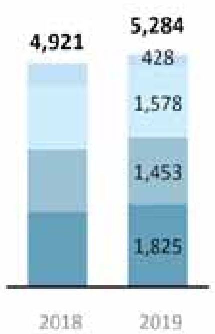
Business performance

Main actions performed in the year by business line:

- **Cash management**: strong increase in the transactional business as well as in customer funds in our core markets (Europe and Latin America), as a result of the strengthening of our product capabilities in the region, innovating in the digitalisation of the business both in origination and in the development of our products.

Total income breakdown

Constant EUR million



TOTAL*	**+7%**
Capital & Other	-13 %
Global Markets	+12 %
Global Debt Financing	+6 %
Global Transaction Banking	+11 %

(*) In euros: +4%

- **Export finance & agency finance**: double-digit growth in the year, especially in the US and Latin America, consolidating our world leadership position in export financing backed by export credit agencies (ECA).
- **Trade & working capital solutions**: robust growth in Receivables Finance in the Americas and Europe, and Trade Funding, especially in the Americas, as a result of the continuous improvement of our product offering and the digitalisation of receivables and confirming platforms. In 2019, we were named best bank worldwide for Supply Chain Finance.
- **Debt capital markets**: significant growth in the year, backed by good performance in Europe, Brazil and the US. We issued the first end-to-end blockchain bond, an example of our innovation in the capital markets and the first step towards a potential market for mainstream security tokens[1]. We continued to focus on activities related to sustainable financing, being a reference for the issuance of green bonds, while maintaining its leadership in Latin America and significant positions in the European corporate market.
- **Corporate Finance**: in merger and acquisitions (M&A) we strengthened our position as the leader in advising the renewable energy sector, with noteworthy operations in the year in wind farms in Spain and the UK. Double-digit growth in advisory for share issuances in the primary market, particularly in Brazil.
- **Syndicated corporate loans**: we continued to play a significant role, although with a reduced volume of acquisitions during the year due to low M&A activity. In line with our responsible banking strategy, we increased our range of sustainable finance products via green loans or loans linked to sustainable indices.
- **Structured financing**: we maintained our global leadership position in Project Finance, having more issuances globally than any other bank and were the fifth by volumes. The focus on the renewable energy sector needs to be highlighted, with more than 66 project financings during 2019. We also maintained our leadership in Latin America in financial advisory and improved our positioning in Europe.
- **Global Markets**: the positive evolution of market activity, with significant growth in the Americas, compensating lower (albeit growing) activity in Europe. Good sales performance, both corporate and institutional, with double-digit growth, particularly in Brazil, the UK, Mexico and Chile. The books have also recorded significant growth, with outstanding results in the UK, Chile, Argentina and the US.

Loans and advances to customers rose 21% in euros compared to 2018. Excluding reverse repurchase agreements and the exchange rate impact, gross loans and advances to customers increased 12%.

Customer deposits were down 4% in euros in 2019. Excluding repurchase agreements and the exchange rate impact, they grew 1%.

Ranking 2019

Award / ranking	Source	Area
Best Trade Finance bank in Chile, Argentina and Spain	GLOBAL FINANCE	GTB
Best Supply Chain Finance Provider in Latin America	GLOBAL FINANCE	GTB
Best Trade Finance Provider in Latam	GLOBAL FINANCE	GTB
Deal of the year Europe 2019: Infrastructure & Project Finance - Hornsea Offshore Wind Project GBP 3.6 bn financing	The Banker	GDF
Deal of the year Asia 2019: Bonds Corporate - ChemChina USD 4.95 bn multi-tranche and EUR 1.2 bn senior unsecured bond	The Banker	GDF
Best Overall ECA Finance Deal of the Year. Winner: DUQM Refinery	TXF	GTB
Best Americas ECA Finance Deal of the Year. Winner: Petroperu/Talara Refinery	TXF	GTB
Best ECA-backed Renewables Finance Deal of the Year. Winner: Hornsea	TXF	GTB
Best Supply Chain Bank Award	GTR	GTB
Best Trade Finance Bank in Latam	GTR	GTB
Best Supply Chain Finance Bank	Trade Finance	GTB
Best Investment Bank in Spain and Poland	Euromoney	Global
Financial Advisor of the Year: Latin America	Latin Finance	GDF
Most innovative investment bank of the year for structured finance 2019	The Banker	GDF
Capital Relief Issuer of the Year award	SCI Capital Relief Trades Awards 2019	GDF
Best Liquidity Provider	Global Capital Covered Bond Awards 2019	GDF
Best bank for emerging LatAm currencies 2019	FX Week Best Banks Awards 2019	Markets
#1 Global / Americas / EMEA Renewable Energy Project Finance by deal count in 2019	Dealogic	GDF
#1 Global Project Finance - Financial Adviser by deal count in 2019	Dealogic	GDF
#1 Santander Global, Europe, Latin America and Middle East ECA financing by volume and deal count in 2019	Dealogic	GTB

1. Mainstream security tokens: Financial instruments subject to securities market regulation, which are issued and traded using blockchain.

Results

Underlying attributable profit in 2019 of EUR 1,761 million (17% of the Groups' total operating areas), driven by the strength and diversification of SCIB's customer revenue (89% of total revenue).

Compared to 2018, underlying attributable profit increased 4%. Excluding the exchange rate impact, it rose 10%, as follows:

- **Total income** grew because of the 14% rise in net interest income. Net fee income increased 1%, with a better performance in the second half of the year, as it was 12% higher than in the first half of 2019.

  Gains on financial transactions dropped 12%, despite an excellent first quarter which partially offset the worse relative performance in the second and third quarters of the year.

- Higher **administrative expenses and amortisations** associated with transformation projects.

- **Net loan-loss provisions** were significantly lower, mainly in Mexico and Brazil.

By segments, better results from Global Transaction Banking and Global Debt Financing.

SANTANDER CORPORATE & INVESTMENT BANKING

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	2,721	2,461	10.6	14.0
Net fee income	1,528	1,534	(0.4)	1.0
Gains (losses) on financial transactions A	739	898	(17.7)	(11.7)
Other operating income	295	184	60.7	61.5
Total income	**5,284**	**5,077**	**4.1**	**7.4**
Administrative expenses and amortisations	(2,276)	(2,101)	8.3	9.4
Net operating income	**3,008**	**2,975**	**1.1**	**5.9**
Net loan-loss provisions	(155)	(198)	(21.9)	(23.0)
Other gains (losses) and provisions	(86)	(97)	(11.1)	(11.4)
Profit before tax	**2,767**	**2,680**	**3.2**	**8.9**
Tax on profit	(838)	(832)	0.6	6.4
Profit from continuing operations	**1,929**	**1,848**	**4.4**	**10.0**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**1,929**	**1,848**	**4.4**	**10.0**
Non-controlling interests	(169)	(157)	7.6	9.5
Underlying attributable profit to the parent	**1,761**	**1,691**	**4.1**	**10.0**

A. Includes exchange differences.

WEALTH MANAGEMENT & INSURANCE

Underlying attributable profit

EUR 960 Mn

2019 Highlights

- Assets under management in the Private Banking and Asset Management businesses reached EUR 395 billion, 13% more than last year. Total insurance gross written premiums increased also 13%. This consolidated Santander's position in these businesses in its ten core markets.
- The total fee income generated, including those transferred to the branch network, rose 6% to EUR 3,493 million (30% of the Group's total).
- Total contribution (net profit + fee income) amounted to EUR 2,494 million, +8% year-on-year.

Strategy

We continued to progress in our plan to make us the best and most responsible wealth manager in Europe and Latin America, with the following notable initiatives:

- In 2019, we created two regional hubs (Europe and Latin America) in **Santander Asset Management (SAM)** and strengthened the institutional and alternative products teams.

  We completed our product offering with the launch of *Santander GO*, a range of international products offering strategies developed jointly with management companies such as Morgan Stanley, PIMCO, Robecco, JPM and Amundi, and which has already reached more than EUR 700 million.

  We also re-launched the Global Multi-Asset Strategy team to improve the range of client-focused investment solutions and provide a better service to our institutional clients.

  In addition, we are expanding the ESG product offering in our main markets and developing our own ESG rating methodology, which will be ready in 2020. Also of note was the effort made to redefine the operating model in order to improve efficiency and the implementation of the Aladdin investment platform, in alliance with Blackrock.

- In **Santander Private Banking (SPB)** we continued to strengthen our teams with the best professionals and launched the *Global Value Proposition*, an international platform of products and services to cover the worldwide needs of our clients, facilitating their recognition as such in the geographies where they want to operate and making a wide range of products, services and benefits available.

  In addition, we are strengthening the business across our different markets, which is reflected in an increase in collaboration volumes of 36%, up to EUR 5,350 million.

  Additionally, we continue to develop the Private Wealth segment, whose business contribution grew by 18% with respect to 2018, with a global offer for high net worth clients.

  In 2019 we received numerous awards, notably from *The Banker* (Best Private Banking in Latin America), *Euromoney* (Best Private Banking in Latin America, Spain, Portugal, Mexico, Chile and Argentina) and *Global Finance* (Best Private Banking in Spain and Portugal).

Business performance: SAM and Private Banking

December 2019. EUR billion and % change in constant euros

Note: Total asset marketed and/or managed in 2019 and 2018.
(*) Total adjusted customer funds of private banking managed by SAM. *Pro forma* including Banco Popular asset management joint ventures. The repurchase of the remaining 60% of their stakes was pending regulatory authorisations and other customary conditions on 31 December 2019 and was completed in January 2020.

Insurance gross written premiums

Change in constant euros

+13% / 2018

- In **insurance**, our aim is to become the leader in bancassurance in all our markets and in all branches and segments, and to this end we have defined a strategic plan that will enable us to capture our potential in the medium term.

  We are completing the value offering in all our countries together with our main partners. Of note was the creation of a company with MAPFRE to offer car insurance in Spain, the alliance with HDI in car insurance in Brazil and specific products for SMEs.

  Another focus during 2019 was the development of the digital offering, particularly in Chile (*Klare*) and in Brazil and Mexico (*Autocompara*).

Business performance

Total assets under management amounted to EUR 395 billion, 13% higher than in 2018, supported by new sales and the market's performance:

- Strong growth in net sales at SAM in 2019 (EUR 5,700 million), increasing market share in most of our countries, particularly in Spain, Portugal, Chile and Poland.
- Of note in Private Banking was growth in Brazil and Spain. Loans and advances to customers grew by 5%.

In Insurance, with 20 million total protected customers, the volume of total insurance gross written premiums increased 13% year-on-year, especially in Brazil, Chile and Poland.

Results

Underlying attributable profit was EUR 960 million in 2019, 10% growth year-on-year. Excluding the exchange rate impact growth was 11%, by lines:

- **Total income** rose 6% mainly driven by net interest income (+8%), backed by higher lending, and net fee income (+5%). Total fee income generated, including those transferred to the branch network for the distribution of products, increased 6% and represented 30% of the Group's total.
- Also of note was the greater contribution of the insurance business, recorded in other operating income (+15%).
- **Administrative expenses and amortisations** were 3% higher, due to our investments in platforms.
- Recovery in **net loan-loss provisions**, due to lower doubtful loan positions in Spain and Portugal.

The total contribution to the Group (including net profit and total fees generated net of taxes) was EUR 2,494 million, 8% growth year-on-year.

WEALTH MANAGEMENT & INSURANCE

EUR million

Underlying income statement	2019	2018	%	% excl. FX
Net interest income	565	526	7.4	7.8
Net fee income	1,201	1,142	5.1	5.2
Gains (losses) on financial transactions [A]	116	132	(11.7)	(11.1)
Other operating income	341	299	14.0	15.5
Total income	**2,223**	**2,099**	**5.9**	**6.3**
Administrative expenses and amortisations	(911)	(873)	4.3	3.3
Net operating income	**1,312**	**1,226**	**7.0**	**8.5**
Net loan-loss provisions	25	(10)	—	—
Other gains (losses) and provisions	(12)	(5)	142.9	136.8
Profit before tax	**1,325**	**1,211**	**9.4**	**11.0**
Tax on profit	(312)	(284)	10.0	11.9
Profit from continuing operations	**1,013**	**927**	**9.2**	**10.7**
Net profit from discontinued operations	—	—	—	—
Consolidated profit	**1,013**	**927**	**9.2**	**10.7**
Non-controlling interests	(53)	(53)	1.3	4.0
Underlying attributable profit to the parent	**960**	**875**	**9.7**	**11.1**

A. Includes exchange differences.

Total profit contribution [A]

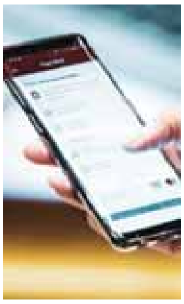
EUR million and % change in constant euros

2,494

+8% / 2018

A. Including net profit and total fee income generated by this business

SANTANDER GLOBAL PLATFORM (SGP)



Highlights

- With the creation of Santander Global Platform we are accelerating our digitalisation process by developing global digital banking solutions with payments at the core for SMEs and individuals.
- SGP leverages the Group's scale, footprint and expertise in payments, financial services and in scaling fintech solutions to build best-in-class services in key, high-growth and large addressable markets in which we already have a strong presence.
- In 2019 we made relevant progress on various initiatives under SGP such as the development of the GMS and GTS platforms, the strategic partnership with Ebury, the launch of Superdigital in Chile and Openbank began to open accounts to customers in Germany, the Netherlands and Portugal.

Strategy

SGP offers digital services based on payment solutions as the main driver of loyalty. The services are being developed based on global platforms to leverage our scale and improve efficiency and customer experience.

By collaborating across our regions and leveraging our scale, footprint and expertise in payments and financial services, we can build our own digital assets and fintech solutions once and then scale them across the Group, significantly lowering development costs and time to market.

It should be noted that SGP does not just offer products and solutions to our banks (B2C) but also to third parties that lack the scale to build best in class payments and digital banking solutions in the open market (B2B2C). We believe that this will allow us to expand our addressable market to non-customers and new geographies, generating relevant new revenue opportunities.

The area continued to advance according to the envisaged schedule.

(1) EMEA + the Americas' revenue pools in merchant acquiring services incl. net MDR & rental terminals.
(2) CAGR 2018-2023.

Bringing best-in-class banking solutions to SMEs:

- **Global Merchant Services** (GMS), our global acquiring solution built on the back of Brazil's *Getnet* and provides online and offline retailers the ability to accept various forms of payment, helping them better manage and grow their businesses.

  We are already a Top 10 global acquirer by turnover volume, with more than one million active merchants (local and global) and significant market shares in revenue (Brazil, Mexico and Portugal) and customers (Spain). In Brazil, the market share has doubled in the last five years following *Getnet's* success with high customer engagement. It is also delivering very high growth, with transaction volumes increasing c.30% annually since 2013.

  This platform will first be rolled out in Mexico in Q1 2020, followed by the rest of Latin America and will be able to provide service to the 4 million merchants that are already Group customers.

- **Global Trade Services** (GTS), our single global platform to serve companies that want to trade internationally using international payments and FX, trade finance and multi-country accounts. The revenue pool for global transaction banking services is around USD 200 billion.

(3) 50.1% stake; Transaction closing expected in mid-2020 subject to regulatory approvals.

To accelerate the development of this opportunity, we announced a strategic investment in Ebury to acquire a 50.1% stake which will shortly be incorporated once the regulatory approvals are obtained. Ebury brings best-in-class international business and FX platform for SMEs and, more importantly, a top-notch team.

Ebury currently has more than 43,000 active companies, covering 17 countries and more than 140 currencies and generates high growth transactions (+20% per customer in the last two years) and revenues (+45% in 2019). By combining the strengths and assets of Santander with those of Ebury we will become the leading proposition for international SMEs in Europe and the Americas. We plan to extend GTS to 20 markets in the medium term.

Bringing best-in-class digital banking solutions to individuals:

- **Superdigital,** our financial inclusion platform for individuals that require a simple, flexible pre-banking service. It enables us to meet the financial needs of the underserved, providing them with basic financial products and a path to access credit, thus serving them responsibly and profitably.

  Superdigital also integrates with GMS for small merchants. With a special focus on Latin America, where there are around 300 million unbanked and underbanked consumers.

  As of today, Superdigital operates in Brazil, Mexico and Chile and active customers grew at 59% annually and transactions doubled. Our goal is to scale the business to reach over 5 million active customers across 7 markets in the medium term.

(1) Including 200 mn+ unbanked and 100 mn+ underbanked.
(2) USD 10-50 per capita daily income (PPP); Source: Interamerican Development Bank, 2016.
(3) Active customers (30 days).

- **Openbank**, our global, full-service digital bank with over 115,000 payroll accounts. Openbank offers a superior experience compared to neobanks with a full suite of products that go beyond those associated with traditional digital current accounts.

  As a consequence, Openbank customers are more engaged and more loyal, using 4.4 products on average. We are seeing positive growth trends both in deposits and on the asset side, with mortgage sales growing at 134% over the last 12 months.

  Openbank is in Spain and in the fourth quarter, began to open accounts to customers in Germany, the Netherlands and Portugal, and over the medium term we plan to expand into 10 markets, including countries in the Americas.

Other activities

- The Centres of Digital Expertise leverage the Group's scale and ensure all countries and businesses have access to the most innovative technology (our *Globile* project for mobile platforms, end-to-end blockchain, artificial intelligence and machine learning to foster customer and operational excellence and improve risk management).
- *InnoVentures*, our venture capital investments in the fintech ecosystem, continued to grow. As at end-December, it had invested more than USD 140 million in 30 companies in 8 countries.

Results

The costs associated with the building of the platforms of Santander Global Platform were reflected in 2019 in an underlying attributable loss of EUR 120 million.

The revenue included in this segment corresponds almost entirely to Openbank. Compared to 2019, of note is the 16% growth in NII, a result of increased volumes.

On the balance sheet, the vast majority of the business is from Openbank, which had a strong growth in customer volumes, reflecting greater activity over the year. Customer deposits exceeded EUR 9 billion, having increased 14% in the year. On the assets side, loans and advances to customers doubled, driven by mortgage business.

Looking at SGP's activity in 2019 in a broad sense, i.e. if, in addition to considering the results generated by the digital platforms, 50% of the results generated by the countries on the products related with the platform (e.g. merchant acquiring, trade finance products, etc.) are also included, estimated *pro forma* revenue is close to EUR 1 billion in 2019 and *pro forma* underlying attributable profit is positive at EUR 142 million.

This is the net result of two components: on the one hand, the investment in building the platforms and, on the other hand, 50% of the profit obtained from commercial relationships with our customers:

- The construction of platforms is where most of the investments and costs are concentrated. We are progressing in the development of Technology and Operations (T&O), in the improvement of processes, in the addition of new services to the platform and in the roll-out to the countries. This has a negative impact of EUR 178 million on the income statement for 2019.

- Profit obtained from commercial relationships with our customers linked to the global SGP platforms, and according to the criteria for allocating the aforementioned results, profit amounted to EUR 320 million in 2019.

We regularly assess the market valuations of the businesses included in SGP, based on multiples of comparable companies, to ensure our investments in digital are creating value.

SANTANDER GLOBAL PLATFORM

EUR million

Underlying results	2019	2018	%
Net interest income	92	79	16.3
Net fee income	6	7	(11.8)
Gains (losses) on financial transactions [A]	(3)	—	—
Other operating income	(14)	(12)	21.2
Total income	**81**	**74**	**8.8**
Administrative expenses and amortisations	(240)	(142)	68.4
Net operating income	**(159)**	**(68)**	**133.8**
Net loan-loss provisions	(1)	—	312.2
Other gains (losses) and provisions	(6)	(2)	165.8
Profit before tax	**(166)**	**(70)**	**135.5**
Tax on profit	46	17	178.0
Profit from continuing operations	**(120)**	**(54)**	**122.4**
Net profit from discontinued operations	—	—	—
Consolidated profit	**(120)**	**(54)**	**122.4**
Non-controlling interests	—	—	—
Underlying attributable profit to the parent	**(120)**	**(54)**	**122.4**
Balance sheet			
Loans and advances to customers	702	337	108.4
Cash, central banks and credit institutions	9,063	8,168	11.0
Debt instruments	10	—	—
Other financial assets	187	146	27.6
Other asset accounts	272	130	109.8
Total assets	**10,234**	**8,781**	**16.5**
Customer deposits	9,460	8,284	14.2
Central banks and credit institutions	82	111	(26.1)
Marketable debt securities	—	—	—
Other financial liabilities	105	38	179.0
Other liabilities accounts	112	59	90.0
Total liabilities	**9,760**	**8,492**	**14.9**
Total equity	**474**	**289**	**63.8**
Pro memoria:			
Gross loans and advances to customers [B]	706	340	107.5
Customer funds	9,910	8,650	14.6
Customer deposits [C]	9,460	8,284	14.2
Mutual funds	450	367	22.8
Operating data			
Number of employees	820	487	68.4

A. Includes exchange differences.
B. Excluding reverse repos.
C. Excluding repos.

5. Research, development and innovation (R&D&I)

Research, development and innovation activities

Innovation and technological development are strategic pillars of the Group. Our objective is to respond to the new challenges that emanate from digital transformation, focusing on operational excellence and customer experience.

Moreover, the information that we obtain from our new technological platforms will help us to better understand the customer journey of our clients and will allow us to design a more accurate digital profile that will enable us to generate more confidence and increase customer loyalty.

As well as competition from other banks, financial entities must watch out for the new competitors that have entered the financial system, whose differentiating factor, and thus competitive advantage, is their use of new technology.

Consequently, developing an adequate strategic technology plan must allow for:

- Stronger capacity to adapt to customers' needs (customised products and services, full availability and excellent service across all channels).
- Enhanced processes, which ensure that the Group's professionals attain greater reliability and productivity in their functions.
- And lastly, proper risk management, supplying teams with the necessary infrastructures to provide support for identifying and assessing all risks, be they business, operational and reputational risks, or regulatory and compliance ones.

Santander, as a global systemically important bank, as well as its individual subsidiaries, are subjected to increasing regulatory demands that impact system models and their underlying technology. This requires additional investments in order to guarantee their compliance and legal security.

As a result, the latest ranking by the European Commission (the 2019 EU Industrial R&D Investment Scoreboard, based on 2018 data) recognises, as did previous rankings, Santander's technological effort, placing it first among Spanish companies (ranking 102nd in the study) and the second global bank on the basis of investment in R&D.

In total EUR 1,374 million was invested in R&D&I in 2019.

Technological strategy

In order to respond to business and customer needs, Santander must integrate new digital capabilities, such as the agile methodologies, public- and private-Cloud-based products and the evolution of core systems, as well as develop data and technological capabilities (APIs - Application Programming Interface, artificial intelligence, robotics, blockchain, etc.).

The Group's technological strategy is aligned with Santander Global Platform, global businesses and our banks in the different geographic areas. It is a solid strategy, flexible in the face of new trends and open to the changes that may be required. To this effect, we are supported by a committed organisation experienced in relationships with countries, a robust and reliable technological infrastructure and, lastly, a governance model that articulates projects and initiatives that help to crystallise this strategy in all the countries in which we operate.

In order to supervise the strategy's correct implementation, the governance model includes an inter-organisational forum known as SARB (Strategic Architecture Review Board). It is responsible for sharing local and global innovation collaboratively and efficiently, as well as reviewing the Group's architecture. This forum guarantees consistent architectures, strengthens the re-use of components and bolsters the use of new technologies to meet changing business needs.

The evolution of our T&O model will help us to develop new business capabilities in the Group, focusing on developing global products and digital services. Almost 2,000 Santander Global Tech professionals in Spain, the UK, Portugal, the US, Mexico, Brazil and Chile are gradually incorporating the global product portfolio agreed by countries, Santander Global Platform and the T&O division, guaranteeing not only the quality of digital services and products but also their security.

Technological infrastructure

The Group has a network of connected, high-quality data centres, interconnected by a redundant communications system. This data centre network is distributed across strategic countries to support and develop the Group's activity. These centres combine traditional IT systems together with the capabilities supplied by an on-premise private Cloud, which facilitates integrated management of the technology of the various business areas and accelerates the digital transformation and adoption of new technologies.

The gradual implementation of the Cloud strategy will enable the public Cloud to support other strategic projects developed in Santander Global Platform (Superdigital, Payments Hub, Santander Merchant Platform Solutions-SMPS, Santander Global Trade Platform Solutions-SGTPS, etc.). In 2019, we signed several agreements with key market companies to provide this service. Regarding the private Cloud (Optimised Hosting Environment- OHE), the migration of virtual machines is progressing at a fast and consistent pace, which brings significant savings to the Group.

Cybersecurity

Santander views cybersecurity as one of the Group's main priorities and as a crucial element for supporting the Bank's mission of 'helping people and businesses prosper', as well as offering excellent digital services to our customers.

Cybersecurity attacks and defence technologies continue to evolve rapidly. Santander continually develops its defences to address current and emerging cybersecurity threats. In 2019, Santander inaugurated its new Global Cyber Security Centre in Madrid. The centre provides defence services to all entities of the Group, bringing state-of-the-art cyber defence technologies and hosting more than 350 cyber professionals.

The risk management report details the various actions for measuring, monitoring and controlling cybersecurity risks, and their respective mitigation plans.

Digitalisation and fintech ecosystem

In addition to the aforementioned technological strategy, the evolution of infrastructures and the initiatives in cybersecurity, and with the aim to progress in the Group's digital transformation, in July 2019 we announced the creation of Santander Global Platform, which is described in section 4 of this chapter. Additionally, examples of digital and innovative products and services for individuals and corporates, as well as references to cybersecurity policies are given in the 'inclusive and sustainable growth' section of the Responsible Banking chapter.

Data centre Cantabria

Alhambra building. Boadilla del Monte

6. Significant events since year end

The following significant events occurred between 1 January 2020 and the date of preparation of this consolidated directors' report:

- On 9 January, 2020, the Group announced that it has completed the placement of preferred shares contingently convertible ("CCPS") into newly issued ordinary shares of the Bank, excluding pre-emptive subscription rights and for a nominal value of EUR 1,500,000,000.

  This issuance was carried out at par and the remuneration of the shares, whose payment is subject to certain conditions and to the discretion of the Bank, was set at 4.375% on an annual basis for the first six years, being reviewed every five years by applying a margin of 453.4 basis points on the 5-year Mid-Swap Rate.

  On the same date, the Group announces its irrevocable decision to carry out the optional early redemption of the CCPS with a nominal amount of EUR 1,500,000,000 on 12 March 2014.

- On 29 January, 2020 the Group announced that the board of directors of the Bank, agreed to propose to the next annual general meeting (AGM) that the second payment of the remuneration from the results of the year 2019 is paid for a total of EUR 0.13 per share by means of :
  - The payment in cash of a final dividend of EUR 0.10 per share and
  - A scrip dividend (in the form of the *Santander Dividendo Elección* programme) which will allow shareholders to receive it in cash, for those who choose this option, EUR 0.03 per share.

7. Trend information 2020

The director's report contains certain prospective information reflecting the plans, forecasts or estimates of the directors, based on assumptions that the latter consider reasonable. Users of this report should, however, take into account that such prospective information is not to be considered a guarantee of the future performance of the entity, inasmuch as said plans, forecasts or estimates are subject to numerous risks and uncertainties that mean that the entity's future performance may not match the performance initially expected. These risks and uncertainties are described in the Risk management chapter of this report and in note 54 of the consolidated financial statements.

2019 was a year of ups and downs. The beginning was favourable, but, starting in summer, expectations of a slight global slowdown, towards growth rates in line with medium-term trends, gave way to considerable pessimism. Unlike other more or less recent bouts of instability, the economic fundamentals did not show any major imbalances.

However, uncertainties reduced in the last few weeks of the year, which, together with the boosts from monetary policies in 2019 - especially in the US and in emerging economies - we believe will tend to stabilise global growth at the beginning of 2020. We believe that the improvement in confidence indicators, which is beginning to show in some areas, should tend to favour a certain revitalisation of investment and domestic demand, while international trade has somewhat improved.

In 2020, the US, which is no longer supported by fiscal policies, is expected to grow at a slightly slower pace than last year (1.7% vs. 2.3% in 2019), the Eurozone may also moderate its expansion (to 1%) where Germany's GDP is expected to grow 0.7% (0.6% in 2019 but affected by a series of disturbances) and Spain's economic growth is forecasted to slow to 1.7% (2.0% in 2019). Overall, the GDP of mature economies is expected to slow from 1.9% in 2019 to around 1.5%.

On the other hand, the global economy is expected to sustain growth similar to that of 2019, at around 3%, as emerging economies are expected to pick-up from the 4% estimated for 2019. China's mildly slowing trend will be more than offset by an improved tone in India and the rest of emerging Asia.

Latin America is expected to see a clear improvement overall, although still at a relatively modest pace, if the reform processes undertaken in Brazil and Argentina remain on course and Mexico benefits from the ratification of the new North American Free Trade Agreement and the expected improvement in the US manufacturing sector, as well as from the central bank's expansionary policies. The region's progress, in a complex international environment, now more than ever, depends on its willingness and ability to implement reforms.

The balance of risk balance is on the downside, although less than in recent quarters. The consolidation of the improved confidence and the absence of significant imbalances in most of the relevant economies may provide positive results.

The macroeconomic forecast for 2020 by country is as follows:

Eurozone

In the Eurozone, GDP growth in 2020 is expected to be close to 1%. Growth will be hampered by external factors, mainly by the fall in global exports and the threat of trade tariffs by the US. These risks have already affected the manufacturing sector, especially the automotive industry.

Spain

Growth is expected to moderate to 1.7% in 2020, above the growth forecast for the Eurozone, and inflation will remain low.

United Kingdom

The economy in 2020 is expected to continue with moderate growth, estimated around 1.2%, supported by the increased purchasing power of families and a more flexible fiscal position. We believe that uncertainties related to the negotiations of the new trade relationship with the EU will set the pace for investments. We believe that the Bank of England will adjust monetary policy according to the balance of the impact of Brexit negotiations, although we expect it to keep interest rates at 0.75% for the entire year.

Portugal

GDP growth is expected to slow in 2020 to 1.2%, below what we believe to be its potential. Domestic demand, favoured by lower fiscal pressure and exports will support this growth. The progress in deleveraging public finances should continue thanks to the ECB's accommodative policies and will make the country more resilient in the event of a slower external environment.

Poland

Economic growth is forecasted to slow to almost 3% in 2020, from the estimated 4% in 2019 and 5% in 2018. Private consumption is expected to be the key driver of growth, while investment is expected to stagnate and net exports to contribute positively due to lower domestic demand.

United States

After the slowdown in 2019, economic growth is expected to settle in 2020 and may even gain some pace over the year, driven by a strong labour market, some reduction in geopolitical risks and easing financial conditions, favouring a rise in underlying inflation. In any case, growth is expected to be moderate, lower than the average in 2019 (1.7% vs. 2.3% in 2019).

Mexico

We expect the economy to accelerate in 2020, due to improved household income and the commercial momentum of the agreement between the US and Canada.

Brazil

After the boost to reforms in the second half of 2019, the economy is expected to accelerate, driven by increased business and household confidence, growing at rates above 2% and with stable inflation.

Chile

Economic growth is expected to be supported by the fiscal stimulus programmes approved at the end of 2019 and expansive monetary policy, with interest rates at low levels.

Argentina

The economy is expected to remain in recession but to start laying the groundwork for a return to growth in 2021 once relationships with international suppliers normalise.

The management priorities of the principal geographic areas for 2020 are set out below:

EUROPE

In a macroeconomic environment characterised by lower for longer interest rates, the priorities for 2020 will be:

- Defend margins, control costs and improve efficiency while maintaining a full value proposition.
- Continue to work on simplifying products and structures.
- Accelerate the digital transformation process and adaptation of technology platforms.
- Manage regulatory impacts on revenue and costs.

Spain

After the successful integration of Banco Popular, Santander Spain's 2020 priorities are the following:

- Increase customer loyalty and deepen relationships in order to give customers the best experience, simplifying products and optimising processes, and accelerate the digital transformation to provide a better service and develop new ways of interacting with the customer.
- Boost revenue by promoting value-added products, especially for SMEs and corporates, but also for insurance and mutual funds while reducing the cost of deposits.
- Continue to improve the cost base by seeking additional efficiencies and synergies.
- Continue to reduce doubtful and foreclosed assets, improving the main risk metrics.
- Develop a sustainable profit and profitability model with optimal capital allocation and a special focus on higher profitability segments and products.

Santander Consumer Finance (SCF)

Thanks to its positioning in the European consumer market, SCF is seeking to exploit its growth potential. The main priorities are to:

- Strengthen leadership position in the retail auto finance market, while optimising capital consumption and driving growth in consumer finance through SCF's new digital business model.
- Help our partners with the digitalisation of their transformation plans.
- Proactively manage brand agreements and develop digital projects in all business lines.
- Execute the strategic operations carried out in 2019 as a key element to maintain high profitability and best-in-class efficiency in the sector.

United Kingdom

In an environment of continued uncertainty regarding the UK's future trading relationship with the EU and in a market expected to remain very competitive with margin pressures, Santander UK's priorities are to:

- Grow customer loyalty by providing an outstanding customer experience.
- Simplify and digitalise the business for improved returns.
- Invest in our people to ensure they have the skills and knowledge to thrive.
- Embed greater sustainability across our business.

Portugal

The priorities for the year are to:

- Increase customer loyalty to continue growing organically in terms of profitable market share and leveraging our position in the corporate segment.
- Progress in our digital transformation to simplify processes and increase efficiency.
- Simplify the commercial offering for value-added products and services that are suitable for meeting the customer's needs to improve their experience.
- Increase customer funds, particularly off-balance sheet funds, and lending in segments with an appropriate risk-return profile, while maintaining a low cost of credit.
- Focus on increasing net fee income and reducing costs.

Poland

The Bank's priorities for 2020 are the following:

- Continuation of the digitalisation and automation strategy and to become the best open platform for financial services.
- Optimisation of the network of channels and maintain the position of the best traditional, private banking and investment bank in Poland.
- Selective growth in volumes (mainly in consumer finance and SMEs) as part of the capital optimisation strategy.
- Margin management, with improved asset profitability and lower cost of deposits.

NORTH AMERICA

While focusing on further developing the USMX trade corridor, the priorities in the region will be to:

- Accelerate execution of regional strategy, increase profitability and contribute to efficiency objectives.
- Consolidation of IT function for the North America region under a single leadership.
- Eliminate duplicates in the operating model, platform and architecture.
- Optimise spends, in part through third party cost optimisation.
- Promote expedited wire service as a means to drive new customer acquisition.

United States

Management will remain focused on improving profitability, as follows:

- Digital and branch transformation initiatives to improve customer experience and loyalty while growing digital customers.
- Adapting business strategy to mitigate revenue impact from lower rates.
- Cost management in order to continue improving efficiency.
- Completing legacy regulatory remediation programmes.
- Completing the sale of business in Puerto Rico.

Mexico

A strategic agenda has been developed with the aim of becoming the best bank for our customers, with the following objectives:

- Improve customer experience by leveraging both the new tools and methodologies as well as improving operating processes.
- Maintain strong growth rates in loyal customers (through initiatives to attract payrolls and collectives) and digital customers (by promoting new platforms, channels and customer care models, as well as our new payment platforms).
- To strengthen our corporate businesses to continue to be the reference in the market in value-added products.
- Increase revenue through greater volumes and lower cost of deposits.

SOUTH AMERICA

The Group's priorities in the region are to:

- Accelerate profitable growth, with a strategy that seeks to strengthen a more connected regional network.
- Develop digital platforms.
- Continue growing the number of loyal and digital customers strongly.
- Managing regulatory impacts on revenue.

Brazil

Santander Brasil's priorities aim to maintain high levels of profitability, capturing new market opportunities:

- Strengthen our robust business model by expanding our presence through new activities with high growth potential.
- Increase our customer base and improve the relationship with our customers, offering a tailored service.
- Maximise transactionality between businesses and segments.
- Manage regulatory changes.

Chile

In a scenario of macroeconomic and political uncertainties, the strategy will focus on:

- Maintaining our leadership position in local banking in a less dynamic economic environment.
- Continuing to expand our digital platforms and continuing with the digital transformation E2E and other technological developments for our SME and corporate customers, including the launch of our new value-added offering in acquiring.
- Increasing the number of loyal and digital customers while improving our service quality indicators.
- Growing volumes, management of spreads and higher fee income to boost revenue.
- Remaining best in class in terms of efficiency.

Argentina

In order to be the country's best open financial services platform, the strategy will focus on:

- Increasing our customer base, focusing on customer experience and maintaining loyalty ratios.
- Boosting the digitalisation of our core business while developing new businesses.
- Gaining profitable market share, making optimum use of capital and controlling provisions.
- Focusing on margin management and transactional business in a probable environment of falling interest rates.
- Continuing with our efficiency and simplification process.

Uruguay

The Bank's strategy will focus on:

- Expanding our businesses, combined with risk control and in a responsible way with the community in which we operate.
- Achieving greater customer loyalty, increasing market share.
- Accelerating our digital capabilities and modernise our digital offering.
- Continuing to improve operational efficiency.

Andean Region

The Bank's strategy will focus on:

- The digital transformation of Peru and Colombia.
- In Peru, expand our customer base, increase customer loyalty and maintain credit quality.
- In Colombia, significant profit growth focused on most segments.

Santander Corporate & Investment Banking

In 2020, we will continue to focus on:

- Increasing capital rotation and efficiency, maximising returns on risk-weighted assets.
- Continuing to work on geographic, product and customer diversification.
- Continuing to expand the range of products to customers of the retail banking network.
- Further strengthening our commitment to sustainability, expanding the range of green products for our customers.
- Continuing to enhance our business environment and control mechanisms.

Santander Global Platform

In 2020, we will continue to develop our global platforms to accelerate progress in our digital transformation, improve efficiency and customer experience, with tailored objectives in the medium term:

- In GMS, we plan to expand our markets from 1 to 8. It will be rolled out in Latin America in 2020, firstly in Mexico.
- In GTS, our priority will be to complete the acquisition of Ebury. Following its integration, combined with the strengths and assets of Santander, we aim to become the leading proposition for international SMEs in Europe and Latin America in the medium term, by extending GTS to 20 markets.
- As of today, Superdigital operates in three markets and our goal is to reach over 5 million active customers across 7 markets.
- Openbank carries out its activity in four markets and we plan to expand into 10 markets in Europe and Latin America.
- The Centres of Digital Expertise will continue to work to ensure all countries have access to the most innovative technology, while avoiding duplications and continuing to invest in attractive fintechs through our venture capital *InnoVentures*.

Wealth Management & Insurance

In 2020 we expect to generate growth, including the investments needed to continue improving our value offering globally and reinforce our commitment to digital channels. The key management drivers will be:

- Consolidating our global Private Banking model and continuing to foster collaboration between our private banks and other Bank segments by offering customers a global experience and value proposition.
- Continuing to improve and expand the product rage in SAM and complete our methodology and ESG product offering, while improving efficiency by transforming our operating model into a more global and integrated manager.
- In Insurance, completing the product range and beginning to capture its identified potential, aiming for double-digit growth. In addition, developing Pensions by increasing our product offering, adapting to the customer's life cycle.

Continuing digitalisation through Global Spirit tools for our Private Banking managers, the new front (*Virginia*) for our Private Banking customers, a Private Wealth aggregator (*Masttro*), the implementation of the *Aladdin* investment platform in SAM and the development of end-to-end digital tools in Insurance.

8. Alternative performance measures (APMs)

In addition to the financial information prepared under IFRS, this consolidated directors' report contains financial measures that constitute alternative performance measures ('APMs') to comply with the guidelines on alternative performance measures issued by the European Securities and Markets Authority on 5 October 2015 and non-IFRS measures.

The financial measures contained in this consolidated directors' report that qualify as APMs and non-IFRS measures have been calculated using our financial information but are not defined or detailed in the applicable financial information framework or under IFRS and have neither been audited nor reviewed by our auditors.

We use these APMs and non-IFRS measures when planning, monitoring and evaluating our performance. We consider these APMs and non-IFRS financial measures to be useful metrics for management and investors to facilitate operating performance comparisons from period to period. While we believe that these APMs and non-IFRS financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute of IFRS measures. In addition, the way in which Santander defines and calculates these APMs and non-IFRS measures may differ from the calculations used by other companies with similar measures and, therefore, may not be comparable.

The APMs and non-IFRS measures we use in this document can be categorised as follows:

Underlying results

In addition to IFRS results measures, we present some results measures which are non-IFRS measures and which we refer to as underlying measures. These underlying measures allow in our view a better year-on-year comparability as they exclude items outside the ordinary course performance of our business which are grouped in the non-IFRS line management adjustments and are further detailed at the end of section 3.2 of this chapter.

In addition, the results by business areas in section 4 are presented only on an underlying basis in accordance with IFRS 8. The use of this information by the Group's Governance bodies and reconciled on an aggregate basis to our IFRS consolidated results can be found in note 52.c to our consolidated financial statements.

Profitability and efficiency ratios

The purpose of the profitability and efficiency ratios is to measure the ratio of profit to capital, to tangible capital, to assets and to risk weighted assets, while the efficiency ratio measures how much general administrative expenses (personnel and other) and amortisation costs are needed to generate revenue.

Ratio	Formula	Relevance of the metric
RoE (Return on equity)	Attributable profit to the parent / Average stockholders' equity [A] (excl. minority interests)	This ratio measures the return that shareholders obtain on the funds invested in the Bank and as such measures the Bank's ability to pay shareholders.
RoTE (Return on tangible equity)	Attributable profit to the parent / Average stockholders' equity[A] (excl. minority interests) - intangible assets	This is a very common indicator, used to evaluate the profitability of the company as a percentage of a its tangible equity. It's measured as the return that shareholders receive as a percentage of the funds invested in the Bank less intangible assets.
Underlying RoTE	Underlying attributable profit to the parent / Average stockholders' equity[A] (excl. minority interests) - intangible assets	This indicator measures the profitability of the tangible equity of a company arising from ordinary activities, i.e. excluding results from operations outside the ordinary course performance of our business.
RoA (Return on assets)	Consolidated profit / Average total assets	This metric, commonly used by analysts, measures the profitability of a company as a percentage of its total assets. It is an indicator that reflects the efficiency of the Bank's total funds in generating profit over a given period.
RoRWA (Return on risk weighted assets)	Consolidated profit / Average risk weighted assets	The return adjusted for risk is an derivative of the RoA metric. The difference is that RoRWA measures profit in relation to the Group's risk weighted assets.
Underlying RoRWA	Underlying consolidated profit / Average risk weighted assets	This relates the underlying consolidated profit (excluding management adjustments) to the Group's risk weighted assets.
Efficiency (Cost-to-income)	Operating expenses [B] / Total income	One of the most commonly used indicators when comparing productivity of different financial entities. It measures the amount of resources used to generate the Bank's operating income.

A. Stockholders' equity = Capital and Reserves + Accumulated other comprehensive income + Attributable profit to the parent + Dividends.
B. Operating expenses = Administrative expenses + amortisations.

Profitability and efficiency [A B] (EUR million and %)

	2019	2018	2017
RoE	**6.62%**	**8.21%**	**7.14%**
Attributable profit to the parent	6,515	7,810	6,619
Average stockholders' equity (excluding minority interests)	98,457	95,071	92,638
RoTE	**9.31%**	**11.70%**	**10.41%**
Attributable profit to the parent	6,515	7,810	6,619
Average stockholders' equity (excluding minority interests)	98,457	95,071	92,638
(-) Average intangible assets	28,484	28,331	29,044
Average stockholders' equity (excl. minority interests) - intangible assets	69,973	66,740	63,594
Underlying RoTE	**11.79%**	**12.08%**	**11.82%**
Attributable profit to the parent	6,515	7,810	6,619
(-) Management adjustments	(1,737)	(254)	(897)
Underlying attributable profit to the parent	8,252	8,064	7,516
Average stockholders' equity (excl. minority interests) - intangible assets	69,973	66,740	63,594
RoA	**0.54%**	**0.64%**	**0.58%**
Consolidated profit	8,116	9,315	8,207
Average total assets	1,508,167	1,442,861	1,407,681
RoRWA	**1.33%**	**1.55%**	**1.35%**
Consolidated profit	8,116	9,315	8,207
Average risk weighted assets	609,170	598,741	606,308
Underlying RoRWA	**1.61%**	**1.59%**	**1.48%**
Consolidated profit	8,116	9,315	8,207
(-) Management adjustments	(1,710)	(231)	(756)
Underlying consolidated profit	9,826	9,546	8,963
Average risk weighted assets	609,170	598,741	606,308
Efficiency ratio (Cost-to-income)	**47.0%**	**47.0%**	**47.4%**
Underlying operating expenses	23,280	22,779	22,918
Operating expenses	23,280	22,779	22,993
Management adjustments impact [C]	—	—	(75)
Underlying total income	49,494	48,424	48,392
Total income	49,229	48,424	48,355
Management adjustments impact [C]	265	—	37

A. Averages included in the RoE, RoTE, RoA and RoRWA denominators are calculated using 13 months (from December to December).
B. The risk weighted assets included in the denominator of the RoRWA metric are calculated in line with the criteria laid out in the CRR (Capital Requirements Regulation).
C. Following the adjustments in note 52.c to the consolidated financial statements.

Efficiency ratio by business areas (EUR million and %)

	2019			2018		
	%	Underlying total income	Underlying operating expenses	%	Underlying total income	Underlying operating expenses
EUROPE	**52.6**	**21,001**	**11,044**	**52.5**	**21,257**	**11,165**
Spain	53.6	7,506	4,021	57.0	7,615	4,338
Santander Consumer Finance	43.3	4,710	2,038	43.1	4,610	1,989
United Kingdom	60.0	4,727	2,835	55.3	5,132	2,837
Portugal	45.3	1,375	623	47.9	1,344	644
Poland	40.4	1,717	693	43.0	1,488	640
NORTH AMERICA	**42.8**	**11,604**	**4,968**	**42.8**	**10,476**	**4,488**
US	43.3	7,605	3,297	43.4	6,949	3,019
Mexico	41.8	3,998	1,671	41.7	3,527	1,469
SOUTH AMERICA	**36.1**	**18,425**	**6,656**	**37.1**	**17,674**	**6,558**
Brazil	33.0	13,951	4,606	33.7	13,345	4,500
Chile	40.6	2,539	1,031	41.3	2,535	1,047
Argentina	57.9	1,316	762	62.1	1,209	751

Underlying RoTE by business areas (EUR million and %)

	2019			2018		
	%	Underlying attributable profit to the parent	Average stockholders' equity (excl. minority interests) - intangible assets	%	Underlying attributable profit to the parent	Average stockholders' equity (excl. minority interests) - intangible assets
EUROPE	**10.00**	**4,878**	**48,793**	**10.86**	**5,048**	**46,487**
Spain	10.48	1,585	15,124	10.42	1,554	14,918
Santander Consumer Finance	15.26	1,314	8,611	15.83	1,293	8,168
United Kingdom	7.28	1,077	14,795	9.33	1,272	13,624
Portugal	12.80	525	4,101	12.02	479	3,982
Poland	11.23	349	3,104	10.22	296	2,891
NORTH AMERICA	**8.52**	**1,667**	**19,556**	**7.62**	**1,304**	**17,127**
US	4.78	717	14,997	4.10	549	13,403
Mexico	20.61	950	4,607	20.24	755	3,731
SOUTH AMERICA	**20.58**	**3,924**	**19,065**	**18.79**	**3,451**	**18,371**
Brazil	21.16	2,939	13,888	19.68	2,592	13,167
Chile	18.08	630	3,485	18.34	612	3,339
Argentina	22.20	144	647	11.62	82	707

Credit risk indicators

The credit risk indicators measure the quality of the credit portfolio and the percentage of non-performing loans covered by provisions.

Ratio	Formula	Relevance of the metric
NPL ratio (Non-performing loans ratio)	$\frac{\text{Non-performing loans and advances to customers, customer guarantees and customer commitments granted}}{\text{Total Risk}^{A}}$	The NPL ratio is an important variable regarding financial institutions' activity since it gives an indication of the level of risk the entities are exposed to. It calculates risks that are, in accounting terms, declared to be non-performing as a percentage of the total outstanding amount of customer credit and contingent liabilities.
Coverage ratio	$\frac{\text{Provisions to cover impairment losses on loans and advances to customers, customer guarantees and customer commitments granted}}{\text{Non-performing loans and advances to customers, customer guarantees and customer commitments granted}}$	The coverage ratio is a fundamental metric in the financial sector. It reflects the level of provisions as a percentage of the non-performing assets (credit risk). Therefore it is a good indicator of the entity's solvency against client defaults both present and future.
Cost of Credit	$\frac{\text{Allowances for loan-loss provisions over the last 12 months}}{\text{Average loans and advances to customers over the last 12 months}}$	This ratio quantifies loan-loss provisions arising from credit risk over a defined period of time for a given loan portfolio. As such, it acts as an indicator of credit quality.

A. Total risk = Total loans & advances and guarantees to customers (performing and non-performing) + non-performing contingent liabilities.

Credit risk (EUR million and %)	2019	2018	2017
NPL ratio	**3.32%**	**3.73%**	**4.08%**
Non-performing loans and advances to customers, customer guarantees and customer commitments granted	33,799	35,692	37,596
Total risk	1,016,507	958,153	920,968
Coverage ratio	**68%**	**67%**	**65%**
Provisions to cover impairment losses on loans and advances to customers, customer guarantees and customer commitments granted	22,965	24,061	24,529
Non-performing loans and advances to customers, customer guarantees and customer commitments granted	33,799	35,692	37,596
Cost of credit	**1.00%**	**1.00%**	**1.07%**
Net loan-loss provisions	9,321	8,873	9,111
Average loans and advances to customers	935,488	887,028	853,479

NPL ratio by business areas (EUR million and %)

	2019			2018		
	%	Non-performing loans and advances to customers, customer guarantees and customer commitments granted	Total risk	%	Non-performing loans and advances to customers, customer guarantees and customer commitments granted	Total risk
EUROPE	**3.25**	**23,519**	**722,661**	**3.67**	**25,287**	**688,810**
Spain	6.94	14,824	213,668	7.32	16,651	227,401
Santander Consumer Finance	2.30	2,416	105,048	2.29	2,244	97,922
United Kingdom	1.01	2,786	275,941	1.08	2,739	252,919
Portugal	4.83	1,834	37,978	5.94	2,279	38,340
Poland	4.31	1,447	33,566	4.28	1,317	30,783
NORTH AMERICA	**2.20**	**3,165**	**143,839**	**2.79**	**3,510**	**125,916**
US	2.20	2,331	105,792	2.92	2,688	92,152
Mexico	2.19	834	38,047	2.43	822	33,764
SOUTH AMERICA	**4.86**	**6,972**	**143,428**	**4.81**	**6,639**	**138,134**
Brazil	5.32	4,727	88,893	5.25	4,418	84,212
Chile	4.64	1,947	42,000	4.66	1,925	41,268
Argentina	3.39	171	5,044	3.17	179	5,631

Coverage ratio by business areas (EUR million and %)

	2019			2018		
	%	Provisions to cover impairment losses on loans and advances to customers, customer guarantees and customer commitments granted	Non-performing loans and advances to customers, customer guarantees and customer commitments granted	%	Provisions to cover impairment losses on loans and advances to customers, customer guarantees and customer commitments granted	Non-performing loans and advances to customers, customer guarantees and customer commitments granted
EUROPE	**49.8**	**11,714**	**23,519**	**50.1**	**12,659**	**25,287**
Spain	41.1	6,098	14,824	43.7	7,279	16,651
Santander Consumer Finance	106.1	2,563	2,416	106.4	2,387	2,244
United Kingdom	36.5	1,018	2,786	32.9	902	2,739
Portugal	52.8	969	1,834	50.5	1,151	2,279
Poland	66.8	967	1,447	67.1	883	1,317
NORTH AMERICA	**153.0**	**4,842**	**3,165**	**137.4**	**4,822**	**3,510**
US	161.8	3,773	2,331	142.8	3,838	2,688
Mexico	128.3	1,069	834	119.7	984	822
SOUTH AMERICA	**88.4**	**6,164**	**6,972**	**94.6**	**6,278**	**6,639**
Brazil	99.8	4,717	4,727	106.9	4,724	4,418
Chile	56.0	1,090	1,947	60.6	1,166	1,925
Argentina	124.0	212	171	135.0	241	179

Other indicators

The market capitalisation indicator provides information on the volume of tangible equity per share. The loan-to-deposit ratio (LTD) identifies the relationship between net customer loans and advances and customer deposits, assessing the proportion of loans and advances granted by the Group that are funded by customer deposits.

The Group also uses gross customer loan magnitudes excluding reverse repurchase agreements (repos) and customer deposits excluding repos. In order to analyse the evolution of the traditional commercial banking business of granting loans and capturing deposits, repos and reverse repos are excluded, as they are mainly treasury business products and highly volatile.

Ratio	Formula	Relevance of the metric
TNAV per share (Tangible net asset value per share)	$\frac{\text{Tangible book value}^{A}}{\text{Number of shares excluding treasury stock}}$	This is a very commonly used ratio used to measure the company's accounting value per share having deducted the intangible assets. It is useful in evaluating the amount each shareholder would receive if the company were to enter into liquidation and had to sell all the company's tangible assets.
Price / tangible book value per share (X)	$\frac{\text{Share price}}{\text{TNAV per share}}$	Is one of the most commonly used ratios by market participants for the valuation of listed companies both in absolute terms and relative to other entities. This ratio measures the relationship between the price paid for a company and its accounting equity value.
LtD (Loan-to-deposit)	$\frac{\text{Net loans and advances to customers}}{\text{Customer deposits}}$	This is an indicator of the Bank's liquidity. It measures the total (net) loans and advances to customers as a percentage of customer funds.
Loans and advances (excl. reverse repos)	Gross loans and advances to customers excluding reverse repos	In order to aid analysis of the commercial banking activity, reverse repos are excluded as they are highly volatile treasury products.
Deposits (excl. repos)	Customer deposits excluding repos	In order to aid analysis of the commercial banking activity, repos are excluded as they are highly volatile treasury products.
PAT + After tax fees paid to SAN (in Wealth Management & Insurance)	Net profit + Fees paid from Santander Asset Management to Santander, net of taxes, excluding Private Banking customers	Metric to assess Wealth Management's total contribution to Group's profits

A Tangible book value = Stockholders' equity - intangible assets.

Other indicators (EUR million and %)	2019	2018	2017
TNAV (tangible book value) per share	**4.36**	**4.19**	**4.15**
Tangible book value	72,384	67,912	66,985
Number of shares excl. treasury stock (million)	16,610	16,224	16,132
Price / tangible book value per share (X)	**0.86**	**0.95**	**1.32**
Share price (euros)	3.730	3.973	5.479
TNAV (tangible book value) per share	4.36	4.19	4.15
Loan-to-deposit ratio	**114%**	**113%**	**109%**
Net loans and advances to customers	942,218	882,921	848,914
Customer deposits	824,365	780,496	777,730
PAT + After tax fees paid to SAN (in WM&I) (Constant EUR million)	**2,494**	**2,313**	**n.a.**
Profit after taxes	1,013	915	n.a.
Net fee income net of tax	1,481	1,398	n.a.

Impact of exchange rate movements on profit and loss accounts

The Group presents, at both the Group level as well as the business unit level, the real changes in the income statement as well as the changes excluding the exchange rate effect, as it considers the latter facilitates analysis, since it enables businesses movements to be identified without taking into account the impact of converting each local currency into euros.

Said variations, excluding the impact of exchange rate movements, are calculated by converting P&L lines for the different business units comprising the Group into our presentation currency, the euro, applying the average exchange rate for 2019 to all periods contemplated in the analysis. The average exchange rates for the main currencies in which the Group operates are set out on section 'Economic, regulatory and competitive context' of this chapter.

Impact of exchange rate movements on the balance sheet

The Group presents, at both the Group level as well as the business unit level, the real changes in the balance sheet as well as the changes excluding the exchange rate effect for loans and advances to customers excluding reverse repos and customer funds (which comprise deposits and mutual funds) excluding repos. As with the income statement, the reason is to facilitate analysis by isolating the changes in the balance sheet that are not caused by converting each local currency into euros.

These changes excluding the impact of exchange rate movements are calculated by converting loans and advances to customers excluding reverse repos and customer funds excluding repos, into our presentation currency, the euro, applying the closing exchange rate on the last working day of 2019 to all periods contemplated in the analysis. The end-of-period exchange rates for the main currencies in which the Group operates are set out on section 'Economic, regulatory and competitive context'.

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Risk management and control

1. Risk management and control overview

Risk management and control is a fundamental part of the culture in Santander

One of our core priorities is to continuously strengthen our risk management and control strategy. This enables us to maintain our medium-low risk profile in the face of an ever-changing economic, social and regulatory environment.

1.1 Executive summary and 2019 highlights

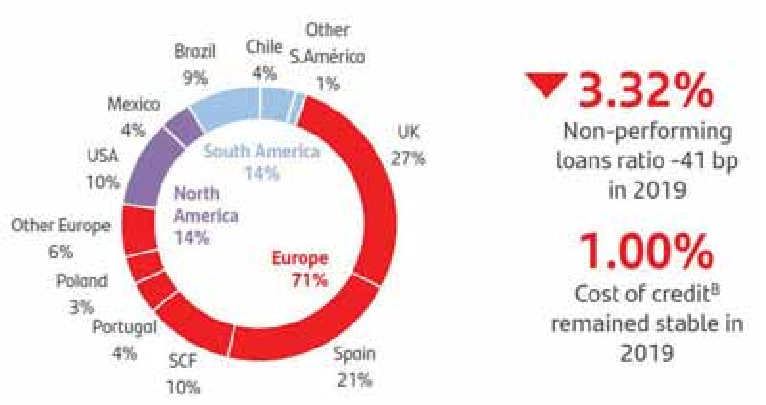
This section provides an overview of the main risk factors, including quantitative and qualitative indicators that help explain the Group's overall risk profile and its evolution throughout 2019.

Further details on each factor are found in the following sections of this chapter, which can be accessed using the links provided, as well as our top and emerging risks.

Credit risk

Section 3

Credit risk with customers[A] by country



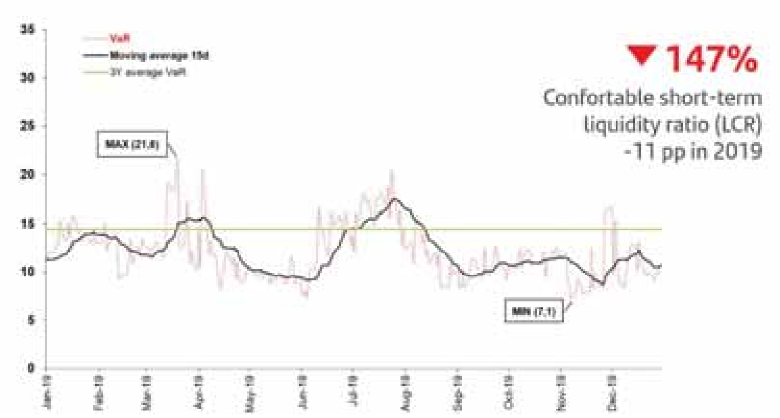
- The geographic diversification of our loan portfolio between mature and emerging markets is a key driver of our through the cycle resilience.
- The main credit quality indicators continue to improve in 2019.

Excludes geographies with an exposure lower than 1%
A. Includes gross lending to customers, guarantees and documentary credits.
B. Cost of credit calculated as the percentage of last twelve months loan- loss provisions over average lending

Trading market risk, structural and liquidity risk

Section 4

VaR 2019 evolution

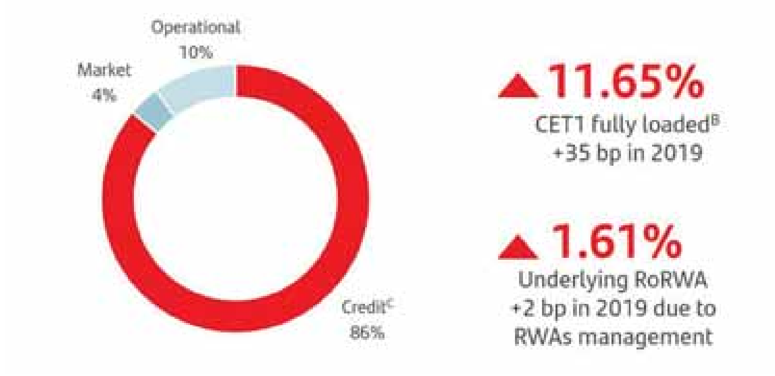


- Average VaR remained low in SCIB trading activity despite market volatility. We continue our customer focus and geographic diversification.
- Ample liquidity, based on our commercial banking and autonomous subsidiaries model with a high proportion of customer deposits in addition to robust and diversified liquidity buffers.
- Our prudent balance sheet structure mitigates the impact of changes in interest rates on net interest income and equity.

Capital risk

Section 5

RWA[A] by risk type



- The distribution of RWA reflects our focus on credit risk, which remains the Group's core business.
- Santander has lower capital requirements than the average of the Single Supervisory Mechanism(SSM) banks as shown in our 2018 Supervisory Review and Evaluation Process (SREP) published in April 2019.

A. Risk Weighted Assets.
B. 2019 data calculated using IFRS9 transitional arrangements.
C. Includes counterparty risk, securitisations and amounts below deduction thresholds.

Operational risk

Section 6

Net Losses by Basel risk category

- The operational risk profile remained stable in 2019 despite the increase in claims related to legacy payment protection insurance (PPI) cases in the UK, as the claim period ended in August.
- Specific risk-monitoring frameworks continued to be enhanced such as those for third party vendors, change-management processes, including digitalisation, coupled with additional fraud mitigation actions, mainly in Mexico, the UK and Brazil.
- We maintained our focus also on cybersecurity and our transformation programme which continues to strengthen detection, response and protection mechanisms.

Compliance and conduct risk Section 7

Several initiatives were launched and completed throughout 2019, such as:

- Reinforced consumer protection on digital initiatives and simplification of the product/service approval process through the enhancement of the digital platform and the standardization of product approval frameworks at subsidiaries' level.
- Strengthened financial crime compliance management policies and internal regulations with focus on subsidiary oversight and collaboration.
- Enhanced best practices guidelines on vulnerable customers treatment and prevention of over indebtedness, sales force training and retail banking incentive models, providing a Group wide consistent approach.
- Approval of an updated Group reputational risk operating model as well as Defence and sensitive sectors financing policies.

Model risk Section 8

Significant progress has been made in our Model Risk Management strategic plan - MRM 2.0:

- Main initiatives are related to model governance, risk appetite, coverage risk policies.
- Additionally, processes, infrastructure, tools and resources have been further strengthened.

Strategic risk Section 9

- Strategic risk is considered a transversal risk. It has a specific management and control model to ensure robust monitoring across the Group.
- Potential threats that may affect strategic objectives are identified and assessed in order to take necessary mitigation actions.

The Group's risk profile could be affected by the macroeconomic, regulatory and competitive environment in which the Group operates.

The provided financial information is prepared by aggregating the figures for the Group's various geographic areas and business units. This information relates to both the accounting data and that provided by management information systems. In all cases, the same general principles as those used in the Group are applied.

The information included in each of the business areas in this report and the accounting principles under which their results are presented here may differ from those used in the financial information separately prepared and disclosed by our subsidiaries (some of which are publicly listed), which in name or geographic description may seem to correspond to the business areas covered in this report. Accordingly, the results and trends shown for our business areas in this document may differ from those of such subsidiaries.

The notes to the consolidated financial statements contain additional information regarding the Group's risks and other relevant information regarding provisions, legal proceedings and other matters, including tax related risks and litigation.

For further detail regarding changes in segmentation, see section 4.1 'Description of business' on the Economic and Financial review chapter.

1.2 Santander top and emerging risks

In line with the Group´s forward-looking risk management and control practices, potential threats that may affect the development of our strategic plan are identified, assessed and monitored through regular analysis of our top risks under different scenarios.

The main strategic risks identified by the Group are regularly monitored by senior management, including any mitigating actions. The main strategic risks are:

Economic slowdown: potential macroeconomic deterioration in key markets alongside political instability, global protectionism impacting the world economy. Also, Eurozone instability in a context of prolonged low interest rates, potential implications of Brexit and uncertainty in Latin American markets.

Santander's inherent diversification makes us more resilient to macroeconomic risks. This is reflected in our balanced distribution between mature and developing markets as well as in our product mix. Additionally, mitigating actions have been defined to reduce the severity of these risks' potential impact.

Key mitigation actions:

- Robust risk policies and procedures across the Group, coupled with proactive risk management, ensures that our risk profile is within the predefined parameters established through our risk appetite statement.
- Continuous monitoring of the macro and geopolitical outlook.

Regulatory capital headwinds: increasing and intense regulatory activities, reflected in the new Basel IV guidelines or the Targeted Reviews on Internal Models (TRIM), aimed at improving the capitalisation of financial institutions and their resilience to shocks in the economy, with a greater impact on those institutions that are considered systemic.

Key mitigation actions:

- Maintain the focus on capital allocation in strategic planning.
- Risk models enhancement to address upcoming regulatory requirements.

Increasing cyber-risk exposure: growing significance of risks arising from an increasingly digital environment, not only in the financial sector but in the economy as a whole. This considers events related to espionage, data leaks or systems availability, among others.

Key mitigation actions:

- The Group continues to develop our protection controls based on the highest international standards and preventive measures to prepare for incidents we may face.
- Strengthening digital defences through an integrated cyber transformation plan, a new global monitoring centre and increasing cyber risk culture within the organization through new RAS metrics, training, awareness, among others.

Digital transformation and new competitive environment: the new digital environment in which we now operate implies increased competition from existing players and new entrants. This is redefining the way business is conducted as well as the customer experience and market expectations.

In this respect, regulation plays a fundamental role, sometimes generating asymmetries amongst new and traditional competitors.

Key mitigation actions:

- Digitalising our existing business while transforming the current Bank into a global platform is key to competing in this new environment. Our partnerships and joint ventures also play a key role in this transformation.

Climate change related implications: focus on the impact of climate-change related risks on the financial industry and social awareness as well as on actively supporting the transition to a low-carbon economy.

Key mitigation actions:

- Santander is committed to the progress of society supporting inclusive and sustainable growth. Several initiatives have been launched such as those related to *green funds* and active portfolio management to reduce exposure to *brown assets*.
- We are actively involved in international fora and working groups, ensuring that we contribute to the energy transition scheme.
- Santander also participates in the United Nations Environment Programme Finance Initiative (UNEP FI) pilot. Its objective is to develop scenarios, models and metrics that enable a forward-looking assessment of climate-related risks and opportunities.

2. Risk management and control model

Our risk management and control model is underpinned by a set of common principles together with a risk culture embedded throughout the Group, a solid governance structure and advanced risk management processes and tools

2.1 Risk principles and culture

Our risk principles are mandatory and must be followed at all times. They take into account regulatory requirements and market best practices. They are the following:

1. **A strong risk culture (Risk Pro)**, as part of '*The Santander Way*', which is followed by all employees, covers all risks and promotes socially responsible management that contributes to Santander's long-term sustainability.
2. **All employees are responsible for managing risk.** They must be aware of, and understand, the risks generated in their day-to-day activities, avoiding risks where the impacts are unknown or exceed the Group's risk appetite limits.
3. **Engagement of senior management**, ensuring consistent management and control of risk through their conduct, actions and communication. They also promote our risk culture and assess its degree of implementation, overseeing that the risk profile is kept within the levels defined by our risk appetite.
4. **Independence of the risk management and control functions**, consistent with our three lines of defence model, which is further explained in section 2.3 'Risk governance' of this chapter.
5. **A forward-looking and comprehensive approach to risk management and control** across all businesses and risk types.
6. **Complete and timely information management**, enabling risks to be appropriately identified, assessed, managed and reported to the corresponding level.

These principles, combined with a series of tools and processes that are embedded in the Group's strategic planning, such as our risk appetite statement, risk profile assessment, scenario analysis and our risk reporting structure, annual planning and budget process, provide a holistic control structure for the entire Group.

Risk culture - *Risk Pro*

Santander has a strong risk culture implemented across the Group known as *Risk Pro*, which defines the way in which we understand and manage risks on a day-to-day basis. It is based on the principle that all employees are responsible for risk management.

Further information is available in the 'Risk pro: our risk culture' section of the Responsible Banking chapter.

2.2 Risk factors

Santander has established the following key risk types in its risk framework:

1. **Credit Risk**: is the risk of financial loss arising from the default or credit quality deterioration of a customer or other third party, to which Santander has either directly provided credit or for which it has assumed a contractual obligation.
2. **Market Risk**: is the risk incurred as a result of changes in market factors that affect the value of positions in the trading book.
3. **Liquidity Risk**: is the risk that Santander does not have the liquid financial resources to meet its obligations when they fall due, or can only obtain them at high cost.
4. **Structural Risk:** is the risk arising from the management of different balance sheet items, not only in the banking book but also in relation to insurance and pension activities. It includes the risk of Santander not having an adequate amount or quality of capital to meet its internal business objectives, regulatory requirements or market expectations.
5. **Operational Risk:** is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including conduct risk.
6. **Regulatory Compliance Risk**: risk of non-compliance with legal and regulatory requirements as well as supervisors expectations, which may result in legal or regulatory sanctions, including fines or other financial implications.

7 **Model Risk**: is the risk of loss arising from inaccurate predictions, causing a sub-optimal decision, or from a model being implemented or used inappropriately.

8 **Reputational Risk:** the risk of current or potential negative economic impact to the bank due to damage to its perception on the part of employees, customers, shareholders/investors and the wider community.

9 **Strategic Risk:** is the risk of loss or damage arising from strategic decisions or their poor implementation that impact the medium and long term interests of our key stakeholders, or from an inability to adapt to external developments.

In addition, climate-change related risk drivers - whether physical or transition-led, have been identified as factors that could aggravate the existing risks in the medium and long term.

The classification of risks is critical to ensure an effective risk management and control. All identified risks should be therefore referenced to the aforementioned risk categories in order to organise their management, control and related information.

2.3 Risk governance

The Group has a robust risk governance structure, aimed at ensuring the effective control of its risk profile in accordance with the risk appetite defined by the board of directors.

This governance structure is underpinned by the distribution of roles among the three lines of defence, a robust structure of committees and a strong relationship between the Group and its subsidiaries. All supported by our Group-wide risk culture, *Risk Pro*.

Lines of defence

At Santander, we follow a three lines of defence model to ensure effective risk management and control:

First line	Second line	Third line
Businesses and all other functions that originate risks make up the first line of defence. These functions must ensure that these risks are aligned with the approved risk appetite and associated limits. Any unit that originates risk has primary responsibility for the management of that risk.	Risk and Compliance & Conduct functions. Their role is to provide independent oversight and challenge to the risk management activities performed by the first line of defence. These functions ensure that risks are managed in accordance with the risk appetite defined by the board and promote a strong risk culture throughout the organisation.	The Internal Audit function, which regularly assesses policies, methodologies and procedures to ensure they are appropriate and effectively implemented for the management and control of all risks.

The Risk, Compliance and Conduct and Internal Audit functions are separate and independent and have direct access to the board of directors and its committees.

Risk committees structure

The board of directors is responsible for risk management and control and, in particular, for approving and periodically reviewing the risk appetite and the risk framework, as well as for promoting a strong risk culture across the whole organisation. In order to conduct these tasks, the board has the support of different committees, this is the case of the **risk supervision, regulation and compliance committee** and the **Group's executive committee**, which have specific risk related responsibilities.

For further information see section 4.8 'Risk supervision, regulation and compliance committee activities in 2019' of the chapter on Corporate governance.

The **Group Chief Risk Officer (Group CRO)** is responsible for the oversight of all risks and for challenging and advising the business lines on how they manage risks, with direct access and reporting to the board risk committee as well as to the board of directors.

Other bodies that make up the highest level of risk governance, with authority delegated by the board of directors, are the executive risk committee and the risk control committee, details of which are provided below:

- **Executive risk committee (ERC)**

  This committee is responsible for risk management, within the authorities delegated by the board. The committee makes risk taking decisions at the highest level, ensuring that they are within the established risk appetite limits for the Group.

  Chair: CEO.

  Composition: nominated executive directors and other Group senior management. Risk, Finance and Compliance & Conduct functions, among others, are represented. The Group CRO has the power of veto over the committee's decisions.

- **Risk control committee (RCC)**

  This committee is responsible for risk control, determining whether the risks originated by the business lines are managed within our risk appetite limits and providing a holistic view of all risks. This includes the identification and monitoring of both current and emerging risks, and evaluating their impact on the Group's risk profile.

  Chair: Group CRO.

  Composition: senior management members from the Risk, Compliance & Conduct, Finance, Accounting and Management Control functions are represented among others. Senior members of the Risk function (CROs) from the Group's subsidiaries regularly take part to report their own risk profiles.

Additionally, each risk factor has its own fora and/or regular meetings to manage and control the risks under their scope. Among others, they have the following responsibilities:

- Advise the Group CRO and the risk control committee that risks are being managed in accordance with the Group's risk appetite.
- Carry out regular monitoring of each risk factor.
- Oversee the measures adopted to comply with the expectations of the supervisors and internal and external auditors.

For certain matters, the Group may establish specific additional governance. For example:

- Following the UK's decision to leave the EU, the Group and Santander UK set up steering committees and separate working groups to: i) monitor the Brexit process; ii) develop contingency plans; and iii) escalate and take decisions to minimise potential impacts on our business and customers.
- In order to steer and supervise the review process of the interest rate benchmarks (which include among others EONIA, LIBOR and EURIBOR, with specific solutions for each of them: EONIA will be discontinued on January 2022, LIBOR is likely to cease in December 2021, while EURIBOR will remain as a compliant benchmark), the Group established the IBOR steering group. This group is responsible for driving the project's strategic direction and take the required decisions to ensure a correct transition across all Santander businesses and entities. The IBOR steering group operates in accordance with the methodology defined by the Group's Execution Project Office and is chaired by the project's global sponsor, the global head of SCIB, with the additional support of eight senior executives.

The Group's relationship with its subsidiaries with regards to risk management and control

In all our subsidiaries, the risk management and control model is aligned with the frameworks established by the Group's board of directors. The local units adhere to them through their respective boards and adapt them to their own market conditions and regulation.

In order to conduct the review of the aggregated oversight of all risks, the Group exercises a validation and challenge role with regard to the policies of the subsidiaries and their transactions.

This creates a common risk management and control model across the Group.

The 'Group-subsidiary governance model and good governance practices for subsidiaries' sets up regular interaction and functional reporting by each local CRO to the Group CRO, as well as the latter's participation in the appointments process, target setting and local CRO's evaluation and remuneration, in order to ensure that risks are adequately controlled.

To strengthen the relationship between the Group and its subsidiaries, various initiatives have been implemented in order to develop an advanced risk management model across the Group:

- Promoting collaboration to accelerate the sharing of best practices, strengthen existing processes and stimulating innovation.

- Talent identification in the risk teams, developing international mobility through the global risk talent programme.
- Risk Subject Matter Experts: leveraging on our "best in class" experts across the Group.
- Peer review: constructive review of specific matters within the risk function, performed by experts from different subsidiaries in these competencies.

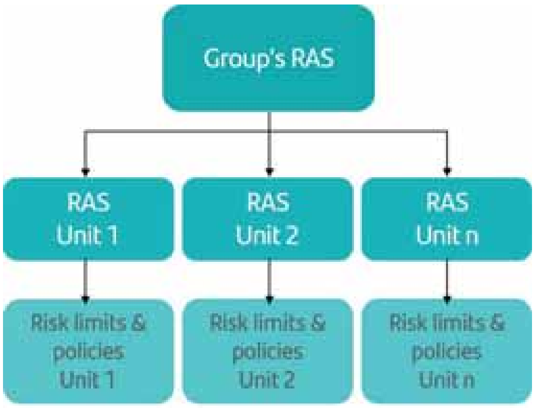
For further details regarding the subsidiaries committees' structure see section 7 'Group structure and internal governance' of the chapter on Corporate Governance.

2.4 Management processes and tools

To ensure effective risk management and control, the Group has various key processes and tools, which are described as follows:

Risk appetite and structure of limits

At Santander, we define risk appetite as the amount and type of risks that are considered prudent to assume for implementing our business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances. When establishing the risk appetite, adverse scenarios that could have a negative impact on capital and liquidity levels, profitability and/or the share price are taken into account.



The risk appetite statement (RAS) is annually set by the board for the entire Group. Additionally, the boards of our subsidiaries also set their own risk appetite on an annual basis, aligned and embedded within the Group's consolidated statement. Each subsidiary's statement is then further cascaded down in the form of management limits and policies by risk type, portfolio and activity segment, within the common standards defined by the Group.

Business model and risk appetite fundamentals

The risk appetite is consistent with our risk culture and business model. The main elements that define the business model and underpin our risk appetite are:

- Medium-low and predictable risk profile based on a diversified business model, focused on retail and commercial banking with internationally diversified activities and strong market share, with a wholesale business model that is centred on customer relationships in the Group's main markets.
- Stable and recurrent earnings and shareholder remuneration, underpinned by sound capital and liquidity, as well as diversified sources of funding.
- Autonomous subsidiaries that are self-sufficient in terms of capital and liquidity, ensuring that no subsidiary has a risk profile that could jeopardise the Group's solvency.
- An independent Risk function with the active involvement of senior management to reinforce a strong risk culture and a sustainable return on capital.
- Global and holistic view of all risks, through extensive control and monitoring: All risks, all businesses and all countries.
- Focus on products that the Group knows sufficiently well and has the capacity to manage (systems, processes and resources).
- A conduct model that protects our stakeholders.
- Remuneration policy that aligns the individual interests of employees and executives with the risk appetite, and is consistent with the Group's long-term results performance.

Santander risk appetite principles

The following principles govern the Group's risk appetite in all its subsidiaries:

- **Responsibility of the board and of senior management.** The board is responsible for setting the risk appetite and for monitoring compliance with its requirements.
- **Holistic risk view (enterprise wide risk), risk profile backtesting and challenge.** The risk appetite must consider all significant risks and facilitate an aggregate view of the risk profile through the use of quantitative metrics and qualitative indicators.
- **Forward-looking view**. The risk appetite must consider the desirable risk profile for the short and medium term, taking into account both the most plausible circumstances and adverse/stress scenarios.
- **Embedding and alignment with strategic and business plans.** The risk appetite is an integral part of the strategic and business planning, which is embedded in the daily management by cascading down the aggregated limits to those set at portfolio level, subsidiary or business line, as well as through the key risk appetite processes.

- **Common principles and language across our subsidiaries and throughout the Group**. Each subsidiary's risk appetite is aligned with the Group.
- **Periodic review, backtesting and adoption of best practices and regulatory requirements**. Monitoring and control mechanisms to ensure the risk profile is maintained, and the necessary corrective and mitigating actions are taken in the event of non-compliance.

Limits structure, monitoring and control

Risk appetite is expressed through qualitative statements and quantitative limits structured around 5 main axes:

1	**Results volatility** Maximum loss that the Group is willing to accept under an acute stress scenario.
2	**Solvency** • Minimum capital position that the Group is willing to accept under an acute stress scenario. • Maximum leverage the Group is willing to accept under an acute scenario.
3	**Liquidity** • Minimum structural liquidity position. • Minimum liquidity horizon that the Group is willing to accept under an acute stress scenario. • Minimum liquidity coverage position.
4	**Concentration** • Concentration in single names, sectors and portfolios. • Concentration in non-investment grade counterparties. • Concentration in large exposures.

5	**Non-financial risks**
	• Qualitative non-financial risk indicators:
	  • Fraud
	  • Technological
	  • Security and cyber-risk
	  • Reputational
	  • Others
	• Maximum operational risk losses.
	• Maximum risk profile.

Risk appetite limits compliance is regularly monitored. Specialised control functions report the risk profile to the board and its committees on a monthly basis.

Linkage between the risk appetite limits and the business units and portfolios is a key element for embedding the risk appetite as an effective risk management tool. The management policies and limits used to manage the different categories and types of risk are directly related to the principles and limits defined in the the risk appetite statement. These are described in greater detail in sections 3.2 'Credit risk management', 4.2 'Trading market risk management' and 4.4 'Structural balance sheet risk management' of this chapter.

Risk profile assessment (RPA)

The Group carries out identification and assessment tests on the different risks that it is exposed to, involving all the lines of defence, establishing management standards that meet regulatory requirements and reflect best practices in the market and reinforce our risk culture.

The results of the risk identification and assessment (RIA) exercises are integrated to evaluate the Group risk profile through the risk profile assessment (RPA). This exercise analyses the development of risks and identifies areas for improvement:

- **Risk performance,** enabling the understanding of residual risk by risk type through a set of metrics and indicators calibrated using international standards.
- **Control environment assessment,** measuring the degree of implementation of the target operating model, as part of our advanced risk management.
- **Forward-looking analysis,** based on stress metrics and identification and/or assessment of the main threats to the strategic plan (Top risks), enabling specific action plans to be put in place to mitigate potential impacts.

Based on the identification and assessment exercises for the different risks, as of December 2019 the Group maintains a solid medium-low risk profile.

In 2019, improvements were centred on three main areas: i) reviewing and enhancing the control environment standards ii) risk performance indicators and their alignment with risk appetite metrics, and iii) enhancing the perimeter by integrating reputational risk across the risk profile assessment and enriching our capital metrics.

Scenario analysis

Another fundamental tool that is used by the Group to ensure robust risk management and control is the analysis of potential impacts triggered by different scenarios related to the environment in which the Group operates. These scenarios are expressed both in terms of macroeconomic variables, as well as other variables that may affect our risk profile.

This "scenario analysis" is a robust and useful tool for risk management at all levels. It enables the Group to assess its resilience under stressed conditions and the identification of possible mitigating actions to be implemented in case the projected scenarios start to materialise. The objective is to reinforce the stability of income, capital and liquidity.

In this respect, the role of our Research and Public Policy team in terms of the generation of the different scenarios as well as the governance and control processes around these exercises, including the review by senior management as well as the three lines of defence are fundamental.

The robustness and consistency of the scenario analysis exercises are based on the following pillars:

- Development and integration of models that estimate the future performance of metrics, such as credit losses.
- Challenge and backtesting of model results.
- Inclusion of expert judgement and expert knowledge of our portfolios.
- Robust governance covering models, scenarios, assumptions and results, as well as management mitigation actions.

The application of these pillars in the European Banking Authority (EBA) stress test exercise, has enabled Santander to comfortably meet the defined quantitative and qualitative requirements, contributing to the excellent results obtained by the Group.

Application of scenario analysis

Scenario analysis is included in the Group's risk framework, ensuring that any impact affecting solvency or liquidity can be rapidly identified and addressed. This includes a systematic review of exposure to different types of risks under the baseline scenario and under various adverse scenarios.

Scenario analysis forms an integral part of several key Group processes:

- **Regulatory** exercises conducted under the European regulatory guidelines or those of local supervisors.
- **Internal capital adequacy assessment** (ICAAP) and **liquidity assessment** (ILAAP): the Group develops its own methodology to assess its capital and liquidity levels under different stress scenarios to support planning and management of these two critical aspects.
- **Risk appetite**. This includes stressed metrics for which the Group defines maximum levels of risk that should not be exceeded. These exercises are related to those conducted for capital and liquidity, although they have different frequencies and different granularity. For further details, see 'Risk appetite and structure of limits' aforementioned in this section and section 4.6 'Liquidity risk management' in this report.
- **Climate change scenario analysis**: the objective is to provide a scenario-based assessment of those risks and opportunities related to climate change. We are currently focused on the wholesale portfolio as a pilot.
- **Recurrent risk management** in different processes/ exercises:
  - **Budget and strategic planning process**, in the development of commercial risk approval policies, in the global risk assessment for senior management or in specific analysis regarding activity profiles or portfolios.
  - Identification of **Top risks** on the basis of a systematic process to identify and assess all risks which the Group is exposed to. These Top risks are selected and a macroeconomic or idiosyncratic scenario is associated with each one, to assess their potential impact on the Group.
  - **Recovery plan**, which is drawn up annually to establish the tools available to the Group to survive in the event of an extremely severe financial crisis. The plan sets out a series of financial and macroeconomic stress scenarios, with differing degrees of severity that include idiosyncratic and/or systemic events.
  - **IFRS 9.** Since 1 January 2018, the processes, models and scenario analysis methodologies have been included in the regulatory provision requirements.

For more details on scenario analysis see sections 3.2 'Credit risk management', 4.2 'Trading market risk management' and 4.6.'Liquidity risk management'.

Risk reporting structure (RRS)

Our reporting model continues to evolve and we continue to simplify and optimise our processes, controls and the communication to senior management. The enterprise wide view of all risks is regularly consolidated allowing the Group's senior management to assess the risk profile and take actions needed.

Our risk reporting taxonomy contains three types of reports that are released on a monthly basis: the Group risk report (which is distributed to senior management), the subsidiaries risk reports, and the reports on each of the risk factors identified in the Group's risk framework.

This taxonomy is characterised by the following:

- All risk factors included in the Group's risk framework are covered.
- Balance between data, analysis and qualitative comments is maintained throughout the reports, including forward-looking measures, risk appetite information, limits and emerging risks.
- The holistic view is combined with a deeper analysis of each risk factor and geographic area and region.
- A homogenous structure and criteria. A consolidated view is provided to enable the analysis of all risks based on common definitions
- All the metrics reported follow RDA criteria, ensuring the quality and consistency of the data included in all risk reports.

Santander Analytics

Santander Analytics is a Risk function responsible for the development and independent validation of cutting-edge and robust quantitative models, in order to help the Group measure all types of risks, both financial and non-financial, while at the same time meeting regulatory requirement.

In recent years, Santander Analytics has been analysing and leading the change into a new paradigm: artificial intelligence (AI). Drawing on the definition from the Financial Stability Board (FSB, 2017), AI is the set of theories and algorithms that allows computer systems to perform tasks which typically require human intelligence (e.g. visual perception, voice recognition, or interpretation of a text taking into account its context).

The escalation of AI tools in all the sectors of the economy has been made possible by the growing volume of digital data and higher computational capacity. To evolve to this new environment, Santander Analytics has fostered a culture of intelligent data analysis in the development of quantitative models within the Risk function: the origin of intelligent data analysis lies in statistics and machine learning.

In recent years, the increase in computational power and heightened popularity of machine learning techniques has enabled financial and non-financial risks to be described, prescribed and predicted with a high degree of precision.

In addition, at Santander we are developing machine learning models for consumer loans, income inference and fraud detection; deep learning algorithms for the measurement of reputation risk ratings, backward rebuilding of financial time series and rating models with reputational features, contributing to improve credit access and financial inclusion.

In order to share the know-how relating to these new techniques across the Group, Santander Analytics has promoted the Research Day initiative, which is a biannual workshop to discuss and share knowledge of cutting-edge research initiatives on quantitative modelling for decision-making processes in all the Group's subsidiaries and businesses.

These new techniques also pose a series of risks and limitations that must be identified and managed in order to correctly unlock all of their potential. These risks and limitations are common, in most cases, to the techniques used and services provided not only by financial institutions, but by many other participants in the industry. It is very important that the principle that the activities that generate the same risks are subject to the same regulations and equivalent supervisory mechanisms is fulfilled, in order to maintain a level playing field.

Models that include AI techniques can also be used in addition to the more traditional statistical approaches, contributing in this case to the process of strengthening and validating the decisions taken.

In summary, Santander Analytics develops advanced models for the management of all types of risks and also for decision-making processes outside the scope of the Risk function. This is performed by using different quantitative approaches, intelligent data analysis, sharing knowledge through the Research Day workshop and attracting and retaining STEM (science, technology, engineering and mathematics) talent.

The aim is to use advanced analytics to help people and businesses prosper by being more agile and efficient (Simple), focusing on customers through user experience, innovation and satisfaction (Personal), as well as deploying advanced technology to protect our customers (Fair).

2.5 Environmental and social risk

Our risk management and control model is also a key driver of Santander's contribution to sustainable economic growth. This is achieved by promoting the conservation of the environment and the protection of human rights.

This principle of environmental and social responsibility is reflected in the board approved environmental and social risk policies on energy, covering the oil, gas and energy generation sectors, mining and metals, including coal mining and steel production, as well as soft commodities.

The policies set out the activities where the Group will not provide products and/or services and those where an in-depth analyses to assess their environmental, social and reputational impacts is necessary.

Updates to the policies are proposed annually to the board by the Global Environmental and Social Risk Management (ESRM) function in consultation with other functions such as Credit Risk, Responsible Banking, Reputational Risk and the business areas, to ensure they remain in line with the best international practices and standards and their alignment to the Group's sustainability approach. The 2019 update includes a new prohibition relating to the development, construction or expansion of oil and gas drilling projects north of the Arctic Circle.

The application of the policies across the Group is supported by the environmental and social (E&S) risk assessments that Santander carries out on its customers and transactions as part of its decision-making processes. In 2019 the existing procedure was updated with enhanced questionnaires tailored to Santander's Corporate and Investment Banking (SCIB) division. The review of customers is initiated by the business areas with dedicated E&S Champions, within the Credit Risk function, providing the environmental and social assessments.

This information is held on a global platform accessible to SCIB bankers and credit analysts and is incorporated into the limits proposals for our customers and their annual reviews. The aforementioned update to the procedure was backed by face-to-face training of over 440 staff members, from business originating teams to supporting functions, across all countries where SCIB operates.

During 2019, 88% of global customers, representing 90% of the exposure to the sectors under the policies, have been subject to the E&S assessment.

The environmental and social policies of Santander Group can be found at www.santander.com

In addition to the above and since 2009, the Group has applied the Equator Principles to all project finance transactions, and continues to contribute to the development of the Principles through direct participation in the Equator Principles Association working groups. The Group will be implementing Equator Principles IV approved in November 2019 and due to come into full effect on 1 July 2020.

Equator Principles reporting from Santander is available in section 'Analysis of environmental and social risks' of the Responsible Banking chapter.

Climate change and risk management

The E&S sector policies mentioned above are also designed to support Santander´s commitment to finance the transition to a low-carbon economy and positively contribute to climate change mitigation.

The Risk division contributes to Santander's public commitments on climate change through a number of internal projects and external initiatives.

Regarding the recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD) of the FSB, the Risk division actively participates in the execution of the

Group's TCFD implementation plan in collaboration with the Responsible Banking function and other areas.

Actions undertaken in 2019 included climate change training provided to the board and to over 150 staff at Group headquarters, this training will be launched globally across all business units in 2020.

A first approach to incorporate climate change in the Risk appetite statement was approved and its physical and transition risk drivers have been included in the Group's risk framework as factors that could aggravate the existing risks in the medium and long term.

In addition, deep-dives into the oil, gas, mining and steel sectors were presented to the board's risk supervision, regulation and compliance committee and the board's responsible, sustainability and culture committee in a joint session, with particular focus on the risks and opportunities that arise from climate change.

The board's responsible banking sustainability and culture committee was also informed of the analysis conducted by Risk in collaboration with SCIB on the European Union power portfolio. Applying expert judgement, the exercise measured the potential impact on the portfolio of a number of financial drivers linked to the International Energy Agency scenarios. The results obtained showed the portfolio to be positively positioned with regards to climate change transition risks with a high proportion of the exposure in low emission power generation sectors.

Santander Group is one of the 17 banks participating in the Paris Agreement Capital Transition Assessment (PACTA) Bank Pilot led by 2 Degrees investing initiative (2Dii), the purpose of which is to provide information on the alignment of selected portfolios with regard to climate scenarios as proxies to the Paris Agreement. The Credit Risk area has worked alongside the SCIB and Responsible Banking teams providing data for the project, and is actively collaborating with SCIB to use the results in a forward-looking assessment of climate-related risks and opportunities in wholesale portfolios.

Further information on the output of the PACTA pilot is available in section 'Sustainable finance' in the Responsible Banking chapter.

Santander continues to participate in the United Nations Environmental Program Financial Initiative (UNEP FI) to implement the TCFD requirements. The initiative´s objective is to develop scenarios, models and metrics to enable a scenario-based, forward-looking assessment of climate-related risks and opportunities.

In the first phase which ended in 2018, 16 leading banks from four continents, published a methodology to increase the understanding of the climate change impacts on their business. Santander specifically focused on the calculation of direct and indirect transition risks and their impact on the transportation sector in the wholesale portfolio as a pilot. The key conclusion from the exercise was the customers' resilience to the stress test, including climate-related transition impacts, due to their capacity to adapt to technological change requirements. This resulted in a limited impact on their credit quality.

In 2019 and into 2020 Santander was and is participating in the UNEP FI second phase, along with 35 global and local banks. The objective of this new phase is to enhance the "toolkit" with the core modules of climate scenarios, data & methodology, reporting & governance to allow risks and climate related impacts to be measured, in addition to developing approaches to standardised disclosures. Santander is actively participating in various working groups addressing climate scenarios and methodology, specifically focusing on pilot exercises involving physical risks in the mortgage book, a material sector for the Group.

The UNEP FI project continues to bring notable progress to climate risk assessment, with lessons learnt from the first pilot enriching the work being undertaken in this second round. Phase II is due to end in the second quarter of 2020, covering and developing all the aspects required to define the risk calculation and impacts of climate risks.

Finally, and in coordination with the Public Policy team, Risk provides continuous input, directly and by participating in sector working groups, to the climate change and Environmental, Social & Governance (ESG) regulatory consultations that are taking place across the EU and other countries where the Group is present.

3. Credit risk

3.1 Introduction

Credit risk is the risk that a financial loss will be incurred arising from the default or credit quality deterioration of a customer or other third party, with whom the Group has assumed a contractual obligation, including providing credit, that may therefore not be fulfilled.

Credit risk is the most relevant risk for the Group, both by exposure and capital consumption, it also includes counterparty risk, country risk and sovereign risk.

3.2 Credit risk management

Our credit risk management process consists of identifying, analysing, controlling and decisioning on the credit risk incurred by the Group. It considers a holistic view of the credit risk cycle including the transaction, customer and portfolio views. Both business and risk areas, together with senior management participate in the management and control process.

Credit risk identification is a key component for the active management and effective control of our portfolios. The identification and classification of external and internal risks in each business allows corrective and mitigating measures to be adopted in the event they are needed. This is achieved through the following processes:

Planning

Planning allows business targets to be set and specific action plans defined, within the risk appetite framework established by the Group.

Strategic commercial plans (SCPs) are one of our management and control tools for the Group's credit portfolios. SCPs are prepared jointly by the business and risk areas, and define the commercial strategies, risk policies, measures and infrastructure required. These factors are considered as a whole, ensuring a holistic view of the portfolios.

The integration of SCPs at management level provides an updated view of the credit portfolio quality, enabling credit risk to be measured, and internal controls executed alongside the periodic monitoring of strategy, the early detection of deviations and significant changes in the risk and potential impact, as well as defining corrective actions where necessary.

SCPs are approved and monitored by senior management in each entity before review and validation at Group level.

The SCPs are aligned with the Group´s risk appetite and the capital objectives of the subsidiaries.

Risk assessment and credit rating process

In order to analyse a customer's capacity to meet their contractual commitments with the Bank, the Group uses valuation and parameter estimation models in each of the segments where it operates.

The credit quality valuation models applied are based on credit rating drivers, which are monitored and controlled to calibrate and adjust the decisions and ratings they assign. Depending on the segment, drivers may be:

1. **Rating**: resulting from the application of mathematical algorithms incorporating a quantitative model based on balance sheet ratios or macroeconomic variables, and a qualitative module supplemented by the credit analyst's expert judgement. Used for the SCIB, commercial banking, institutions and SMEs (those who are treated on an individual basis) segments.

2. **Scoring**: an automatic assessment system for credit applications. It automatically assigns an individual score to the customer for subsequent decision-making, generally in the retail and smaller SMEs segments.

Parameter estimation models are obtained through internal econometric models based on the portfolios' historical defaults and losses for which they are developed. They are also used to calculate economic and regulatory capital and the portfolio's IFRS 9 provision.

Periodic model monitoring and evaluation is carried out, assessing among other factors, the appropriateness of usage, predictive capacity, performance and granularity. In addition, policy compliance is also monitored.

The resulting ratings are regularly reviewed, incorporating the latest available financial information as well as other relevant data. The depth and frequency of the reviews are increased in the case of customers who require a more detailed monitoring or have automatic warnings in the risk management systems.

Credit risk mitigation techniques

Generally, from a risk acceptance standpoint, the criteria are linked to the borrower's payment capacity for the financial obligations - although this does not inhibit imply an impediment to requiring collateral or personal guarantees in addition.

Payment capacity is assessed based on the funds or net cash flows from the customer´s businesses or income, excluding guarantors or assets pledged as collateral. These guarantors or assets are always to be considered, when evaluating the approval of the transaction, as a secondary method of recovery in the event the first channel fails.

In general, a guarantee is defined as a reinforcement measure added to a credit transaction with the purpose of mitigating the loss due to a breach of the payment obligation.

At Santander, we apply several credit risk mitigation techniques on the basis, among other factors, of the type of customer and product. Some are inherent to specific transactions (e.g. real estate guarantees) while others apply to a series of transactions (e.g. derivatives netting and collateral). The different mitigation techniques can be grouped into personal guarantees, guarantees in the form of credit derivatives or collateral.

Definition of limits, pre-classifications and pre-approvals

The connection between the Group's credit risk appetite and credit portfolios management and control is implemented through the SCPs, which define the portfolio and origination limits to predict the portfolio's risk profile. The cascading down of the Group's risk appetite, strengthens the controls over our credit portfolios.

We have processes that determine the risk that the Group is able to assume with each customer. These limits are jointly set by the business and risk areas and have to be approved by the executive risk committee (or delegated committees) and reflect the expected results of the business in terms of risk-return.

There are different limit models depending on the segment:

- **Large corporate groups**: we use a pre-classification model based on a system for measuring and monitoring economic capital. The result is the level of risk that the Group is willing to assume with a customer/group, in terms of capital at risk, nominal cap, and maximum tenors according to the type of transaction, in the case of financial entities, limits are managed through credit equivalent risk (CER). It includes the actual and expected risk with a customer within the limits defined in the risk appetite statement and credit policies.
- **Corporates and institutions** that meet certain requirements (strong relationships, rating, etc.): a more simplified pre-classification model is used, with an internal limit that establishes a reference point in the level of risk to be assumed with the customer. The criteria will include, among others, repayment capacity, overall indebtedness, and the distribution of the banking pool.

  In both cases, transactions over certain thresholds or with specific characteristics might require the approval of a senior credit analyst or committee.
- For **individual customers and SMEs** with low turnover, large volumes of credit transactions are managed with the use of automatic decision models to classify the customer/transaction.

Scenario analysis

In line with the description in section 2.4 'Management processes and tools' of this chapter, scenario analysis is used in credit portfolio management as an evolution of the portfolio analysis. It enriches the understanding of the portfolio performance under different macroeconomic conditions, and allows management strategies to be anticipated and defined in order to avoid future deviations from the established plans and targets.

The approach taken with regard to scenario analysis consists of simulating the impact of alternative scenarios in the portfolio credit parameters (PD, LGD) and the associated expected credit losses. The results of this analysis are compared with the portfolio's credit profile indicators to identify the most appropriate measures that could be developed to guide the required management actions.

Scenario analysis is integrated into credit management portfolio activities and in the SCPs.

Monitoring

Business performance is monitored on a regular basis by comparing performance with established plans. This is a key risk management activity.

All customers are monitored on an ongoing, holistic manner that enables the early detection of events that may have an impact on the customer's credit rating. Monitoring is carried out through an ongoing review of all customers, assigning a monitoring classification, establishing pre-defined actions associated to each classification and executing specific measures (pre-defined or ad-hoc) to correct any deviations that could have a negative effect for the Group.

This monitoring process takes into consideration the transaction forecasts and characteristics throughout its entire life. It also takes into consideration any variations that may have occurred in the classification and suitability since the time of the review.

Monitoring is carried out by local and global Risk teams, backed up by Internal audit. It is based on customer segmentation:

- In the SCIB segment, monitoring, in the first instance, is a direct function of both the business manager and the risk analyst, who maintain direct relationship with the customer and manage the portfolio. This guarantees an up-to- date view of the customer's credit quality is always available and allows us to anticipate situations of concern and take the necessary actions.
- For commercial banking, institutions and SMEs with a credit analyst assigned, the function consists of identifying and tracking customers that require closer monitoring, reviewing ratings and continuously analysing relevant indicators.
- For individual customers, businesses and smaller SMEs monitoring is carried out through automatic alerts, in order to detect shifts in the performance of the portfolio.

The Group performs the monitoring process through the Santander Customer Assessment Note (SCAN), which was implemented in the Group's subsidiaries in 2019.

The Group's SCAN system aims to establish the level of monitoring, policies and specific actions for all individual customers, based on their credit quality and particular circumstances. Each customer is assigned a level of monitoring, and specific risk management actions, on a dynamic basis, with a specific manager appointed and agreed monitoring frequency.

In addition to customer credit quality monitoring, Santander establishes the control procedures needed to analyse portfolios and performance, as well as any possible deviations regarding planning or approved alert levels.

Portfolio analysis systematically controls the evolution of credit risk with regard to budgets, limits and benchmarks, assessing the impacts of future situations, both exogenous and resulting from strategic decisions, to establish actions to keep the risk portfolio profile and volumes within the parameters set by the Group within its risk appetite.

Recovery and collections management

Recovery activity is a significant component in the Group's risk management and control. This function is carried out by the Recoveries area, which define a global strategy and an enterprise-wide focus for recovery management.

The Group has a recovery management operating model that sets the guidelines and general policies of action to be applied, taking into account the local environment.

In 2019, this model was updated to incorporate new regulatory requirements set down in the EBA Guidelines on the management of non-performing and forborne exposures.

The Recoveries area directly manages customers, where value creation is based on effective and efficient collection management. New digital channels are becoming increasingly important in recovery management.

The diverse features of Santander´s customers make segmentation necessary in order to manage recoveries effectively. Mass management of large groups of customers with similar profiles and products is conducted through processes with a high technological and digital component, while personalised management focuses on customers who, because of their profile, require a specific manager and more customised management.

Recovery management is divided into four phases: in arrears, non-performing loans recoveries, write-offs recoveries and management of foreclosed assets.

The management scope for the Recovery function includes non-productive assets (NPAs), corresponding to the forborne portfolios, NPLs, written-off loans and foreclosed assets, where the Group may use mechanisms to rapidly reduce the volume of these assets, such as the sale of portfolios or foreclosed assets.

In the written-off loans category, debt instruments are included (past due or otherwise) the recovery of which, after an individualised analysis, is considered remote, due to the severe and unrecoverable impairment of the solvency of the transaction or the customer. Classification in this category involves the full or partial cancellation of the gross carrying amount of the loan and its derecognition. This does not mean that the Group will suspend negotiations or legal proceedings to recover the amounts.

In those geographies with a significant exposure to real estate risk, the Group has efficient sales management instruments to maximise recovery and optimise the existing stock in the balance sheet.

Forborne portfolio

The Group has an internal forbearance policy, which acts as a reference for the different transpositions in all local subsidiaries and shares the principles established by the regulation and the applicable supervisory expectations. This year, the policy was updated to include the EBA Guidelines on the management of non-performing and forborne exposures

This policy defines forbearance as the modification of the payment conditions of a transaction to allow a customer who is experiencing financial difficulties (current or foreseeable), to fulfil their payment obligations.

In addition, this policy sets rigorous criteria for the evaluation, classification and monitoring of such transactions, ensuring the strictest possible care and diligence in their approval and monitoring. Therefore, the forborne transaction must be focused on recovery of the amounts due and the payment obligations adapted to the customer's current position and, in addition, losses must be recognised as soon as possible if any amounts are deemed irrecoverable.

Forbearance may never be used to delay the immediate recognition of losses or to hinder the appropriate recognition of risk of default.

Further, the policy defines the classification criteria for forborne transactions in order to ensure that any risks are suitably recognised, bearing in mind that they must remain classified as non-performing or watchlist for an appropriate period to ensure reasonable certainty that repayment capacity can be recovered.

The forborne portfolio stood at 32,475 million euros at the end of December 2019. In terms of credit quality, 53% of the loans are classified as non-performing, with average coverage of 52% (28% of the total portfolio).

Key figures of forborne portfolio

EUR million

	2019	2018	2017
Performing	15,199	20,877	27,661
Non-performing	17,276	20,357	20,044
Total Forborne	**32,475**	**41,234**	**47,705**
% Coverage[A]	**28%**	**26%**	**24%**

A. Total loan-loss allowances/total forborne portfolio.

The Group's forborne portfolio decreased by 21% in 2019, in line with the trend observed in previous years.

Credit management evolution

Santander launched in 2019 a strategic initiative to enhance credit risk management across the Group as part of the Risk Strategy program: ATOMiC - Advanced Target Operating Model in Collaboration-.

ATOMiC defines our credit risk expectations over a3-year horizon by identifying best practices in the group and across the industry. Existing best practices set a realistic target aspiration and serve as a reference and driver for our units.

Specific key performance indicators (KPI) are also identified for better assessment and monitoring. Planning and implementation also leverage on existing expertise in the units (local experts), with the support of the Group.

Prioritization is focused on strategic initiatives that require special attention, particularly initiatives oriented to process automation and digitalisation. The work streams are fully customised and landed in each segment and unit and approved at local level.

3.3 Key metrics

Changes in perimeter

In 2019, we made a change to our reported segments to reflect our current organisational and management structure.

For further detail see section 4.1 'Description of segments' of the Economic and financial review chapter.

2019 general performance

Credit risk is diversified among the main regions where the Group operates (excluding geographies with exposures lower than 1%): Europe (71%), South America (14%) and North America (14%), with a suitable balance between mature and emerging markets.

As at December 2019, the performance can be summarised as follows: credit risk with customers increased by 6.1% vs. 2018, based on the same perimeter, mainly due to the United Kingdom, the United States, SCF and Mexico. Growth in local currency was seen across all subsidiaries with the exception of Spain.

Exposures, together with lower non-performing loans (NPLs) of 33,799 million euros (-5.3% vs. year end 2018) reduced the Group's NPL ratio to 3.32% (-41 bps vs. 2018).

In order to cover potential losses arising from NPLs, and in accordance with IFRS 9 guidelines, the Group recorded loan-loss provisions of 9,321 million euros (+5% vs. December 2018), after deducting post write-off recoveries. The cost of credit remains stable at 1.00%.

Total loan-loss allowances amounted to 22,965 million euros, bringing the Group's NPL coverage ratio to 68%, recognising that 66% of the Group's net customer loans are secured. The coverage ratio is affected downwards by the weight of mortgage portfolios (particularly in the UK and Spain), as lower provisions are needed due to the held collateral.

The tables below show the performance of the main metrics related to credit risk derived from activity with customers:

Main credit risk performance metrics from activity with customers

Dec. 2019 data

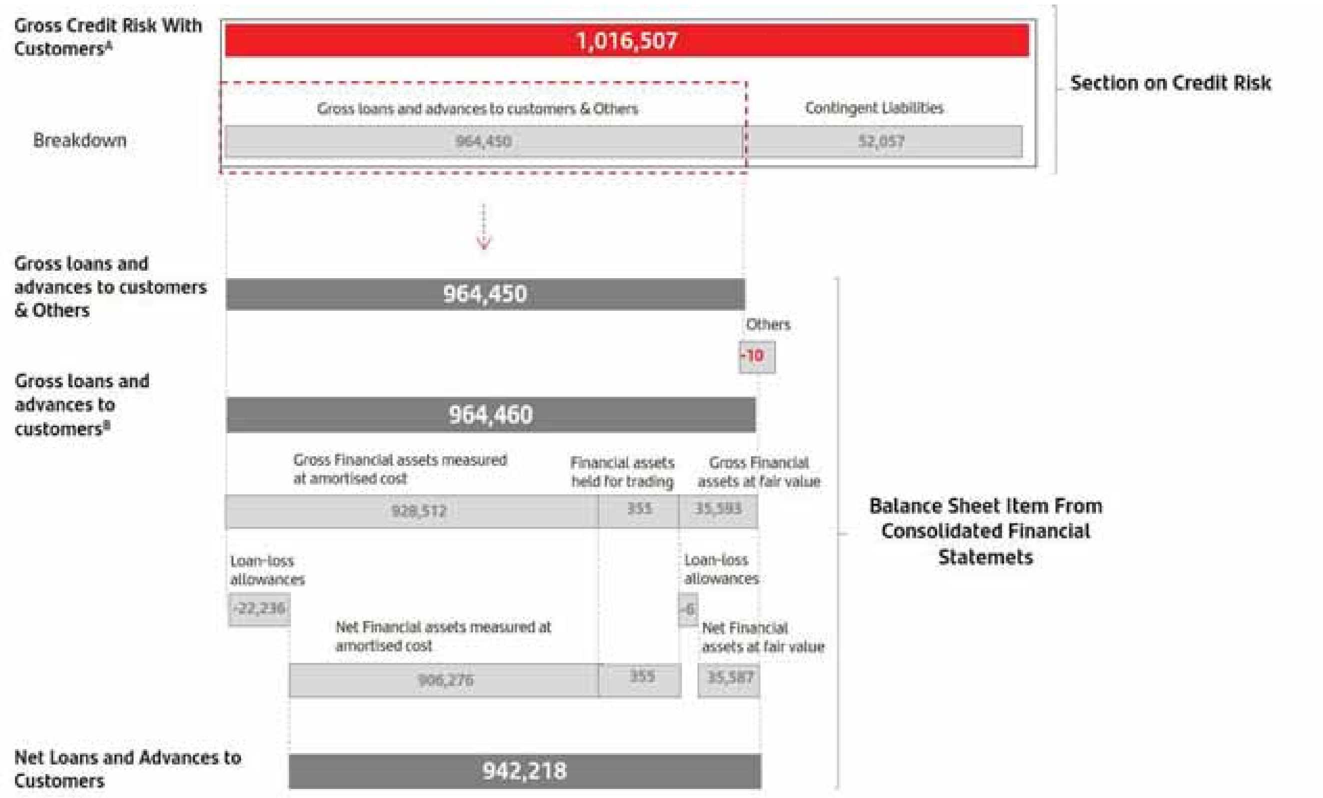
	Credit risk with customers[A] (EUR million)			Non-performing loans (EUR million)			NPL ratio (%)		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Europe	**722,661**	**688,810**	**671,776**	**23,519**	**25,287**	**27,964**	**3.25**	**3.67**	**4.16**
Spain	213,668	227,401	237,327	14,824	16,651	18,270	6.94	7.32	7.70
UK	275,941	252,919	242,993	2,786	2,739	3,210	1.01	1.08	1.32
S. Consumer Finance	105,048	97,922	92,589	2,416	2,244	2,319	2.30	2.29	2.50
Portugal	37,978	38,340	39,394	1,834	2,279	2,959	4.83	5.94	7.51
Poland	33,566	30,783	24,391	1,447	1,317	1,114	4.31	4.28	4.57
North America	**143,839**	**125,916**	**106,129**	**3,165**	**3,510**	**2,935**	**2.20**	**2.79**	**2.77**
US	105,792	92,152	77,190	2,331	2,688	2,156	2.20	2.92	2.79
SBNA	56,640	51,049	44,237	389	450	536	0.69	0.88	1.21
SC USA	29,021	26,424	24,079	1,787	2,043	1,410	6.16	7.73	5.86
Mexico	38,047	33,764	28,939	834	822	779	2.19	2.43	2.69
South America	**143,428**	**138,134**	**138,577**	**6,972**	**6,639**	**6,685**	**4.86**	**4.81**	**4.82**
Brazil	88,893	84,212	83,076	4,727	4,418	4,391	5.32	5.25	5.29
Chile	42,000	41,268	40,406	1,947	1,925	2,004	4.64	4.66	4.96
Argentina	5,044	5,631	8,085	171	179	202	3.39	3.17	2.50
Santander Global Platform	**706**	**340**	**96**	**4**	**4**	**4**	**0.63**	**1.21**	**4.56**
Corporate Centre	**5,872**	**4,953**	**5,369**	**138**	**252**	**8**	**2.34**	**5.09**	**0.15**
Total Group	**1,016,507**	**958,153**	**920,968**	**33,799**	**35,692**	**37,596**	**3.32**	**3.73**	**4.08**

	Coverage ratio (%)			Net ASR[B] provisions (EUR million)			Cost of credit (%/risk)[C]		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Europe	**49.8**	**50.1**	**51.8**	**1,839**	**1,572**	**1,313**	**0.28**	**0.24**	**0.22**
Spain	41.1	43.7	46.1	856	789	691	0.43	0.38	0.37
UK	36.5	32.9	32.3	253	171	209	0.10	0.07	0.09
S. Consumer Finance	106.1	106.4	101.4	477	360	266	0.48	0.38	0.30
Portugal	52.8	50.5	62.1	(8)	32	12	(0.02)	0.09	0.04
Poland	66.8	67.1	68.2	217	161	137	0.72	0.65	0.62
North America	**153.0**	**137.4**	**150.9**	**3,656**	**3,449**	**3,685**	**2.76**	**3.12**	**3.35**
US	161.8	142.8	170.2	2,792	2,618	2,780	2.85	3.27	3.42
SBNA	140.6	122.1	102.2	186	108	116	0.35	0.24	0.25
SC USA	175.0	154.6	212.9	2,614	2,501	2,590	9.42	10.01	9.84
Mexico	128.3	119.7	97.5	863	830	905	2.49	2.75	3.08
South America	**88.4**	**94.6**	**83.5**	**3,789**	**3,736**	**4,067**	**2.92**	**2.99**	**3.16**
Brazil	99.8	106.9	92.6	3,036	2,963	3,395	3.93	4.06	4.36
Chile	56.0	60.6	58.2	443	473	462	1.08	1.19	1.21
Argentina	124.0	135.0	100.1	235	231	159	5.09	3.45	1.85
Santander Global Platform	**85.3**	**78.9**	**85.1**	**1**	**—**	**—**	**0.22**	**0.14**	**0.00**
Corporate Centre	**174.5**	**118.4**	**—**	**36**	**115**	**45**	**0.57**	**1.65**	**0.86**
Total Group	**67.9**	**67.4**	**65.2**	**9,321**	**8,873**	**9,111**	**1.00**	**1.00**	**1.07**

A. Includes gross loans and advances to customers, guarantees and documentary credits.
B. Recovered write-off assets (1,586 million euros).
C. Cost of credit = loan-loss provisions twelve months/average lending.

Reconciliation of key figures

The 2019 consolidated financial statements provide details of the customer loan portfolio, both gross and net of provision allowances. Credit risk also includes off-balance sheet risk. The following table shows the relationship between these concepts:



A. Includes gross loans and advances to customers, guarantees and documentary credits.
B. Before loan-loss allowances.

Geographical distribution and segmentation

The Group's risk function is organised around three types of customers groups:

- **Individuals**: Individuals, except those with a business activity. This segment is divided into sub-segments by income level, enabling risk management and control by customer type.

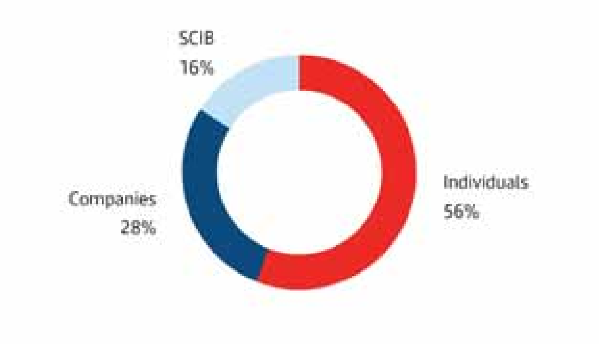
  Mortgages to individuals represent approximately 36% of the Group net customer loans. These mortgages are focused in Spain and the UK, and are mainly residential mortgages with a low risk profile, low NPL ratios and robust coverage ratios. This low risk profile produces low losses.

- **SMEs, commercial banking and institutions**: includes companies and individuals with business activity, as well as public sector activities and private sector non-profit entities.

- **Santander Corporate & Investment Banking (SCIB)**: consists of corporate customers, financial institutions and sovereigns, comprising a closed list that is revised annually. This list is determined based on a full analysis of the company (business type, level of geographic diversification, product types, volume of revenues it represents for the Group, among others).

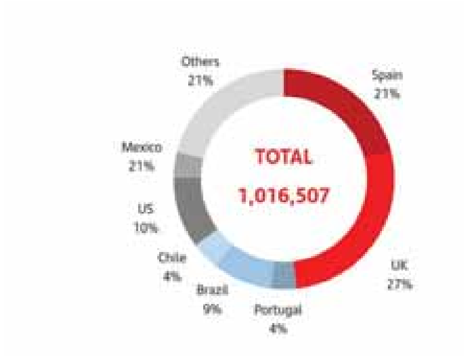
The following chart shows the distribution of credit risk based on the management model, including gross loans and advances to customers, guarantees and documentary credits:

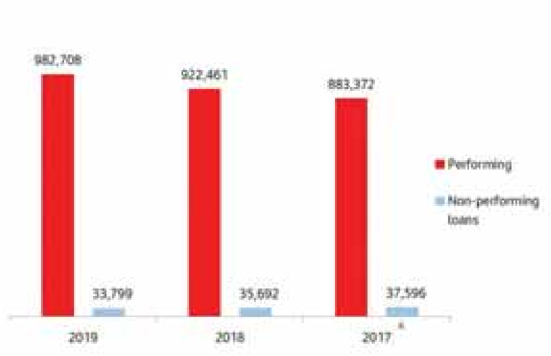
Credit risk distribution



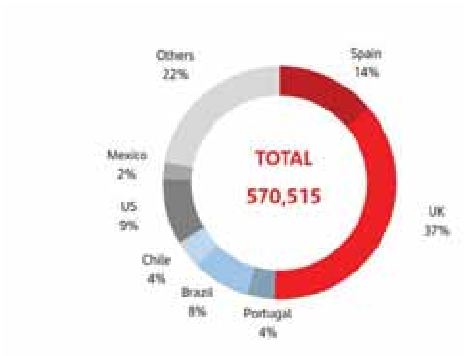
Taking into consideration the segmentation, the portfolios' geographical distribution and performance is shown in the following charts:

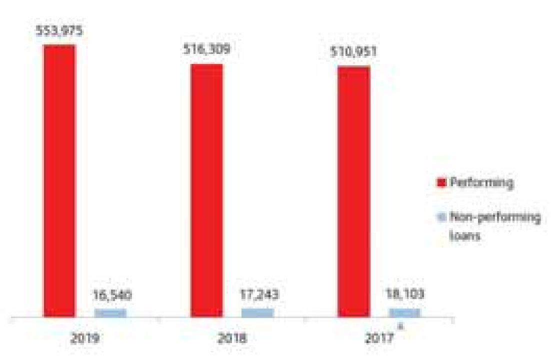
Total



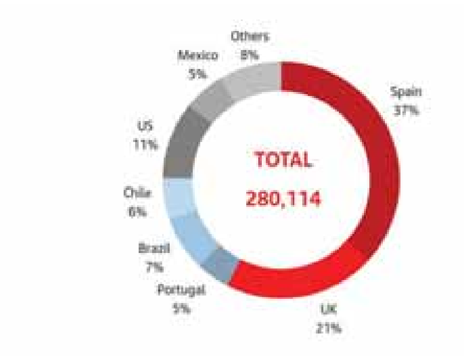


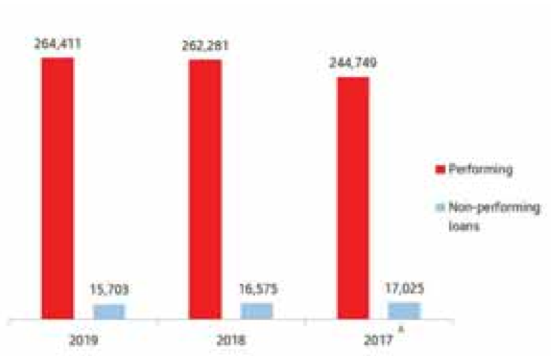
Individuals



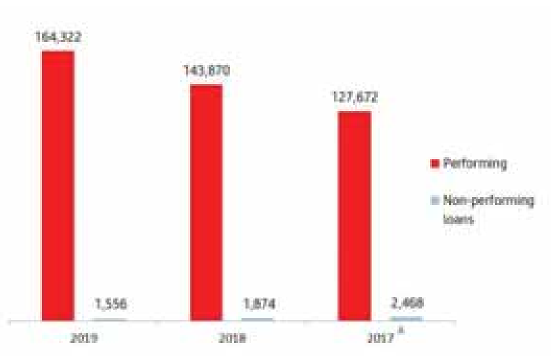


SMEs, Commercial Banking and Institutions





SCIB



A. Proxies applied for 2017 data.
B. 'Others' include mainly foreign branches wholesale exposure

Key figures by geographic region are described below:

- **Europe:** NPL ratio decreased to 3.25% (-42 bp compared to 2018), due to the significant decrease of non-performing loans in Spain and Portugal; and the slight increase in the UK and SCF, offset by a proportionally higher increase in total loans.
- **North America:** NPL ratio down to 2.20% (-59 bp vs 2018) due to the good performance of the region, especially in the US which fell by 72 bp, compared to 2018.
- **South America:** NPL ratio stands at 4.86%, increasing in Brazil and Argentina (+7 bp and +22 bp compared to 2018, respectively); and decreasing in Chile (-2 bp vs to 2018).

Further details are provided in section 3.4 'Details of main geographies'.

Amounts past due (performing loans)

Amounts past due by three months or less represented 0.29% of total credit risk with customers. The following table shows the breakdown of these loans as at 31 December 2019, according to the first missed payment:

Amounts past due. Maturity detail

EUR million

	Less than 1 month	1 to 2 months	2 to 3 months
Loans and advances to credit institutions	10	—	—
Loans and advances to customers	1,739	894	351
Public administrations	1	—	—
Other private sector	1,738	894	351
Debt instruments	—	—	—
Total	**1,749**	**894**	**351**

Impairment of financial assets

The IFRS 9 impairment model applies to financial assets valued at amortised cost, debt instruments valued at fair value with changes in other comprehensive income, lease receivables, and commitments and guarantees given not valued at fair value. The portfolio of financial instruments subject to IFRS 9 is divided into three categories, or stages, depending on the status of each instrument in relation to its level of credit risk.

- **Stage 1**: financial instruments for which no significant increase in risk is identified since its initial recognition. In this case, the impairment provision reflects expected credit losses arising from defaults over twelve months from the reporting date.
- **Stage 2**: if there has been a significant increase in credit risk since the date of initial recognition but the impairment event has not materialised, the financial instrument is classified as Stage 2. In this case, the impairment provision reflects the expected losses from defaults over the residual life of the financial instrument.
- **Stage 3**: a financial instrument is catalogued in this stage when it shows effective signs of impairment as a result of one or more events that have already occurred resulting in a loss. In this case, the amount of the impairment provision reflects the expected losses for credit risk over the expected residual life of the financial instrument.

The following table shows the credit risk exposure for each of these stages and by geography:

Exposure by stage and by geography

EUR million

	Stage 1	Stage 2	Stage 3	Total[A]
Europe	**644,229**	**31,650**	**23,513**	**699,392**
Spain	176,162	10,876	14,824	201,862
UK	258,902	13,635	2,786	275,323
SCF	98,854	3,703	2,413	104,970
Portugal	34,037	2,107	1,834	37,978
Poland	30,604	1,329	1,442	33,375
North America	**120,186**	**12,366**	**3,160**	**135,712**
US	85,447	11,080	2,327	98,854
SBNA	51,622	4,373	389	56,384
SC USA	20,925	6,291	1,787	29,003
Mexico	34,739	1,286	834	36,859
South America	**127,778**	**8,673**	**6,972**	**143,423**
Brazil	78,466	5,700	4,727	88,893
Chile	37,627	2,426	1,947	42,000
Argentina	4,537	337	171	5,045
Santander Global Platform	**702**	**—**	**4**	**706**
Corporate Centre	**4,935**	**705**	**133**	**5,773**
Total Group	**897,830**	**53,394**	**33,782**	**985,006**

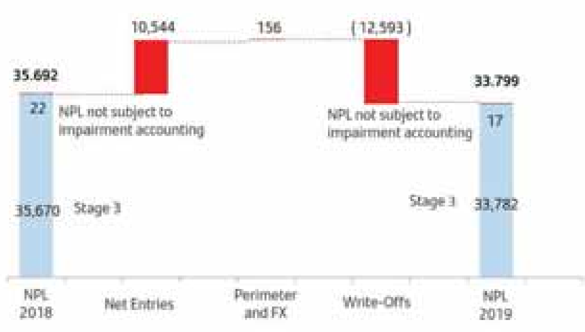
A. Excluding 31,501 million euros from balance not subject to impairment accounting.

In addition, the impairment provision amount includes the expected credit risk losses over the expected residual life in financial instruments Purchased or Originated Impaired (POCI).

The performance of financial instruments with effective signs of impairment (stage 3) are shown below:

Non-performing loans evolution according to constituent item

EUR million



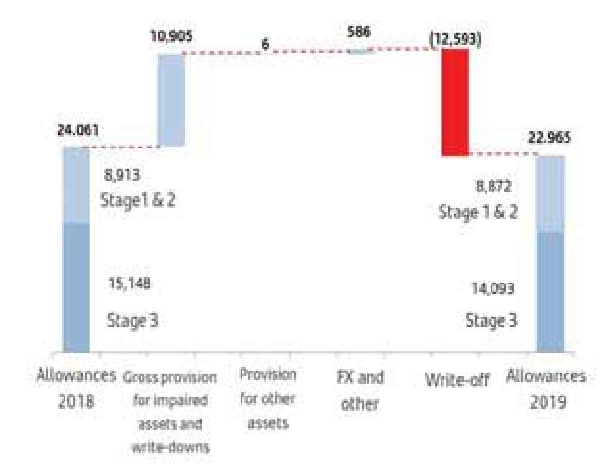
2017 - 2019 NPL evolution

EUR million

	2017	2018	2019
NPL (start of period)	33,643	37,596	35,692
Stage 3		37,571	35,670
NPL not subject to impairment accounting		25	22
Net entries	8,269	10,910	10,544
Perimeter	10,032	177	—
FX and others	(826)	(318)	156
Write-off	(13,522)	(12,673)	(12,593)
NPL (End of period)	**37,596**	**35,692**	**33,799**
Stage 3	37,571	35,670	33,782
NPL not subject to impairment accounting	25	22	17

Allowances evolution according to constituent item

EUR million



2017 - 2019 allowances evolution

EUR million

	2017	2018	2019
Allowances (start of period)	**24,835**	**24,529**	**24,061**
For impairment assets	15,466	16,459	
For other assets	9,369	8,070	
Stage 1 and 2			8,913
Stage 3			15,148
Gross provision for impaired assets and write-downs	11,607	10,300	10,905
Provision for other assets	(881)	121	6
FX and other	2,490	1,784	586
Write-off	(13,522)	(12,673)	(12,593)
Allowances (end of period)	**24,529**	**24,061**	**22,965**
Stage 1 and 2		8,913	8,872
Stage 3		15,148	14,093

The methodology used to quantify expected losses due to credit events is based on an unbiased and weighted consideration of the occurrence of up to five possible future scenarios that could impact the collection of contractual cash flows. These scenarios take into account the time-value of money, all available information relevant to past events, and current conditions and projections of macroeconomic factors deemed relevant to the estimation of this amount (e.g. GDP, house pricing, unemployment rate, among others.).

In estimating the parameters used for the calculation of impairment provisions (EAD, PD, LGD and discount rate), the Group leverages its experience in developing internal models for calculating parameters for regulatory and internal management purposes. The Group is aware of the differences between these models and regulatory requirements for provisions. As a result, it has focused on adapting the development of its IFRS 9 impairment provisions models to reflect these requirements.

- **Establishing a significant increase in credit risk**: proceeding with the classification of the financial instrument under stage 2, the Group considers the following criteria:
  - Quantitative criteria: changes in the risk of a default occurring throughout the expected life of the financial instrument are analysed and quantified with respect to its credit level on initial recognition.

    For the purpose of determining whether such changes should be considered significant, with their consequent classification as stage 2, each subsidiary has defined the quantitative thresholds to consider in each of its portfolios taking into account the Group's guidelines and ensuring a consistent interpretation across all geographies.
  - Qualitative criteria: in addition to the quantitative criteria mentioned above, the Group considers several indicators that are aligned with those used in ordinary credit risk management (e.g. over 30 days past due, forbearance, among others). Each subsidiary has defined these criteria for its portfolios.

    The use of these qualitative criteria is supplemented with the application of expert judgement.
- **Definition of default**: the definition considered for impairment provisioning purposes is consistent with that used in the development of advanced models for regulatory capital requirements calculations. The Group is currently working to adapt the definition of default to the new EBA Guidelines on the application of the definition of default under Article 178 of the CRR, according to the scheduled plan
- **Use of present, past and future information**: the estimation of expected losses requires a high degree of expert judgement and it must be supported by historic, current and future data and expectations. Therefore, expected loss estimates take into consideration multiple macroeconomic scenarios for which the probability is measured considering past events, current situation and future trends and macroeconomic indicators, such as GDP or unemployment rate.

  The Group uses forward-looking information in internal management and regulatory processes, incorporating several scenarios. The Group has leveraged its experience in the management of such information, which ensures consistency across our processes.

- **Expected life of the financial instrument**: to estimate this figure all the contractual terms are taken into account (e.g. pre-payments, duration, purchase options, among others), where the contractual period (including extension options) is the maximum period for measuring the expected credit loss. In the case of financial instruments with an uncertain maturity period and an undrawn commitment component (e.g. credit cards), expected life is estimated on the basis of the period for which the entity is exposed to credit risk and the effectiveness of management practices to mitigate exposure.
- **Impairment recognition**: the main change with respect to the current standard relates to assets measured at fair value with changes recognised through other comprehensive income in regard to the portion of the changes in fair value due to expected credit losses that will be recognised under current profit or loss account while the rest will be recorded under other comprehensive income.

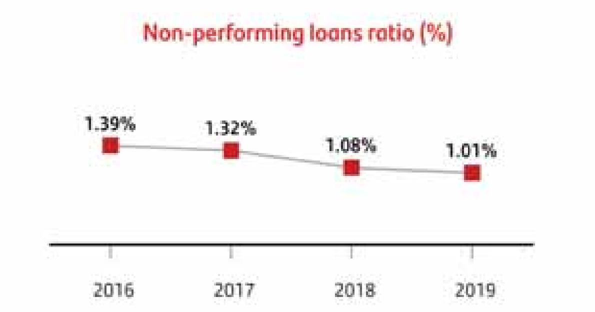
3.4 Details of main geographies

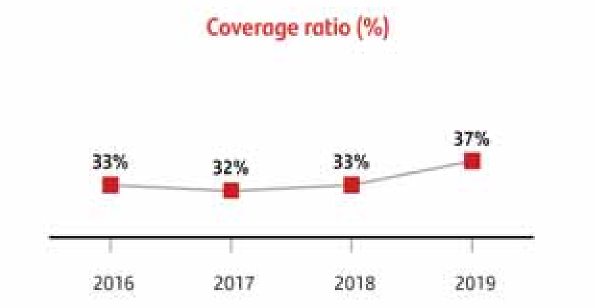
United Kingdom

Portfolio overview

Credit risk with customers in the UK, including Santander Consumer UK, amounted to 275,941 million euros as of December 2019, an increase of 9.1% compared to year-end 2018 (+3.8% in local currency), representing 27% of the Group's total loan portfolio.

The NPL ratio decreased to 1.01% as of December 2019 (-7 bp vs. year-end 2018), despite macroeconomic uncertainty and thanks to the application of prudent policies, within the risk appetite framework. The amount of non-performing loans increased by 1.7%, below the credit portfolio growth, supported by the continued strong performance of the mortgage portfolio.



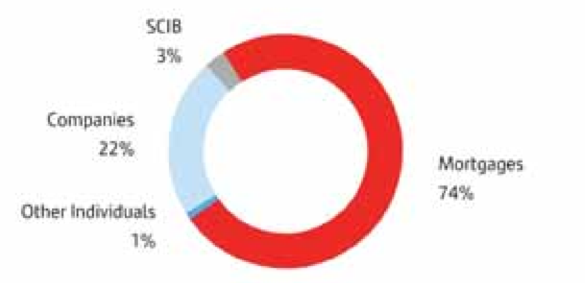


Regarding Brexit, action plans have been developed and enhanced in the event of a 'No deal' scenario. The Brexit Response Group meets regularly at Santander UK to provide assurance of readiness. Continuous monitoring for the secured portfolio remains critical given the exceptional macroeconomic context.

Santander UK portfolio is divided into the following segments:

Portfolio segmentation[A]

Dec.19 data



A. Excluding SCF UK and London Branch

Mortgage portfolio performance

Due to its size, not only for Santander UK, but also for the Group, the UK mortgage portfolio is closely monitored.

This portfolio, as at December 2019, amounted to 194,354 million euros growing, in local currency, by 4.7% in the year. It consists of residential mortgages granted to new and existing customers, all of which are first lien mortgages. No transactions entail second or successive liens on mortgaged properties.

The real estate market has shown strong resilience with over 4.0% price growth in the year and a stable number of transactions.

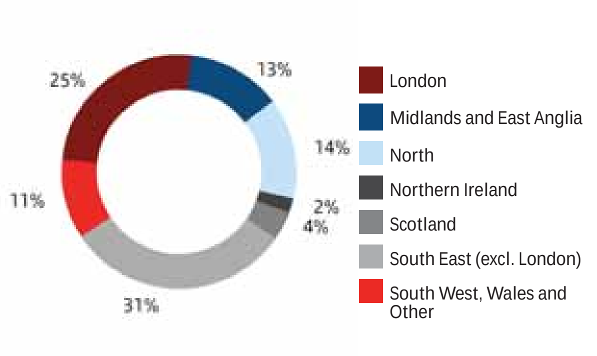
All properties are valued independently before each new transaction approval, in accordance with the Group's risk management principles.

The value of the property used as collateral for mortgages that have been granted is updated quarterly by an independent agency, using an automatic valuation system in accordance with market practices and applicable legislation.

Geographically, credit exposures are predominantly situated in the southeast of the UK and the London metropolitan area.

Geographical distribution

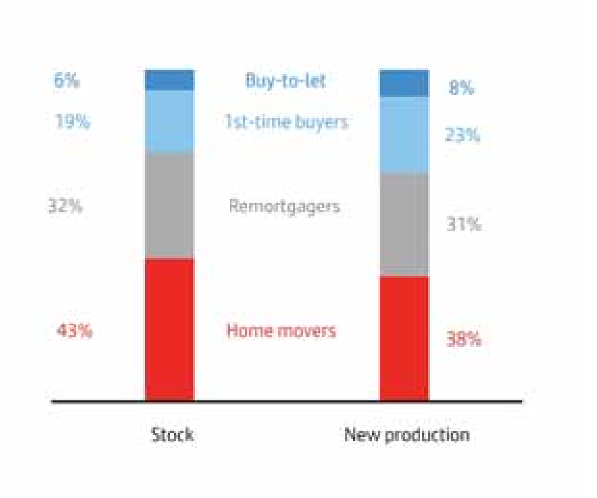
Dec.19 data



The distribution of the portfolio by type of borrower is shown in the chart below:

Mortgage portfolio loan type

EUR million



A. First time buyer: customers who purchase a home for the first time.
B. Home mover: customers who change houses, with or without changing the bank granting the loan.
C. Remortgage: customers who switch the mortgage from another financial entity.
D. Buy to let: houses bought for renting out.

Santander UK offers a wide range of mortgage products aligned with its policies and risk limits. The characteristics of some of these products are described below:

- **Interest only loans** (23%): customer pays interest every month and repays the capital at maturity. An appropriate repayment vehicle such as a pension plan, mutual fund, among others is required. This is a common product in the UK market for which Santander UK applies restrictive policies in order to mitigate inherent risks. For example, a maximum loan to value (LTV) of 50%, more stringent approval criteria and assessment of payment capacity, simulating the repayment of capital and interest rather than solely interest.
- **Flexible loans** (7%): the contract for this type of loan enables the customer to modify their monthly payments or make additional drawdowns of funds up to a previously pre-established limit, under various conditions.
- **Buy to let** (6%): buy to let mortgages (purchase of a property to be rented) account for a small percentage of the total portfolio, with approval subject to strict risk policies.

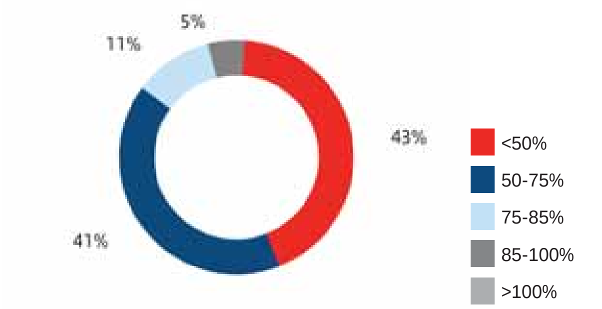
The strong performance of the mortgage portfolio is reflected in the NPL ratio, which fell to 1.04% as of December 2019 (-16 bp vs. year-end 2018).

The implementation of prudent approval policies has put the simple average LTV of the portfolio at 43%. The proportion of the portfolio with an LTV of between 85% and 100% is low, standing at around 5%. New business performance does not show any sign of risk quality deterioration.

The following charts show the LTV structure for the stock of residential mortgages as of December 2019:

Loan to value

Dec.19 data



Loan to value: relation between the amount of the loan and the appraised value of the property. Based on indices.

The existing credit risk policies that are used explicitly forbid loans regarded as high risk (subprime mortgages) and establish strict requirements for credit quality, both for transactions and customers.

Spain

General overview

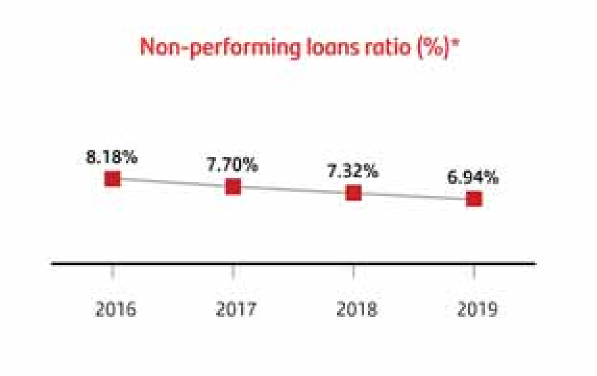
Total credit risk at Santander Spain, including the real estate unit, amounted to 213,668 million euros, 21% of the Group total, with an appropriate level of diversification by both product and customer segment.

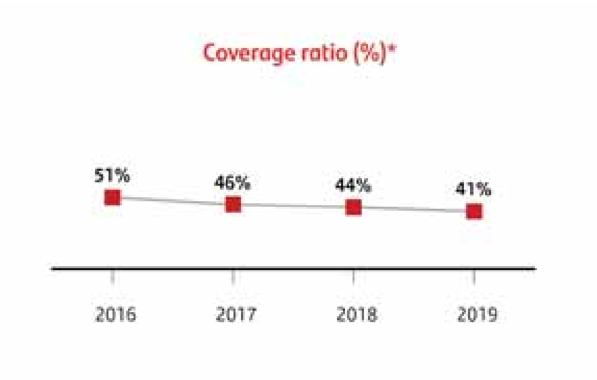
In a context of lower economic and credit growth, new business continues to increase in the segments of consumer loans, SMEs and Corporates. Total credit risk decreased by 6.0% compared to December 2018, mainly due to lower financing extended to public administrations, wholesale banking which also amortises faster than the growth of new business in the individuals segment.

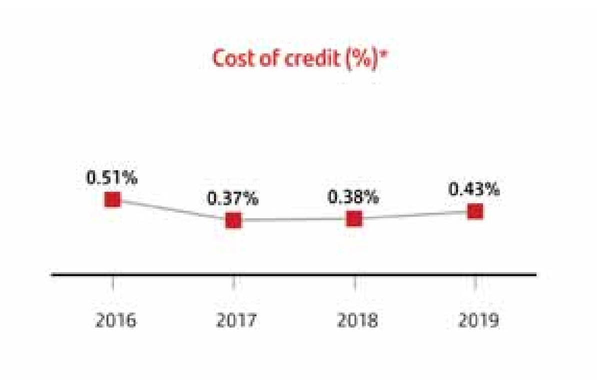
The NPL ratio for the total portfolio was 6.94% (6.58% excluding the real estate unit), -38 bp less than in 2018. This is the result of lower NPLs, which reduced the ratio by -80 bp due to overall better performance, the cure of several restructured positions and portfolio sales. However, this positive effect was partially offset by the decrease observed in the loan portfolio, which had an increasing effect on the ratio of +47 bp.

This credit quality improvement, together with proactive portfolio management, has resulted in a slight decrease in the coverage ratio, standing at 41% at year-end 2019 (-3 pp vs. 2018) as the NPL reduction is focused on those loans with higher expected loss.

The evolution of cost of credit follows the reduction in total loans and a slight increase in provisions.





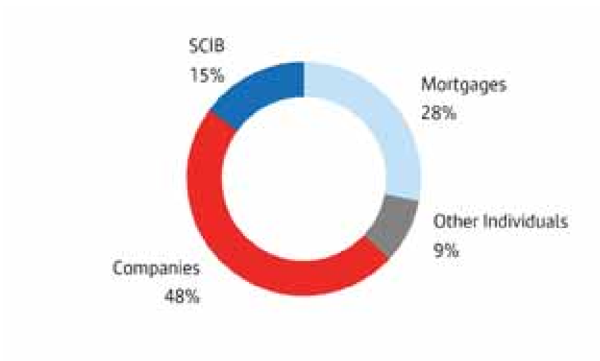


* Includes B. Popular and the real estate unit

The Santander Spain portfolio is divided into the following segments:

Portfolio segmentation

Dec.19 data



Residential mortgages performance

Residential mortgages at Santander Spain amounted to 60,557 million euros, representing 28% of total credit risk, 99.5% of which have a mortgage guarantee.

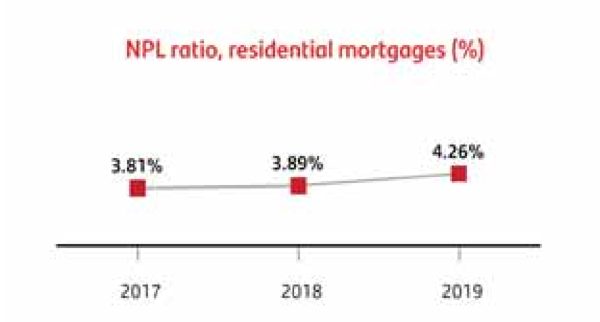
Residential mortgages[A]

EUR million

	2019	2018	2017
Gross Amount	**60,557**	**61,453**	**62,571**
Without mortgage guarantee	306	545	532
With mortgage guarantee	60,251	60,908	62,039
of which non-performing loans	**2,581**	**2,425**	**2,511**
Without mortgage guarantee	14	54	147
With mortgage guarantee	2,567	2,371	2,364

A. Excluding SC Spain mortgage portfolio (1,679 million euros in December 2019 with doubtful debt of 68 million euros).

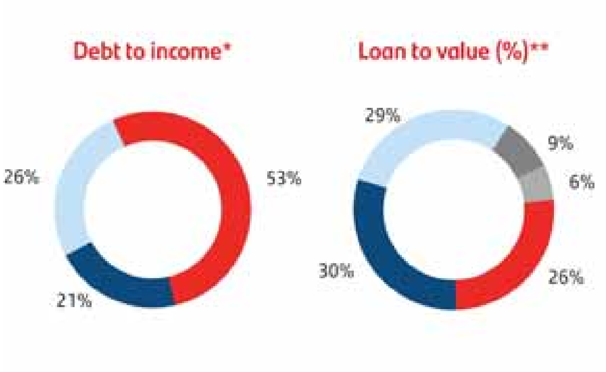
The NPL ratio for mortgages granted to households to acquire a home was 4.26%, increasing 37 bp compared to 2018.



The mortgage portfolio for the acquisition of homes in Spain is characterised by its medium-low risk profile, limiting expectations of potential additional impairment:

- Principal is repaid on all mortgages from the start.
- Early repayment is common so the average life of the transaction is below that of the contract.

- High quality of collateral, concentrated almost exclusively in financing for first homes.
- The average affordability rate stood at 26%.
- 85% of the portfolio has an LTV of below 80%, calculated as total risk/latest available home appraisal.
- All customers applying for a residential mortgage are subject to a rigorous assessment of credit risk and affordability. In evaluating the payment capacity or affordability of a potential customer, the credit analyst must determine if the income of the customer is sufficient to meet the payment of the loan instalments taking into consideration other income that the customer may receive. In addition, the analyst must assess whether the customer's income will be stable over the term of the loan.



DI < 30%
30% < DI < 40%
DI > 40%
Average 26%

LTV < 40%
40% - 60%
60% - 80%
80% - 100%
> 100%

(*) Debt to income: relation between the annual instalments and the customer's net income.
(**) Loan to value: percentage indicating the total risk/latest available home appraisal.

Businesses portfolio

Credit risk assumed directly with SMEs and Corporates amounts to 134,508 million euros, representing the main lending segment at Santander Spain with 63% of the total. Most of the portfolio corresponds to customers who have been assigned a credit analyst to monitor them continuously throughout the risk cycle.

The portfolio is highly diversified, with no significant concentrations by sector of activity.

The NPL ratio for this portfolio stood at 7.31% in December 2019. Despite the reduction in total risk, the NPL ratio fell by 21 bp compared to December 2018, due to a better performance, the normalisation of several restructured positions in corporates and portfolio sales.

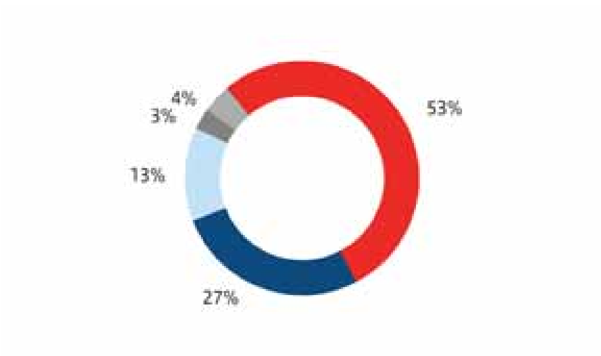
United States

General Overview

Credit risk at Santander US increased to 105,792 million euros at the end of December representing 10% of the Group total. It comprises the following business units:

Business units segmentation

Dec.19 data



SBNA: Santander Bank N.A
SC USA: Santander Consumer USA
NYB - SIS: Santander Investment Securities
BSPR: Banco Santander Puerto Rico
BSI: Banco Santander International

In 2019, credit lending at Santander US continued to grow (+15% vs. year end 2018). The most significant increases were seen in the consumer portfolio (auto loans) of SBNA and SC USA, as well as in the wholesale banking business of SBNA and the New York branch (NYB).

The NPL ratio and cost of credit remain at moderate levels, 2.20% (-72 bp in the year) and 2.85% (-42 bp in the year), respectively. The performance details of Santander US' main units are described below.

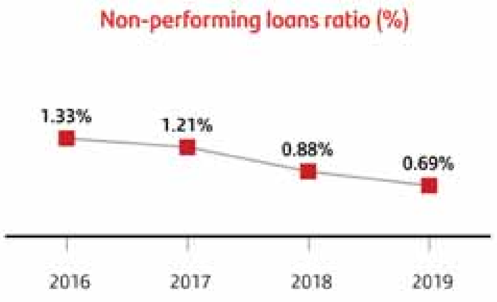
Business units performance

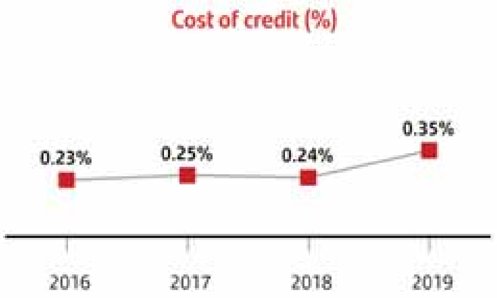
Santander Bank N.A.

Santander Bank N.A. business is focused on retail and commercial banking, representing 82% of total Santander US), of which 41% is with individuals and approximately 59% with corporates. One of the main strategic goals is to continue to encourage the further development of the wholesale banking business, which represents 17% of the business.

Lending increased by 11% over 2019, with the wholesale banking and consumer (auto) segments showing the highest growth.

The NPL ratio decreased standing at 0.69% (-20 bp in the year) in December. This reduction can be explained by the proactive management of certain exposures and the favourable macro trends reflected in the improvement of customer credit risk profiles in the Corporates and Individuals portfolios. The cost of credit increased to 0.35% due to the normalisation of provisions in the Corporates segment and the increase in auto loans.





Santander Consumer USA

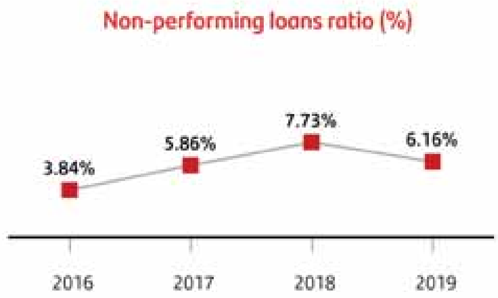
Risk indicators for SC USA are higher than those of the other United States units and of the Group, due to the nature of its business, which focuses on auto financing through loans and leases (97%), seeking to optimise the returns associated with the risk assumed. SC USA´s lending also has a smaller personal lending portfolio (3%).

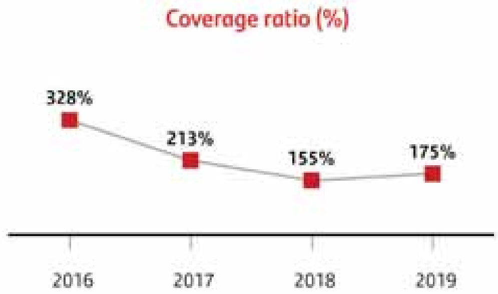
In 2019, new loan production grew by 20% compared to year-end 2018, maintaining quality standards. This growth is supported mainly by the commercial relationship with the Fiat Chrysler Automobiles (FCA) Group, which dates back to 2013, and reinforced in July 2019.

In the same period, new leases contracted by 12% returning to normal levels.

The NPL ratio dropped to 6.16% (-158 bp in the year), mainly due to the positive performance of the business and higher used vehicle prices. Cost of credit, at the end of December, stood at 9.42% (-59 bp in the year). An increase that was partially mitigated by efficiency in recoveries and the positive performance in vehicle prices. The coverage ratio grew to 175% (+20 pp in the year) on the back of the reduction in NPLs.

The lease portfolio (a business carried out exclusively under the FCA agreement and focused on customers with high quality credit profiles) increased by 21% in the year, to 14,779 million euros, providing stable and recurring earnings. The management and mitigation of residual value remains a priority. At the end of December the mark-to-market value of these vehicles was in line with the balance sheet value.





Brazil

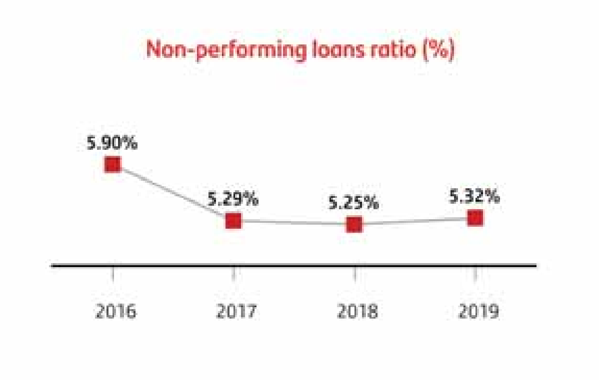
General overview

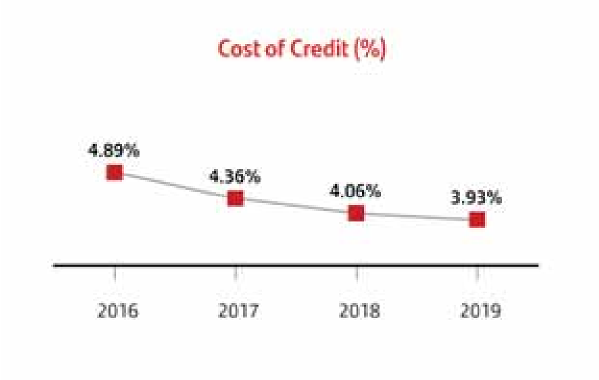
Overall, Brazil´s economic growth slowed in 2019, but an recovery is expected in 2020. The approved pension reform, along with better prospects on structural reforms are lifting confidence and supporting investment. Monetary policy is expected to remain accommodative, in order to support economic growth, provided that inflation expectations remain anchored.

Credit risk in Brazil amounts to 88,893 million euros, representing an increase of 5.6% compared to 2018. Excluding the exchange rate effect, growth was 7%. Santander Brazil accounts for 9% of the Group's lending.

Growth was more pronounced in the retail segments with a more conservative risk profile, based on customer relationship and loyalty, as well as business attracted through digital channels, where a significant increase was recorded during the past year.

The NPL ratio stood at 5.32% as of December 2019 (+7 bp compared to year-end 2018). This performance was due to higher NPLs in the individuals and consumer portfolios.





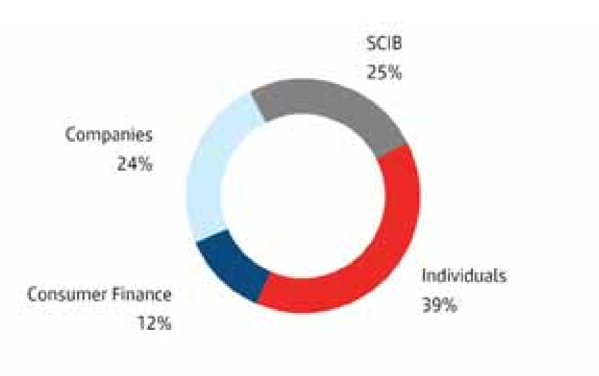
Taking into account the performance seen in recent years, the downward trend in the cost of credit continues, standing at 3.93% at the end of December (-13 bp compared to year-end 2018), thanks to proactive risk management and strong performance in the portfolios.

The coverage ratio stands at 100% (-7 pp vs. year-end 2018).

Santander Brazil´s loan portfolio is divided into the following segments:

Portfolio segmentation

Dec.19 data



The loan portfolio is diversified and has an increasing marked retail profile, with a 75% of loans extended to individuals, consumer financing and companies.

Portfolio performance

In the Individuals loan segment, strong growth was observed in all products. The market share of payroll loans and mortgages increased (products with lower risk).

The increase in market share in the SME segment, is noteworthy, especially in terms of foreign currency loans and agricultural loans.

In order to monitor the credit quality of our loan portfolio and prevent deterioration, one of the main credit risk performance indicators tracked is the impairment ratio on the lending portfolio, known as the 'Over 90 ratio'.

When comparing the ‘Over 90 ratio’, Santander continues to show better performance than its local peers. This ratio stood at 2.9% at the end of December 2019 (-20 pb vs. year-end 2018), below the average of its competitors.

Over 90 total (%)

Dec.19 data

3.5 Other credit risk aspects

Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with customers, mainly with credit institutions. Transactions are undertaken through money market financial products with different financial institutions and through counterparty risk products, which serve the Group’s customer needs.

According to regulation (EU) 575/2013, counterparty credit risk is the risk that a client in a transaction could default before the definitive settlement of the cash flows of the transaction. It includes the following types of transactions: derivative instruments, transactions with repurchase commitment, stock and commodities lending, transactions with deferred settlement and financing of guarantees.

There are two methodologies for measuring this exposure: (i) mark-to-market (MtM) methodology (replacement value of derivatives) plus potential future exposure (add-on) and (ii) the calculation of exposure using Montecarlo simulation for some countries and products. The capital at risk or unexpected loss is also calculated, i.e. the loss which, once the expected loss has been subtracted, constitutes the economic capital, net of guarantees and recoveries.

After the markets close, exposures are re-calculated by adjusting all transactions to their new time frame, adapting the potential future exposure and applying mitigation measures (netting, collateral, etc.), so that the exposures can be controlled directly against the limits approved by senior management. Risk control is performed through an integrated system in real time, enabling the exposure limit available with any counterparty, product and maturity and in any of Santander’s subsidiaries to be known at any time.

Exposures to counterparty risk: over the counter (OTC) transactions and organised markets (OM)

As of December 2019, total exposure on the basis of management criteria in regard to the positive market value after applying netting agreements and collateral for counterparty risk activities was 7,265 million euros (net exposure of 32,552 million euros).

Counterparty risk: exposure in terms of market value and credit risk equivalent, including the mitigation effect[A]

EUR million

	2019	2018	2017
Market value, netting effect[B]	37,365	29,626	31,162
Collateral received[C]	30,100	19,885	16,293
Market value with netting effect and collateral[D]	7,265	9,741	14,869
Netting effect[E]	32,552	33,289	32,876

A. Figures under internal risk management criteria. Listed derivatives have a market value of zero. No collateral is received for these types of transactions.
B. Market value used to include the effects of mitigation agreements to calculate exposure for counterparty risk.
C. Included variation margin, initial margin and secured finance transactions collateral.
D. Including the mitigation of netting agreements and deducting the collateral received.
E. CRE (credit risk equivalent): net value of replacement plus the maximum potential value, less collateral received.

In the following table, the distribution is shown, both in nominal and market value terms, of the Group's products that generate counterparty credit risk. This risk, is mainly concentrated in interest and exchange rate hedging instruments:

Counterparty risk: Distribution by nominal risk and gross market value[A]

EUR million

	2019			2018			2017		
	Nominal	Market value		Nominal	Market value		Nominal	Market value	
		Positive	Negative		Positive	Negative		Positive	Negative
Credit derivatives[B]	29,805	312	1,357	22,464	130	875	30,231	303	95
Equity derivatives	27,887	2,481	1,836	62,802	2,951	1,840	62,657	1,633	3,395
Fixed income derivatives	23,136	119	177	6,766	110	45	8,660	89	13
Exchange rate derivatives	893,489	21,053	23,270	781,641	21,743	20,098	657,092	21,147	20,122
Interest rate derivatives	4,970,019	112,128	108,651	5,000,406	86,079	86,411	4,126,570	78,900	81,255
Commodity derivatives	641	55	27	2	—	—	345	—	—
Total OTC derivatives	**5,944,977**	**136,148**	**135,318**	**5,874,081**	**111,014**	**109,268**	**4,885,555**	**102,071**	**104,880**
Derivatives organised markets[C]	**167,803**	**955**	**917**	**109,695**	**902**	**1,129**	**154,904**	**—**	**—**
Repos	**143,163**	**4,334**	**2,722**	**149,006**	**2,352**	**2,466**	**165,082**	**2,374**	**2,435**
Securities lending	**48,786**	**17,490**	**23,652**	**43,675**	**12,425**	**22,272**	**54,923**	**9,449**	**4,124**
Total counterparty risk[D]	**6,304,729**	**158,927**	**162,609**	**6,176,457**	**126,693**	**135,136**	**5,260,464**	**113,893**	**111,439**

A. Figures under internal risk management criteria.
B. Credit derivatives acquired including hedging of loans.
C. Refers to transactions involving listed derivatives (proprietary portfolio). Listed derivatives have a market value of zero. No collateral is received for these types of transactions.
D. Spot transaction not included.

The Group's derivatives transactions focus on terms of less than five years, repos and securities loans maturing in less than one year, as the following chart shows:

Counterparty risk: Distribution of nominal risk by maturity[A]

EUR million. Dec.19 data

	Up to 1 year	Up to 5 years	Up to 10 years	More than 10 years	TOTAL
Credit derivatives[B]	41%	51%	4%	4%	29,805
Equity derivatives	73%	25%	2%	—	27,887
Fixed income derivatives	77%	23%	—	—	23,136
Exchange rate derivatives	56%	26%	13%	5%	893,489
Interest rate derivatives	32%	40%	18%	9%	4,970,019
Commodity derivatives	74%	26%	—	—	641
Total OTC derivatives	**36%**	**38%**	**18%**	**9%**	**5,944,977**
Derivatives organised markets[C]	**67%**	**31%**	**2%**	**—**	**167,803**
Repos	**93%**	**7%**	**—**	**—**	**143,163**
Securities lending	**98%**	**2%**	**—**	**—**	**48,786**
Total counterparty risk	**38%**	**37%**	**17%**	**8%**	**6,304,729**

A. Figures under internal risk management criteria.
B. Credit derivatives acquired including hedging of loans.
C. Refers to transactions involving listed derivatives (proprietary portfolio). Listed derivatives have a market value of zero. No collateral is received for these types of transactions.

Counterparty credit risk exposure is concentrated in customers with high credit quality (90.8% of counterparty risk with a rating equal to or higher than A), and mainly with financial institutions (24%) and clearing houses (69%).

Distribution of counterparty risk by customer rating (in nominal terms)[A]

Dec.19 data

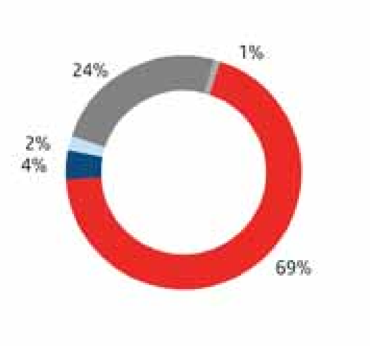
Rating	%
AAA	0.84%
AA	15.63%
A	74.37%
BBB	8.62%
BB	0.49%
B	0.04%
Other	—

A. Ratings based on internally defined equivalences between internal ratings and credit agency ratings.

Transactions with clearing houses and financial institutions are carried out under netting and collateral agreements, and constant efforts are made to ensure that all other transactions are covered under this type of agreement. The collateral agreements that the Group signs are bilateral with few exceptions, mainly with multilateral institutions and securitisation funds, in which case agreements are unilateral in favour of the customer.

Counterparty risk by customer segment

Dec.19 data



Collateral is used for reducing counterparty risk. These are a series of instruments with a certain economic value and high liquidity that are deposited/transferred by a counterparty in favour of another, in order to guarantee/reduce the credit risk of the counterparty that could result from portfolios of derivatives with cross-risk.

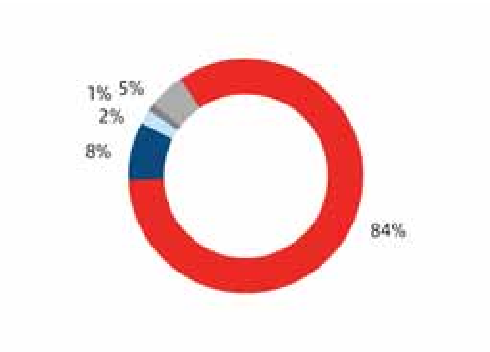
The transactions subject to the collateral agreement are regularly valued (normally daily) applying the parameters defined in the contract so that a collateral amount is obtained (usually cash or securities), which is to be paid to or received from the counterparty.

The collateral received by the Group under the different types of collateral agreements (CSA, OSLA, ISMA, GMRA, etc.) amounted to 30,100 million euros of which 14,409 million euros related to collateral received for derivatives, mostly cash (40.6%). The rest of the collateral types are subject to strict quality policies regarding the issuer type and its rating, debt seniority and haircuts applied.

In geographical terms, the collateral received is distributed as shown in the following chart:

Collateral received. Geographic distribution

Dec.19 data



As a result of the risk associated with the credit exposure with each counterparty, the Group includes a valuation adjustment for over the counter (OTC) derivatives. This is a result of the risk associated with credit exposure assumed with each counterparty (i.e. a Credit Valuation Adjustment - CVA) and a valuation adjustment due to the risk relating to the Group itself assumed by counterparties on OTC derivatives (i.e. Debt Valuation Adjustment -DVA).

As at December 2019, there were CVAs of 272.1 million euros (-22.4% compared to December 2018) and DVAs of 171.0 million euros (-34.6% compared with 2018). The decrease is mainly due improvements in the credit quality of the counterparties, which has led to the fall of credit spreads by approximately 40% in the most liquid terms.

The definition and methodology for calculating the CVA and DVA are set out in the section 4.2 'Trading market risk management' - Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA)' in this chapter.

Counterparty risk, organised markets and clearing houses

The Group's policies seek to anticipate, whenever possible, the implementation of measures resulting from new regulations regarding transactions with OTC derivatives, repos and securities lending, whether settled through clearing houses or traded bilaterally. In recent years, there has been a gradual standardisation of OTC transactions in order to conduct clearing and settlement of all new trading transactions through clearing houses, as required by the recent regulation and to foster internal use of electronic execution systems.

At Santander, we actively manage transactions not settled through clearing houses and seek to optimise volumes, given the spread and capital requirements under new regulations.

Regarding organised markets, regulatory credit exposure has been calculated for such transactions since 2014 and the entry into force of the new CRD IV (Capital Requirements Directive) and CRR, transposing the Basel III principles for calculating capital, even though counterparty risk management does not consider credit risk on such transactions.

The following tables show the weighting of trades settled through clearing houses as a portion of total counterparty risk at December 2019:

Distribution of counterparty risk by settlement channel and product type[A]

Nominal in EUR million

	Bilateral		CCP[B]		Organised markets[C]		
	Nominal	%	Nominal	%	Nominal	%	Total
Credit derivatives	18,249	61.2%	11,556	38.8%	—	—	29,805
Equity derivatives	27,518	38.5%	370	0.5%	43,514	60.9%	71,401
Fixed income derivatives	23,136	100.0%	—	—	—	—	23,136
Exchange rate derivatives	850,130	94.7%	43,358	4.8%	4,397	0.5%	897,886
Interest rate derivatives	882,764	17.3%	4,087,255	80.3%	119,798	2.4%	5,089,817
Commodity derivatives	641	87.2%	—	—	94	12.8%	735
Repos	119,231	83.3%	23,933	16.7%	—	—	143,163
Securities lending	48,786	100.0%	—	—	—	—	48,786
Total	**1,970,455**		**4,166,472**		**167,803**		**6,304,729**

A. Figures under internal risk management criteria.
B. Central counterparties (CCP).
C. Refers to transactions involving listed derivatives (proprietary portfolio). Listed derivatives have a market value of zero. No collateral is received for these types of transactions.

Distribution of risk settled by CCP and organised markets, by product[A]

Nominal in EUR million

	2019	2018	2017
Credit derivatives	11,556	4,231	2,524
Equity derivatives	370	32,229	26,088
Fixed income derivatives	—	—	—
Exchange rate derivatives	43,358	36,928	1,592
Interest rate derivatives	4,087,255	4,025,674	2,950,796
Commodity derivatives	—	2	124
Repos	23,933	41,492	64,086
Securities lending	—	—	—
Total	**4,166,472**	**4,140,556**	**3,045,210**

A. Figures under internal risk management criteria.

Credit derivatives activity

The Group uses credit derivatives to cover loans, our customers' business in the financial markets and in its trading activities. The volume of this activity is small in terms of the notional (0.5% of total counterparty risk notional) and, is subject to a solid set of internal controls and procedures to minimise operational risk.

Concentration risk

Concentration risk control is a vital part of our management. The Group continuously monitors the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors and groups of customers.

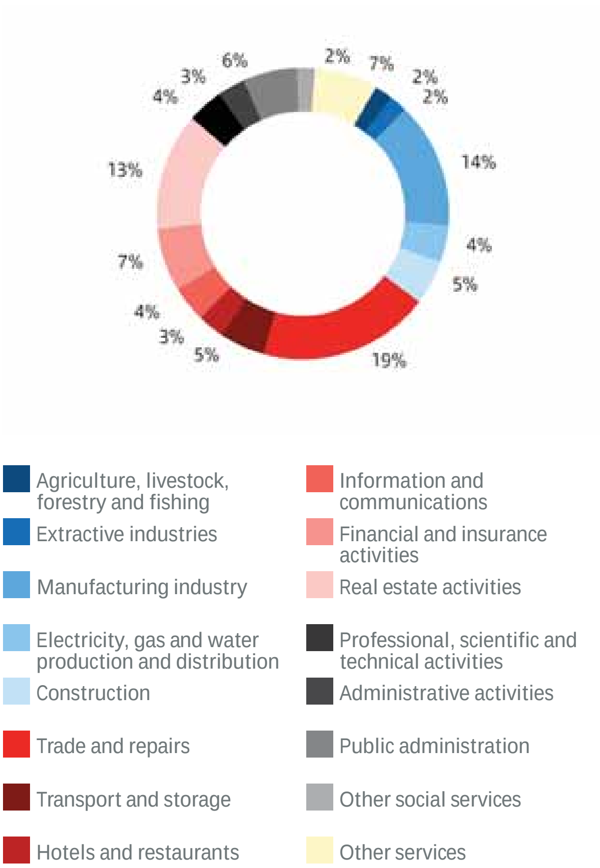
The board, via the risk appetite framework, determines the maximum levels of concentration, as described in the risk appetite framework and structure of limits in section 2.4 'Management processes and tools'.

In line with these maximum levels and limits, the executive risk committee establishes the risk policies and reviews the appropriate exposure levels for the effective management of the degree of concentration in Santander's credit risk portfolios.

As indicated in the key metrics section of this chapter, in geographical terms, credit risk with customers is diversified in the main markets where the Group operates (United Kingdom 27%, Spain 21%, United States 10%, Brazil 9%, etc.).

In terms of diversification by sector, approximately 56% of the Group's credit risk corresponds to individual customers, who, due to their inherent nature, are highly diverse. In addition, the lending portfolio is well distributed, with no significant concentrations in specific sectors. The following chart shows the distribution at December 2019:

Diversification by economic sector[A]



A. Excluding individuals and reverse repos.

The Group must adhere to the regulation on large risks contained in the CRR, according to which the exposure contracted by an entity with a customer or group of associated customers will be considered a large exposure when its value is equal to or greater than 10% of eligible capital. In addition, in order to limit large exposures, no entity may assume exposures exceeding 25% of its eligible capital with a single customer or group of associated customers, having factored in the credit risk reduction effect contained in the regulation.

The application of risk mitigation techniques, resulted in no groups triggering these thresholds at the end of September.

Regulatory credit exposure with the 20 largest groups within the scope of large risks represented 4.65% of the outstanding credit risk with customers (lending to customers and off-balance sheet risks) as of December 2019.

The Group's Risk division works closely with the Financial division to actively manage credit portfolios. Its activities include reducing the concentration of exposures through various techniques, such as using credit derivatives and securitisations to optimise the risk-return relationship of the entire portfolio.

Country risk

Country risk is a component of credit risk in all cross-border credit transactions arising from circumstances other than usual business risks. The main elements involved are sovereign risk, transfer risk and other risks that affect international financial activity (wars, natural disasters, balance of payments crises, among others).

The Group takes into account these three elements of country risk in the calculation of provisions, through its loss forecasting models and considering the additional risk arising from cross-border transactions.

As at 31 December 2019, the provisionable exposure due to country risk stood at similar levels compared to the previous year, amounting to 296 million euros (285 million euros in 2018). Total provisions at year-end 2019 stood at EUR 21 million compared to 25 million euros at the end of 2018.

The principles of country risk management continued to follow criteria of maximum prudence; country risk is assumed very selectively in transactions that are clearly profitable for the Group, and which enhance the global relationship with our customers.

Sovereign risk including risk vis-à-vis the rest of public administrations

Sovereign risk is the risk contracted in transactions with a central bank, including the regulatory cash reserve requirement, issuer risk with the Treasury (public debt portfolio) and the risk arising from transactions with public institutions with the following features: their funds only come from the state's budget income and activities are of a non-commercial nature.

These historic Group criteria, differ in some respects from those applied by the European Banking Authority (EBA) in its regular stress test exercises. The main differences are that the EBA's criterion does not include deposits with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, the EBA does include public administrations in general, including regional and local bodies, not only the central state sector.

According to the Group's management criteria, local sovereign exposure in currencies other than the official currency of the country of issuance is not significant (12,187 million euros, 5.3% of total sovereign risk), and exposure to non-local sovereign issuers involving cross-border[1] risk is even less significant (4,269 million euros, 1.8% of total sovereign risk).

Sovereign exposure in Latin America is mostly in local currency and recognised in the local accounts with predominantly short-term maturities.

1. Countries that are not considered low risk by *Banco de España.*

Over the past few years, total exposure to sovereign risk has remained aligned with the regulatory requirements and strategic reasons that support the management of this portfolio.

The movements observed in the different countries exposure is therefore explained by the Group's liquidity management strategy and the hedging of interest and exchange rates risks. Santander has a diversified international exposure among different countries with diverse macroeconomic perspectives and thus, dissimilar growth, interest and exchange rates scenarios.

The investment strategy for sovereign risk also takes into account the credit quality of each country when setting the maximum exposure limits. The following table shows the percentage of exposure by rating levels[2]:

	2019	2018	2017
AAA	20%	11%	14%
AA	24%	20%	21%
A	18%	31%	27%
BBB	15%	13%	12%
Lower than BBB	23%	25%	27%

Sovereign Exposure at the end of December 2019 is shown in the table below (million euros):

	2019					2018
	Portfolio					
	Financial assets held for trading and Financial assets designated as FV with changes in results	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Non-trading financial assets mandatorily at fair value through profit or loss	Total net direct exposure	Total net direct exposure
Spain	5,204	19,961	10,201	—	35,366	49,640
Portugal	(746)	5,450	3,985	—	8,689	8,753
Italy	643	1,631	461	—	2,735	261
Greece	—	—	—	—	—	—
Ireland	—	—	—	—	—	—
Rest Eurozone	(313)	1,679	443	—	1,809	2,778
UK	740	1,402	8,221	—	10,363	10,869
Poland	22	8,313	31	—	8,366	11,229
Rest of Europe	(2)	120	659	—	777	329
US	794	10,463	5,042	—	16,299	8,682
Brazil	3,483	21,250	4,265	—	28,998	27,054
Mexico	4,366	8,350	957	—	13,673	10,415
Chile	320	2,759	381	—	3,460	1,776
Rest of America	9	249	771	—	1,029	893
Rest of the World	—	3,832	981	—	4,813	6,222
Total	**14,520**	**85,459**	**36,398**	**—**	**136,377**	**138,901**

2. Internal ratings are applied.

4. Trading market risk, structural and liquidity risk

4.1 Introduction

This section provides information about the risk management and control activities related to market risk as well as the evolution of the Group's market risk profile in 2019, distinguishing between trading activity, structural risks and liquidity risks. It also briefly describes the main methodologies and metrics used by Santander Group in this regard.

The perimeter of activities subject to market risk encompasses those transactions where risk is assumed as a consequence of potential variations in market factors - interest rates, inflation rates, exchange rates, stock prices, credit spreads, commodity prices and the volatility of each of these elements -, as well as liquidity risk from the various products and markets in which the Group operates and balance sheet liquidity risk. Therefore, they include trading risks and structural risks, as both are affected by market shifts.

- **Interest rate risk** arises from the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects loans, deposits, debt securities, most assets and liabilities in the trading books and derivatives, among others.

- **Inflation rate risk** originates from potential changes in inflation rates that could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects instruments such as loans, debt securities and derivatives, where the return is linked to future inflation values or to a change in the current rate.

- **Exchange rate risk** is defined as the sensitivity to potential movements in exchange rates of a position's value that is denominated in a different currency than the base currency. Hence, a long or open position in a foreign currency may produce a loss if that currency depreciates against the base currency. Among the exposures affected by this risk are the Group's investments in subsidiaries in non-euro currencies, as well as any transactions in foreign currency.

- **Equity risk** is the sensitivity of the value of open positions in equities to adverse movements in their market prices or future dividend expectations. Among others, this affects positions in shares, stock market indices, convertible bonds and derivatives with shares as the underlying asset (put, call, equity swaps, among others).

- **Credit spread risk** is the risk or sensitivity of the value of open positions in fixed income securities or in credit derivatives to movements in credit spread curves or recovery rates associated with specific issuers and types of debt. The spread is the difference between financial instruments with a quoted margin over other benchmark instruments, mainly the internal rate of return (IRR) of government bonds and interbank interest rates.

- **Commodities price risk** is the risk derived from the effect of potential changes in commodities prices. The Group's exposure to this risk is not significant and mainly comes from our customers' derivative transactions on commodities.

- **Volatility risk** is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: interest rates, exchange rates, shares and credit spreads. This risk is incurred by all financial instruments where volatility is a variable in the valuation model. The most significant case is the financial options portfolio.

All these market risks can be partly or fully mitigated by using derivatives such as options, futures, forwards and swaps.

In addition, there are **other types of market risk** that require more complex hedging. For example:

- **Correlation risk.** Sensitivity of the portfolio to changes in the relationship between risk factors (correlation), either of the same type (for example, two exchange rates) or different types (e.g. an interest rate and the price of a commodity).

- **Market liquidity risk.** This risk arises when a Group subsidiary or the Group as a whole cannot reverse or close a position in time without having an impact on the market price or the transaction cost. Market liquidity risk can be caused by a reduction in the number of market makers or institutional investors, the execution of a large volume of transactions, or market instability. Additionally, this risk could increase depending on how the different exposures are distributed among certain products and currencies.

- **Pre-payment or cancellation risk**. Some on-balance-sheet instruments (such as mortgages or deposits) may have associated options that allow the holder to buy, sell it or otherwise alter its future cash flows. This may result in mismatches arising in the balance sheet, which may pose a risk since cash flows may have to be reinvested at an interest rate that is potentially lower (assets) or higher (liabilities).

- **Underwriting risk.** This is the consequence of an entity's involvement in the underwriting or placement of securities or other types of debt, when the entity assumes the risk of having to partially acquire the issued securities when the placement has not been taken up in full by potential buyers.

In addition to the above market risks, balance sheet liquidity risk must also be considered. Unlike market liquidity risk, **balance sheet liquidity risk** is defined as the possibility of not meeting payment obligations on time, or doing so at an excessive cost. Among the losses caused by this risk are losses due to forced sales of assets or margin impacts due to the mismatch between expected cash inflows and outflows.

Pension and actuarial risks also depend on potential shifts in market factors. Further details are provided at the end of this section.

The Group has several projects underway to ensure compliance with the obligations related to the Basel Committee's Fundamental Review of the Trading Book, and the EBA guidelines on balance sheet interest rate risk. The goal of these projects is to have the best tools for controlling and managing market risks available for both, managers and control units, all within a governance framework that is appropriate for the models used and the reporting of risk metrics. These projects allow the requirements related to regulatory demands for these risk factors to be met.

4.2 Trading market risk management

Limits management and control system

Market risk functions monitor market risk positions on a daily basis to ensure that they remain within the approved management limits. In addition, daily monitoring is performed to assess the performance of market risk metrics and any major changes. Periodic reports are produced and distributed based on this assessment to ensure the proper monitoring of market risk activities within the Group and to inform the senior management and other internal and external stakeholders.

Setting the aforementioned trading market risk limits is a dynamic process, which is determined by the Group's predefined risk appetite levels (as described in the 'Risk appetite and structure of limits' paragraph in section 2.4 'Management processes and tools'). This process is part of the annual limits plan that is fostered by the Group's senior management and includes all of our subsidiaries.

The market risk limits are established based on different metrics and are intended to cover all activities subject to market risk from many perspectives, applying a prudent approach. These are:

- Value at Risk (VaR) and Stressed VaR limits.
- Limits of equivalent and/or nominal positions.
- Interest rate sensitivity limits.
- Vega limits.
- Delivery risk limits for short positions in securities (fixed income and securities).
- Limits to constrain the volume of effective losses or protect results generated during the period:
  - Loss trigger.
  - Stop loss.
- Credit limits:
  - Total exposure limit.
  - Jump to default by issuer limit.
  - Others.
- Limits for origination transactions.

These general limits are complemented by other sub-limits to establish a sufficiently granular structure that allows for effective control of the market risk factors to which the Group is exposed in its trading activities. Positions are monitored on a daily basis for each subsidiary and also at the trading desk level, as well as globally with an exhaustive control of those changes observed in both portfolios and trading desks, so as to identify any potential events that might need immediate correction, and thus comply with the Volcker Rule.

Three categories of limits are established based on the scope of approval and control: global approval and control limits, global approval limits with local control, and local approval and local control limits. The limits are requested by the business executive of each country/entity, considering the particular nature of the business and the established budget targets, seeking consistency between the limits and the risk/return ratio. The limits are approved by the corresponding risk bodies as defined in their governance process.

Business units must comply with the approved limits at all times. In the event of a limit being breached, the local business executives have to explain, in writing and on the same day, the reasons for the excess and the action plan to correct the situation, which in general could consist of reducing the position until it reaches the defined limits or setting out the strategy that justifies a limit increase.

Methodologies

a) Value at Risk (VaR)

The standard methodology applied in the Group for risk management and control purposes related to its trading activities is Value at Risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame.

The standard for historic simulation is a confidence level of 99% and a one day time frame. Statistical adjustments are applied enabling the most recent developments affecting the levels of risk assumed to be incorporated efficiently and on a timely manner. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used. Two figures are calculated every day: one applying an exponential decay factor that allocates less weight to the observations furthest away in time and another with the same weight for all observations. The higher of the two is reported.

Simultaneously the Value at Earnings (VaE) is calculated, which measures the maximum potential gain with a certain level of confidence and specific time frame, applying the same methodology as for VaR.

VaR by historic simulation has many advantages as a risk metric, it sums up in a single number the portfolio's market risk, it is based on market movements that really occurred without the need to make assumptions of functions forms or correlations between market factors, but it also has its limitations.

Some limitations are intrinsic to the VaR metric, regardless of the methodology used in its calculation. For example:

- The VaR calculation is calibrated at a certain level of confidence, which does not indicate the levels of potential losses beyond it.
- There are some products in the portfolio with a liquidity horizon greater than that specified in the VaR model.
- VaR is a static analysis of the portfolio risk, and the situation could change significantly during the following day, although the likelihood of this occurring is very low.

Using the historic simulation methodology also has its limitations:

- High sensitivity to the historic window used.
- Inability to capture plausible events that would have significant impact, if these do not occur in the historic window used.
- The existence of valuation parameters with no market input (such as correlations, dividend and recovery rate).
- Slow adjustment to new volatilities and correlations, if the most recent data receives the same weight as the oldest data.

Some of these limitations are overcome by using Stressed VaR and Expected Shortfall, calculating VaR with exponential decay and applying conservative valuation adjustments. Furthermore, as previously stated, the Group regularly conducts analyses and backtesting to assess the accuracy of the VaR calculation model.

b) Stressed VaR (sVaR) and Expected Shortfall (ES)

In addition to standard VaR, Stressed VaR is calculated daily for the main portfolios. The calculation methodology is the same as for VaR, with the two following exceptions:

- The historical observation period for the factors: when calculating stressed VaR a window of 260 observations is used over a continuous period of stress for the portfolio in question, rather than 520 for VaR. However, this is not the most recent data: instead, the data used is from a continuous period of stress for the portfolio in question. This is calculated for each major portfolio by analysing the history of a subset of market risk factors selected based on expert judgement and the most significant positions in the books.
- Unlike VaR, stressed VaR is obtained using the percentile with uniform weighting, not the higher of the percentiles with exponential and uniform weightings.

Moreover, the Expected Shortfall is also calculated by estimating the expected value of the potential loss when this is higher than the level set by VaR. Unlike VaR, ES has the advantage of capturing the risk of large losses with a low probability (tail risk) and being a sub-additive metric. The Basel Committee considers that ES with a 97.5% confidence interval delivers a similar level of risk to VaR at a 99% confidence interval. ES is calculated by applying uniform weights to all observations.

c) Scenario analysis

The Group uses other metrics and tools in addition to VaR, to provide greater control over the risks it faces in the markets where it is active. These include scenario analysis, which consists in defining alternative behaviours for various financial variables to obtain the impact on results of applying these scenarios. These scenarios may replicate events that occurred in the past (such as a crisis) or determine plausible alternatives that are unrelated to past events.

The potential impact on earnings under different stress scenarios is regularly calculated and analysed, particularly for trading portfolios, considering the same risk factor assumptions. A minimum of three scenarios are defined: plausible, severe and extreme. Taken together with VaR, these reveal a much more complete spectrum of the risk profile.

d) Gauging and backtesting measures

Regulation establishes that the VaR model should accurately capture all material risks. Given that Value at Risk uses statistical techniques under normal conditions, for a certain confidence level and for a defined time horizon, the maximum potential loss estimated can differ from real losses. Therefore, the Group regularly analyses and contrasts the accuracy of the VaR calculation model to confirm its reliability.

To assess the accuracy of the VaR model, internal backtesting, VaR contrast measures, and hypothetical portfolio analysis for subsidiaries covered by the internal market risk model are conducted by market risk functions, among other tests. In addition, for those subsidiaries with an approved internal model, regulatory backtesting is performed in order to identify the number of overshootings (when the daily loss or profit exceeds VaR or VaE), that will impact the calculation of market risk regulatory capital requirements.

Backtesting is designed to assess the general quality or effectiveness of the risk measurement model by comparing the VaR (Value at Risk) measures with P&L results. The Group performs back testing analysis by comparing the daily VaR/VaE obtained on D-1 with the following P&L obtained on D:

- Economic P&L: refers to the P&L calculated on the basis of end-of-day mark-to-market or mark-to-model values. This test is used to check, whether the VaR/VaE methodology used by the entity to measure and aggregate risk is adequate.
- Actual P&L: refers to the daily P&L calculated based on a comparison between the portfolio's end-of-day value and its actual value at the end of the subsequent day, includes the profit and loss stemming from intraday activities, excluding fees, commissions, and net interest income. This P&L is used for regulatory purposes, to count regulatory overshootings.
- Hypothetical P&L: refers to the daily P&L calculated by comparing the portfolio's end- of-day value and its value at the end of subsequent day, assuming unchanged

positions. In this case, the time effect is not considered, so that it is consistent with VaR. This backtesting is used to check whether the portfolios are regularly subjected to an intra-day risk which is not reflected in the closing positions, and, therefore, not reflected in VaR. This backtesting is also used for regulatory purposes to count regulatory overshootings.

- Theoretical P&L: calculated using the market risk calculation engine, without taking into account intra-day results, changes in portfolio positions or the passage of time (Theta). This P&L is used exclusively to test the quality of the internal VaR model.

Regulatory backtesting is performed on a daily basis at least at the overall portfolio unit level and one portfolio level below. Internal (not regulatory) backtesting exercises are performed daily, weekly or monthly based on its granularity of the portfolio level considered.

The number (or proportion) of overshootings registered is one of the most intuitive indicators in order to establish the goodness of fit of a model. Regulatory backtesting is calculated for a historic period of one year (250 days) and at a VaR confidence level of 99%. Between two and three overshootings per year are expected. For the calculation of market risk regulatory capital, the regulatory K[3] is obtained depending on the maximum number of overshootings between actual and hypothetical backtestings.

e) Analysis of positions, sensitivities and results

At Santander, positions are used to quantify the net volume of market securities for the transactions in the portfolio, grouped by main risk factor, considering the delta value of any futures or options. All risk positions can be expressed in the base currency of the local unit and the currency used for standardising information. Daily monitoring of changes in positions is carried out to detect any incidents so that they can be corrected immediately.

Measurements of market risk sensitivity estimate the variation (sensitivity) of the market value of an instrument or portfolio to any change in a risk factor. The sensitivity of the value of an instrument to changes in market factors can be obtained using analytical approximations through partial derivatives or through a complete revaluation of the portfolio.

Furthermore, the daily formulation of the income statement by the Risk area is an excellent indicator of existing risks, as it allows the impact of changes in financial variables on portfolios to be identified.

f) Derivatives activities and credit management

The control of derivative activities and credit management is also noteworthy, which due to its atypical nature, are conducted daily with specific measures. Firstly, the Group controls and monitors the sensitivity to price movements of the underlying asset (Delta and Gamma), volatility (Vega[4]) and time (Theta). Secondly, measures such as sensitivity to the spread, jump-to-default, concentrations of positions by level of rating, among others are reviewed systematically.

For credit risk inherent to trading portfolios, and in accordance with the recommendations of the Basel Committee and prevailing regulations, an additional metric is also calculated: incremental risk charge (IRC).

IRC seeks to cover default risks and ratings migration that are not adequately captured in VaR, through variations in the corresponding credit spreads. This metric is essentially applied to fixed-income bonds, both public and private, derivatives on bonds (forwards, options, etc.) and credit derivatives (credit default swaps, asset backed securities, etc.). IRC is calculated using direct measurements of loss distribution tails at an appropriate percentile (99.9%), over a one-year horizon. *Montecarlo* methodology is used, applying one million simulations.

g) Credit valuation adjustment (CVA) and debit valuation adjustment (DVA)

The Group incorporates CVA and DVA when calculating the trading portfolio results. The CVA is a valuation adjustment for over the-counter (OTC) derivatives, resulting from the risk associated with the credit exposure assumed with each counterparty.

It is calculated taking into account the potential exposures with each counterparty at each future maturity. The CVA for a particular counterparty is the sum of the CVA for all its maturities. To calculate this metric, the following inputs are considered: expected exposure, loss given default, probability of default and a discount factor curve.

Debit valuation adjustment (DVA) is a valuation adjustment similar to the CVA, but in this case as a result of the Group risk that our counterparties assume in OTC derivatives.

4.3 Trading market risk key metrics

Risk levels in trading activity remained at low levels in 2019, in a complex environment marked by uncertainty arising from trade disputes, low interest rates, Brexit, and other geopolitical risks in several units. The exposure levels in trading portfolios are low compared to previous years in all risk factors.

Risks of trading activities arise mainly from activities with customers in non-complex instruments, concentrated in hedging of interest rate and exchange rate risks. Contribution to overall risk of proprietary positions in trading portfolios is substantially lower than in previous years.

3. K: Parameter used for calculating the consumption of regulatory capital due to market risk.
4. Vega, a Greek term, is the sensitivity of the value of a portfolio to changes in the price of market volatility

In 2019, in general, there was a low level of consumption of the limits established for trading activities, which are set in accordance with the risk appetite defined in the Group for this type of activity. Lower risk levels are also evident even under stressed scenarios, as seen in the loss results in the stress tests regularly carried out to assess any risks not reflected in the usual metrics to control and monitor trading risks.

Capital requirements for market risk

Capital requirements for market risk are determined through both internal and standardised models.

At year-end 2019 Santander Group received authorisation from the ECB to use the internal market risk model for the calculation of regulatory capital in the trading books of Spain, Chile and Mexico as well as approval to extend Spain's internal model to Santander London Branch. The Group aims to gradually extend this approval to the rest of our subsidiaries and is closely working with the ECB to achieve this goal, as well as in the analysis of new requirements described in the recently published Basel Committee documentation aimed to strengthen the capital position of financial institutions.

In this respect, Santander has launched a global initiative, the Market Risk Advanced Platform (MRAP), to transform and strengthen our current market risk infrastructure in line with the new market risk regulatory framework (FRTB) requirements and to adapt our market risk internal models to the latest TRIM (Targeted Review of Internal Models) guidelines and supervisory expectations.

This program follows a multi-disciplinary and multi-geographical approach, with the involvement of all our entities with market risk activities and the participation of all relevant stakeholders, including Market Risk, IT, Front Office, Finance and Regulatory Affairs.

MRAP program comprises significant enhancements in functional & IT architecture and operating models across the Group, generating synergies between all initiatives and resources.

The Group's consolidated regulatory capital under the internal market risk model is therefore computed as the sum of the regulatory capital of those subsidiaries that have the necessary approval from the ECB. This is a conservative criterion when consolidating the Group's capital, as it takes no account of the capital savings arising from the geographic diversification effect.

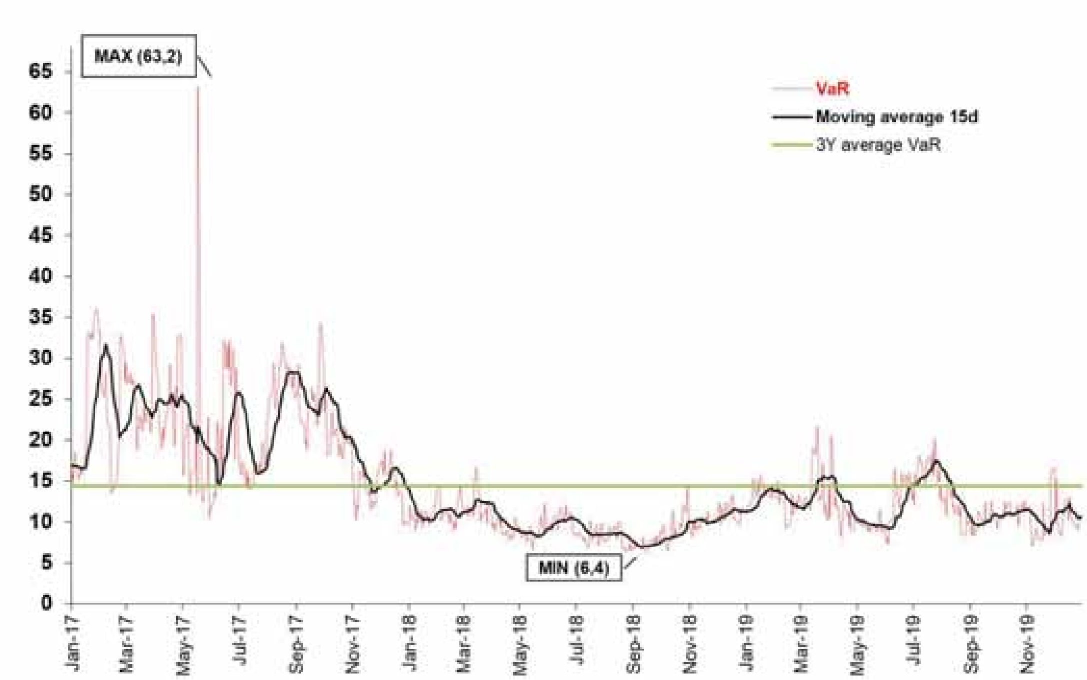
As a result of this approval, trading activity regulatory capital for the perimeter concerned is calculated with advanced approaches, using VaR, Stressed VaR and IRC (incremental risk charge) as the fundamental metrics, in line with the new requirements under the Basel Accords and, specifically, the CRR.

VaR analysis

During the year, the Group continued its strategy of focusing its trading activity on customer business, minimising, where possible, exposure to directional risk in net terms and maintaining its diversification by geography and risk factor. This is reflected in the VaR of the SCIB trading book, which, despite the volatility in the markets, particularly in terms of interest rates and exchange rates, was mostly below its average trend in the last three years, ending December at 10.3 million euros.

VaR 2017-2019

EUR million. VaR at 99% over a one day horizon



In 2019, VaR fluctuated between 21.6 million euros and 7.1 million euros. The most significant changes were related to variations in exchange and interest rate exposures and also market volatility.

The average VaR in 2019 was 12.1 million euros, slightly above 2018 but lower than in 2017 (9.7 million euros in 2018 and 21.5 million euros in 2017).

Risk per factor

The following table displays the latest and average VaR values at 99% by risk factor over the last three years, the lowest and highest values in 2019 and the ES at 97.5% as of the end of December 2019:

VaR statistics and Expected Shortfall by risk factor[A]

EUR million. VaR at 99% and ES at 97.5% with one day time horizon

	2019					2018		2017	
	VaR (99%)				ES (97.5%)	VaR		VaR	
	Min	Average	Max	Latest	Latest	Average	Latest	Average	Latest
Total Trading	**7.1**	**12.1**	**21.6**	**10.3**	**9.5**	**9.7**	**11.3**	**21.5**	**10.2**
Diversification effect	(4.3)	(8.2)	(24.6)	(9.9)	(8.8)	(9.3)	(11.5)	(8.0)	(7.6)
Interest rate	6.6	10.0	17.6	9.2	7.6	9.4	9.7	16.2	7.9
Equities	1.0	2.9	15.3	4.8	4.6	2.4	2.8	3.0	1.9
Exchange rate	1.8	3.9	8.4	2.6	2.8	3.9	6.2	6.6	3.3
Credit spread	2.1	3.4	4.8	3.5	3.2	3.4	4.1	3.6	4.6
Commodities	—	—	0.1	—	—	—	—	—	—
Total Europe	**4.2**	**6.3**	**11.6**	**10.1**	**6.8**	**5.0**	**5.5**	**6.8**	**6.3**
Diversification effect	(2.9)	(6.9)	(15.2)	(8.3)	(8.8)	(6.7)	(8.2)	(6.1)	(6.1)
Interest rate	3.6	6.0	12.8	8.2	6.5	5.0	5.8	6.1	5.7
Equities	0.4	1.9	5.1	4.9	4.4	1.1	1.2	1.1	0.5
Exchange rate	1.0	1.9	3.8	1.9	1.4	1.7	2.1	2.0	1.4
Credit spread	2.1	3.4	5.1	3.5	3.2	3.9	4.6	3.7	4.7
Commodities	—	—	—	—	—	—	—	—	—
Total North America	**1.5**	**3.5**	**5.1**	**3.8**	**4.0**	**7.2**	**8.3**	**7.6**	**4.3**
Diversification effect	(0.4)	(1.3)	(3.6)	(2.1)	(1.2)	(4.8)	(2.7)	(4.7)	(3.5)
Interest rate	1.5	2.6	4.0	3.4	2.6	6.4	7.7	7.6	4.6
Equities	0.1	0.2	0.6	0.1	0.1	0.1	—	0.4	0.0
Exchange rate	0.4	2.0	4.1	2.4	2.4	5.5	3.3	4.2	3.3
Total South America	**5.5**	**9.5**	**20.7**	**6.0**	**6.1**	**7.2**	**10.0**	**18.7**	**7.8**
Diversification effect	(0.4)	(2.9)	(13.4)	(3.8)	(2.6)	(3.5)	(2.3)	(2.9)	(3.4)
Interest rate	4.9	7.8	19.6	5.9	5.4	6.4	6.6	14.8	7.4
Equities	0.4	2.0	7.0	1.7	1.6	2.5	2.9	3.2	1.9
Exchange rate	0.6	2.6	7.6	2.1	1.7	1.9	2.9	3.5	2.0

A. In South America and North America, VaR levels of credit spreads and commodities are not shown separately due to their low or null materiality.

As of the end of December, VaR decreased slightly by 0.8 million euros compared to year-end 2018, while average VaR increased by 2.4 million euros. By risk factor, average VaR increased slightly in interest rates and equities, due to higher market volatility. By geographic area, VaR rose in Europe and South America although it remained at low levels.

The evolution of VaR by risk factor has generally been stable over the last few years. The temporary rises in VaR for various factors are due more to temporary increases in the volatility of market prices than to significant changes in positions.

Backtesting

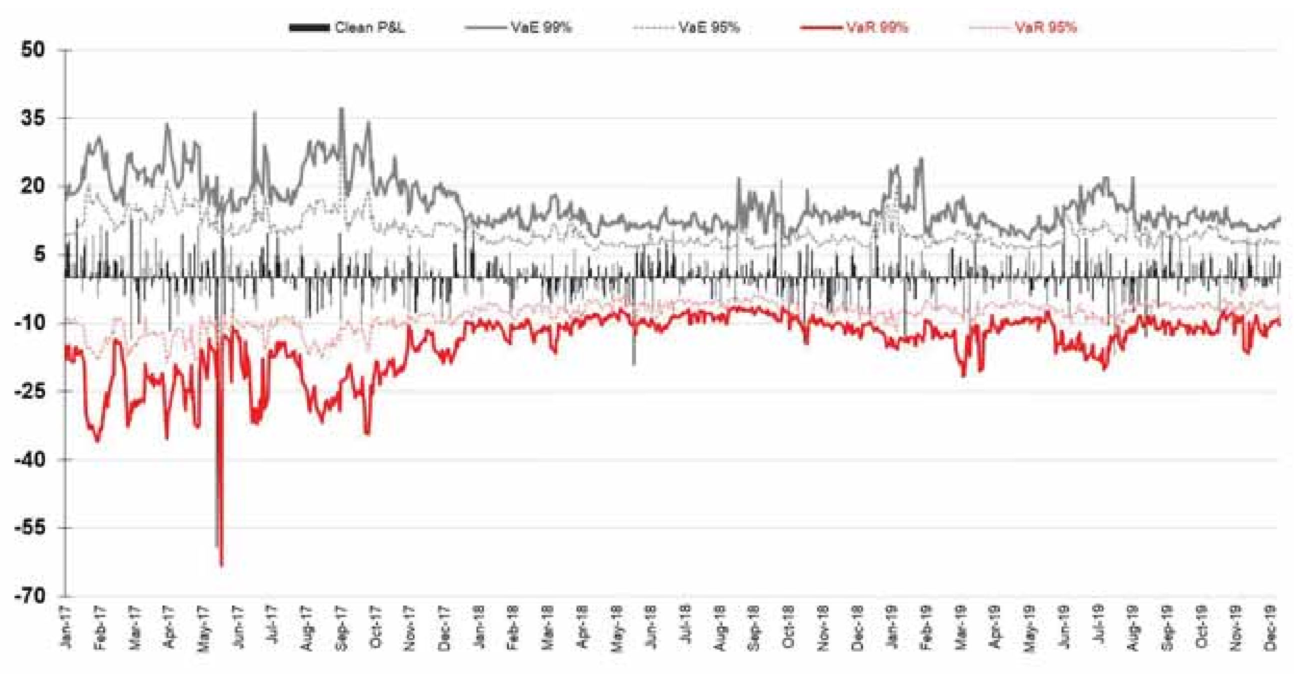
Actual losses can differ from those forecast by VaR for various reasons related to the limitations of this metric. The Group regularly analyses and contrasts the accuracy of the VaR calculation model in order to confirm its reliability as explained in the Methodologies section 4.2 'Trading market risk management'. The most important tests consist of backtesting exercises:

For hypothetical P&L backtesting and for the total portfolio, there were two overshootings in VaR at 99%, on August 5th and on September 2nd, due to the increase in market volatility caused by US/China trade disputes and political uncertainty in Argentina.

There were no overshootings in Value at Earnings (VaE) at 99% in 2019. The number of observed overshootings in 2019 is consistent with the assumptions specified in the VaR calculation model.

Backtesting of trading portfolios: daily results vs. VaR for previous day

EUR million



Derivatives risk management

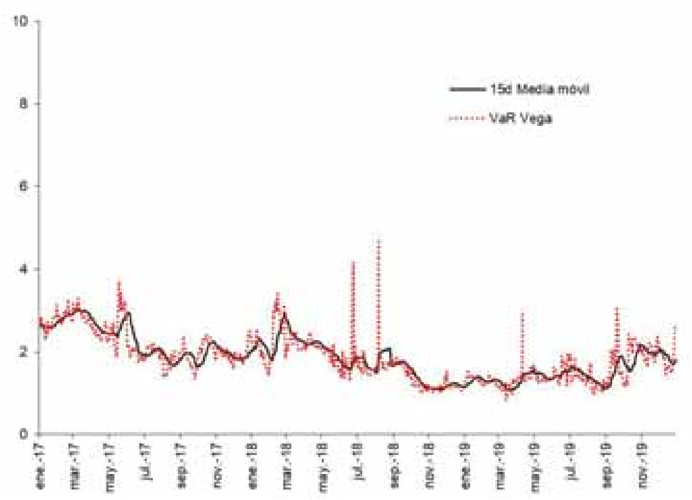
Our derivatives activity is mainly focused on the sale of investment products and hedging risks for our customers. Risk management is focused on ensuring that the net open risk is the lowest possible.

These transactions include options on equities, fixed income and exchange rates. The units where this activity mainly takes place are: Spain, Brazil, UK and Mexico.

The following chart shows the VaR Vega performance of the structured derivatives business over the last three years. It fluctuated at around an average of 2 million euros. In general, the periods with higher VaR levels are related to episodes of significant rises in volatility in the markets, for example due to US trade disputes with China and Europe, and periods of political uncertainty in some geographies where Group operates.

Change in risk over time (VaR) of structure derivatives

EUR million. VaR Vega at a 99% over a one day horizon



With regards to VaR by risk factor, average exposure was mainly to: interest rates, equities and exchange rates, with an average risk in 2019 (1.5 million euros) that was slightly lower than in 2018 and 2017.

This is depicted in the table below**:**

Financial derivatives. Risk (VaR) by risk factor

EUR million. VaR at a 99% over a one day horizon

	2019				2018		2017	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Total VaR Vega	**0.8**	**1.5**	**3.1**	**2.6**	**1.8**	**1.1**	**2.3**	**2.5**
Diversification effect	(0.4)	(1.1)	(4.3)	(1.3)	(1.4)	(1.4)	(1.5)	(0.6)
VaR interest rate	0.4	1.1	3.9	2.7	0.9	0.9	1.3	0.7
VaR equities	0.5	0.8	2.0	0.8	1.2	1.0	1.5	1.4
VaR exchange rate	0.3	0.6	1.5	0.4	1.1	0.6	0.9	1.0
VaR commodities	—	—	—	—	—	—	—	—

The Group continues to have very limited exposure to complex structured instruments or assets. This is a reflection of our risk culture with prudence in risk management as one of its hallmarks. As at the end of December 2019, the Group had the following exposures in this area:

- Hedge funds: exposure was 90 million euros, all indirect, acting as counterparty in derivatives transactions. The risk related to this type of counterparty is analysed on a case by case basis, establishing percentages of collateralisation on the basis of the features and assets of each fund.
- Monolines: no exposure at the end of December 2019.

The Group's policy for approving new transactions related to these products is still extremely prudent and conservative. It is subject to strict supervision by the Group's senior management.

Scenario analysis

Various stress scenarios were calculated and analysed regularly in 2019 (at least monthly) at the subsidiaries and Group levels for all the trading portfolios and using the same risk factor assumptions.

Maximum volatility scenario (Worst case)

This scenario is given particular attention as it combines historic movements of risk factors with an ad-hoc analysis in order to reject very unlikely combinations of variations (for example, sharp falls in stock markets together with a decline in volatility). A historic volatility equivalent to six standard deviations is applied. The scenario is defined by taking for each risk factor the movement which represents the largest potential loss in the portfolio, rejecting the most unlikely combinations in economic-financial terms.

As of the end of December 2019, for the global portfolio, this scenario implied interest rate rises in South American markets and European markets with decreases in North American markets, stock market falls, depreciation of all currencies against the euro, and increases in credit spreads.

The results for this scenario as of the end of December 2019 are shown in the following table:

Stress scenario: maximum volatility (worst case)

EUR million. Dec. 2019 data

	Interest rate	Equities	Exchange rate	Credit spread	Commodities	Total
Total trading	**(34.7)**	**(26.6)**	**(16.6)**	**(9.2)**	**—**	**(87.1)**
Europe	(2.6)	(18.7)	(7.5)	(9.2)	—	(38.0)
North America	(6.1)	(0.1)	(4.8)	—	—	(11.0)
South America	(26.0)	(7.8)	(4.3)	—	—	(38.1)

The stress test shows that the economic loss suffered by the Group in its trading portfolios, in terms of the mark-to-market (MtM) result, would be EUR 87.1 million, if the stress movements defined in the worst case scenario were materialised in the market. The loss would mainly affect Europe (in the following order: equities, credit spread, exchange rates and interest rates) and South America (in the following order: interest rates, equities and exchange rates).

Other global stress scenarios

'Abrupt crisis': an ad-hoc scenario with sharp market movements. Rise in interest rate curves, sharp falls in stock markets, strong appreciation of the dollar against other currencies, rise in volatility and increased credit spreads.

'Subprime crisis': US mortgage crisis historic scenario. The objective of the analysis was to capture the impact on results of the reduction in liquidity in the markets. Two time horizons were used (one day and 10 days), and both cases showed stock markets falls and lower interest rates in core markets and rises in emerging markets, in addition to the appreciation of the US dollar against other currencies.

'Plausible Forward Looking Scenario': a hypothetical plausible scenario defined at local level in market risk units, based on the portfolio positions and expert judgement regarding short-term changes in market variables which may have a negative impact on such positions.

'EBA adverse scenario': scenario proposed by the EBA as part of its stress test exercise. This scenario reflects the systemic threats considered to be the most serious to the stability of the banking sector in the European Union.

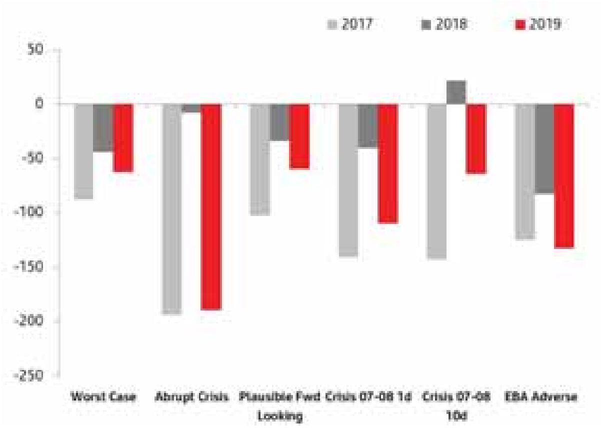
Analysis of reverse stress tests, which are based on establishing a predefined result (non-feasibility of a business model or possible insolvency) and subsequently the risk factor scenarios and movements that could cause the situation to materialise.

A stress test assessment report is produced and distributed on a monthly basis, containing explanations of the main variations in results for the different scenarios and units. An early warning mechanism has also been established so that when the loss for a scenario is high in historic terms and/or in terms of the capital consumed by the portfolio in question, the relevant business executive is informed.

The results, in terms of the mark-to-market (MtM) variation, of these monthly global scenarios for the last three years are shown in the following table:

Stress test results. Comparison of 2017-2019 scenarios (annual averages)

EUR million



Further stress scenarios are assessed on a quarterly basis, such as the reverse stress test, illiquidity and concentration scenarios with regards to Additional valuation adjustments (AVAs) and IRC.

Association with balance sheet items

The balance sheet items in the Group's consolidated position that are subject to market risk are shown below, distinguishing those positions for which the main risk metric is VaR from those for which risk monitoring is carried out using other metrics.

Relation of risk metrics with balances in Group's consolidated position

Million euros. Dec. 2019 data

Assets subject to market risk	Balance sheet amount	Main market risk metrics: VaR	Main market risk metrics: Other	Main risk factors for 'Other' balance
Cash, cash balances at central banks and other deposits on demand	101,067		101,067	Interest rate
Financial assets held for trading	108,230	107,522	708	Interest rate, spread
Non-trading financial assets mandatorily at fair value through profit or loss	4,911	3,310	1,601	Interest rate, Equity market
Financial assets designated at fair value through profit or loss	62,069	61,405	664	Interest rate
Financial assets at fair value through other comprehensive income	125,708		125,708	Interest rate, spread
Financial assets measured at amortised cost	995,482		995,482	Interest rate
Hedging derivatives	7,216	7,216	—	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,702		1,702	Interest rate
Other assets	116,310			
Total assets	**1,522,695**			
Liabilities subject to market risk				
Financial liabilities held for trading	77,139	76,849	290	Interest rate, spread
Financial liabilities designated at fair value through profit or loss	60,995	60,211	784	Interest rate
Financial liabilities at amortised cost	1,230,745		1,230,745	Interest rate, spread
Hedging derivatives	6,048	6,048	—	Interest rate, exchange
Changes in the fair value hedged items in portfolio hedges of interest rate risk	269		269	Interest rate
Other liabilities	36,840			
Total liabilities	**1,412,036**			
Total equity	**110,659**			

4.4 Structural balance sheet risk management

Limits management and control systems

The structural risk control and oversight mechanisms are defined in the policies set by the management body, taking into account the requirements established by regulators and the Group's risk appetite statement. These control mechanisms consider the different structural risk sub-types, as well as the implications, contingencies and interrelations among them.

The main function of structural risk in the second line of defence is the measurement, analysis and control of metrics to ensure that the level of balance sheet structural risk is aligned with approved policies, limits and the Group's risk appetite. In particular:

- Monthly calculation, analysis and monitoring of the position, performance and trends of structural risks through the different axes and levels defined, reporting regularly to senior management to provide a general view of the risk profile and if necessary, request action measures to the lines of business.
- Acceptance of structural risk limits and risk appetite, products and transactions.
- Definition and monitoring of models and policies.

As already described for trading market risk, under the annual limits plan framework, limits are also set for balance sheet structural risks, responding to the Group's risk appetite level.

The main limits used by Santander are the following:

- Balance sheet structural interest rate risk:
  - Limit on the sensitivity of net interest income over a 1 year horizon.
  - Limit on the sensitivity of the value of equity.
- Structural exchange rate risk:
  - Net position in each currency (for results hedging positions).

In the event that one of these limits or sub-limits is breached, the risk management executives from the lines of business must explain the reasons for this and provide an action plan to correct it.

Methodologies

a) Structural interest rate risk

The Group analyses the sensitivity of its equity value and net interest income to changes in interest rates as well as its different sources and sub-types of risk. These sensitivities measure the impact of changes in interest rates on the value of a financial instrument, a portfolio or the Group as a whole, as well as the impact on the profitability structure over the given time horizon for which NII is calculated.

Taking into consideration the balance-sheet interest rate position and the market situation and outlook, the necessary financial actions are adopted to align this position with that defined by the Group. These measures can range from opening positions in markets to the definition of the interest rate characteristics of our commercialized products.

The metrics used by the Group to control interest rate risk in these activities are the repricing gap, sensitivity of net interest margin and market value of equity to changes in interest rates, the duration of capital and value at risk (VaR) for economic capital calculation purposes.

b) Interest rate gap on assets and liabilities

This is the basic concept for identifying the Group's interest rate risk profile and it measures the difference between the volume of sensitive assets and liabilities on and off balance sheet that re-price (i.e. that mature or are subject to rate revisions) at certain times (called, buckets). This provides an immediate approximation of the sensitivity of the entity's balance sheet and its net interest income and equity value to changes in interest rates.

c) Net interest income (NII) sensitivity

NII is calculated as the difference between income from interest on assets and the interest cost of liabilities in the banking book over a given time horizon of 1 year. NII sensitivity is the difference between the NII calculated under a selected scenario and the NII calculated under a base scenario. Therefore there may be as many NII sensitivities as there are scenarios considered. This metric allows for the identification of short-term risks, and it is complementary to the EVE sensitivity.

d) Economic value of equity (EVE) sensitivity

This measures the interest rate risk implicit in equity value, which for the purposes of interest rate risk is defined as the difference between the net current value of assets and the net current value of outstanding liabilities, based on the impact that a change in interest rates would have on those current values. EVE sensitivity, is obtained as the difference between the EVE calculated under a selected scenario and the one calculated under a base scenario. Therefore there may be as many EVE sensitivities as there are scenarios considered. This metric allows for the identification of long-term risks and it is complementary to NII.

e) Treatment of liabilities with no defined maturity

Under the Group´s model, the total volume of account balances with no maturity is divided between stable and unstable balances, which are obtained from a model based on the relationship between balances and their own moving averages.

From this simplified model, the monthly cash flows are obtained and used to calculate NII and EVE sensitivities.

f) Pre-payment treatment for certain assets

The potential pre-payment risk mainly affects fixed-rate mortgages in those subsidiaries where contractual rates for these portfolios are at low levels compared to market levels. This risk is modelled in these units and included in the metrics used to monitor the risk appetite.

g) Value at Risk (VaR)

For balance sheet activity and investment portfolios, this is defined as the 99% percentile of the distribution function of losses in equity value, calculated based on the current market value of positions and returns over the last two years, at a particular level of statistical confidence over a certain time horizon. As with trading portfolios, a time frame of two years or at least 520 days from the reference date of the VaR calculation is used.

h) Structural foreign exchange rate risk/hedging of results

These activities are monitored via position measurements, VaR and results, on a daily basis.

i) Structural equity risk

These activities are monitored via position measurements, VaR and results, on a monthly basis.

4.5 Structural balance sheet risks key metrics

The market risk profile inherent to the Group's balance sheet, in relation to its asset volumes and shareholders' equity, as well as the budgeted net interest income margin, remained moderate in 2019, in line with previous years.

The interest rate risk originated by commercial banking in each subsidiary is transferred for management purposes - through an internal risk transfer system - to the local Financial division, which is responsible for the subsidiary's structural risk management generated by interest rate fluctuations.

The Group's usual practice is to measure interest rate risk by using statistical models, relying on mitigation strategies for structural risk using interest rate instruments, such as fixed income bond portfolios and derivative instruments to maintain the risk profile at levels that are appropriate to the risk appetite approved by the board of directors.

Structural interest rate risk

Europe

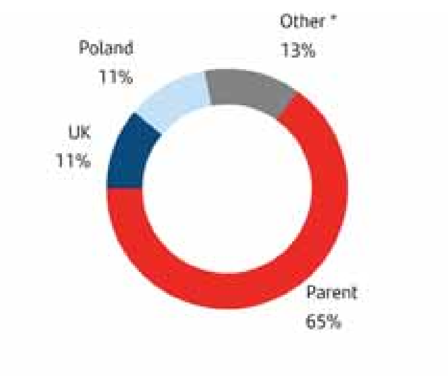
The main balance sheets, those of the Parent and Santander UK, in mature markets and in a low interest rate environment, usually show positive sensitivities to interest rates in economic value of equity and net interest income.

Exposure levels in all countries were moderate in relation to the annual budget and capital levels in 2019.

At the end of December 2019, risk on net interest income over a one year horizon, measured as the sensitivity to parallel changes in the worst-case scenario of ±100 basis points, was concentrated in the Euro, at 479 million euros, the British pound yield curve at EUR 69 million, the Polish zloty, at 60 million euros, and the US dollar, at 13 million euros, all related to risks of rate cuts.

Net interest income (NII) sensitivity

% of total

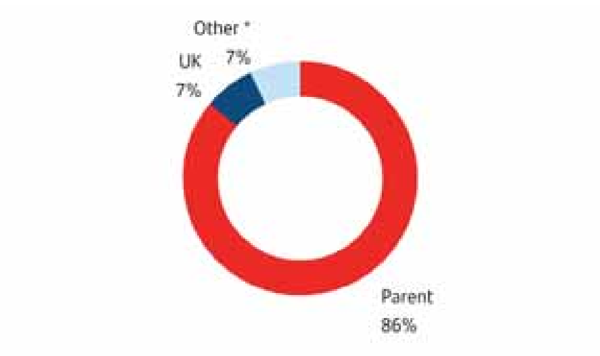


* Other: Portugal and SCF.

As of the same date, the most relevant risk in economic value of equity, measured as the sensitivity to parallel changes in the worst-case scenario of ±100 basis points, was in the Euro interest rate curve, at 5,178 million euros, followed by the British pound at 377 million euros, the USD dollar at 301 million euros and the Polish zloty at 41 million euros, all related to risks of rate cuts.

Economic value of equity (EVE) sensitivity

% of total



* Other: Poland, Portugal and SCF.

North America

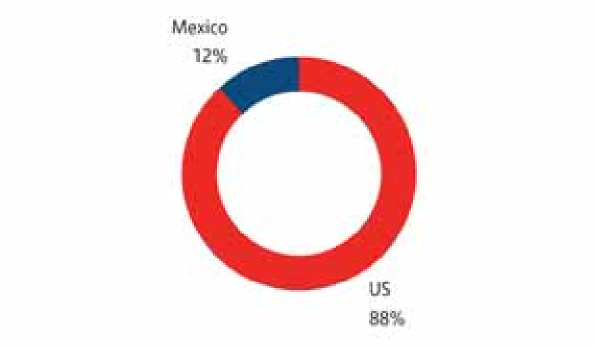
North American balance sheets usually show positive sensitivities to interest rates in economic value of equity and net interest income, except for economic value of equity in Mexico.

Exposure levels in all countries were moderate in relation to the annual budget and capital levels in 2019.

As of the end of December, risk on net interest income over a one year horizon, measured as the sensitivity to parallel changes in the worst case scenario of ±100 basis points, was mainly located in the USA (65 million euros) as shown in the chart below.

Net interest income (NII) sensitivity

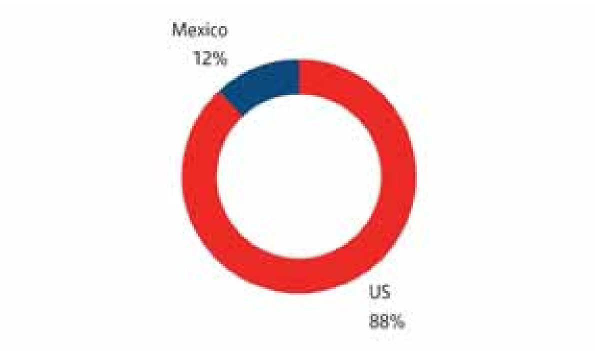
% of total



Risk to the economic value of equity over a one year horizon, measured as the sensitivity to parallel changes in the worst case scenario of ±100 basis points, was also in the US (536 million euros).

Economic value of equity (EVE) sensitivity

% of total



South America

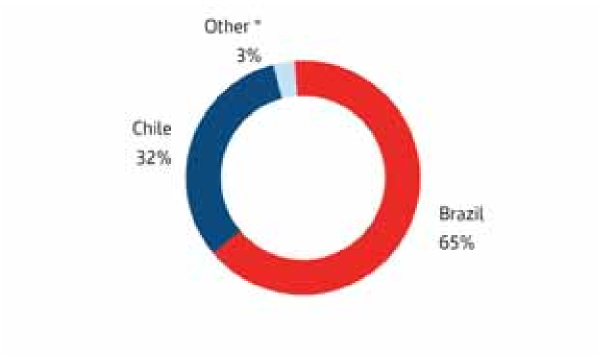
South American balance sheets are usually positioned for interest rate cuts in terms of both economic value and net interest income.

In 2019, exposure levels in all countries were moderate in relation to the annual budget and capital levels.

As of the end of December, risk on net interest income over a one year horizon, measured as the sensitivity to parallel changes in the worst case scenario of ±100 basis points, was mainly found in two countries, Brazil (74 million euros) as shown in the chart below.

Net interest income (NII) sensitivity

% of total

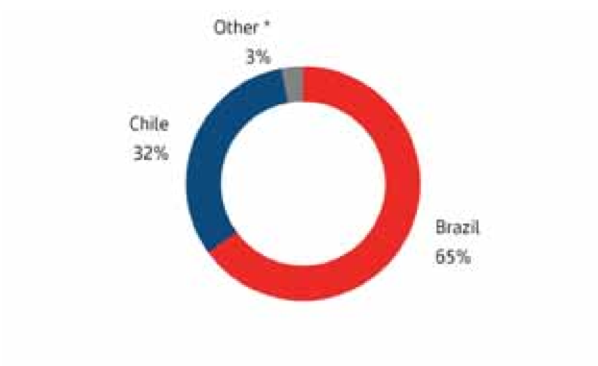


* Other: Argentina, Peru and Uruguay.

Risk to the economic value of equity over a one year horizon, measured as the sensitivity to parallel changes in the worst case scenario of ±100 basis points, was also mainly in Brazil (456 million euros).

Economic value of equity (EVE) sensitivity

% of total



* Other: Argentina, Peru and Uruguay.

Structural foreign exchange rate risk/results hedging

Structural exchange rate risk arises from Group transactions in foreign currencies, mainly related to permanent financial investments, their results and the hedging of both.

The management of this risk is dynamic and seeks to limit the impact on the core capital ratio of foreign exchange rate movements. In 2019, hedging of the core capital ratio for foreign exchange rate risk were kept close to 100%.

In December 2019, the largest exposures of permanent investments (with their potential impact on equity) were, in the following order, in Brazilian reais,US dollars, UK pounds sterling, Chilean pesos, Mexican pesos and Polish zlotys. The Group hedges some of these positions, which are permanent in nature, with foreign exchange-rate derivatives.

In addition, the Financial area is responsible for managing foreign exchange rate risk for the Group's expected results and dividends in subsidiaries where the base currency is not the euro.

Structural equity risk

The Group maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as equity instruments or as equity stakes, depending on the percentage owned or control.

The equity portfolio in the banking book at the end of December 2019 was diversified between securities in various countries, e.g. Spain, China, Morocco and Poland. Most of the portfolio is invested in financial activities and insurance sectors. Other sectors with lower exposure allocations include real estate activities and public administrations.

Structural equity positions are exposed to market risk. VaR is calculated for these positions using market price data series or proxies. As of the end of December 2019, the VaR at 99% over a one day time horizon was 170 million euros (180 million euros and 262 million euros at the end of 2018 and 2017, respectively).

Structural VaR

A standardised metric such as VaR can be used for monitoring total market risk for the banking book, excluding the trading activity of SCIB (VaR for this activity is described in section 4.3 'Trading market risk key metrics'), distinguishing between fixed income (considering both interest rates and credit spreads on ALCO portfolios), exchange rates and equities.

In general, structural VaR is not material in terms of the Group's volume of assets or equity.

Structural VaR

EUR million. VaR at a 99% over a one day horizon

	2019				2018		2017	
	Minimum	Average	Maximum	Latest	Average	Latest	Average	Latest
Structural VaR	**438.2**	**511.4**	**729.1**	**729.1**	**568.5**	**556.8**	**878.0**	**815.7**
Diversification effect	(225.5)	(304.2)	(404.3)	(402.0)	(325.0)	(267.7)	(337.3)	(376.8)
VaR Interest Rate[A]	224.7	345.6	629.7	629.7	337.1	319.5	373.9	459.6
VaR Exchange Rate	283.5	308.1	332.1	331.7	338.9	324.9	546.9	471.2
VaR Equities	155.5	161.9	171.7	169.8	217.6	180.1	294.5	261.6

A. Includes credit spread VaR on ALCO portfolios.

4.6 Liquidity risk management

The responsibilities of the liquidity risk function in the second line of defence are to:

- Provide oversight of liquidity risk management, as carried out by the first line of defence.
- Verify compliance with established liquidity risk policies and limits, and assess whether businesses remain within our risk appetite limits. Report, as necessary, on risk, risk appetite and potential breaches thereof, to the appropriate governance bodies.
- Express an opinion and challenge business proposals. Provide senior management and the business units with the elements required to understand the liquidity risk of the different businesses and activities.
- Provide a consolidated view of liquidity risk exposures; including the liquidity risk profile.
- Provide detailed assessments of material liquidity risks and closely monitor emerging risks.
- Define metrics to be used in liquidity risk measurement, review and challenge liquidity risk appetite and lower-level limits proposals from the first line of defence.
- Confirm whether adequate liquidity procedures are in place for managing the business within risk appetite limits.

Methodologies

The Group measures liquidity risk using a range of tools and metrics that account for the risk factors identified within this risk.

a) Liquidity buffer

The buffer is a portion of the total liquidity available to an entity to deal with potential withdrawals of funds (liquidity outflows) that may arise as a result of periods of stress. Specifically, a buffer consists of a set of unencumbered liquid resources that are available for immediate use and capable of generating liquidity promptly, without incurring any loss or excessive discount. The Group uses the liquidity buffer as a tool that forms part of the calculation of most liquidity metrics and is also a metric in its own right, with specified limits for each subsidiary.

b) Liquidity coverage ratio (LCR)

LCR has a regulatory definition and is intended to reinforce the short-term resistance of banks' liquidity risk profile by ensuring that they have available sufficient high-quality liquid assets to withstand a stress scenario (idiosyncratic stress or market stress) of considerable severity for thirty calendar days.

c) Wholesale gap metric

This metric measures the number of days the Group would survive using its liquid assets to cover the liquidity losses assuming non-renewable wholesale financing outflows for a determined liquidity horizon. In addition, it is also used as an internal short-term liquidity metric helping to reduce the risk of dependence on wholesale funding.

d) Net stable funding ratio (NSFR)

NSFR is one of the metrics used by the Group to measure long-term liquidity risk. It is a regulatory metric defined as the coefficient of the available amount of stable funding and the required amount of stable funding. This metric requires banks to maintain a solid balance sheet where assets and off-balance sheet activities are funded with stable liabilities.

e) Asset encumbrance metrics

The Group uses at least two types of metrics to measure asset encumbrance risk. The first is the asset encumbrance ratio, which calculates the proportion of total encumbered assets to the entity's total assets. The second, the structural asset encumbrance ratio, which measures the proportion of encumbered assets deriving from structural funding transactions (mainly long-term collateralised issuances and funding from central banks).

f) Other liquidity indicators

Aside from traditional liquidity risk measurement tools for short- term risk and long-term or funding risk, the Group has constructed a range of additional liquidity indicators that supplement the conventional toolset and measure other liquidity risk factors not otherwise covered. These indicators include concentration metrics, such as top one and five funding providers, or distribution of funding by maturity date.

g) Liquidity scenario analysis

The Group uses four standard scenarios as liquidity stress tests:

i. An idiosyncratic scenario featuring events that adversely affect the Group alone;

ii. A local market scenario, which considers events that have serious adverse effects on the financial system or real economy of the Group's base country;

iii. A global market scenario, which considers events that have serious adverse effects on the global financial system; and

iv. A combined scenario, coupling idiosyncratic events with severe (local and global) market events arising simultaneously and interactively.

At Santander, we use the outcomes of the stress scenarios in combination with other tools to determine risk appetite and support business decision-making.

h) Liquidity early warning indicators (EWI)

The system of liquidity EWI comprises quantitative and qualitative indicators that enable us to foresee liquidity stress situations and potential weaknesses in the Group entities' funding and liquidity structure. EWI are both external (environmental) and internal, respectively relating to market financial variables and to the Group's own actions.

4.7 Liquidity risk key metrics

The Group has a strong liquidity and financing position based on a decentralised liquidity model, where each of the subsidiaries is autonomous in the management of its liquidity and maintains large buffers of highly liquid assets.

In general, short-term liquidity metrics, LCR remains stable, with regulatory ratios above the threshold, the regulatory minimum required in 2019 was 100% and the internal limit was 110%.

The Group has an effective management of its liquidity buffers to face the challenge of maintaining a proper liquidity profile (regulatory limits) while protecting the profitability of our balance sheet.

Furthermore, most of Santander's subsidiaries maintain sound balance sheet structures, with a stable financing structure based on a broad customer deposit base, which covers structural needs, with low dependence on short-term funding and liquidity metrics well above regulatory requirements, both locally and at Group level, and within the limits defined on the risk appetite framework.

Hence, for long-term liquidity, the regulatory metric NSFR remains above 100% for the Group's core units as well as for the consolidated ratio, anticipating compliance with the regulatory minimum requirement of 100% in 2021.

In terms of structural assets encumbrance risk, the Group's levels are in line with those of our European peers, where the main sources of encumbrance are collateralised debt issuances (securitisations and covered bonds) and collateralised funding facilities provided by central banks.

The soundness of Santander units' balance sheets is also demonstrated under stress scenarios constructed in accordance with uniform corporate criteria across the Group. All units would survive the worst case scenario for at least 45 days, meeting liquidity requirements with their liquid asset buffers alone.

For further details regarding liquidity metrics, see section 3.4 'Liquidity and funding management' of the chapter on Economic and financial review.

4.8 Pension and actuarial risk management

Pension risk

In managing the risk associated with the defined benefit employee pension funds, the Group assumes the financial, market, credit and liquidity risks incurred by the assets and the investments of the fund, as well as the actuarial risks from the fund's liabilities, i.e. the pension obligations with its employees.

The main Group's goal regarding the pension risk control and management is focused in the identification, measurements, monitoring, mitigation and communication of this risk. The Group's priority is, thereby, to identify and mitigate all sources of pension risk.

The Group annually estimates the combined losses in assets and liabilities under a defined stress scenario including changes in interest rates exchange rates, inflation, stock markets and real estate prices, as well as credit and operational risk.

Due to the interest rate evolution, the defined benefit pension obligation has increased during 2019.

Actuarial risk

Actuarial risk arises due to biometric changes in the life expectancy of the defined benefit commitments beneficiaries, life insurance policy holders, unexpected increases of compensations envisaged in non-life defined benefit commitments insurance and from unexpected behavioural changes of insurance policyholders in the exercise of the options included in the insurance contracts. We distinguish the following actuarial risks:

Life liability risk: risk of a loss in the value of pension obligation liabilities caused by fluctuations in the risk factors affecting these liabilities:

- Mortality/longevity risk: risk of loss due to changes in the value of liabilities due to changes in the estimated probability of death/survival of the insured parties.
- Morbidity risk: risk of loss due to changes in the value of liabilities resulting from changes in the estimated probability of disability/incapacity of the insured parties.
- Surrender/lapse risk: risk of loss due to changes in the value of liabilities because of the early termination of the contract or changes in the policyholders' exercise of rights with regard to surrender, extraordinary contributions and/or paid up options.
- Expense risk: risk of loss due to changes in the value of liabilities arising from adverse variances in expected expenses.
- Catastrophe risk: losses caused by the occurrence of catastrophic events that increase the entity's life liabilities.

Non-life liability risk: risk of a loss due to changes in the value of non-life benefit liabilities acquired by Santander with its employees, caused by fluctuations in the risk factors affecting these liabilities:

- Premium risk: loss derived from the insufficiency of premiums to cover any disasters that may occur.
- Reserve risk: loss derived from the insufficiency of reserves for disasters, already incurred but not settled, including costs for managing said disasters.
- Catastrophe risk: losses caused by catastrophic events that increase the Group's non-life liability.

5. Capital risk

5.1 Introduction

The Group defines capital risk as the risk of lacking sufficient capital, either in quantitative or qualitative terms, to fulfil its business objectives, regulatory requirements, or market expectations.

The Capital Risk function carries out, among other tasks, the oversight and control of the capital activities developed by the first line. These are grouped in four different work streams, ensuring that monitoring is in accordance with the Group's risk profile:

- Capital planning: Internal process which aims to set capital levels and capital returns in a consistent manner with the execution of the Group's strategy. The Entity should ensure its solvency and efficiency of capital. For this purpose, the Group identifies the capital actions required to achieve both its defined capital ratios and its return on capital targets.
- Capital adequacy: Process to assess the capital levels maintained to cover the nature and level of risks that the entity is, or may be, exposed to, in accordance with the risk identification and assessment process, the Group's strategy and defined risk appetite. For more detail, see this chapter, section 2.4 'Management processes and tools' - Risk profile assessment and Risk appetite and structure of limits.
- Capital risk measurement: Process to cover all activities required for obtaining a measurement of the different metrics considered, from defining the methodology to be followed to obtaining the final figures required, as well as providing support for the different stages of capital management, monitoring, oversight and control.
- Origination: Process to evaluate the efficiency of the portfolios to identify potential initiatives for capital relief (i.e. securitisations, risk mitigation techniques or asset sales).

In 2019, the Capital Risk function reviewed and proposed further enhancements to the existing Target Operating Model (TOM) as part of its continuous review and improvement process.

One of the key milestones of the TOM is its deployment and monitoring in the Group's subsidiaries. In order to achieve this, the following key tasks have been defined:

- Review and update capital risk procedures at local level.
- Unify capital reporting following the Group's common guidelines while adapting to each local market regulation and circumstances.
- Periodic follow up on local progress regarding TOM deployment.

5.2 Capital risk management

Capital risk, the second line of defence, independently challenges the business or first line activities mainly through the following processes:

- Supervision of capital planning and adequacy exercises through a review of the main components affecting the capital ratios.
- Ongoing supervision of the Group's regulatory capital measurement by identifying key metrics for its calculation, setting tolerance levels and reviewing capital consumption and the consistency of the calculations, including single transactions with an impact on capital.
- Review and challenge of the execution of those capital actions proposed in line with capital planning and risk appetite.

The function is designed to carry out full and regular monitoring of capital risk by verifying that capital is sufficient and adequately covered in accordance with the Group's risk profile.

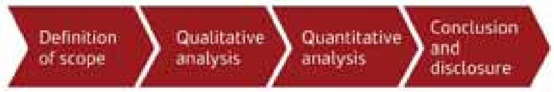
Capital risk control is part of the general risk framework as well as of the Group's capital framework and model. It brings together a range of processes, such as capital planning and adequacy and the subsequent budget execution and monitoring, alongside the ongoing measurement of capital and the reporting and disclosure of capital data, as described below:

Supervision of capital planning and adequacy exercises

The Risk function reviews capital planning and adequacy exercises to ensure that capital is consistent with the established risk appetite and risk profile. It has the following fundamental objectives:

- Ensure that all relevant risks to which the Group is subject, in the course of its activity are monitored.
- Check that the methodologies and assumptions used in these planning processes are appropriate.
- Verify that results are reasonable and consistent with the business strategy, the macroeconomic environment and the variables of the system.
- Assess the consistency between different exercises, especially those that use baseline and stressed scenarios.

This function is implemented in phases, according to the following scheme:



Definition of scope

The supervision of capital planning and adequacy begins with the preparation of the materiality proposal, which will identify the local units whose importance is representative for the Group in terms of risk weighted assets.

In addition, other units, businesses or portfolios may be included, even if their materiality does not make them very representative, to be analysed due to their impact on the Group's strategy, compliance with the global plan or due to their timely relevance

Qualitative analysis

In this phase, the overall quality of the qualitative forecasts process is assessed, and includes a review of the following aspects:

- Models used in the generation of forecasts and scenarios, scope, metrics covered.
- Documentation available and provided in the generation process.
- The quality of the information included in the forecasts, the integrity of the data, the controls applied, the recommendations issued by Internal audit, etc.

Governance of the process, committees before which the forecasts have been presented and reviewed, approval by different areas prior to final approval.

Quantitative analysis

The defined metrics and components that affect projections of risk weighted assets (RWA) and available capital, are quantitatively assessed.

This phase calls for the involvement and appropriate coordination of all subsidiaries within the scope of the process, to conduct an analysis of local projections, which in turn underpin Group-level projections.

Conclusions and disclosure

Based on the outcomes from the capital planning and adequacy phases, the Group conducts a final assessment, at least encompassing the scope of analysis, the weaknesses and the areas for improvement detected in the course of the supervision process, reporting to senior management in accordance with established governance. This ensures that effective and constructive challenge is conducted from the second line of defence concerning the proposed capital plans.

If deemed necessary, a discussion of these conclusions will be proposed in the relevant first-line (capital committee) and second-line committees (risk control committee).

Ongoing supervision of capital measurement

Ongoing supervision of the measurement of the Group's regulatory capital, ensuring an appropriate capital risk profile, is an additional capital risk control function.

For this purpose, the Group conducts a qualitative analysis of the regulatory and supervisory framework and an ongoing review of capital metrics and specified thresholds.

Moreover, ongoing monitoring of compliance with the capital risk appetite is conducted aiming to maintain capital levels above the regulatory requirements and market expectations.

To fulfil this function, the following phases have been established, in accordance with the process described below:

Definition of metrics and thresholds

A set of metrics and thresholds that are used in the supervision process are defined to enable adequate capital risk monitoring and control. These are specified on an annual basis.

The metrics consist of:

- Primary metrics: cover capital ratios and numerator and denominator components at the highest level.
- Secondary metrics: include a more extensive breakdown, for instance credit RWAs under the Basel category or the basis on which market RWAs are calculated.
- Supplementary metrics: provide a more detailed analysis.

Thresholds are set for primary and secondary metrics, which if breached, trigger a more detailed analysis and an explanation of the causes of the breach.

The metrics, their thresholds and the sources of information used are outlined in the internal 'Capital measurement control metrics guidelines'

Preliminary analysis

At this phase of the control process, the qualitative issues, such as process governance and regulatory framework are analysed.

In addition, the steps taken in connection with capital to fulfil recommendations and instructions issued by supervisory authorities and by the Internal Audit function are examined.

Measurement assessment

Based on the information provided, the Capital Risk function analyses the metrics defined in the process, according to the following procedure:

- Review of primary and secondary metrics to detect variations that exceed the defined thresholds, and where they do, perform a detailed analysis of the causes and analyse supplementary metrics.

- If the origin of the incident lies in a specific subsidiary or global area, more detailed information is requested.
- Incidents detected must be duly explained in terms of their causes (change in volumes, changes in the profile, one-off events, capital actions, etc.) and discussed with the corresponding subsidiary or global function involved.

Conclusions and disclosure

The report containing the conclusions is discussed by the governance body responsible for capital risk control and, if deemed necessary, the report will be proposed for discussion in the relevant first line committee (capital committee) and second-line committees (risk control committee).

Oversight of securitisation transactions

The Capital Risk function carries out the oversight of those securitisation transactions that could be subject to be considered as Significant RIsk Transfers (SRT), as described on the EBA guidelines on SRT relating to Articles 243 to 245 of Regulation 2017/2401 and 2017/2402, and for which the Bank acts as the originator.

The oversight process is a prior step and an essential requirement for the execution of both synthetic and traditional securitisations and applies to every transaction that could result in a RWA reduction, following the aforementioned regulatory guidelines.

The main purpose of this process is to ensure that the securitisation oversight conducted by the Capital Risk function includes the analysis of the requirements that may affect its consideration as SRT. These requirements include:

- The transaction allows an effective transfer of risk.
- The transaction complies with all prudential regulation requirements.
- The risk parameters used in the transaction follow the methodology defined by the Group.
- The economic rationale for the transaction is in accordance with the established Group standards.

The Significant Risk Transfer supervision process is divided into the following stages:

- ECB prenotification stage: Capital Risk issues an assessment of the transaction prior to notifying the ECB of the intention to carry out a securitisation transaction that may be subject to be considered as SRT.
- Validation stage: the securitisation is presented for validation to the capital and risk committees along with the assessment issued by the Capital Risk function.
- ECB notification stage: communication through which the final version of the securitisation documentation package is sent to the ECB. This should take place no later than fifteen days after the closing date of the securitisation transaction.
- Monitoring stage: Capital Risk carries out regular monitoring of the transactions already executed.

5.3 Key metrics

Santander Group has a strong capital position consistent with its business model, balance sheet structure, risk profile and regulatory requirements. Our strong balance sheet and profitability enables us to finance growth and continue to accumulate capital.

Our model of autonomous subsidiaries in terms of liquidity and capital allows the Group to mitigate the risk that potential difficulties of one subsidiary could affect the others.

Santander Group capital metrics are stable, with ratios comfortably above the regulatory requirements and at appropriate levels, aligned with the risk appetite statement approved by senior management.

For more detail see the section 3.5 'Capital management and adequacy. Solvency ratios' of the chapter on Economic and financial review.

6. Operational risk

6.1 Introduction

The Group defines operational risk (OR), in line with the Basel framework, as the risk of losses arising from defects or failures in its internal processes, people, systems or external events, covering risk categories such as fraud, technological, cyber-risk, legal[5] and conduct risk.

Operational risk is inherent to all products, activities, processes and systems and is generated in all business and support areas. For this reason, all employees are responsible for managing and controlling the operational risks generated by their activities.

The Group's goal in terms of OR management and control is focused on identifying, evaluating and mitigating sources of risk, regardless of whether they have materialised or not. The analysis of our exposure to OR helps to determine risk management priorities.

Risk analysis has improved in 2019 through different initiatives such as the definition of new risk appetite metrics, the integration of thematic assessments into the Risk and Control Self Assessment (RCSA), as well as the implementation of an enhanced oversight process and the development of a transformation risk analysis methodology.

Mitigation plans have been promoted on aspects with special relevance (fraud, cybersecurity and vendor management, among others), focused on both the implementation of corrective actions and the proper monitoring and management of ongoing projects.

6.2 Operational risk management

Operational risk management in Santander Group is underpinned by the following items:

Framework and tools

Santander´s operational risk model defines the necessary elements of suitable management and control of operational risk and compliance with advanced regulatory standards and best practices for operational risk management.

The management and control of operational risk must be carried out throughout its cycle, which includes: strategy and planning; risk identification and assessment; risk monitoring; the application and monitoring of mitigation measures; and the availability of information, appropriate reporting and escalation of relevant aspects when necessary.

Policies and procedures have been defined to regulate the management and control of operational risk, as well as the tools in support of these processes.

The most important operational risk tools used by the Group are the following:

- **Internal events database.** The events database provides information to improve operational risk management and control, through root cause analysis, enhancement of risk awareness and events management. Events that are registered in the database can have a financial impact (Santander records all losses regardless of the amount) or a non-financial impact (such as regulatory, reputational or customer and services).

  The internal database is supplemented by the relevant events escalation process, which allows to manage and report to senior management the occurrence of significant operational risk events arising across the Group on a timely basis.

- **Operational risk and control self-assessment (RCSA).** A qualitative process that seeks, using the criteria and experience of a pool of experts in each function, to determine the main operational risks for each function, the status of the existing control environment and their allocation to the different functions within the Group.

  The goal of the RCSA is to identify and assess the material operational risks that could prevent business or support units from achieving their objectives. Once they are assessed, mitigation actions are identified if the risk levels prove to be above the tolerable levels.

  The Group also undertakes risk assessments for specific sources of operational risk, enabling a more granular and transversal identification of potential risks. In particular, these are applied to technological risks, fraud, third party risk and factors that could lead to specific regulatory non-compliance, in addition areas that are exposed to money laundering and terrorism financing risks. The two latter areas, together with the conduct risks factor, are set out in greater detail in this chapter in section 7.3 'Compliance and conduct risk management'.

- **External event database.** The external database provides quantitative and qualitative information, allowing for a more detailed and structured analysis of relevant events that have occurred in the industry, the benchmarking of the losses profile and the appropriate preparation for the RCSA, insurance and scenario analysis exercises.

- **OR scenarios analysis.** The objective of this tool is to identify potential events with a very low probability of occurrence, but which could result in significant losses for the Group, and to establish appropriate mitigating actions. Expert opinion is obtained from the business lines and risk and control managers.

5. Legal processes with an operational risk root cause.

- **Key risk indicators.** These metrics provide quantitative information on the institution's risk exposure and the existing control environment. The most significant indicators associated with the main risk factors are part of the operational risk appetite.
- **Risk Appetite**. Non-financial risks appetite framework is structured as follows:
  - A general statement setting out that Santander is, on principle, averse to operational risk events that could lead to financial loss, fraud, operational, technological, legal and regulatory breaches, conduct problems or damage to its reputation.
  - General metrics of expected losses and stressed losses.
  - An additional statement is included for the more relevant risks, together with a number of forward-looking monitoring metrics. Specifically, on the following: internal and external fraud, technological, cyber-risk, anti-money laundering, products commercialisation, regulatory compliance and vendor management risk.
- **Internal audit and regulatory recommendations.** These provide relevant information on inherent and residual risk due to internal and external factors, enabling the identification of areas of improvement in the existing processes and controls.
- **Other specific instruments.** There are other instruments that enable further analysis and management of operational risk, such as the new products and services assessment, the reporting of key IT and cybersecurity events, monthly and annual loss forecasts, business continuity plan (BCP) management, perimeter review and the quality assurance process.
- **Capital model.** A loss distribution approach (LDA) model is used to capture the Group's operational risk profile, based on information collected from the internal loss database, external data and scenarios. The main application of the model is to determine operational risk's economic capital and to estimate expected and stressed losses, which are then used for operational risk appetite.

Model implementation and initiatives

Santander performs an annual review of the Group's operational risk profile to identify all legal entities, in which the operational risk programme must be implemented or improved according to their risk profile.

The main activities and global initiatives adopted in 2019 for effective operational risk management are:

- Continuous enhancement of the integration of all tools, mentioned above, in order to perform cross- analysis.
- Greater harmonisation and integration of IT & cyber-risk processes within the Group operational risk methodology framework.
- Evolving IT, cyber and vendor management appetite metrics by improving their definition, measurement and by stressing the thresholds.
- Processes improvements for the determination, identification and assessment of standard controls that have been aligned with internal policies, with the aim of strengthening and homogenising the control environment in the Group.
- Establishing independent oversight and evaluation of the Group control environment to adequately challenge the risk and control manager's views.
- Continue improving the integration of operational risk in the Group's strategic plan, by including information regarding the potential exposure for the next three years as well as the estimated level of losses.
- Fostering mitigation plans for specific risks such as fraud, cybersecurity and vendor management, among others. More information related to these plans is provided in subsequent paragraphs.
- Improving the assessment methodology of the global cybersecurity transformation plan to identify the risk reduction impact derived from implementation of technical security milestones.
- Improvements in the contingency, business continuity and crisis management plans on a coordinated initiative with recovery and resolution plans, also providing coverage to emerging risks.
- Fostering technology risk control (control and supervision of the IT systems design, infrastructure management and applications development) by defining Reference Risks to be assessed during RCSA by business owners and specialized control functions.
- Developing a framework for the identification, assessment, aggregation and mitigation of Transformation/Change risk.

Operational risk information system

The Group's information system for operational risk (Heracles) supports operational risk programmes, providing information for management and reporting purposes at both subsidiaries and Group levels. Heracles' main goal is to improve decision- making related to OR management throughout the Group, preventing redundant or duplicated efforts.

This goal is achieved by ensuring that all people responsible for risks throughout the Group are provided with a fuller and more precise view of their risks in a timely manner, through the integration of several programmes, such as risk and control assessment, scenarios, events and metrics with a common set of taxonomies, and methodological standards.

In 2019, further integration of the risk assessments was accomplished with the integration of cyber, vendor and fraud risk assessments in the RCSA module.

In addition, advances were made by the Group to enable further convergence in: i) risk assessments, ii) libraries of risks and controls, and iii) Internal audit's control testing. A process taxonomy was created, to link processes, risks and controls.

Mitigation actions

In line with the model, the Group implements and monitors mitigation actions related to the main risk sources which are identified through the internal OR management tools and other external information sources. Furthermore, the Group continued to promote the preventive implementation of policies and procedures for OR management and control.

The most significant mitigation actions are focused on improving the customer security in their usual operations, as well as on continuous improvements in processes and technology, product sales and an adequate and continuous provision of services.

Fraud

The transformation and digitalisation of the business imply new threats related to the digital world. To mitigate these risks, new products and control mechanisms are designed and reviewed taking into account potential attacks through digital means.

The use of strong customer authentication processes in line with the European Payment Service Directive (PSD2), the implementation of biometric validation (i.e. facial recognition) in the on-boarding client process, etc., is becoming increasingly widespread helping mitigate these risks.

In regard to reducing fraud, the Group deploys specific actions such as the following:

Card fraud:

- Generalised use of Chip & Pin (operation with PIN-cards, which require the transaction to be signed-off with a numeric code), both in ATMs and in physical stores, with advanced authentication mechanisms in the communication between the ATM and the point-of-sale and the Group's systems.
- Card protection against electronic commerce fraud:
  - Implementation of a secure e-commerce standard (3DSecure) via two-step authentication based on one-time passwords.
  - Solutions based on mobile applications that let users deactivate cards for e-commerce use.
  - Virtual cards issuance using dynamic authentication passwords.
- Use in Brazil of a biometric authentication system in ATMs and branch cashier desks. Customers can use this new system to withdraw cash from ATMs using their fingerprint to sign off their transactions.
- Integration of monitoring and fraud detection tools with other systems, internally and externally, to enhance suspicious activity detection capabilities.
- Reinforced ATM security by incorporating physical protection elements and anti-skimming, as well as improvements in the logical security of the devices.

Online/mobile banking fraud:

- Validations of online banking transactions through a second security factor based on one-time-use passwords. Evolution of technology, depending on the geographic area (for example, based on image codes -QR codes - generated from the transaction data).
- Enhanced online banking security by introducing a transaction risk scoring system that requests further authentication when a given security threshold is breached.
- Implementation of specific protection measures for mobile banking, such as identification and registration of customer devices (Device ID).
- Monitoring of e-banking platform security to avoid systems attacks.

Cybersecurity and data security plans

Throughout the year, Santander continued to focus on cybersecurity risks, which affect all companies and institutions, including those in the financial sector. This situation is a cause of concern for all entities and regulators, prompting the implementation of preventive actions to be prepared for any attack of this kind.

Santander has continued to mature its cybersecurity controls and regulations in line with the Santander's global cybersecurity framework, and based in international best practices.

The Group has also made positive progress with its ambitious programme to transform cybersecurity in order to strengthen detection, response and protection mechanisms. That includes the inauguration of the new Cyber Security Centre in Madrid.

Further information regarding cyber security is available in chapter Economic and financial review, section 5 'Research, development and innovation (R&D&I)'.

At the same time, cyber threats continue to increase in severity and complexity across all industries and geographies. Santander regularly reviews and evolves its defences in order to continuously improve, and address existing and emerging cyber threats.

The second line of defence, cybersecurity risk team has evolved the process for assessment of cyber risk to incorporate oversight across all the core cyber risk domains in the information security program. This includes oversight and assessment of risk reduction effectiveness of the global cybersecurity transformation plan.

Vendor management

As part of its digitalisation strategy, the Group aims to offer its customers the best solutions and products available in the market, which in many cases entail an increase in outsourcing activities or the employment of third party services. This aspect, together with the intensive use of new technologies such as the cloud, the increase of cyber-related risks and an increase in regulatory pressure in this area, making it necessary to reinforce procedures and controls to ensure that the risks arising from hiring suppliers are known and managed appropriately.

In 2019, the European Banking Authority (EBA) published its revised guidelines on outsourcing arrangements, setting out specific provisions for the governance frameworks of all financial institutions within the scope of the EBA's mandate. In order to cover all new requirements, a new Target Operating Model has been defined including the optimisation, simplification and review of all related policies and governance.

In 2019, efforts have mainly been aimed at:

- The definition of new criteria for classifying services according to their level of relevance. This level of relevance will determine the different requirements for approval, registration and monitoring of the services.
- Methodology improvements to identify and analyse inherent risks, in alignment with the new EBA guidelines.
- Controls have been reinforced in the different phases of the vendor management model to ensure that services that involve accessing or processing of sensitive data, including personal data, are correctly identified and classified.
- The escalation policy has been revised to ensure that the essential outsourcing functions and the critical and high relevance services are reviewed and approved in the appropriate forums and that the relevant incidents associated with suppliers that provide these services are escalated in due time and manner for review and adequate decision-making.
- Definition and monitoring of indicators and dashboards with regard to the model implementation process.
- Reviewing and enhancing the data quality for relevant services and associated suppliers inventories.
- Progress in the implementation of a management system that automates the supplier management cycle different phases to achieve enhanced process control and higher information quality.
- Training and raising awareness of risks associated with suppliers and other third parties.
- Deployment of the Vendor Risk Assessment Centre (VRAC) function within the Group's entity responsible for purchases, with the aim of making supplier assessments more efficient and standard, ensure that related risks are adequately covered, and execute a certification process before the service is provided. In addition, the VRAC should help to define and monitor mitigation plans, and reinforce the controls needed to ensure the risks associated with services providers are at acceptable levels according to the Group's risk appetite.

Other relevant mitigating actions

With regards to mitigation measures related to customer practices, products and businesses, Santander works to continuously improve and implement corporate policies on aspects such as products and services selling, management and analysis of customer complaints, prevention of money laundering, terrorism financing and compliance with new regulations.

Also related to the same operational risk category, within the continuous process carried out in Brazil to improve internal processes and provide a better service to our customers and, thereby, reduce the volume of potential incidents and legal claims, the creation of joint and multidisciplinary working groups for the identification, definition and implementation of mitigation actions based on root cause analysis, as well as for the monitoring of their effectiveness, stands out.

Analysis and monitoring of controls in Santander Corporate & Investment Banking (SCIB)

Due to the specific nature and complexity of the financial markets, operational control procedures are subject to continuous improvement at SCIB (business unit which performs the activity related to these markets), which currently focuses on the following aspects:

- Subsidiaries' reporting and monitoring tools have been strengthened, generating a more robust and systematic methodology for periodic measurement of the main risks, ensuring an adequate level of maturity of all the operational risk tools.
- Continuous improvement of the control model related to regulatory requirements such as MiFID II, Dodd Frank Act, EMIR, IFRS 9 and GDPR among others.
- The risk of unauthorized trading continues to be monitored through a specific risk appetite metric. As part of the control environment continued process of improvement, the global guidelines and their monitoring have been strengthened. Further, new reports are being defined to produce more granular monitoring of market operations re-enforcing business continuity plans, incorporating new scenarios adapted to new industry risks (i.e. cybersecurity scenarios).
- Strengthening business continuity plans, incorporating new scenarios adapted to new industry risks (i.e. cybersecurity scenarios).
- Implementation of new tools that reinforce control over communications that occur in the markets trading rooms, among others with a focus on monitoring conduct risk.

For more information on aspects of regulatory compliance in markets activities, see section 7.3 'Compliance and conduct risk' - Regulatory compliance.

Finally, it should be noted that the business remains immersed in a global transformation process that involves the updating of its technological platforms and operational processes, which will, among other objectives, strengthen the control model and reduce the operational risk associated with these activities.

Insurance's role in operational risk management

Santander considers insurance as a key element in the management of operational risk. In 2019, the Own Insurance function achieved a greater level of maturity in the Group's different geographies, obtaining greater consistency and ensuring total coordination between the different functions involved in the insurance management cycle. The following activities should be highlighted:

- Continuous fostering of the relationship between the own insurance, operational risk and first line areas, to attain the objective of effective insurable risk management, through their active participation in the insurance and other relevant fora established by the Operational Risk function (i.e. fraud forum).
- Permanent review of the Group's risks with respect to contracted hedges, in order to identify all risks that may be subject to insurance coverage, analysing the suitability of the policies for the risks covered and taking appropriate corrective measures in case it is deemed necessary.
- Monitoring insurable losses and events identified in the insurance policies, establishing action protocols and specific monitoring fora in each geography. Identification of all risks in the Group that can be hedged with insurance, including the identification of new insurance coverage for risks already detected in the market.

Likewise, the Own Insurance function has continued developing its role of protecting the Group's income statement, mainly through the following tasks:

- Establishment and implementation of those criteria to be applied in order to quantify insurable risk, based on the analysis of losses and scenarios, which allow determining the level of exposure of the Group to each risk.
- Analysis of the coverage available in the insurance market, and negotiation with suppliers according to the procedures established for this purpose by the Group.
- Recovery of insured losses, maximising the efficiency of the hedged through policies in 2019.
- Participation in various Group fora/committees related to risk management, increasing their interaction with other Group functions and ability to properly identify and evaluate insurable risks, as well as their knowledge of existing policies and activation procedures for other Group areas.

Business continuity plan

The Group has a Business Continuity Management System (BCMS), to guarantee the continuity of the business processes in all its entities in the event of a potential disaster or serious incident.

Its basic goals are to:

- Minimise the potential damage for people, and adverse financial or business impacts for the Group, caused by the interruption of normal business activities
- Reduce the operational effects of a potential disaster, providing pre- defined and flexible guidelines and procedures to be applied in the re- launching and recovering processes.
- Restart time-sensitive business operations and associated support functions, in order to achieve business continuity, stable profits and planned growth.
- Protect the public image and confidence in the Group.
- Meet the Group's obligations to its employees, customers, shareholders and other stakeholders.

In 2019, the Group further implemented and worked on the continuous improvement of its business continuity management system, through the integration of the business impact analysis with other risk assessment methodologies. In addition, the Group is working on creating an end to end process map that will allow having a better identification of the risks and the controls required to ensure the continuity of the organisation's key services.

Furthermore, several crisis simulation exercises were carried out, coordinated between the Group's subsidiaries and headquarters, involving the Group's various crisis management committees and senior management.

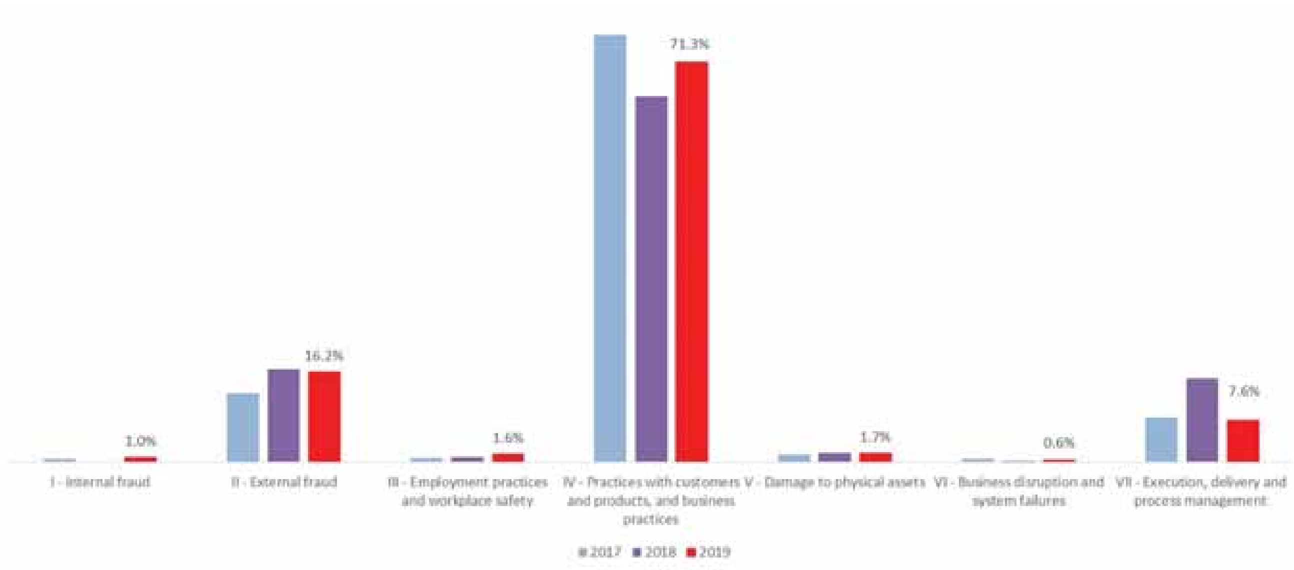
Santander has also updated the Group's application that is used to register and store the continuity plans to allow for associating the economic functions set by the European Banking Union's resolution authority, the SRB.

6.3 Key metrics

The distribution of net losses (including both incurred loss and net provisions) by Basel risk categories[6] over the last three years is as follows:

Distribution of net losses by operational risk category[A]

(% o/total)



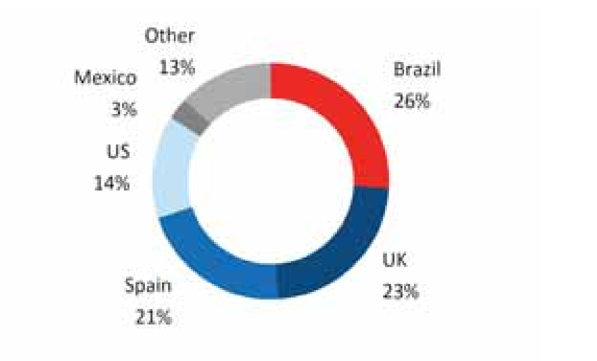
A. Excluding *Trabalhistas* events from Brazil

In relative terms, losses in the category of customers, products and business practices increase compared to the previous year, while external fraud and processes related losses decreased.

Net losses by country are presented in the following chart:

Net losses by country[A]

(% o/total)



A. Excluding *Trabalhistas* events from Brazil

Employee litigation in Brazil is managed as a personnel expense. It is not included in the operational figures since it is considered, from a management point of view, as part of the entity's personnel expense. The Group's governing bodies continuously monitor the levels of expenditure,

including specific appetite metrics, as well as the actions designed to reduce it. According to the Basel operational risk framework, these expenses are reported under the applicable categorisation.

In 2019, the most significant losses by category and geography corresponded to litigation in Brazil where a set of actions has been put in place to improve customer service (in the form of a full mitigation plan, as described in section 6.2 'Operational risk management' in this chapter). In addition, in 2019 the volume of losses in the UK and the US increased due to provisions that cover cases related to product commercialisation and legacy cases.

Regarding external fraud, the majority of losses are related to forgery and identity theft, and the fraudulent use of debit and credit cards. The forecast for next year is for this trend to continue, with a potential intensification of the fraudsters' activity in payment transactions and electronic commerce. In this regard, the Group is continuously improving its monitoring and control procedures and tools with the goal of tackling these risks.

6. The Basel categories incorporate risks which are detailed in section 7 'Compliance and conduct risk'.

7. Compliance and conduct risk

7.1 Introduction

The Compliance and Conduct function fosters the Group´s adherence to the rules, supervisory requirements, and the principles and values of good conduct, by setting standards, advising and reporting in the interest of employees, customers, shareholders and the community as a whole.

This function addresses all matters related to:

- Regulatory compliance.
- Financial crime compliance (FCC).
- Product governance and consumer protection.
- Reputational risk.

Under the current configuration of the Group's three lines of defence, Compliance and Conduct is an independent second-line control function organisationally under the Group CRO, reporting directly and regularly to the board of directors and its committees, through the Group Chief Compliance Officer (Group GCCO).

The Group's goal is to minimise the probability of non-compliance events and to identify, evaluate, assess, manage, control and report any potential irregularities that may occur.

The Group sets out in its risk appetite model its zero tolerance for Compliance and Conduct risks with the goal of minimising the probability of any economic, regulatory or reputational impact. In order to achieve this goal, Compliance and Conduct risk is managed through a homogeneous process carried out towards a common methodology and taxonomy, fully aligned with the Risk function principles, by establishing a series of risk indicators, assessment matrices and qualitative statements.

The Compliance and Conduct function takes part in the annual risk appetite formulation, in order to verify that the current model is aligned with the Group's risk appetite.

In addition, the transition from the Target Operating Model (TOM) implementation to the Annual Compliance Program (ACP) has been completed, which is now more developed, becoming a key management tool for covering a wide scope of around 70 activities related to risk management, governance and culture. This tool addresses potential improvements detected during the capacity and maturity model assessment on the effectiveness of the function and significantly improving the oversight and control environment.

The Program is supervised by the Board and the management team of each respective subsidiary, and it is validated by the Group C&C function. It details the main activities to be developed by the function throughout the year, classified into the following categories: i) governance; ii) findings and recommendations; iii) regulatory radar; iv) risk management; v) culture and vi) improvement projects.

7.2 Governance

The Group CCO reports to the Group's governing and management bodies. This is independent of the Risk function's other reporting obligations to the governance and management bodies of the Group's risk profile, which also includes compliance and conduct risks.

The function's governance has historically been predicated on a strong structure of Group Committees. During the past year, a simplification process led by the Internal Governance function was performed to achieve a more efficient governance structure that strikes an appropriate balance between governance, oversight and responsive decision-making whilst eliminating unnecessary complexity. As a result of this process, the governance structure is now composed of the General Compliance Committee and three supporting governance fora: Reputational Risk Forum, Corporate Product Governance Forum and the Anti-Money Laundering and Terrorism Financing Forum.

The **general compliance committee** is the high- level collegiate body of the Compliance and Conduct function. Its main responsibilities are as follows:

- Proposing updates and modifications to the General Compliance and Conduct Corporate framework and other corporate frameworks sponsored by the Compliance function for ultimate approval by the board of directors.
- Reviewing significant compliance and conduct risk events, measures adopted and their effectiveness.
- Setting up and assessing corrective actions when risks of this kind are detected in the Group, either due to weaknesses in the existing management and control or due to emerging new risks.
- Monitoring newly issued or amended regulations and establishing their scope of application in the Group, and, if necessary, defining adaptation or mitigation actions.

7.3 Compliance and conduct risk management

As previously mentioned, the Compliance and Conduct risk management follows the Group's three lines of defence model as an independent second-line control function at both the Group and subsidiaries levels. In this respect, significant progress has been achieved in the improvement of the Compliance and Conduct function's regulatory tree and in its transposition to local subsidiaries, although further developments are still being carried out.

One of the Compliance and Conduct function's cornerstones consists on overseeing the effective implementation and monitoring of the General Code of Conduct (GCC) under the supervision of the compliance committee and of the risk supervision, regulation and compliance committee.

The GCC catalogues the ethical principles and rules of conduct by which all activities of Santander Group employees must be governed. This code must be understood and applied along with the other internal development regulations. The GCC establishes the following:

- Compliance functions and responsibilities on the application of the General Code of Conduct;
- General ethical principles of the Group;
- General standards of conduct;
- The consequences in case of breach;
- A whistleblowing channel ('*Canal Abierto*'), which allows employees who are aware of allegedly misconducts or that are not aligned with the corporate behaviours, communicate them confidentially and anonymously.

The following paragraphs provide the details on how risk management is conducted for the additional items that are under the Compliance and Conduct function's scope: regulatory compliance, product governance and consumer protection, financial crime compliance and reputational risk.

Regulatory Compliance

The Regulatory compliance is responsible for controlling and supervising regulatory risks related to employees, securities markets and data management, developing policies and rules and ensuring compliance by the Group subsidiaries.

The following functions are in place for the adequate control and management of regulatory compliance risks:

- Application and interpretation of the GCC and other codes and rules and regulations that implement it, including oversight of the corporate defence model and promotion of the Group's Whistleblowing channels model, known as *Canal Abierto*.
- Development and application of policies and rules aimed at preventing market abuse, paying special attention to the use of common methodologies and corporate tools.
- Control and supervision of regulations related to: (i) markets, mainly, MiFID II, EMIR, Dodd-Frank Title VII and the Volcker Rule and (ii) data management, in the competencies of General Data Protection Regulation (GDPR), Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS).
- Disclosure of relevant Group information (material facts).

The most relevant areas of the Regulatory compliance function are described below:

A. Employees

The main objective of this function is to extend the ethical and compliance culture across the Group, establishing internal standards for the prevention of criminal risks, conflicts of interest or anti-competitive behaviours based on the principles established by the General Code of Conduct, which is the central element of Regulatory Compliance.

The Group in its firm commitment against any form of corruption, whether in the public or private sectors, has an Anti-Corruption policy whose purpose is to establish the guidelines to be applied, assign the relevant roles and responsibilities and establish certain anti-corruption elements for its governance. This policy, which can be supplemented by any additional stricter controls derived from more demanding local regulations or obligations and their specific training, includes elements aimed at mitigating and preventing corruption and bribery within the Group, such as:

- Guidelines regarding gifts and invitations extended to public officials.
- Guidelines regarding the conduct of agents, intermediaries, advisors and business partners.
- Control and prevention measures regarding third parties (agents, intermediaries, advisors and business partners) with whom the Group operates: due diligence processes for third parties who are not first-line or of renowned prestige; anti-corruption clauses; payment controls; accounting controls.
- Guidelines regarding the acceptance by Group employees of gifts or invitations.

Corporate defence subject matter experts have held the Global Corporate Defence Forum for a third consecutive year to share best practices and jointly design working plans for improving and promoting the compliance culture in all our subsidiaries through collaboration and networking.

Additionally, in 2019 *Canal Abierto* has been launched at the Group's headquarters, Santander Consumer HQ and Santander Spain as the evolution of the already-in-use whistleblowing channel implemented since 2016 in the Group's main subsidiaries. *Canal Abierto* goals are:

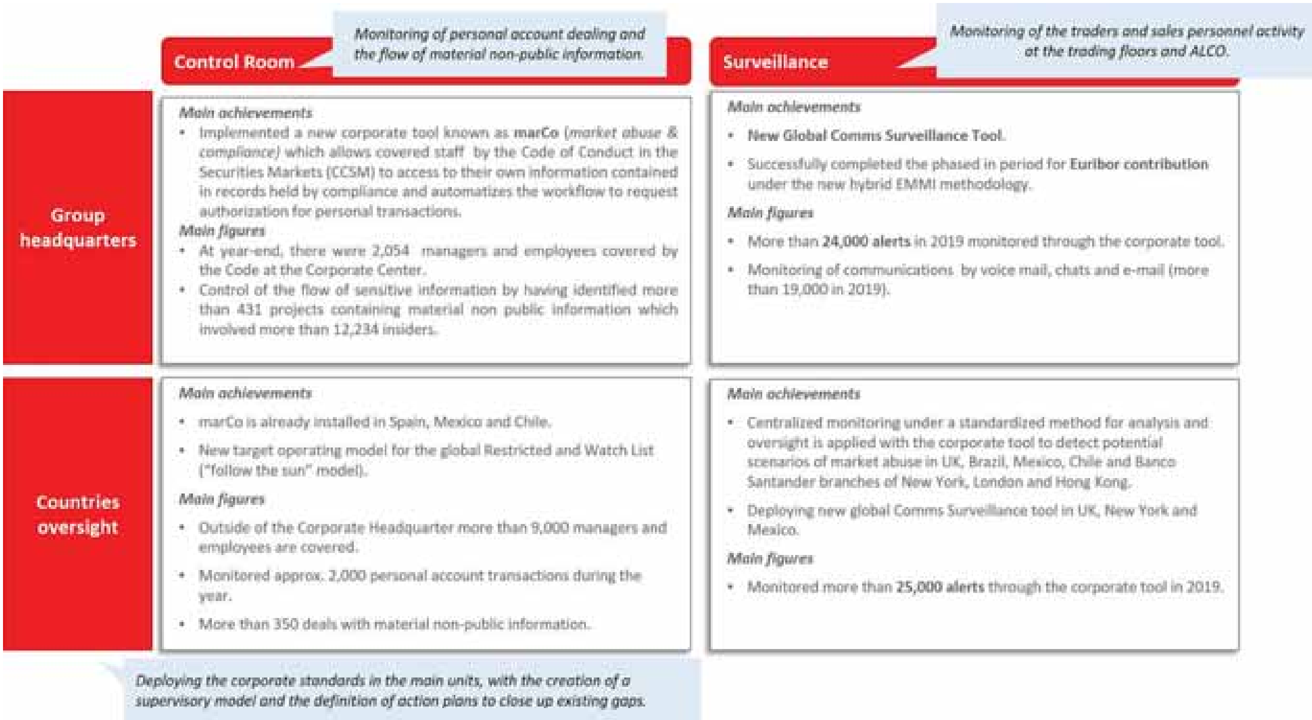
- Contribute to the Group´s cultural transformation, since it allows to escalate behaviours that are not aligned with our corporate values, in addition to other more usual compliance related cases, such as unlawful acts or breaches of the GCC.
- Create a working environment where employees feel able to Speak Up and are Truly Listened to, in line with our Responsible Banking strategy and with our aim to be a bank that is Simple, Personal and Fair.

- Support FCC according to the existing regulations and culture objectives.

For further details regarding *Canal Abierto*, see section '[A talented and motivated team](#)' of the Responsible Banking chapter.

B. Market abuse

In 2019, Regulatory compliance activities focused on the implementation in our main geographies of group tools for market abuse risk prevention and management:



C. Market regulations

Regulatory compliance carries out the risk management of the main international markets regulations that affect the Group. The most relevant actions during 2019 are detailed below:

MiFID II

Throughout 2019, the Regulatory Compliance function worked together with Regulatory Affairs & Compliance SCIB, as well as with the different subsidiaries in finalising and improving the MiFID II control framework for each subsidiary.

Dodd-Frank Title VII

Swap dealer compliance programme improvement in 2019, successfully strengthening internal controls and monitoring.

Volcker Rule

Oversight of this regulation has continued this year. The Volcker Rule allows proprietary trading only in limited cases that the Group controls by means of a specific compliance programme.

Due to the recent amendments introduced to the Rule, the current Compliance Programme is expected to be modified gradually during 2020.

Relevant information

Regulatory compliance is responsible for disclosing relevant Group information to the markets. Banco Santander made public a number of material facts during the year, which are available on the Group's website and the CNMV website.

D. Data management

The focal points for Regulatory compliance in 2019 were:

GDPR

- Monitoring the completion of pending actions from adaptation programs and control framework consolidation based on three pillars: key performance indicators (KPIs), monitoring program and risk self-assessment.
- Support the Group's subsidiaries with the release of new guidelines and operating criteria based on supervisory guidance. In addition, the existent corporate policies on data protection have been revised.
- A series of corporate initiatives to ensure the compliance program effectiveness: training materials and courses for Data Protection Officers (DPOs) and data protection champions; key internal processes reinforcement (vendor management; technical assistance to product and service approval governing bodies; security incident management; among others).
- Fostering cooperation and best practices sharing among subsidiaries.

FATCA and CRS

- In terms of the automatic exchange of tax information among countries (FATCA and CRS), the main oversight activities were centred around: (i) reporting obligations by our subsidiaries according to local provisions; (ii) remedial actions following Internal audit's recommendations and (iii) reinforcement of the control framework (KPI's and controls) and review of the existing corporate policies.

Product governance and consumer protection

The product governance and customer protection mission is to ensure that the Group acts in the customer´s interest by complying with regulations, the entity's values and principles. This mission is achieved through the following drivers:

Culture

- Establish the principles of conduct and risk management throughout the commercialisation process and the relationship with retail customers. At the same time, establish and manage a strong governance culture.
- Promote an appropriate culture with a Simple, Personal and Fair approach, to act in the customers´ best interest.

Processes

- Ensure that products are designed to meet the characteristics and needs of customers, with an appropriate balance of risks, costs and profitability.
- Oversee the sale process to the adequate target market, with proper commercial treatment and transparency of information, as well as salesforce training and compensation systems that encourage performance in the best interest of the customer.
- Ensure that customer service, post-sale systems and processes facilitate a simple, personal and fair approach to customers, as well as adequate detection and management of any possible deterioration of products and services.

Management

- Ensure that decisions are made, action plans are defined and followed when necessary, and that senior management and statutory bodies are properly informed.
- Oversee the design and execution of controls throughout the commercialisation and customer relationship process.
- Identify risks through client voice, regulatory guidelines, industry practices, supervisor and auditor opinions, and learning from internal/external events.
- Apply group risk assessment methodologies, such as management indicators, thematic evaluations, and self-assessments.

- Mitigate conduct risks with customers through solid oversight, reviewing conduct management at subsidiaries based on regular corporate reporting, and capacity and maturity model assessment.

Main product governance and consumer protection progresses and activities in 2019

According to the risk-based management approach, the main actions to mitigate risk during 2019 have been based on:

Digitalization and simplification

New platform and standardization frameworks in order to streamline the product/service approval process.

Culture and awareness

Consumer protection principles communication and measures.

Best practices for vulnerable customers treatment.

Evolving sales force remuneration and training.

1LoD accountability and controls

Enhancement of conduct risk management by the risk owners: local products conduct risk forums leaded by 1LoD and local control standards.

Focusing on customer impact

Expanding the scope of conduct risk management taking into account customer impact in recovery and collections processes and fraud management.

risk pro

Consolidating the customer voice

Integrating all the customer voice input such as social media and reinforcing forums providing a holistic oversight.

Digitalization and simplification

- Specific approval powers for any product or service promoted by Santander and establishing the Santander Digital Guide that highlights the relevant aspects to be taken into account by the Business areas in the development and subsequent launch of Santander Digital initiatives in order to protect consumers' rights.
- Simplification of the product/service approval process through the enhancement of the digital platform and simplification of the product approval frameworks at subsidiaries' level.

Culture and awareness

- Leverage on the consumer protection principles KPIs in our core geographies, which work as a bridge between the voice of customers and business indicators, in order to identify potential cases of customers' detriment.
- Best practices guidelines on vulnerable customers' treatment & prevention of over-indebtedness. This provides Santander with a consistent approach regarding: the identification and treatment of customers in special circumstances and preventing over-indebtedness, ensuring that those customers identified are treated not only in a fair manner but also with empathy and sensitiveness according to their particular circumstances at all times, enhancing their experience and outcomes.
- Evolving guidelines and implementation of best practices regarding sales force remuneration, training models and controls as main drivers to mitigate miss-selling and promote higher customer satisfaction and sustainable business.

First line of defence accountability and controls

- Business accountability reinforcement through the local products conduct risk forums leaded by the first line of defence, especially in insurance and cards where conduct risk management has been significantly enhanced.
- Strengthen local control standards across all the commercialization processes, engaging first and second lines of defence, and oversight, highlighting Spain and Brazil initiatives. In this context, a new guideline for conduct in marketing and promotional activities has been developed to define best practices and reinforce the control environment across the Group

Focusing on customer impact

- Expanding the scope of conduct risk management taking into account customer impact in recovery and collections processes and fraud management.

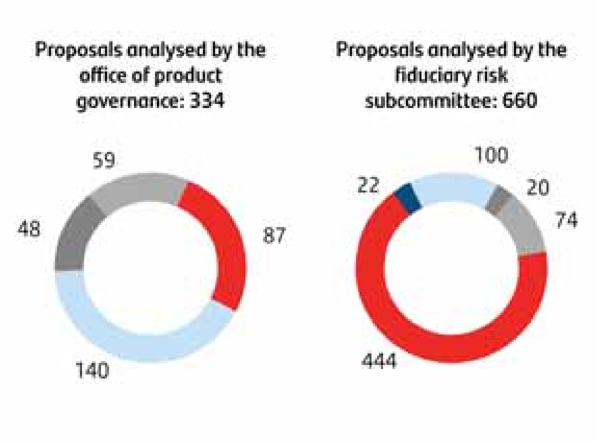
Consolidating the customer voice

- Execution of a thematic review regarding customer care on social media, in which action plans have been developed in order to enhance local models and promote resolution capacity of customer care on social media; and increase the use of reports generated in this channel for business insights purposes.
- Global workshop on best practices in managing Customer Voice (CuVo) with 19 speakers and 56 attendees from 12 countries where the Group is present. Local practices were shared and regulatory trends addressed, while the future was also discussed, laying the foundation for the Group's CuVo management strategy.

Other best practices

- Best practices workshop focused on the importance of acting as a second line of defence for the local Compliance & Conduct teams. Also raising awareness of the first line of defence with regards to their role of "true risk owners", paying special attention to evolving concepts of conduct with customers, digitalisation and processes simplification, among others.
- Support local custody risk management coordinators to effectively deploy the corporate custody procedure and to enhance their second line of defence role at a local level.

Products and Services validation



- Products validated in corporate office
- New products presented at CCC[A]
- Units enquiries
- Structured Prod. (Santander Internation Products Plc.)
- Collective investment undertakings and discretionary profiled portfolios
- Funds/Investments
- Private Banking products
- Structured products Retail Banking
- Other (policies, ETFs, funds focus list, among others)

A. Of these proposals, one was not validated and others were retired for any modification prior to assignment to other committee

Conduct risk with customers monitoring

23 sessions of the Corporate Product Governance and Consumer Protection Meeting were held in 2019, at which monitoring of the following items was presented:

- The marketing of products and services by country and type of product with a focus on those in special monitoring, regulatory and supervisory environment, events and conduct costs and risk analysis through indicators.
- Investment mandates compliance, portfolios risk exposure and performance of investment products managed by the Group's subsidiaries, both considering the fiduciary relationship with the customer and relative performance to competitors.
- Customer complaints, managing 28 countries, 36 business units and 9 SGCB branches, including action plans to mitigate customer detriment.
- Oversight the implementation of the corporate custody procedure and monitoring the degree of control and volume of 51 suppliers (42 of them external to Santander) that provide custody services for both the Group's own positions and for customers' positions.

Financial Crime Compliance (FCC)

One of the Group's strategic objectives is to maintain advanced and efficient financial crime compliance systems, constantly adapted to international regulations, with the capacity to confront new techniques deployed by criminal organisation's.

As a part of the second line of defence, the FCC function ensures that risks are managed in accordance with the risk appetite defined by the Group and promotes a strong risk culture through the organisation. The global FCC function is responsible for supervising and coordinating the FCC systems of the Group subsidiaries, branches and business areas, requiring the implementation of the necessary programmes, measures and enhancements.

The Group anti-money laundering (AML) and countering (CTF) terrorism financing policy is based on three main pillars: the highest international standards, their adaptation and compliance through global policies and technology systems to facilitate such compliance.

During 2019, a new global head of FCC was appointed while the Group continued to actively work on the following tasks:

- Review of internal regulations and strengthening management policies.
- Active oversight of subsidiaries, highlighting the effective collaboration between them and communication between the Group and its subsidiaries.
- Review and update the key risk Indicators (KRIs) to better identify and monitor key areas of focus or relevance.
- Analysis of new products to be commercialised by the Bank from an FCC standpoint.
- Special focus on systems optimisation, enhancing their effectiveness and considering and developing new technologies that are becoming available.

The global FCC function addressed significant transformation projects, highlighting: i) the continuous improvement of supporting tools and risk management platforms, such as the one used for automation and improvement of adverse media identification and management processes; ii) extending its scope to other units/areas within the Group; iii) or updating the corporate money laundering and terrorism financing risks and controls self- assessment (RCSA AML/CTF), in alignment with the rest of the RCSA methodologies defined by the Compliance function.

In addition, given that these standards and those adopted by the Group are mandatory, their correct implementation and application must be overseen. To do so, continuous work is carried out in the different Group entities, including monitoring of the training of Group employees.

The main activity data in 2019 is as follows:

193	Subsidiaries reviewed (+14% vs. 2018)
62,885	Disclosures to authorities (+10% vs. 2018)
256,384	Investigations carried out (+23% vs. 2018)
177,062	Employees trained (+4% vs. 2018)

The Group has training plans in place at both local and Group level, in order to cover all employees. Specific training plans are also in place for the most sensitive areas from the perspective of anti-money laundering and counter-terrorism financing.

Reputational risk

Reputational risk is defined in the Group as the risk of a current or potential negative economic impact due to damage to the perception of the bank on the part of employees, customers, shareholders and investors, and the wider community.

Reputational risk may arise from a multitude of sources and in many cases from other risks. In general, these sources may be related to the Group's business and support activities, the economic, social and political environment and events associated with our competitors. Consequently, the management of this risk requires global interaction with both first and second lines of defence functions responsible for the relationship with stakeholders, in order to ensure a consolidated oversight of the risk, efficiently supported on the current control frameworks.

The reputational risk model is based on a prominently preventive approach to risk management and control, and on effective processes for the identification and management of early warnings of events and risks, and subsequent monitoring and management of events and detected risks.

Key actions in 2019:

- Operating of a new version of the Group reputational risk model, defence sector policy and sensitive sectors financing policy.
- Consolidation of subsidiaries reporting to Group, including events, transactions and clients. In this regard, the approval workflow for corporate transactions has been improved.
- Consolidation of Group governance and elevation of membership of the Reputational Risk Forum, the status of which remains as a supporting forum.
- General awareness campaign aimed at all employees and promoted by senior management, thematic forum with countries and training sessions for specific groups focusing specifically on reputational risk assessment.
- Reformulation and cascading-down to countries of the preventive risk appetite metric. Approval of risk appetite metrics in main countries.
- New risk assessment conducted in the Group's headquarters.
- New reputational risk approach for the global risk profile assessment exercise.
- Reinforcement of governance with subsidiaries, including new guidelines for analysis and units' supervision.

Transformation and improvement projects

Significant improvements have been done in the Compliance and Conduct function during 2019 in all disciplines: processes simplification, customer focus, "Canal Abierto", FCC policies and standards and EU regulation, reputational risk consolidation, new transformation capabilities, among others.

In accordance with the organisational principles defined in the function, transversal functions support specialised vertical functions, providing them with methodologies and resources, management systems and information and support in executing multidisciplinary projects and activities, among them:

- Analytic Cluster. This initiative aims to provide the Group with a new set of tools to help its analytic projects. Through this cluster we can upload massive amounts of information (big data), process the information in different ways with different programming languages, and finally run different analysis (Machine Learning - Algorithm) that allow us to get different insights depending on the use case that we are working on (AML processes, customer protection processes, among others).
- Machine Learning for AML Transaction Monitoring. The transaction monitoring process is one of the most time-consuming activities, due to the high number of alerts, an area where previous expertise domain, rules, conditions and thresholds define the risk that we would like to control.

  During the last few years, we have identified opportunities to improve this kind of process by introducing Artificial Intelligence capacities. Our goal is to validate if the use of unsupervised machine learning algorithms can be a real alternative to improve our detection processes, being able to find unknown unknowns, being more efficient and making our investigation team focus on finding what matters.

  Different benefits of using an AI approach are seen in the transaction monitoring area:

  - Better Detection. This new approach is based on a multi dimension analysis.
  - Flexibility and speed to face new changes in the analysis/ detection approach. The flexibility of these tools is also another benefit since in these projects we are able to run different analysis/approaches working in parallel with big amounts of data.
  - Significant improvement in the investigation process. The new environment brings all the latest IT functionalities in order to provide everything that the user needs in only one application.
  - Simulation environment. We have, as part of the production environment, functionalities that allow us to run new analysis in parallel with the production analysis.
  - Full Track. These new projects allow us to have a 100% full track of the information.

- The Regulatory Radar function, which manages the regulatory adhesion cycle, has been strengthened at the Group's headquarters, through the development of a single platform of new regulation repository which will integrate the analysis of its applicability and materiality for the Group, break-down into actionable duties and obligations, and follow-up of the process of implementing required changes. The system incorporates an automatic integration of regulatory sources.
- The Group strengthened best practices sharing and cooperation between the Group's headquarters and the subsidiaries.
- In addition to the traditional training, for which the function is responsible, a biannual review of compliance and conduct and awareness-raising actions is carried out through the Group's internal networks.

During 2019, the Compliance and Conduct function has carried out several risk assessments (inherent risk, control environment and the net residual risk) in coordination with the Risk function, notably:

- A regulatory compliance assessment focused on the Group's main subsidiaries. This exercise is carried out annually, following a bottom-up process, with the involvement of both the first and the second lines of defence. First, an assessment is made on the consistency of the controls that mitigate such inherent risk, and then the residual risk in each of these obligations is determined. For those residual risks categorized as high or critical, action plans are established and followed by both the local and corporate compliance functions.
- Conduct assessment in products and services with a scope of 20 geographies of the Group and 46 legal entities, where the first line of defence functions evaluate the main risks of conduct in commercialization, the suitability of the controls that mitigate said risks and establish action plans in those cases where risk assessments exceed the defined risk appetite.
- Assessment of FCC on those Group units considered as obliged entities in this matter (or equivalent). The business units and the local FCC prevention officers, under the supervision of the Corporate FCC function, carry out this annual self-assessment exercise, which is focused on Anti-Money Laundering (AML)/Terrorism Financing (TF) aspects.
- In addition, the function has carried out a reputational risk assessment within the corporate and global functions, which are critical for the management and prevention of this risk. Its objective has been to improve the knowledge and awareness of the areas closest to stakeholders and to detect and monitor potential specific risks and associated action plans.

8. Model risk

8.1 Introduction

A model is defined as a system, approach or quantitative method that applies theories, techniques or statistical, economic, financial or mathematical hypotheses to transform input data into quantitative estimates. The models are simplified representations of real world relationships between characteristics, values and observed assumptions. This simplification allows the Group to focus attention on specific aspects which are considered to be most important for applying a given model. Santander Group uses models for different purposes such as admission (scoring/rating), capital calculation, behaviour, provisions, market and operational risk, compliance, liquidity, among others.

The use of all those models entails model risk, defined as the potential negative consequences arising from decisions based on the results of wrong, inadequate or incorrectly used models.

According to this definition, the sources of model risk are as follows:

- The model itself, due to the utilization of incorrect or incomplete data, or due to the modelling method used and its implementation in systems.
- Incorrect use of the model.

The materialisation of model risk may cause financial loss, erroneous commercial and strategic decision-making or damage to the Group's transactions.

The Group has been working towards the definition, management and control of model risk for several years. In 2015, a specific area was established within the Risk division in order to manage and control this risk.

Model risk management and control functions are performed at both the Group's Head Quarters and in each of the Group's main subsidiaries. To ensure adequate model risk management the Group has in place a set of policies and procedures which establish the principles, responsibilities and processes to follow during the model life cycle detailing aspects related to organization, governance, model management and model validation, among others.

The supervision and control of model risk is proportional to the importance of each model. In this sense, a concept of Tiering is defined as the main attribute used to synthesize the model's level of importance or model significance, this criteria defines the intensity of the risk management processes that must be followed.

At the end of 2017, we launched a strategic plan, Model Risk Management 2.0 (MRM 2.0), to reinforce model risk management in the Group, reviewing each of the model's governance phases, and to address the new supervisory expectations set out in the 2018 ECB Guide on internal models.

MRM 2.0 is currently underway, and involves three phases (2018, 2019 and 2020) which include 10 main initiatives organized around four pillars:

- **Key elements:** Initiatives related to governance, risk appetite, management scope and risk policies. A new structure for model risk committees has been defined, model risk governance has been enhanced. The Model Risk Management framework has been reviewed and simplified.
- **Processes:** Initiatives related to the model life cycle phases. Model Risk Management is performed based on a risk-based approach according the Tiering concept defined.
- **Communication:** Internal and external communication (monitoring, reports, training, among others). The internal reporting framework has been enhanced and specific model risk training has been prepared in order to support the cultural change.
- **Model Risk Facilitators:** infrastructure, tools and resources. A new Model Risk Management tool has been implemented, and has been continuously evolved since beginning of 2019.

So far, the MRM 2.0 strategic plan is progressing well, ensuring that all regulatory requirements are covered. Around 245 deliverables have been produced since the beginning of the project, covering the different pillars mentioned previously.

8.2 Model risk management

Model risk management and control is structured around a set of processes regarded as the model life cycle. The definition of the model life cycle phases in the Group is outlined as follows:

Identification

As soon as a model is identified, it is necessary to ensure that it is included in the model risk control perimeter.

One key feature for a proper model risk management is to have a complete inventory of the models used.

The Group has a centralized inventory, created on the basis of a uniform taxonomy for all models used at the different business units. The inventory contains all relevant information for each model, which allows them to be monitored properly according to their relevance and the tier criteria.

Planning

This is an internal annual exercise, approved by the local units' governance bodies and validated by the Global team, which aims to establish a strategic action plan for all models included in the scope of management of the Model Risk function. It identifies the needs for resources related to the models that are going to be developed, revised and implemented during the year.

Development

This is the model's construction phase, based on the needs established in the models plan and with the information provided by the specialists for that purpose.

The development must take place using common standards for the Group, and which are defined by the Global team. This ensures the quality of the models used for decision-making purposes.

Internal validation

Independent validation of models is not only a regulatory requirement, but it is also a key feature for proper management and control of the Group's model risk.

Hence, there is a specialized unit, independent from developers and users, which draws up technical opinions on the suitability of internal models, and sets out conclusions concerning their robustness, utility and effectiveness. The validation opinion for each model is expressed through a rating which summarises the model risk associated with it.

The internal validation process covers all models within the model risk control scope, ranging from those used in the -Risk function (credit, market, structural or operational risk models, capital models, economic and regulatory models, provision models, stress tests, among others) to other models used in different functions that support decision-making.

The validation scope includes not only more theoretical or methodological aspects, but also the IT systems and the data quality that models rely upon for their effective functioning. In general, it includes all relevant aspects related to Risk management (controls, reporting, uses, involvement of senior management, among others).

One of the key tasks related to the internal validation is the consistency analysis process carried out by the different validators, which includes the review of the issued recommendations, their severity and the rating assigned. In this way it acts as an important point of control of the consistency and comparability of the validation works. The validation works are only concluded once this phase of consistency has been completed.

Approval

Before being deployed and therefore used, each model must be submitted for approval to the corresponding governance bodies.

Deployment and use

This is the phase during which the newly developed model is implemented in the system in which it will be used. As mentioned already, this implementation phase is another possible source of model risk. It is therefore essential that tests are conducted by technical units and the model owners to certify that the model has been implemented pursuant to its methodological definition and that it works and performs as expected.

Monitoring and control

Models have to be regularly reviewed to ensure correct performance and that they are suitable for purpose. Otherwise, they must be adapted or redesigned.

Additionally, control teams have to ensure that the model risk is managed in accordance with the principles and rules set out in the model risk framework and all related internal regulations.

9. Strategic risk

9.1 Introduction

Strategic risk is the risk of loss or damage arising from strategic decisions or their poor implementation, or from the inability to adapt to external developments.

The Group's business model must be considered as key factor that is pivotal to strategic risk. It has to be viable and sustainable; therefore, it must be able to generate results in accordance with the Group's targets, every year and at least during the following three years, as well as being consistent with the Group's long-term view.

Strategic risk, can be split into three main components:

1 **Business model risk:** the risk associated with the Group's business model. This includes, among others, the risk of the model becoming obsolete, irrelevant, and/or that it loses value to generate expected results.

2 **Strategy design risk:** the risk related to the strategy set out in the Group's long term strategic plan, including the risk that this plan may not be adequate per se, or due to its assumptions, and thus resulting in the Group may not be able to deliver expected results.

3 **Strategy execution risk:** the risk associated with the execution of the three-year financial plan. Risks considered within this component include potential impacts due to both internal and external factors, the inability to react to changes in the business environment, and risks associated with corporate development transactions.

9.2 Strategic risk management

For Santander, strategic risk is viewed as a transversal risk and a Group target operating model that is used as a reference by our subsidiaries. This model encompasses the procedures and necessary tools for robust monitoring and control, which can be summarised as follows:

- **Strategic plans**: the strategic risk function, with the support of the different areas within the Risk division, independently monitors and challenges the risk management activities performed by the Group's corporate development and Strategy function. It is an additional component, albeit independent, that is fully integrated in all the Group's strategic plans.
- **Corporate development transactions:** the Strategic risk function, with the support of the different areas in the Risk division, ensures that corporate development transactions are subject to a risk assessment that comprises their potential impact on both Santander's risk profile and risk appetite.
- **Top risks**: under stressed assumptions, the Group identifies, evaluates, monitors and proactively manages those risks that may have a significant impact on its results, liquidity or capital affecting its financial health.
- **New products commercialization**: The Strategic Risk function participates in the process of assessing and validating any new product or service proposal before it is launched on the market by the Group or any of its subsidiaries ensuring full alignment with the defined strategy.
- **Strategic risk report**: prepared jointly by the Group's Corporate Development and Strategy function and strategic risk, as a combined tool for the monitoring and assessment of the Group's strategy, in addition to associated risks. This report is presented to the senior management and covers several topics: strategy execution, strategic projects, corporate development transactions, business model performance, top risks and risk profile.

Additionally, one of the main points of focus from a strategic point of view, continues to be the potential outcome of Brexit and the uncertainty around it, not only for the bank but also for the financial industry and the economy as a whole. Through the strategic risk function, constant monitoring is being carried out involving key areas, from both the 1st and 2nd line of defence, to ensure that any potential measures that could be required are ready to be implemented in order to safeguard the interests of the Group, our customers and shareholders.

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Glossary

2019 AGM	Our annual general shareholders' meeting held on 12 April 2019
2020 AGM	Our annual general shareholders' meeting that has been called for 2 or 3 April 2020, at first or second call respectively
2019 EGM	Extraordinary general shareholder's meeting held on 23 July 2019
2Dii	2 Degree Investing Initiative
Active customer	Those customers who comply with balance, income and/or transactionality demanded minimums defined according to the business area
ADS	American Depositary Shares
AGM	Annual General Shareholders´ meeting
AI	Artificial Intelligence
ALCO	Asset-Liability Committee
ALM	Asset and Liability Management
AML	Anti-money laundering
AORM	Advance Operational Risk Management
APM	Alternative Performance Measure
ARM	Advanced Risk Management
ASF	Available Stable Funding
ASR	Recovered write-off assets *(Activos en suspenso recuperados)*
AT1	Additional Tier 1
ATF	Anti-terrorist financing
ATM	Automated teller machine
ATOMIC	Advanced Target Operating Models in Collaboration
AVAs	Additional Valuation Adjustments
B2B2C	Business to business to customer
B2C	Business to customer
Banco Popular/Popular	Banco Popular Español, S.A., a bank whose share capital was acquired by Banco Santander, S.A. on 7 June 2017 and was merged into Santander in September 2018
Basel or Basel Committee	The Basel Committee on Banking Supervision
BAU	Business as usual
BCMS	Business Continuity Management System
BEPS	Base Erosion and Profit Shifting
Bigtechs	Large companies with established international presence in the market for digital services
BIS	Bank for International Settlements
Bn	Billion (1,000,000,000)
bps	basis points
BRRD	Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, as amended from time to time
BSI	Banco Santander International
BSPR	Banco Santander Puerto Rico
C&C	Compliance and Conduct
CAE	Chief audit executive
CAF	Development Bank of Latin America
CAGR	Compound annual growth rate
CAO	Chief accounting officer
CARF	*Conselho Administrativo de Recursos Fiscais*
CCO	Chief compliance officer
CCP	Central Counterparties
CCPS	Contingent Convertible Preferred Securities
CCSM	Code of Conduct in Securities Markets

CDI	Crest Depositary Interests
CDS	Credit Default Swaps
CEB	Council of Europe Development Bank
CEO	Chief executive officer
CEPR	Centre for Economic Policy Research
CET1	Common equity tier 1
CFO	Chief financial officer
CNMV	Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*)
COFINS	*Contribuiçao para Financiamento da Seguridade Social*
Corporate Centre	Our headquarters in Boadilla and business segment as described in section 4.1 'Description of segments' in the Economic and financial review chapter.
Corporation	All the governing bodies, organisational structures and employees entrusted by Banco Santander, S.A. to exercise oversight and control across the entire Group, including those functions typically associated with the relationship between a parent company and its subsidiaries.
COSO	Committee of Sponsoring Organisations of the Tradeway Commission
CRD IV package	The prudential framework established by the CRD and CRR currently in force
CRD V package	Amendment to the CRD IV package
CRE	Credit Risk Equivalent
CRO	Chief risk officer
CRR	Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, as amended from time to time
CRS	The Common Reporting Standard approved by the OECD Council on 15 July 2014
CSA	Credit Support Annex
CVA	Credit Valuation Adjustment
D&I	Diversity & inclusion
DI	Debt to Income
Digital customers	Every consumer of a commercial bank's services who has logged on to their personal online banking and/or mobile banking in the last 30 days.
Dodd-Frank Act	The US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DRA	Share Registration Document *(Documento de Registro de Acciones)*
DTA	Deferred Tax Asset
DVA	Debt Valuation Adjustment
E&S	Environmental and social
E2E	End to end
EAD	Exposure at Default
EBA	European Banking Authority
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIB	European Investment Bank
EMIR	Regulation (EU) 648/2012 on OTC derivatives, central counterparties and trade repositories, as amended from time to time
EP	Equator Principles
EPS	Earnings Per Share
ERC	Executive risk committee
ES	Expected Shortfall
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
ETF	Exchange Traded Funds
EU	European Union
EVE	Economic Value of Equity
EWIs	Early Warning Indicators
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FCA	Fiat Chrysler Automobiles
FCC	Financial Crime Compliance

FEBEF	*Fundación Española de Banca para Estudios Financieros*
FED	Federal Reserve
FL CET1	Fully loaded common equity tier 1 / Fully loaded CET1
FRA	Forward Rate Agreements
FROB	*Fondo de Reestructuración Ordenada Bancaria*
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FX	Foreign Exchange
GBP	Pound sterling
GCCO	Group chief compliance officer
GCRO	Group chief risk officer
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GMRA	Global Master Repurchase Agreement
GMS	Global Merchant Services
GPG	Gender pay gap
GPTW	Great Place to Work
GRI	Global Reporting Initiative
GSGM	Group-Subsidiary Governance model
G-SIB	Global Systematically Important Bank
GSM	General shareholders' meeting
GTS	Global Trade Services
HR	Human Resources
IAS	International Accounting Standards
IBORs	Interbank offered rates
ICAAP	Internal Capital Adequacy Assessment Process
ICAC	Spanish *Instituto de Contabilidad y Auditoría de Cuentas*
ICFR	Internal control over financial reporting
ICM	Internal control model
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards (IFRS) as adopted in the EU pursuant to Regulation (EC) 1606/2002 on the application of international accounting standards, as amended from time to time
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
IRC	Incremental Risk Charge
IRPJ	*Imposto de Renda Pessoa Jurídica*
IRRBB	Interest Rate Risk in the Banking Book
IRS	Internal Revenue Service
ISMA	International Securities Market Association
IT	Information technology
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio
LDA	Loss Distribution Approach
LGD	Loss Given Default
Loyal customers	Active customers who receive most of their financial services from the Group according to the commercial segment to which they belong. Various engaged customer levels have been defined taking profitability into account.
LTD	Loan to Deposit ratio
LTV	Loan to Value
M/LT	Medium and long-term
MARP	Market Risk Advanced Platform
MiFID 2	Markets in Financial Instruments Directive.
Mn	Million

MREL	Minimum requirement for own funds and eligible liabilities which is required to be met under the BRRD
MRM	Model Risk Management
MtM	Mark-to-Market
MXN	Mexican peso
NAFTA	North American Free Trade Agreement
NGO	Non-governmental organisation
NII	Net Interest Income
Nominal cap	Maximum nominal amount of a risk operation, excluding market transactions
NPAs	Non-performing assets
NPLs	Non-performing loans
NPS	Net promoter score
NSFR	Net stable funding ratio
NYSE	New York Stock Exchange
o/w	Of which
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
OM	Organised Markets
ONP	Ordinary net profit
OR	Operational risk
ORX	Operational Risk Exchange
OSLA	Overseas Securities Lender's Agreement
OTC	Over the counter
P&L	Profit and Loss
PACTA	Paris Agreement Capital Transition Assessment
PCAOB	Public Company Accounting Oversight Board
PD	Probability of Default
People supported in our communities	The Bank has devised a corporate methodology tailored to Santander's requirements and specific model for contributing to society. This methodology identifies a series of principles, definitions and criteria to allow the Bank to consistently keep track of those people who have benefited from the programmes, services and products with a social and/or environmental component promoted by the Bank. This methodology has been reviewed by an external auditor.
PIS	*Programa de Integraçao Social*
PIT	Point in time
PLN	Polish Zloty
PMO	Project management office
POCI	Purchased or Originated Credit Impaired
POS	Point of sale
pp	percentage point
PPI	Payment protection insurance
PPNR	Pre-Provisions Net Revenue
PRA	UK Prudential Regulatory Authority
PRI	Principles for responsible Investment
PRIIPS	Regulation 1286/2014 on key information documents for packaged retail and insurance-based investment products, as amended from time to time
PSD2	Payment Services Directive II
PwC	PricewaterhouseCoopers Auditores, S.L.
R&D&i	Research, development and innovation
RAF	Risk appetite framework
RAS	Risk appetite statement
RBSCC	Responsible banking, sustainability and culture committee
RCC	Risk control committee
RCSA	Risk control self-assessment
RDA	Risk Data Aggregation
RIA	Risk Identification and Assessment

RoA	Return on assets
RoE	Return on equity
RoRAC	Return on risk adjusted capital
RoRWA	Return on risk weighted assets
RoTE	Return on tangible equity
RRS	Risk Reporting Structure
RSF	Required Stable Funding
RWAs	Risk weighted assets
S&P 500	The S&P 500 index maintained by S&P Dow Jones Indices LLC
SAM	Santander Asset Management
Santander Consumer US	Santander Consumer USA Holdings Inc.
SBNA	Santander Bank N.A.
SC USA	Santander Consumer US
SCAN	Santander Customer Assessment Note
SCF	Santander Consumer Finance
SCIB	Santander Corporate & Investment Banking
SCPs	Strategic commercial plans
SDE	Santander *Dividendo Elección* scheme
SDG	Sustainable Development Goals
SEA	Securities Exchange Act
SEC	Securities and Exchanges Commission
SHUSA	Santander Holdings USA, Inc.
SIS	Santander Investment Securities
SMEs	Small and medium enterprises
SOX	Sarbanes-Oxley Act of 2002
Spanish Companies Act	Spanish companies act approved by Royal Decree Law 1/2010, as amended from time to time
Spanish Securities Markets	Spanish securities markets act approved by Royal Decree Law 4/2015, as amended from time to time
SPF	Simple, Personal and Fair
SRB	European Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SRF	Single Resolution Fund
SRI	Socially Responsible Investment
SRT	Significant Risk Transfer
SSM	Single Supervisory Mechanism, the system of banking supervision in Europe. It comprises the ECB and the national supervisory authorities of the participating countries.
ST	Short-term
STEM	Science, Technology, Engineering and Mathematics
SVaR	Stressed value at risk
T&O	Technology and operations
T2	Tier 2
TCFD	Task Force on Climate-related Financial Disclosures
TF	Terrorist financing
TLAC	The total loss-absorbing capacity requirement which is required to be met under the CRD V package
TLTRO	Targeted longer-term refinancing operations
TNC	The Nature Conservancy
TOM	Target Operational Model
TRIM	Targeted Review of Internal Models
TSR	Total Shareholder Return
UK	United Kingdom
UN SDG	United Nations Sustainable Development Goals
UNEP FI	United Nations Environmental Program Financial Initiative
US	United States of America
USD	United States dollar

VaE	Value at Earnings
VaR	Value at Risk
VAT	Value Added Tax
Volcker Rule	Section 619 of the Dodd-Frank Act
VRAC	Vendor Risk Assessment Centre
WBCSD	World Business Council for Sustainable Development
WM&I	Wealth Management and Insurance
Wolfsberg group	Association of thirteen global banks which aims to develop frameworks and guidance for the management of financial crime risks

Auditor's report and consolidated financial statements

Auditors' report

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor's report on the consolidated annual accounts

To the shareholders of Banco Santander, S.A.

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Banco Santander, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of recognised income and expense, statement of changes in total equity, statement of cash flows and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated annual accounts section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter
Estimation of impairment of financial assets at amortised cost - loans and advances to customers – for credit risk	

The estimate of the impairment of financial assets at amortised cost – loans and advances to customers - for credit risk is one of the estimates that requires greater judgment in the preparation of the consolidated annual accounts as of December 31, 2019.

The models used to estimate the expected credit losses required by the International Financial Reporting Standard (IFRS) 9 require a high level of judgement, and consider the following factors:

- The identification and determination of quantitative and qualitative indicators used to determine a significant increase in credit risk utilized for the staging criteria.
- The identification and determination of forward looking information which includes macroeconomic scenarios and corresponding weightings.
- The estimation of the probabilities of default (PD) and loss given default (LGD) parameters.

The Group's business is focused primarily on commercial banking products and is concentrated in nine key markets (Brazil, Chile, Spain, United States, Mexico, Poland, Portugal, United Kingdom and the consumer finance business in Europe).

In this context, the Group develops a general framework of internal expected credit loss models that are adapted for each geography and business, in order to take into account specifics of each market. The abovementioned internal models allow the Group to estimate both the collective provisions and the individual provisions.

The work performed, with the collaboration of our experts, over the estimate of the impairment of financial assets at amortised cost – loans and advances to costumers - for credit risk has focused on the analysis, evaluation and testing of internal controls, as well as the performance of tests of details over credit risk impairment losses estimated collectively and individually.

With respect to internal control, we have focused on testing the design and operating effectiveness of controls for the following processes:

- Calculation methodologies, calibrations, monitoring and back-testing performed by management.
- Regulatory compliance and operation of the internal models approved by management.
- Reliability of the data sources used in the calculations and the suitability of the models taking into account the circumstances.
- Periodic review process of borrower to determine proper staging criteria.
- Review process of the model calculation and principal portfolios.

In addition, we performed the following tests of details:

- Tests of principal models with respect to: i) calculation and segmentation methods; ii) methodology utilized for the estimation of the expected loss parameters; iii) methodology used for the generation of the macroeconomic scenarios; iv) information used in the calculation and its generation; and v) the quantitative and qualitative indicators for the significant increase in credit risk staging criteria.

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Banco Santander, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
Please refer to Notes 1, 2, 10 and 54 of the consolidated annual accounts as of December 31, 2019.	• Verification of the impairment calculation for the principal credit portfolios. • On a sample basis, evaluating individual credit files to determine the adequacy of their accounting and classification, discounted cash flows and, where appropriate, corresponding impairment. We have not identified exceptions outside of a reasonable range in the procedures outlined above.
Goodwill impairment assessment – Santander UK Cash-Generating Unit	
Due to its relevance for the Group, management closely monitors the goodwill derived from the United Kingdom. Management estimates the recoverable amount of the most representative Cash-Generating Units (CGUs) by calculating its value in use using discounted cash flow projections. These estimations are inherently uncertain and include a high level of judgement as they are based on assumptions regarding aspects such as discount rates, projections and long-term constant growth rates employed. These estimations are sensitive to variables and assumptions used, which based on their own nature are subject to the risk of material misstatement when being valued. On an annual basis (or whenever there is any indication of impairment), the Group assess whether there is any indication of impairment in each CGU with a registered goodwill, using capital market quotes (if available), market references (multiples), internal estimates and valuations performed by management's experts. Refer to Notes 2 and 17 of the consolidated annual accounts as of December 31, 2019.	We have obtained an understanding, with the assistance of our valuation experts, of the assessment process performed by management. With respect to internal control, we have focused on the design and operating effectiveness of the controls in the following process: • Definition of the Group's CGUs. • Methodology used by management for the assessment of goodwill impairment, including the controls in place to supervise the process and the related approvals. • Budgeting process on which the projections used in the discounted cash flow projections are based on. • Management's capability of reliable prediction through the comparison of previous years' estimations and impairment assessments with the actual results. • Inspection of the annual valuation reports regarding the evaluation of the goodwill impairment, performed by management's internal and external experts.

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Key audit matter	How our audit addressed the key audit matter
	Based on the importance, we also conducted tests of details over the discounted cash flow projections utilized by management in the estimation of the impairment of goodwill in the Santander UK CGU recorded in the third quarter of 2019, considering market practices and specific sector expectations, we performed the following tests of details: • Evaluation of the reasonableness of the main assumptions used by management, including the earnings projections, the discount rate and the constant growth rates. • Verified the mathematical accuracy of the discounted cash flow projections, including the validation of the key inputs with external data. • Performed a specific sensitivity analysis of the key inputs such as those related to the: i) financial projections for future years; ii) expected long term growth rate; and iii) methodology and assumptions used for the estimation of the discount rate. In addition, we have performed, among others, the following tests of details: • Evaluation of the discounted cash flow projections used by the Group in the estimation, considering market practices and specific sector expectations, including the verification of the assumptions, such as growth rates and discount rates, of the rest of CGU valuated by their value in use. • Compared the fair value of the listed CGU to their recoverable amount. • Verified the adequacy of the information disclosed in the consolidated annual accounts in accordance with applicable regulations. Based on the procedures performed, we believe that the evaluation carried out by the Group is reasonable and the estimations of key assumptions employed by management are not outside a reasonable range in the context of the consolidated annual accounts.

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Banco Santander, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
Recoverability of deferred tax assets – Spain and Brazil Assessing the recoverability of deferred tax assets is an exercise that requires a high degree of judgement and estimation. It is of particular relevance to the Group in Spain and Brazil. In line with the recoverability model defined by the Group, on an annual basis, management of each business unit estimates the underlying hypothesis of business plans that are projected over the period of time established for that business. This process implies specific considerations that management takes into account in order to assess recognition of deferred tax assets. The most significant considerations made by management in this respect are: • Assuring that the tax regulations are applied correctly and the temporary differences that qualify as deductibles are duly recognised. • Review the projections that are part of the defined model which is in turn used to estimate the tax profits used to infer the amount of deferred tax assets that will be recoverable in future periods in relation to deductible temporary differences and unused tax losses are indeed achievable. • Establishing the models and validating the calculations deriving therefrom to ensure that the tax assets are properly recognised and measured, and that the conclusions drawn regarding their recoverability are appropriate. Refer to Notes 2 and 27 of the consolidated annual accounts as of December 31, 2019.	In collaboration with our tax experts, we have obtained an understanding of the estimation process undertaken by management. With respect to internal controls, we have focused on testing the design and operating effectiveness of controls in the following processes: • Projection process followed in the estimation of the recoverability of deferred tax assets. • Calculation of temporary tax assets, including the adequate use of the applicable tax regulations. We also performed the following tests of details: • Evaluate the accuracy of the calculations and estimations made by management for their deductible temporary differences. • Evaluation of the completeness and appropriateness of the assumptions used by management in their calculation of the deductible temporary differences. • Analysis of key data used by management in their estimation and monitoring of the recoverability of deferred tax assets, including: - Obtaining and analysing the income projections carried out by management and the assumptions used, including the detail of the economic forecasts and indicators used in the analysis. - Analyzing of the tax strategy planned by the Group for the recoverability of the deferred tax assets. In the procedures described above, no relevant exceptions were identified related to this matter.

Banco Santander, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
Litigation provisions and contingencies	
The Group is party to a range of tax and legal proceedings - administrative and judicial - which primarily arose in the ordinary course of its operations. There are also situations not yet subject to any judicial proceedings that have nevertheless required the Group to recognise provisions; such as the customer compensation related to conduct matters. These procedures generally take a long period of time to run their course, giving rise to complex processes dictated by the applicable legislation prevailing in the various jurisdictions in which the Group operates. The management decides when to recognise a provision for these contingent liabilities, based on an estimate calculated using certain procedures consistent with the nature of the uncertainty of the obligations. Among these provisions, the most significant are those that cover the tax and labour proceedings in Brazil and those for customer compensation for the sale of certain products in the United Kingdom; these estimates are based on the number of claims expected to be received, the number expected to be accepted, and the estimated average pay out per case. Refer to Notes 2 and 25 of the consolidated annual accounts as of December 31, 2019.	We have obtained an understanding and evaluated the estimation process performed by management. With respect to internal controls, we have focused on testing the design and operating effectiveness of controls in the following process: • Updates to the databases that contain the ongoing litigations. • Evaluation of the adjustments to the provisions for regulatory, legal or tax procedures and their recognition. • Reconciliation between the minutes of the inspections and the amounts accounted for. In addition, we performed the following tests of details: • Evaluation of the litigation classification policy and the allocation of provisions by the nature of the lawsuit. • Analysis for reasonableness of the expected outcomes of the most significant tax and legal proceedings. • Assessment of possible contingencies relating to compliance with the Group's tax obligations for all the years open to inspection. • Obtaining confirmation letters from external and internal lawyers and external tax advisors who work with the Group to compare their assessment of the outcome of the litigations, all of the information used, the correct recognition of the various provisions and the identification of potentially omitted liabilities and evaluating the sufficiency of the Company's contingency disclosures. • Evaluation of the communications with the regulatory bodies, analysis of the ongoing regulatory inspections and assessment of the impact of any regulatory finding on the audit.

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Banco Santander, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
	• Analysis of the recognition and reasonableness of the provisions recorded for accounting purposes and the movements therein. Specifically for the provisions recorded to cover customer compensation, our procedures focused on: • Tests of controls associated with the calculation and estimation of the provision for compensation to customers, including the process of generating and approving of the model assumptions and results. • Evaluation of the methodology used by management, verifying that it is reasonable and is in line with the recommendations issued by the supervisory bodies. • Performing sensitivity analyses on the results of the model, varying the key inputs to test the model's results. In the procedures described above, no exceptions were identified outside of a reasonable range.
Information systems	
The Group's financial information is highly dependent on information technology (IT) systems and therefore an adequate control of these systems is crucial to ensuring correct data processing. In this context, it is vital to evaluate aspects such as the organisation of the Group's Technology and Operations department, controls over software maintenance and development, physical and logical security controls, and controls over computer operations. In this respect, management has developed a plan to strengthen the internal controls over IT systems. This plan contains aspects such as improvements in the access control and the internal governance that manage the IT processes that support the Group, which includes the Cybersecurity model.	We have evaluated, in collaboration with our IT system specialists, the IT general controls over the IT systems, databases and applications that support the core business activity and have a material impact on the Group's financial reporting. For this purpose, we performed procedures over internal control and test of details related to: • The function of the IT governance framework. • Access and logical security controls over the applications, operating systems and databases that support the relevant financial information. • Application development and change management. • Computer operations.

Banco Santander, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
	In addition, considering the plan developed by the Group to strengthen the internal controls over IT systems, our approach and audit plan focused on the following aspects: • Testing, on a sample basis, the changes made as part of this plan and of the new strategic access control solutions implemented by the Group in 2019. • On a sample basis, testing of the design and operating effectiveness of the new controls implemented by the Group. In the procedures described above, no relevant exceptions were identified related to this matter.

Other information: Consolidated Directors' report

Other information comprises only the consolidated Directors' report for the 2019 financial year, the formulation of which is the responsibility of the Parent company's directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated Directors' report. Our responsibility regarding the information contained in the consolidated Directors' report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the consolidated statement of non-financial information and certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the consolidated Directors' report or, if appropriate, that the consolidated Directors' report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the consolidated Directors' report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the consolidated Directors' report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the consolidated Directors' report and that the rest of the information contained in the consolidated Directors' report is consistent with that contained in the consolidated annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

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Banco Santander, S.A. and subsidiaries

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the aforementioned directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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Banco Santander, S.A. and subsidiaries

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company's audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company's audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Parent company's audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated February 28, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on April 12, 2019 appointed us as auditors of the Group for a period of one year, for the year ended December 31, 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of 3 years and we have audited the accounts continuously since the year ended December 31, 2016.

Services provided

Services, different to the audit, provided to the Group are detailed in Note 48 of the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Alejandro Esnal Elorrieta (19930)

February 28, 2020

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Consolidated annual accounts

Translation of the consolidated annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55). In case of discrepancy, the Spanish version prevails.

Santander Group

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2019, 2018 AND 2017

Million euros

ASSETS	Note	2019	2018* **	2017**
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND		**101,067**	**113,663**	**110,995**
FINANCIAL ASSETS HELD FOR TRADING		**108,230**	**92,879**	**125,458**
Derivatives	9 and 11	63,397	55,939	57,243
Equity instruments	8	12,437	8,938	21,353
Debt instruments	7	32,041	27,800	36,351
Loans and advances		355	202	10,511
Central banks	6	—	—	—
Credit institutions	6	—	—	1,696
Customers	10	355	202	8,815
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*28,445*	*23,495*	*50,891*
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS		**4,911**	**10,730**	
Equity instruments	8	3,350	3,260	
Debt instruments	7	1,175	5,587	
Loans and advances		386	1,883	
Central banks	6	—	—	
Credit institutions	6	—	2	
Customers	10	386	1,881	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*224*	—	
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		**62,069**	**57,460**	**34,782**
Equity instruments	8			933
Debt instruments	7	3,186	3,222	3,485
Loans and advances		58,883	54,238	30,364
Central banks	6	6,473	9,226	—
Credit institutions	6	21,649	23,097	9,889
Customers	10	30,761	21,915	20,475
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*8,430*	*6,477*	*5,766*
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		**125,708**	**121,091**	
Equity instruments	8	2,863	2,671	
Debt instruments	7	118,405	116,819	
Loans and advances		4,440	1,601	
Central banks	6	—	—	
Credit institutions	6	—	—	
Customers	10	4,440	1,601	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*29,116*	*35,558*	
FINANCIAL ASSETS AVAILABLE-FOR-SALE				**133,271**
Equity instruments	8			4,790
Debt instruments	7			128,481
Memorandum items: lent or delivered as guarantee with disposal or pledge rights				*43,079*
FINANCIAL ASSETS AT AMORTISED COST		**995,482**	**946,099**	
Debt instruments	7	29,789	37,696	
Loans and advances		965,693	908,403	
Central banks	6	18,474	15,601	
Credit institutions	6	40,943	35,480	
Customers	10	906,276	857,322	
Memorandum items: lent or delivered as guarantee with disposal or pledge rights		*19,993*	*18,271*	

ASSETS	Note	2019	2018* **	2017**
LOANS AND RECEIVABLES				**903,013**
Debt instruments	7			17,543
Loans and advances				885,470
Central banks	6			26,278
Credit institutions	6			39,567
Customers	10			819,625
Memorandum items: lent or delivered as guarantee with disposal or pledge rights				*8,147*
INVESTMENTS HELD-TO-MATURITY	**7**			**13,491**
Memorandum items: lent or delivered as guarantee with disposal or pledge rights				*6,996*
HEDGING DERIVATIVES	**36**	**7,216**	**8,607**	**8,537**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK	**36**	**1,702**	**1,088**	**1,287**
INVESTMENTS	**13**	**8,772**	**7,588**	**6,184**
Joint ventures entities		1,325	979	1,987
Associated entities		7,447	6,609	4,197
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS	**15**	**292**	**324**	**341**
TANGIBLE ASSETS		**35,235**	**26,157**	**22,974**
Property, plant and equipment	16	34,262	24,594	20,650
For own-use		15,041	8,150	8,279
Leased out under an operating lease		19,221	16,444	12,371
Investment property	16	973	1,563	2,324
Of which leased out under an operating lease		*823*	*1,195*	*1,332*
Memorandum items: in lease		*5,051*	*98*	*96*
INTANGIBLE ASSETS		**27,687**	**28,560**	**28,683**
Goodwill	17	24,246	25,466	25,769
Other intangible assets	18	3,441	3,094	2,914
TAX ASSETS		**29,585**	**30,251**	**30,243**
Current tax assets		6,827	6,993	7,033
Deferred tax assets	27	22,758	23,258	23,210
OTHER ASSETS		**10,138**	**9,348**	**9,766**
Insurance contracts linked to pensions	14	192	210	239
Inventories		5	147	1,964
Other	19	9,941	8,991	7,563
NON-CURRENT ASSETS HELD FOR SALE	**12**	**4,601**	**5,426**	**15,280**
TOTAL ASSETS		**1,522,695**	**1,459,271**	**1,444,305**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** Presented for comparison purposes only (Note 1.d).

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated balance sheet as of 31 December 2019.

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2019, 2018 AND 2017

Million euros

LIABILITIES	Note	2019	2018* **	2017**
FINANCIAL LIABILITIES HELD FOR TRADING		**77,139**	**70,343**	**107,624**
Derivatives	9	63,016	55,341	57,892
Short positions	9	14,123	15,002	20,979
Deposits		—	—	28,753
Central banks	20	—	—	282
Credit institutions	20	—	—	292
Customers	21	—	—	28,179
Marketable debt securities	22	—	—	—
Other financial liabilities	24	—	—	—
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		**60,995**	**68,058**	**59,616**
Deposits		57,111	65,304	55,971
Central banks	20	12,854	14,816	8,860
Credit institutions	20	9,340	10,891	18,166
Customers	21	34,917	39,597	28,945
Marketable debt securities	22	3,758	2,305	3,056
Other financial liabilities	24	126	449	589
Memorandum items: subordinated liabilities	*23*	—	—	—
FINANCIAL LIABILITIES AT AMORTISED COST		**1,230,745**	**1,171,630**	**1,126,069**
Deposits		942,417	903,101	883,320
Central banks	20	62,468	72,523	71,414
Credit institutions	20	90,501	89,679	91,300
Customers	21	789,448	740,899	720,606
Marketable debt securities	22	258,219	244,314	214,910
Other financial liabilities	24	30,109	24,215	27,839
Memorandum items: subordinated liabilities	*23*	*21,062*	*23,820*	*21,510*
HEDGING DERIVATIVES	**36**	**6,048**	**6,363**	**8,044**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**36**	**269**	**303**	**330**
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS	**15**	**739**	**765**	**1,117**
PROVISIONS	**25**	**13,987**	**13,225**	**14,489**
Pensions and other post-retirement obligations		6,358	5,558	6,345
Other long term employee benefits		1,382	1,239	1,686
Taxes and other legal contingencies		3,057	3,174	3,181
Contingent liabilities and commitments		739	779	617
Other provisions		2,451	2,475	2,660
TAX LIABILITIES		**9,322**	**8,135**	**7,592**
Current tax liabilities		2,800	2,567	2,755
Deferred tax liabilities	27	6,522	5,568	4,837
OTHER LIABILITIES	**26**	**12,792**	**13,088**	**12,591**
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		**—**	**—**	**—**
TOTAL LIABILITIES		**1,412,036**	**1,351,910**	**1,337,472**

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2019, 2018 AND 2017

Million euros

EQUITY	Note	2019	2018* **	2017**
SHAREHOLDERS´ EQUITY	**30**	**122,103**	**118,613**	**116,265**
CAPITAL	**31**	**8,309**	**8,118**	**8,068**
Called up paid capital		8,309	8,118	8,068
Unpaid capital which has been called up		—	—	—
Memorandum items: uncalled up capital		—	—	—
SHARE PREMIUM	**32**	**52,446**	**50,993**	**51,053**
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		**598**	**565**	**525**
Equity component of the compound financial instrument		—	—	—
Other equity instruments issued		598	565	525
OTHER EQUITY	**34**	**146**	**234**	**216**
ACCUMULATED RETAINED EARNINGS	**33**	**61,028**	**56,756**	**53,437**
REVALUATION RESERVES	**33**	**—**	**—**	**—**
OTHER RESERVES	**33**	**(5,246)**	**(3,567)**	**(1,602)**
Reserves or accumulated losses in joint ventures investments		1,166	917	724
Others		(6,412)	(4,484)	(2,326)
(-) OWN SHARES	**34**	**(31)**	**(59)**	**(22)**
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		**6,515**	**7,810**	**6,619**
(-) INTERIM DIVIDENDS	**4**	**(1,662)**	**(2,237)**	**(2,029)**
OTHER COMPREHENSIVE INCOME		**(22,032)**	**(22,141)**	**(21,776)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**29**	**(4,288)**	**(2,936)**	**(4,034)**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**29**	**(17,744)**	**(19,205)**	**(17,742)**
NON-CONTROLLING INTEREST	**28**	**10,588**	**10,889**	**12,344**
Other comprehensive income		(982)	(1,292)	(1,436)
Other items		11,570	12,181	13,780
TOTAL EQUITY		**110,659**	**107,361**	**106,833**
TOTAL LIABILITIES AND EQUITY		**1,522,695**	**1,459,271**	**1,444,305**
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS	**35**			
Loans commitment granted		241,179	218,083	207,671
Financial guarantees granted		13,650	11,723	14,499
Other commitments granted		68,895	74,389	64,917

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** Presented for comparison purposes only (Note 1.d).

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated balance sheet as of 31 December 2019.

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017

Million euros

		(Debit) Credit		
	Note	2019	2018* **	2017**
Interest income	38	56,785	54,325	56,041
Financial assets at fair value through other comprehensive income		*3,571*	*4,481*	*4,384*
Financial assets at amortised cost		*48,552*	*47,560*	*49,096*
Other interest income		*4,662*	*2,284*	*2,561*
Interest expense	39	(21,502)	(19,984)	(21,745)
Interest income/ (charges)		**35,283**	**34,341**	**34,296**
Dividend income	40	533	370	384
Income from companies accounted for using the equity method	13 and 41	324	737	704
Commission income	42	15,349	14,664	14,579
Commission expense	43	(3,570)	(3,179)	(2,982)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	44	1,136	604	404
Financial assets at amortised cost		*308*	*39*	
Other financial assets and liabilities		*828*	*565*	
Gain or losses on financial assets and liabilities held for trading, net	44	1,349	1,515	1,252
Reclassification of financial assets at fair value through other comprehensive income		*—*	*—*	
Reclassification of financial assets at amortised cost		*—*	*—*	
Other gains (losses)		*1,349*	*1,515*	
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	44	292	331	
Reclassification of financial assets at fair value through other comprehensive income		*—*	*—*	
Reclassification of financial assets at amortised cost		*—*	*—*	
Other gains (losses)		*292*	*331*	
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net	44	(286)	(57)	(85)
Gain or losses from hedge accounting, net	44	(28)	83	(11)
Exchange differences, net	45	(932)	(679)	105
Other operating income	46	1,797	1,643	1,618
Other operating expenses	46	(2,138)	(2,000)	(1,966)
Income from assets under insurance and reinsurance contracts	46	2,534	3,175	2,546
Expenses from liabilities under insurance and reinsurance contracts	46	(2,414)	(3,124)	(2,489)
Total income		**49,229**	**48,424**	**48,355**
Administrative expenses		(20,279)	(20,354)	(20,400)
Staff costs	*47*	*(12,141)*	*(11,865)*	*(12,047)*
Other general administrative expenses	*48*	*(8,138)*	*(8,489)*	*(8,353)*
Depreciation and amortisation cost	16 and 18	(3,001)	(2,425)	(2,593)
Provisions or reversal of provisions, net	25	(3,490)	(2,223)	(3,058)

		(Debit) Credit		
	Note	2019	2018* **	2017**
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes		(9,352)	(8,986)	(9,259)
Financial assets at fair value through other comprehensive income		*(12)*	*(1)*	
Financial assets at amortised cost	*10*	*(9,340)*	*(8,985)*	
Financial assets measured at cost				*(8)*
Financial assets available-for-sale				*(10)*
Loans and receivables	*10*			*(9,241)*
Held-to-maturity investments				*—*
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates, net	17 and 18	—	(17)	(13)
Impairment or reversal of impairment on non-financial assets, net		(1,623)	(190)	(1,260)
Tangible assets	*16*	*(45)*	*(83)*	*(72)*
Intangible assets	*17 and 18*	*(1,564)*	*(117)*	*(1,073)*
Others		*(14)*	*10*	*(115)*
Gain or losses on non-financial assets and investments, net	49	1,291	28	522
Negative goodwill recognised in results		—	67	—
Gains or losses on non-current assets held for sale not classified as discontinued operations	50	(232)	(123)	(203)
Operating profit/(loss) before tax		**12,543**	**14,201**	**12,091**
Tax expense or income from continuing operations	27	(4,427)	(4,886)	(3,884)
Profit from continuing operations		**8,116**	**9,315**	**8,207**
Profit or loss after tax from discontinued operations	37	—	—	—
Profit for the year		**8,116**	**9,315**	**8,207**
Profit attributable to non-controlling interests	28	1,601	1,505	1,588
Profit attributable to the parent		6,515	7,810	6,619
Earnings per share				
Basic	4	0.362	0.449	0.404
Diluted	4	0.361	0.448	0.403

* See further detail regarding the impacts of the entry into force of IFRS 9 as of 1 January 2018 (Note 1.d).

** Presented for comparison purposes only (Note 1.d).

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated income statement for the year ended 31 December 2019.

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017

Million euros

	Note	2019	2018* **	2017**
CONSOLIDATED PROFIT FOR THE YEAR		**8,116**	**9,315**	**8,207**
OTHER RECOGNISED INCOME AND EXPENSE		**419**	**(1,899)**	**(7,320)**
Items that will not be reclassified to profit or loss	**29**	**(1,351)**	**332**	**(88)**
Actuarial gains and losses on defined benefit pension plans		(1,677)	618	(157)
Non-current assets held for sale		—	—	—
Other recognised income and expense of investments in subsidiaries, joint ventures and associates		1	1	1
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	36	(29)	(174)	
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other comprehensive income, net		—	—	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)		44	—	
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)		*(44)*	—	
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		(156)	109	
Income tax relating to items that will not be reclassified		510	(222)	68
Items that may be reclassified to profit or loss	**29**	**1,770**	**(2,231)**	**(7,232)**
Hedges of net investments in foreign operations (effective portion)	36	(1,151)	(2)	614
Revaluation gains (losses)		*(1,151)*	*(2)*	*614*
Amounts transferred to income statement		—	—	—
Other reclassifications		—	—	—
Exchanges differences		1,396	(1,874)	(8,014)
Revaluation gains (losses)		*1,396*	*(1,874)*	*(8,014)*
Amounts transferred to income statement		—	—	—
Other reclassifications		—	—	—
Cash flow hedges (effective portion)	36	8	174	(441)
Revaluation gains (losses)		*(1,104)*	*491*	*501*
Amounts transferred to income statement		*1,112*	*(317)*	*(942)*
Transferred to initial carrying amount of hedged items		—	—	—
Other reclassifications		—	—	—
Financial assets available-for-sale				683
Revaluation gains (losses)	29			1,137
Amounts transferred to income statement				(454)
Other reclassifications				—
Hedging instruments (items not designated)	36	—	—	
Revaluation gains (losses)		—	—	
Amounts transferred to income statement		—	—	
Other reclassifications		—	—	
Debt instruments at fair value with changes in other comprehensive income		2,414	(591)	
Revaluation gains (losses)	*29*	*2,588*	*(29)*	
Amounts transferred to income statement		*(792)*	*(562)*	
Other reclassifications		*618*	—	
Non-current assets held for sale		—	—	—
Revaluation gains (losses)		—	—	—
Amounts transferred to income statement		—	—	—
Other reclassifications		—	—	—
Share of other recognised income and expense of investments		(27)	(77)	(70)
Income tax relating to items that may be reclassified to profit or loss		(870)	139	(4)
Total recognised income and expenses for the year		**8,535**	**7,416**	**887**
Attributable to non-controlling interests		1,911	1,396	1,005
Attributable to the parent		6,624	6,020	(118)

* See further detail regarding the impacts of the entry into force of IFRS 9 as of 1 January 2018 (Note 1.d).

** Presented for comparison purposes only (Note 1.d).

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2019.

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017

Million euros

	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings
**Balance at 31 December 2018* **	**8,118**	**50,993**	**565**	**234**	**56,756**
Adjustments due to errors	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—
Opening balance at 1 January 2019**	**8,118**	**50,993**	**565**	**234**	**56,756**
Total recognised income and expense	**—**	**—**	**—**	**—**	**—**
Other changes in equity	**191**	**1,453**	**33**	**(88)**	**4,272**
Issuance of ordinary shares	191	1,453	—	—	—
Issuance of preferred shares	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—
Capital reduction	—	—	—	—	—
Dividends	—	—	—	—	(1,055)
Purchase of equity instruments	—	—	—	—	—
Disposal of equity instruments	—	—	—	—	—
Transfer from equity to liabilities	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—
Transfers between equity items	—	—	—	—	5,327
Increases (decreases) due to business combinations	—	—	—	—	—
Share-based payment	—	—	—	(88)	—
Others increases or (-) decreases of the equity	—	—	33	—	—
Balance at 31 December 2019	**8,309**	**52,446**	**598**	**146**	**61,028**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** Presented for comparison purposes only (Note 1.d).

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2019.

Revaluation reserves	Other reserves	(-) Own shares	Profit attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Non-controlling interest: Other comprehensive income	Non-controlling interest: Others items	Total
—	**(3,567)**	**(59)**	**7,810**	**(2,237)**	**(22,141)**	**(1,292)**	**12,181**	**107,361**
—	—	—	—	—	—	—	—	—
—	(391)	—	—	—	—	—	—	(391)
—	**(3,958)**	**(59)**	**7,810**	**(2,237)**	**(22,141)**	**(1,292)**	**12,181**	**106,970**
—	**—**	**—**	**6,515**	**—**	**109**	**310**	**1,601**	**8,535**
—	**(1,288)**	**28**	**(7,810)**	**575**	**—**	**—**	**(2,212)**	**(4,846)**
—	28	—	—	—	—	—	1	1,673
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	(2)	(2)
—	—	—	—	(1,662)	—	—	(895)	(3,612)
—	—	(928)	—	—	—	—	—	(928)
—	(6)	956	—	—	—	—	—	950
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	246	—	(7,810)	2,237	—	—	—	—
—	—	—	—	—	—	—	110	110
—	—	—	—	—	—	—	—	(88)
—	(1,556)	—	—	—	—	—	(1,426)	(2,949)
—	**(5,246)**	**(31)**	**6,515**	**(1,662)**	**(22,032)**	**(982)**	**11,570**	**110,659**

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017

Million euros

	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings
Balance at 31 December 2017**	**8,068**	**51,053**	**525**	**216**	**53,437**
Adjustments due to errors	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—
Opening balance at 1 January 2018* **	**8,068**	**51,053**	**525**	**216**	**53,437**
Total recognised income and expense	**—**	**—**	**—**	**—**	**—**
Other changes in equity	**50**	**(60)**	**40**	**18**	**3,319**
Issuance of ordinary shares	50	(60)	—	—	—
Issuance of preferred shares	—	—	—	—	—
Issuance of other financial instruments	—	—	—	—	—
Maturity of other financial instruments	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—
Capital reduction	—	—	—	—	—
Dividends	—	—	—	—	(968)
Purchase of equity instruments	—	—	—	—	—
Disposal of equity instruments	—	—	—	—	—
Transfer from equity to liabilities	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—
Transfers between equity items	—	—	—	—	4,287
Increases (decreases) due to business combinations	—	—	—	—	—
Share-based payment	—	—	—	(74)	—
Others increases or (-) decreases of the equity	—	—	40	92	—
Balance at 31 December 2018**	**8,118**	**50,993**	**565**	**234**	**56,756**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** Presented for comparison purposes only (Note 1.d).

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2019.

						Non-controlling interest		
Revaluation reserves	Other reserves	(-) Own shares	Profit attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Other comprehensive income	Others items	Total
—	**(1,602)**	**(22)**	**6,619**	**(2,029)**	**(21,776)**	**(1,436)**	**13,780**	**106,833**
—	—	—	—	—	—	—	—	—
—	(1,473)	—	—	—	1,425	253	(1,545)	(1,340)
—	**(3,075)**	**(22)**	**6,619**	**(2,029)**	**(20,351)**	**(1,183)**	**12,235**	**105,493**
—	**—**	**—**	**7,810**	**—**	**(1,790)**	**(109)**	**1,505**	**7,416**
—	**(492)**	**(37)**	**(6,619)**	**(208)**	**—**	**—**	**(1,559)**	**(5,548)**
—	10	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	(2,237)	—	—	(687)	(3,892)
—	—	(1,026)	—	—	—	—	—	(1,026)
—	—	989	—	—	—	—	—	989
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	303	—	(6,619)	2,029	—	—	—	—
—	59	—	—	—	—	—	(660)	(601)
—	—	—	—	—	—	—	17	(57)
—	(864)	—	—	—	—	—	(229)	(961)
—	**(3,567)**	**(59)**	**7,810**	**(2,237)**	**(22,141)**	**(1,292)**	**12,181**	**107,361**

CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017

Million euros

	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings
Balance at 31 December 2016*	**7,291**	**44,912**	**—**	**240**	**49,953**
Adjustments due to errors	—	—	—	—	—
Adjustments due to changes in accounting policies	—	—	—	—	—
Opening balance at 1 January 2017*	**7,291**	**44,912**	**—**	**240**	**49,953**
Total recognised income and expense	**—**	**—**	**—**	**—**	**—**
Other changes in equity	**777**	**6,141**	**525**	**(24)**	**3,484**
Issuance of ordinary shares	777	6,141	—	—	—
Issuance of preferred shares	—	—	—	—	—
Issuance of other financial instruments	—	—	525	—	—
Maturity of other financial instruments	—	—	—	—	—
Conversion of financial liabilities into equity	—	—	—	—	—
Capital reduction	—	—	—	—	—
Dividends	—	—	—	—	(802)
Purchase of equity instruments	—	—	—	—	—
Disposal of equity instruments	—	—	—	—	—
Transfer from equity to liabilities	—	—	—	—	—
Transfer from liabilities to equity	—	—	—	—	—
Transfers between equity items	—	—	—	—	4,286
Increases (decreases) due to business combinations	—	—	—	—	—
Share-based payment	—	—	—	(72)	—
Others increases or (-) decreases of the equity	—	—	—	48	—
Balance at 31 December 2017*	**8,068**	**51,053**	**525**	**216**	**53,437**

* Presented for comparison purposes only (Note 1.d).

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of changes in total equity for the year ended 31 December 2019.

						Non-Controlling interest		
Revaluation reserves	Other reserves	(-) Own shares	Profit attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Other comprehensive income	Others items	Total
—	**(949)**	**(7)**	**6,204**	**(1,667)**	**(15,039)**	**(853)**	**12,614**	**102,699**
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	**(949)**	**(7)**	**6,204**	**(1,667)**	**(15,039)**	**(853)**	**12,614**	**102,699**
—	**—**	**—**	**6,619**	**—**	**(6,737)**	**(583)**	**1,588**	**887**
—	**(653)**	**(15)**	**(6,204)**	**(362)**	**—**	**—**	**(422)**	**3,247**
—	6	—	—	—	—	—	543	7,467
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	592	1,117
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	(10)	(10)
—	—	—	—	(2,029)	—	—	(665)	(3,496)
—	—	(1,309)	—	—	—	—	—	(1,309)
—	26	1,294	—	—	—	—	—	1,320
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	251	—	(6,204)	1,667	—	—	—	—
—	—	—	—	—	—	—	(39)	(39)
—	—	—	—	—	—	—	24	(48)
—	(936)	—	—	—	—	—	(867)	(1,755)
—	**(1,602)**	**(22)**	**6,619**	**(2,029)**	**(21,776)**	**(1,436)**	**13,780**	**106,833**

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017

Million euros

	Note	2019	2018* **	2017**
A. CASH FLOWS FROM OPERATING ACTIVITIES		**3,389**	**3,416**	**40,188**
Profit for the year		**8,116**	**9,315**	**8,207**
Adjustments made to obtain the cash flows from operating activities		**23,990**	**21,714**	**23,927**
Depreciation and amortisation cost		3,001	2,425	2,593
Other adjustments		20,989	19,289	21,334
Net increase/(decrease) in operating assets		**64,593**	**51,550**	**18,349**
Financial assets held-for-trading		15,450	(31,656)	(18,114)
Non-trading financial assets mandatorily at fair value through profit or loss		(6,098)	5,795	
Financial assets at fair value through profit or loss		4,464	16,275	3,085
Financial assets at fair value through other comprehensive income		1,693	(2,091)	
Financial assets available-for-sale				2,494
Financial assets at amortised cost		49,541	61,345	
Loans and receivables				32,379
Other operating assets		(457)	1,882	(1,495)
Net increase/(decrease) in operating liabilities		**38,469**	**27,279**	**30,540**
Financial liabilities held-for-trading		6,968	(36,315)	1,933
Financial liabilities designated at fair value through profit or loss		(8,858)	8,312	19,906
Financial liabilities at amortised cost		47,622	60,730	12,006
Other operating liabilities		(7,263)	(5,448)	(3,305)
Income tax recovered/(paid)		**(2,593)**	**(3,342)**	**(4,137)**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(7,229)**	**3,148**	**(4,008)**
Payments		**14,289**	**12,936**	**10,134**
Tangible assets	16	12,766	10,726	7,450
Intangible assets	18	1,377	1,469	1,538
Investments	13	63	11	8
Subsidiaries and other business units		83	730	838
Non-current assets held for sale and associated liabilities		—	—	—
Held-to-maturity investments				300
Other payments related to investing activities		—	—	—
Proceeds		**7,060**	**16,084**	**6,126**
Tangible assets	16	4,091	3,670	3,211
Intangible assets	18	—	—	—
Investments	13	686	2,327	883
Subsidiaries and other business units		218	431	263
Non-current assets held for sale and associated liabilities	12	2,065	9,656	1,382
Held-to-maturity investments				387
Other proceeds related to investing activities		—	—	—
C. CASH FLOW FROM FINANCING ACTIVITIES		**(10,122)**	**(3,301)**	**4,206**
Payments		**12,159**	**7,573**	**7,783**
Dividends	4	3,773	3,118	2,665
Subordinated liabilities	23	5,123	2,504	2,007
Redemption of own equity instruments		—	—	—
Acquisition of own equity instruments		928	1,026	1,309
Other payments related to financing activities		2,335	925	1,802
Proceeds		**2,037**	**4,272**	**11,989**
Subordinated liabilities	23	1,090	3,283	2,994
Issuance of own equity instruments		—	—	7,072
Disposal of own equity instruments		947	989	1,331
Other proceeds related to financing activities		—	—	592

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017

Million euros

	Note	2019	2018* **	2017**
D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES		**1,366**	**(595)**	**(5,845)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(12,596)**	**2,668**	**34,541**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**113,663**	**110,995**	**76,454**
G. CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**101,067**	**113,663**	**110,995**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Cash		*8,764*	*10,370*	*8,583*
Cash equivalents at central banks		*75,353*	*89,005*	*87,430*
Other financial assets		*16,950*	*14,288*	*14,982*
Less: Bank overdrafts refundable on demand		—	—	—
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**101,067**	**113,663**	**110,995**
In which: restricted cash		—	—	—

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** Presented for comparison purposes only (Note 1.d).

The accompanying Notes 1 to 55 and Appendices are an integral part of the consolidated statement of cash flows for the year ended 31 December 2019.

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Notes to the consolidated annual accounts

Translation of the consolidated annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 1 and 55). In case of discrepancy, the Spanish version prevails.

Banco Santander, S.A. and Companies composing Santander Group

Notes to the consolidated financial statements (consolidated annual accounts) for the year ended 31 December 2019

1. Introduction, basis of presentation of the consolidated financial statements (consolidated annual accounts) and other information

a) Introduction

Banco Santander, S.A. ("the Bank" or "Banco Santander") is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bylaws and other public information on the Bank can be consulted at its registered office at Paseo de Pereda 9-12, Santander.

In addition to the operations carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, Santander Group ("the Group"). Therefore, the Bank is obliged to prepare, in addition to its own separate financial statements, the Group's consolidated financial statements, which also include the interests in joint ventures and investments in associates.

At 31 December 2019, the Group consisted of 685 subsidiaries of Banco Santander, S.A. In addition, other 169 companies are associates of the Group, joint ventures or companies of which the Group holds more than 5% (excluding the Group companies of negligible interest with respect to the fair presentation that the annual accounts must express).

The Group´s consolidated financial statements for 2017 were approved by the shareholders at the Bank´s annual general meeting on 23 March 2018. The Group´s consolidated financial statements for 2018 were approved by the shareholders at the Bank´s annual general meeting on 12 April 2019. The 2019 consolidated financial statements of the Group, the financial statements of the Bank and of substantially all the Group companies have not been approved yet by their shareholders at the respective annual general meetings. However, the Bank´s board of directors considers that the aforementioned financial statements will be approved without any significant changes.

b) Basis of presentation of the consolidated financial statements (consolidated annual accounts)

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002 all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1 January, 2005 in conformity with the International Financial Reporting Standards ("IFRSs") previously adopted by the European Union ("EU-IFRSs").

In order to adapt the accounting system of Spanish credit institutions to the new standards, the Bank of Spain issued Circular 4/2004, of 22 December on Public and Confidential Financial Reporting Rules and Formats, which was repealed on 1 January 2018 by the Circular 4/2017 issued by the Bank of Spain on 27 November 2017 and subsequent modifications.

The Group's consolidated financial statements for 2019 were authorised by the Bank's directors (at the board meeting on 27 February 2020) in accordance with International Financial Reporting Standards as adopted by the European Union and with Bank of Spain Circular 4/2017 and subsequent modifications, and Spanish corporate and commercial law applicable to the Group, using the basis of consolidation, accounting policies and measurement bases set forth in Note 2, accordingly, they present fairly the Group's equity and financial position at 31 December 2019, 2018 and 2017 and the consolidated results of its operations and the consolidated cash flows in 2019, 2018 and 2017. These consolidated financial statements were prepared from the accounting records kept by the Bank and by the other Group entities, and include the adjustments and reclassifications required to unify the accounting policies and measurement bases applied by the Group.

The notes to the consolidated financial statements contain additional information to that presented in the consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in total equity and consolidated statement of cash flows. The notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and breakdowns of these statements.

Adoption of new standards and interpretations issued

The following modifications came into force and were adopted by the European Union in 2019:

- IFRS 16 Leases

  On 1 January 2019, IFRS 16 Leases became effective. IFRS 16 establishes the principles for the recognition, measurement, presentation and breakdown of lease contracts, with the objective of ensuring reporting information that faithfully represents the lease transactions. The Group has adopted the standard, using the modified retrospective approach from 1 January 2019, not restating the comparative financial statements for 2018, as permitted under the specific transitional provisions of the standard.

  The adoption of IFRS 16 has led to changes in the Group's accounting policies for the recognition, measurement, presentation and breakdown of lease contracts.

  The main aspects contained in the new regulations and the breakdowns relating to the impact of the adoption of IFRS 16 in the Group are included below:

a) Lease accounting policy

Since 1 January 2019, when the Group acts as lessee, it recognises a right-of-use asset representing its right to use the underlying leased asset with a corresponding lease liability on the date on which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and the finance charge. The finance charge is allocated to the income statement during the term of the lease in such a way as to produce a constant periodic interest rate on the remaining balance of the liability for each year. The right-of-use asset is depreciated over the useful life of the asset or the lease term, whichever is shorter, on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is amortized over the useful life of the underlying asset.

Assets and liabilities arising from a lease are initially measured at present value. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including inflation-linked payments), less any lease incentive receivable,

- Variable lease payments that depend on an index or rate,

- The amounts expected to be paid by the lessee under residual value guarantees,

- The exercise price of a purchase option if the lessee is reasonably certain that it will exercise that option, and

- Lease termination penalty payments, if the term of the lease reflects the lessee's exercise of that option.

Lease payments are discounted using the interest rate implicit in the lease. Given in certain situations this interest rate cannot be obtained, the discount rate used in this cases, is the lessee's incremental borrowing rate at the related date. For this purpose, the entity has calculated this incremental borrowing rate taking as reference the listed debt instruments issued by the Group; in this regard, the Group has estimated different interest rate curves depending on the currency and economic environment in which the contracts are located.

In order to construct the incremental borrowing rate, a methodology has been developed at the corporate level. This methodology is based on the need for each Entity to consider its economic and financial situation, for which the following factors must be considered:

- Economic and political situation (country risk).

- Credit risk of the company.

- Monetary policy.

- Volume and seniority of the company's debt instrument issues.

The incremental borrowing rate is defined as the interest rate that a lessee would have to pay for borrowing, given a similar period to the duration of the lease and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The Group Entities have a wide stock and variety of financing instruments issued in different currencies to that of the euro (pound, dollar, etc.) that provide sufficient information to be able to determine an "all in rate" (reference rate plus adjustment for credit spread at different terms and in different currencies). In circumstances, where the leasing company has its own financing, this has been used as the starting point for determining the incremental borrowing rate. On the other hand, for those Group entities that do not have their own financing, the information from the financing of the consolidated subgroup to which they belong was used as the starting point for estimating the entity's curve, analysing other factors to assess whether it is necessary to make any type of negative or positive adjustment to the initially estimated credit spread.

Right-of-use assets are valued at cost which includes the following:

- The amount of the initial measurement of the lease liability,

- Any lease payment made at or before the commencement date less any lease incentive received,

- Any initial direct costs, and

- Restoration costs.

The Group recognises the payments associated with short-term leases and leases of low-value assets on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term less than or equal to 12 months (a lease that contains a purchase option is not a short term lease).

b) Recognised effects on the adoption of the standard

With the adoption of IFRS 16, the Group recognised lease liabilities in relation to leases previously classified as "operating leases" under the principles of IAS 17 Leases in force at 31 December 2018. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019. At the date of first application, the weighted average discount rate was 4.5%, mainly due to the contribution of rented properties in Spain.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and lease liability on the initial effective date. The measurement principles in IFRS 16 apply only after that date.

The Group has considered the practical expedients defined in paragraph C10 of the standard in the application of the modified retrospective method. Such application was made on a contract-by-contract basis, and not on a generalised basis.

A reconciliation between the operating lease commitments at 31 December 2018 and the lease liability recognised at 1 January 2019 is detailed below:

	Million euros
Operating lease commitments at 31 December 2018	**8,699**
Amount of operating lease commitments discounted by the Group rate	6,550
(+) Liabilities under finance leases at 31 December 2018	96
(-) Short-term leases recognised as expenses on a straight-line basis	(20)
(-) Low-value leases recognised as expenses on a straight-line basis	(2)
(-) Contracts revalued as service contracts	—
(+)/(-) Adjustments resulting from different treatment of extension and termination options	556
(+)/(-) Adjustments related to changes in the index or rate affecting variable payments	—
Lease liability at 1 January 2019	**7,180**

As a result of the adoption of IFRS 16, the impact of the first application recorded by the Group corresponds, mainly, to the recognition of right-of-use for an amount of EUR 6,693 million, financial liabilities for an amount of EUR 7,084 million and a negative impact on the Group's equity of EUR 391 million. The impact of the first application of IFRS 16 on the ordinary capital ratio (Common Equity Tier 1 - CET 1) was -20 b.p.

- IBOR (Interest Borrowing Offering Rate) Reform on Reference Interest Rates (Amendments to IFRS 9, IAS 39 and IFRS 7) - The Group applies IAS 39 for hedge accounting and, therefore, the amendments to IFRS 9 referred to in this section are not applicable to it. The contractual cash flows of the accounting hedges, both of the hedged items and of the hedging instruments, which are based on a reference interest rate that currently exists, will be modified by the substitution of said rate by an alternative interest rate or modification of its calculation methodology, in order to adapt it to the new regulatory requirements. The amendments to the standard permit the temporary application of certain exceptions to compliance with hedge accounting requirements that may be directly affected by the IBOR reform, specifically requirements regarding highly probable future transactions in cash flow hedges, prospective and retrospective effectiveness (exemption from compliance with the 80-125% effectiveness ratio) and the need to identify the risk component separately. These exemptions are no longer applicable when:

  - uncertainty regarding the timing and amount of cash flows based on the benchmark is no longer present, or

  - the coverage relationship is interrupted.

The amendments to IAS 39 will apply to all hedging relationships directly affected by uncertainties related to the IBOR reform for annual periods beginning on or after 1 January 2020, with the possibility of early application. In this regard, following their entry into force for use in the European Union, the Group has chosen to apply the amendments to IAS 39 and IFRS 7 in the preparation of the financial statements for the year ended 31 December 2019.

The exceptions given by the amendments to IAS 39 mean that the IBOR reform had no impact on the hedging relationships affected in the year ended 31 December 2019. The main assumptions or judgements made by the Group in applying the amendments to IAS 39 are detailed below:

– For cash flow hedges, the Group has assumed that the cash flows covered (which are based on the benchmark index) are not modified as a result of the aforementioned reform, and therefore continue to comply with the highly probable future transaction requirement.

– To determine the prospective effectiveness of hedges, the Group has assessed that the economic relationship between the hedged item and the hedging instrument continues to exist since the interest rate benchmark on which the hedged item and the hedging instrument are based is not changed as a result of the IBOR reform.

Subsequently, the nominal amount of the hedging instruments corresponding to the hedging relationships directly affected by uncertainties related to the IBOR reform is shown:

Million euros

	2019			
	GBP LIBOR	USD LIBOR	Others	Total
Total hedging instruments affected				
Cash flow hedges	28,077	21,894	2,213	52,184
Fair value hedges	64,629	15,758	3,248	83,635
	92,706	**37,652**	**5,461**	**135,819**
With maturity after the transition date				
Cash flow hedges	15,692	7,421	1,863	24,975
Fair value hedges	53,180	11,467	2,849	67,497
	68,872	**18,888**	**4,712**	**92,472**

In order to manage the transition process to the new reference rates, the Group has established a global corporate project to identify the risks and challenges arising from this reform, with the involvement of senior management, and which extends to all the affected geographies and businesses. In addition, Santander is continuously monitoring all regulatory and market developments and is actively participating in the discussion forums created by the various public authorities in order to support an orderly transition to the new interest rates.

- IFRIC 23: Uncertainty about the treatment of income tax - applies to the determination of taxable profit or loss, tax bases, unused tax loss carry forwards, unused tax credits and tax rates when there is uncertainty about the treatment of taxes under IAS 12.
- Amendment to IFRS 9 Financial Instruments: prepayment features with negative compensation - allows entities to measure certain financial assets prepayable with a negative offset at amortised cost. These assets, which include some loans and debt securities, would have had to be measured at fair value through profit or loss.

  In order to apply measurement at amortised cost, the negative offset must be 'reasonable compensation for early termination of the contract' and the asset must be maintained within a 'held-to-collect' business model.
- Amendment to IAS 28 Investments in associates and joint ventures - the amendments clarify the accounting for long-term interests in an associate or joint venture, which are essentially part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interest under IFRS 9 Financial Instruments before applying the allocation of losses and IAS 28 impairment requirements in Investments in associates and joint ventures.
- Amendment to IAS 19 Employee Benefits - clarifies the accounting of the amendments, reductions and settlements on defined benefit plans.
- Amendment to IFRS 2015-2017 introduces minor amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23:

  - IFRS 3, Business Combinations - clarifies that obtaining control of a business that is a joint venture is a business combination achieved in stages.

  - IFRS 11 Joint Arrangements - clarifies that the party that obtains joint control of a business that is a joint venture should not reassess its previous interest in the joint venture.

  - IAS 12 Income Taxes - clarifies that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

  - IAS 23 Borrowing Costs - clarifies that if a specific loan remains outstanding after the related qualifying asset is ready for sale or intended use, it becomes part of generic loans.

The application of the aforementioned amendments to accounting standards and interpretations did not have any material effects on the Group's consolidated financial statements.

At the date of formulation of these consolidated annual accounts, the following amendments with an effective date subsequent to 31 December 2019 were in force:

- Modification of IFRS conceptual framework: The IFRS Framework, which sets out the fundamental concepts of financial reporting, is amended. The revised Framework includes: a new chapter about measurement; guidance on financial reporting; improved definitions, in particular the definition of liabilities; and clarifications such as management functions, prudence and measurement uncertainty in financial reporting. It will apply from 1 January 2020.
- Modification of IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. It will apply from 1 January 2020.

Lastly, at the date of formulation of these consolidated annual accounts, the following standards which effectively come into force after 31 December 2019 had not yet been adopted by the European Union:

- Modification of IFRS 3 Business combinations - amendments are introduced. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant’s perspective to determine whether an acquired set of activities and assets is a business.

  The amendments are mainly due to: clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test. It will apply from 1 January 2020.
- IFRS 17 Insurance contracts - new comprehensive accounting standard for insurance contracts, which includes recognition, measurement, presentation and disclosure. It will apply from 1 January 2021.
- Classification of liabilities, amendments to IAS 1, Presentation of Financial Statements, considering non-current liabilities, those in which the entity has the possibility of deferring payment for more than 12 months from the end of the reporting period.

The Group is currently analysing the possible effects of these new standards and interpretations.

All accounting policies and measurement bases with a material effect on the consolidated financial statements for 2019 were applied in their preparation.

c) Use of critical estimates

The consolidated results and the determination of consolidated equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of the Bank in preparing the consolidated financial statements. The main accounting policies and measurement bases are set forth in Note 2.

In the consolidated financial statements estimates were occasionally made by the senior management of the Bank and of the consolidated entities in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The impairment losses on certain assets: it applies to financial assets at fair value through other comprehensive income, financial assets at amortised cost, non-current assets held for sale, investments, tangible assets and intangible assets (see Notes 6, 7, 10, 12, 13, 16, 17 and 18);
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (see Note 25);
- The useful life of the tangible and intangible assets (see Notes 16 and 18);
- The measurement of goodwill arising on consolidation (see Note 17);
- The calculation of provisions and the consideration of contingent liabilities (see Note 25);
- The fair value of certain unquoted assets and liabilities (see Notes 6, 7, 8, 9, 10, 11, 20, 21 and 22);
- The recoverability of deferred tax assets (see Note 27); and
- The fair value of the identifiable assets acquired and the liabilities assumed in business combinations (see Note 3).

Although these estimates were made on the basis of the best information available at 2019 year-end, and considering updated information at the date of preparation of these consolidated financial statements, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related consolidated income statement.

d) Information relating to 2018 and 2017

In July 2014, the IASB published IFRS 9, which was adopted with the subsequent amendments by the Group on 1 January 2018. As permitted by the regulation itself, the Group has chosen not to reclassify the comparative financial statements without having reclassified under these criteria the information relating to the year ended 31 December 2017 so that it is not comparative. However, the company has included a reconciliation of balances as of 31 December 2017 under IAS 39 and the corresponding balances as of 1 January 2018 under IFRS 9 where the effect of the first application of the rule is broken down.

IFRS 9 establishes the requirements for recognition and measurement of both financial instruments and certain types of non-financial-purchase contracts. The aforementioned requirements should be applied retrospectively, adjusting the opening balance at 1 January, 2018, not requiring restatement of the comparative financial statements.

The adoption of IFRS 9 has resulted in changes in the Groups' accounting policies for the recognition, classification and measurement of financial assets and liabilities and financial assets impairment. IFRS 9 also significantly modifies other standards related to financial instruments such as IFRS 7 "Financial instruments: disclosure".

Additionally, IFRS 9 includes new hedge accounting requirements which have a twofold objective: to simplify current requirements, and to bring hedge accounting in line with risk management, allowing to be a greater variety of derivative financial instruments which may be considered to be hedging instruments. Furthermore, additional breakdowns are required providing useful information regarding the effect which hedge accounting has on financial statements and also on the entity's risk management strategy. The treatment of macro-hedges is being developed as a separate project under IFRS 9. Entities have the option of continuing to apply IAS 39 with respect to accounting hedges until the project has been completed.

According to the analysis performed until now, the Group applies IAS 39 in hedge accounting.

For breakdowns of the notes, according to the regulations in force, the amendments relating to IFRS 7 have only been applied to the years 2019 and 2018. The breakdowns of comparative information period notes related to 2017, maintain the applicable breakdowns made in that period.

The following breakdowns relate to the impact of the adoption of IFRS 9 in the Group:

i. Classification and measurement of financial instruments

The following table shows a comparison between IAS 39 as of 31 December 2017 and IFRS 9 as of 1 January 2018 of the reclassified financial instruments in accordance with the new requirements of IFRS 9 regarding classification and measurement (without impairment), as well as its book value:

	IAS 39		IFRS 9	
Balance	Portfolio	Book value (Million euros)	Portfolio	Book value (Million euros)
Equity instruments	Financial assets available for sale (including those that were valued at cost at December)	2,154	Non-trading financial assets mandatorily at fair value through profit or loss	1,651
			Financial assets at fair value through other comprehensive income	533
Debt instruments	Loans and receivables	1,537	Non-trading financial assets mandatorily at fair value through profit or loss	1,497
		457	Financial assets at fair value through other comprehensive income	486
	Financial assets available for sale	96	Non-trading financial assets mandatorily at fair value through profit or loss	96
		6,589	Financial assets at amortised cost	6,704
		203	Financial assets held for trading	203
	Financial assets at fair value through profit or loss	199	Non-trading financial assets mandatorily at fair value through profit or loss	199
	Investments held-to-maturity	13,491	Financial assets at amortised cost	13,491
Loans and advances	Loans and receivables	10,179	Non-trading financial assets mandatorily at fair value through profit or loss	611
			Financial assets at fair value through profit or loss	9,577
	Loans and receivables	1,069	Financial assets at fair value through other comprehensive income	1,107
	Financial assets held for trading	43		
	Financial assets at fair value through profit or loss	1,152	Financial assets at amortised cost	1,102
Derivatives	Derivatives – hedging accounting (liabilities)	10	Derivatives - financial liabilities held for trading	10

ii. Reconciliation of impairment provisions from IAS 39 to IFRS 9

The following table shows a comparison between IAS 39 as of 31 December 2017 and IFRS 9 as of 1 January, 2018 of the impairment provisions of the financial instruments in accordance with the new requirements of IFRS 9:

Million euros	IAS 39 31/12/2017	Impairment impact	IFRS 9 01/01/2018
Financial assets at amortised cost	**24,682**	**1,974**	**26,656**
Loans and advances	23,952	2,002	25,954
Debt instruments	730	(28)	702
Financial assets at fair value through other comprehensive income	**—**	**2**	**2**
Debt instruments	—	2	2
Commitments and guarantees granted	**617**	**197**	**814**
Total	**25,299**	**2,173**	**27,472**

Additionally, there was an impairment impact on Investments in joint ventures and associates of EUR 34 million.

iii. Balance sheet reconciliation from IAS 39 to IFRS 9

The following table shows in detail the reconciliation the consolidated balance sheet under IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January, 2018 distinguishing between the impacts due to classification and measurement and due to impairment once adopted IFRS 9:

ASSETS (Million euros)	IAS 39 31/12/17	Naming modifications*	Classification and measurement impact	Impairment impact	IFRS 9 01/01/18
Cash, cash balances at central banks and other deposits on demand	**110,995**	**—**	**—**	**—**	**110,995**
Financial assets held for trading	**125,458**	**—**	**160**	**—**	**125,618**
Derivatives	57,243	—	—	—	57,243
Equity instruments	21,353	—	—	—	21,353
Debt instruments	36,351	—	203	—	36,554
Loans and advances	10,511	—	(43)	—	10,468
Non-trading financial assets mandatorily at fair value through profit or loss		**933**	**4,054** [c]	**—**	**4,987**
Equity instruments		933	1,651	—	2,584
Debt instruments		—	1,792	—	1,792
Loans and advances		—	611	—	611
Financial assets designated at fair value through profit or loss	**34,782**	**(933)**	**8,226**	**—**	**42,075**
Equity instruments	933	(933)	—	—	
Debt instruments	3,485	—	(199)	—	3,286
Loans and advances	30,364	—	8,425 [a]	—	38,789
Financial assets at fair value through other comprehensive income		**124,229**	**2,126**	**(2)**	**126,353**
Equity instruments		2,636	533	—	3,169
Debt instruments		121,593	486	(2)	122,077
Loans and advances		—	1,107	—	1,107
Financial assets available-for-sale	**133,271**	**(124,229)**	**(9,042)**	**—**	
Equity instruments	4,790	(2,636)	(2,154) [c]	—	
Debt instruments	128,481	(121,593)	(6,888) [b]	—	
Financial assets at amortised cost		**889,779** [a]	**21,297**	**(1,982)** [d]	**909,094**
Debt instruments		15,557 [b]	20,195 [b]	20	35,772
Loans and advances		874,222	1,102	(2,002)	873,322
Loans and receivables	**903,013**	**(889,779)** [a]	**(13,242)**	**8**	
Debt instruments	17,543	(15,557)	(1,994) [c]	8	
Loans and advances	885,470	(874,222)	(11,248) [a,c]	—	
Investments held to maturity	**13,491**	**—**	**(13,491)** [b]	**—**	**—**
Investments	**6,184**	**—**	**—**	**(34)**	**6,150**
Other assets**	**117,111**	**—**	**6**	**680** [e]	**117,797**
TOTAL ASSETS	**1,444,305**	**—**	**94**	**(1,330)**	**1,443,069**

* Due to the entry into force of Bank of Spain Circular 4/2017.

** Includes Hedging derivatives, Changes in the fair value of hedged items in portfolio hedges of interest risk, Assets under insurance or reinsurance contracts, Tangible assets, Intangible assets, Tax assets, Other assets and Non-current assets held for sale.

a. The amount of the item Loans and receivables at 31 December 2017 is reclassified into Financial assets at amortised cost. Nevertheless, the Group maintained a portfolio of loans and receivables for an approximate amount of EUR 8,600 million, which relate mainly to Brazil, which was designated at amortised cost; as a result of the initial implementation of IFRS 9 this portfolio has been designated as fair value and finally it has been reclassified as 'Financial assets designated at fair value through profit or loss'.

b. Instruments classified as Investments held to maturity at 31 December 2017 have been reclassified into Financial assets available-for-sale because of the initial implementation of IFRS 9. Additionally, after the review of the business model of cash flow portfolio in different locations, the group has identified certain groups of assets classified at 31 December 2017 as Financial assets available-for-sale, which relate mainly to Mexico, Brazil and Consumer Finance business, whose management is oriented towards the maintenance of financial instruments in a portfolio until maturity end; because of that, this asset group has been reclassified as Financial assets at amortised cost.

c. The Group has reclassified in Non-trading financial assets mandatory at fair value through profit or loss those financial instruments which have not comply with the SPPI test (solely payments of principal and interest) classified at 31 December 2017 mainly in Loans and receivables and Financial assets available for sale, which relate mainly to the UK, Spain and Poland.

d. It corresponds to the increase in provisions for impairment of the value of the assets included in the item Financial assets at amortised cost derived from the change in accounting policy.

e. This corresponds with increase on provisions for the tax effect referred in section d.

LIABILITIES (Million euros)	IAS 39 31/12/2017	Naming modifications	Classification and measurement impact	Impairment impact	IFRS 9 01/01/2018
Financial liabilities held for trading	**107,624**	**—**	**10**	**—**	**107,634**
Derivatives	57,892	—	10	—	57,902
Short positions	20,979	—	—	—	20,979
Deposits	28,753	—	—	—	28,753
Marketable debt securities	—	—	—	—	—
Other financial liabilities	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	**59,616**	**—**	**—**	**—**	**59,616**
Deposits	55,971	—	—	—	55,971
Marketable debt securities	3,056	—	—	—	3,056
Other financial liabilities	589	—	—	—	589
Financial liabilities at amortised cost	**1,126,069**	**—**	**—**	**—**	**1,126,069**
Deposits	883,320	—	—	—	883,320
Marketable debt securities	214,910	—	—	—	214,910
Other financial liabilities	27,839	—	—	—	27,839
Hedging derivatives	**8,044**	**—**	**(10)**	**—**	**8,034**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**330**	**—**	**—**	**—**	**330**
Provisions	**14,489**	**—**	**—**	**197**	**14,686**
Contingent liabilities and commitments	617	—	—	197	814
Other provisions*	13,872	—	—	—	13,872
Other liabilities **	**21,300**	**—**	**41**	**(3)**	**21,338**
TOTAL LIABILITIES	**1,337,472**	**—**	**41**	**194**	**1,337,707**

* Includes Pensions and other post-retirements obligations, Other long-term employee benefits, Taxes and other legal contingencies and Other provisions (including guarantees and other contingent liabilities).

** Includes Liabilities under insurance or reinsurance contracts, Tax liabilities, Other liabilities and Liabilities associated with non-current assets held for sale.

EQUITY (Million euros)	IAS 39 31/12/2017	Naming modifications*	Classification and measurement impact	Impairment impact	IFRS 9 01/01/2018
Shareholders' equity	**116,265**	**—**	**91**	**(1,401)**	**114,955**
Capital	**8,068**	**—**	**—**	**—**	**8,068**
Share premium	**51,053**	**—**	**—**	**—**	**51,053**
Equity instruments issued other than capital	**525**	**—**	**—**	**—**	**525**
Other equity	**216**	**—**	**—**	**—**	**216**
Accumulated retained earnings	**53,437**	**—**	**—**	**—**	**53,437**
Revaluation reserves	**—**	**—**	**—**	**—**	**—**
Other reserves	**(1,602)**	**—**	**91**	**(1,401)**	**(2,912)**
Own shares	**(22)**	**—**	**—**	**—**	**(22)**
Profit attributable to shareholders of the parent	**6,619**	**—**	**—**	**—**	**6,619**
Interim dividends	**(2,029)**	**—**	**—**	**—**	**(2,029)**
Other comprehensive income	**(21,776)**	**—**	**(53)**	**—**	**(21,829)**
Items not reclassified to profit or loss	**(4,034)**	**919**	**(152)**	**—**	**(3,267)**
Actuarial gains or losses on defined benefit pension plans	(4,033)	—	—	—	(4,033)
Non-current assets held for sale	—	—	—	—	—
Share in other income and expenses recognised in investments in joint ventures and associates	(1)	5	(5)	—	(1)
Other valuation adjustments	—	—	—	—	
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income		914	(141)	—	773
Inefficacy of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income		—	—	—	—
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		—	(6)	—	(6)
Items that may be reclassified to profit or loss	**(17,742)**	**(919)**	**99**	**—**	**(18,562)**
Hedge of net investment in foreign operations (effective portion)	(4,311)	—	—	—	(4,311)
Exchange differences	(15,430)	—	—	—	(15,430)
Hedging derivatives. Cash flow hedges (effective portion)	152	—	—	—	152
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income		1,154	99	—	1,253
Hedging instruments (items not designated)		—	—	—	—
Financial assets available for sale	2,068	(2,068)	—	—	
Debt instruments	*1,154*	*(1,154)*	—	—	
Equity instruments	*914*	*(914)*	—	—	
Non-current assets held for sale	—	—	—	—	—
Share in other income and expenses recognised in investments in joint ventures and associates	(221)	(5)	—	—	(226)
Non controlling interests	**12,344**	**—**	**15**	**(123)**	**12,236**
Other comprehensive income	(1,436)	—	3	—	(1,433)
Other elements	13,780	—	12	(123)	13,669
EQUITY	**106,833**	**—**	**53**	**(1,524)**	**105,362**
TOTAL EQUITY AND LIABILITIES	**1,444,305**	**—**	**94**	**(1,330)**	**1,443,069**

* Due to the entry into force of Bank of Spain Circular 4/2017.

Similarly, to adapt the accounting system of Spanish credit institutions to the changes related to IFRS15 and IFRS 9, on 6 December, 2017, Circular 4/2017, of 27 November, of the Bank of Spain, was published, which repeals Circular 4/2004, of 22 December, for those years beginning as of 1 January, 2018. The adoption of this Circular has modified the breakdown and presentation of certain headings in the financial statements, to adapt them to the aforementioned IFRS 9. Information corresponding to the year ended 31 December 2017 has not been restated under this Circular.

In addition, in July 2016, the IASB published IFRS 16, which was adopted by the Group in accordance with the standard on 1 January 2019. As indicated in that standard, the Group opted not to restate the comparative financial statements, and the information relating to the years ended 31 December 2018 and 2017 was not restated in accordance with those criteria, so that it is not comparative. However, Note 1.b includes a reconciliation of the balances at 31 December 2018 and the corresponding balances at 1 January 2019, detailing the effect of the first application of the standard.

In 2018, the Group changed the accounting policy for recognition of non-controlling interests in equity stake reduction transactions without loss of control. In accordance with international financial reporting standards, the goodwill associated with these transactions must be kept on balance. The non-controlling interests resulting from the equity stake reduction can be accounted for by their participation in the identifiable net assets or by attributing the goodwill associated with the participation sold. In this sense, the Group opted to account for the non-controlling interests by its participation in net assets. The application of the accounting policy change, without impact on net equity, was made on 1 January, 2018.

Therefore, the information for the years 2018 and 2017 contained in these notes to the consolidated financial statements is presented with the information relating to 2019 for comparative purposes only, except as mentioned above and the non-recast of the aforementioned for the year 2017 balances due to Argentina's hyperinflation effect (see note 2.a iv).

Additionally, the segment information corresponding to the year end 31 December 2018 and 2017 were recasted for comparative purposes, in accordance with the new organizational structure of the Group, as required by IFRS 8 (see note 52).

In order to interpret the changes in the balances with respect to 31 December 2019, it is necessary to take into consideration the exchange rate effect arising from the volume of foreign currency balances held by the Group in view of its geographic diversity (see Note 51.b) and the impact of the appreciation/depreciation of the various currencies against the euro in 2019, based on the exchange rates at the end of 2019: Mexican peso (5.99%), US dollar (1.92%), Brazilian real (-1.59%) , Argentine peso (-35.89%), Sterling pound (5.14%), Chilean peso (-6.04%), and Polish zloty (1.05%); as well as the evolution of the comparable average rates: Mexican peso (5.29%), US dollar (5.41%), Brazilian real (-2.62%), Sterling pound (0.85%), Chilean peso (-3.68%) and Polish zloty (-0.85%).

e) Capital management

i. Regulatory and economic capital

The Group's capital management is performed at regulatory and economic levels.

The aim is to secure the Group's solvency and guarantee its economic capital adequacy and its compliance with regulatory requirements, as well as an efficient use of capital.

To this end, the regulatory and economic capital figures and their associated metrics RORWA (Return on Risk-Weighted Assets), RORAC (Return on Risk-Adjusted Capital) and value creation of each business unit- are generated, analysed and reported to the relevant governing bodies on a regular basis.

Within the framework of the internal capital adequacy assessment process (Pillar II of the Basel Capital Accord), the Group uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Group; at the same time the Group assesses, also in the various scenarios, whether it meets the regulatory capital ratio requirements.

In order to adequately manage the Group's capital, it is essential to estimate and analyse future needs, in anticipation of the various phases of the business cycle. Projections of regulatory and economic capital are made based on the budgetary information (balance sheet, income statement, etc.) and the macroeconomic scenarios defined by the Group's economic research service. These estimates are used by the Group as a reference when planning the management actions (issues, securitisations, etc.) required to achieve its capital targets.

In addition, certain stress scenarios are simulated in order to assess the availability of capital in adverse situations. These scenarios are based on sharp fluctuations in macroeconomic variables (GDP, interest rates, housing prices, etc.) that mirror historical crises that could happen again or plausible but unlikely stress situations.

Following is a brief description of the regulatory capital framework to which the Group is subject.

On 26 June 2013 the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV), repealing Directives 2006/48 and 2006/49, and through Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR).

The CRD IV was transposed into Spanish legislation through Law 10/2014 on the regulation, supervision and capital adequacy of credit institutions, and its subsequent implementing regulations contained in Royal Decree-Law 84/2015 and Bank of Spain Circular 2/2016, was completed the adaptation to the Spanish law.

The CRR came into force immediately, established a phase-in that has permitted a progressive adaptation to the new requirements in the European Union regarding AT1 and T2 capital instruments. These calendars have been incorporated into Spanish regulations through Bank of Spain Circular 2/2014, affecting both the new deductions and those issues and equity items that are no longer eligible as such under the new regulations.

On 27 December 2017, Regulation (EU) 2017/2395 was published, amending the CRR with regard to the transitional provisions to mitigate the impact of the introduction of IFRS 9 , which took place on 1 January, 2018. The timetable provides for a gradual implementation period of 5 years, and for the current year (2020) the applicable factor will be 0.7.

In addition, on 28 December 2017 Regulations (EU) 2017/2401 and 2017/2402 were published, incorporating the new securitisation framework. The first regulation establishes a new methodology for calculating capital requirements for securitisations and a transitional period ending on 31 December 2019, while the second regulation defines a type of STS ('simple, transparent and standardised') securitisation which, due to its characteristics of simplicity, of financing the real economy, etc., receives preferential treatment in terms of lower capital requirements.

With regard to non performing exposures (NPEs), rules have been published with the aim of implementing the "Action plan for non performing exposures in Europe", published by the European Council in July 2017. The most relevant are the following:

- The European Central Bank (ECB)'s supervisory expectation to address the stock of NPEs through provisioning,
- ECB Guidance on non-performing loans to credit institutions, published in March 2017: The Appendix to this Guidance, published in March 2018, sets out timetables with quantitative supervisory expectations for provisioning of this type of exposure. Applicable to exposures that originate prior to 26 April 2019 and that have become NPE on or after 1 April 2018. A default could result in a higher charge for Pillar 2.
- Amendment of the CRR by Regulation (EU) 2019/630 regarding the minimum coverage of losses derived from doubtful exposures (prudential backstop), published in April 2019: this Regulation (EU) includes timetables of quantitative requirements for minimum provisioning of NPE's. It applies to NPE's originated after 26 April 2019 and failure to comply would result in a deduction from the institutions' CET 1.

On 20 May 2019, the new regulatory package was approved through Regulation (EU) 2019/876 (hereinafter CRR II) and Directive (EU) 2019/878 (hereinafter CRD V).

As a general rule, CRR II will come into force on 28 June 2021, with some exceptions that will come into force during a period of time that began on 1 January 2019 and will end on 28 June 2023.

Among these exceptions, the entry into force on 27 June 2019 of the main changes regarding equity, capital deductions, standard and IRB credit risk and authorisations is highlighted.

On 27 June CRD V entered into force but is not yet applicable as Member States have until 28 December 2020 to transpose it into national law. The CRD V includes significant changes such as the Pillar 2G regulation ('guidance').

In the regulatory package published in June 2019, the TLAC Term Sheet set at international level by the FSB (Financial Stability Board) has been incorporated into CRR II as a Pillar I of minimum equity and computable liability requirements for GSIBs.

This package of modifications also includes the modification of the Resolution Directive (BRRD), replacing it with BRRD II, which establishes MREL requirements with Pillar 2 for all resolution entities, whether systemic or not, in which the resolution authority will decide on the requirements on a case-by-case basis. For G-SIBs, CRR II introduces the minimum requirement established in the TLAC term sheet (16% / 18%), which must be made up of subordinated liabilities, with the exception of a percentage of senior debt (2.5% / 3.5%). For large banks (defined as those whose total assets exceed EUR 100 billion) or those which, without being large, the resolution authority considers may be systemic, BRRD II establishes a minimum subordination requirement of 13.5% of risk-weighted assets, or 5% of the leverage ratio exposure, whichever is higher. For the remaining entities the subordination requirement will be determined on a case-by-case basis by the resolution authority.

At 31 December 2019 the Group met the minimum capital requirements established by current legislation (see Note 54).

ii. Plan for the roll-out of advanced approaches and authorisation from the supervisory authorities

The Group continues adopting, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of exposure of the loan portfolio covered by this approach exceeds 90%. The commitment assumed before the supervisor still implies the adoption of advanced models within the ten key markets where Santander Group operates.

Accordingly, the Group continued in 2019 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approach for regulatory capital calculation purposes at the various Group units.

The Group has obtained authorisation from the supervisory authorities to use the AIRB approach for the calculation of regulatory capital requirements for credit risk for the Parent and the main subsidiaries in Spain, the United Kingdom and Portugal, as well as for certain portfolios in Germany, Mexico, Brazil, Chile, the Nordic countries (Norway, Sweden and Finland), France and the United States.

During 2018, approval was obtained for the sovereign portfolios, Institutions (FIRB method) and specialised financing (Slotting) in Chile, mortgages and most revolving portfolio of Santander Consumer Germany as well as the portfolios of dealers of PSA France and PSA UK (FIRB method).

As regards the other risks explicitly addressed under Basel Pillar I, the Group is authorised to use its internal model for market risk for its treasury trading activities in the UK, Spain, Chile, Portugal and Mexico.

For the purpose of calculating regulatory capital for operational risk, the Group uses the standardised approach provided for the CRR. On 2018 the European Central Bank authorised the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level in Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, in addition to the approval obtained in 2016 in Brazil.

f) Environmental impact

In view of the business activities carried on by the Group entities, the Group does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its consolidated equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these consolidated financial statements.

g) Events after the reporting period

On 9 January, the Group announced that it had placed contingently convertible preference shares ("PPCC") into newly issued ordinary shares of the Bank, excluding pre-emptive rights of its shareholders, for a nominal value of EUR 1,500,000,000.

The placement was carried out at par and the remuneration of the shares, whose payment is subject to certain conditions and is also discretionary, was set at 4.375% on an annual basis for the first six years, being reviewed every five years thereafter by applying a margin of 453.4 basis points over the five-year Mid-Swap Rate.

On the same date, the Group announced its irrevocable decision to proceed with the voluntary early redemption of the PPCC issue for a nominal amount of EUR 1,500,000,000 made at 12 March 2014.

On 29 January, 2020 the Group announced that the Bank´s board of directors, agreed to propose to the next shareholder Bank annual general meeting, that the second payment of the remuneration from 2019 profit be made for a total of EUR 0.13 per share by means of :

- The payment in cash of a final dividend of 0.10 euros per share and
- A scrip dividend (in the form of the *Santander Dividendo Elección* programme) which will allow shareholders to receive it in cash, for those who choose this option, EUR 0.03 per share.

h) Other information

United Kingdom Referendum

On 31 January 2020 the United Kingdom ceased to be a member of the European Union . The UK and the European Union agreed withdrawal terms which establish a transition period until 31 December 2020. During the transition period (i) the United Kingdom will be treated as if it were still a member of the European Union for trading purposes, (ii) European Union legislation will continue to apply in the United Kingdom and (iii) negotiations on a trade agreement will be conducted, as well as on the extent of legislative and regulatory convergence and regulatory cooperation. The European Union will also carry out regulatory equivalence assessments for financial services. Such assessments, even if positive, do not guarantee that equivalence will be granted. Although the withdrawal agreement foresees the possibility to extend the transition period for two more years after the 31 January 2020, this is not automatic and the United Kingdom has enshrined the 31 December 2020 date in local legislation passing the withdrawal agreement as the end of the transition period, signalling a current desire not to extend it.

Uncertainty remains around the terms of the United Kingdom´s relationship with the European Union at the end of the transition period. If the transition period were to end without a comprehensive trade agreement, the United Kingdom's and Europe´s economic growth may be negatively impacted. At the end of the transition period, even if a trade agreement is entered into force and/or if equivalence is granted to certain areas of the United Kingdom's financial services, contingency measures may still be necessary in certain economic or financial matters to avoid uncertainty and adverse economic effects and there will be some changes in the products and services that Santander United Kingdom can continue to offer into the European Economic Area (EEA) and to EEA residents or EEA incorporated entities. Where possible, Santander UK would look to service such EEA customers from Banco Santander S.A. instead.

While the longer term effects of the United Kingdom's anticipated withdrawal from the European Union are difficult to predict, there is ongoing political and economic uncertainty, which is likely to continue in the medium term depending on its result, and could have adverse effect on the operations, financial situation and prospects of Santander UK, especially in the Retail and Commercial banking segments. We have identified a number of risks to Santander as a consequence of this uncertainty and the result of the withdrawal process, including the following:

Increased market volatility could have a negative impact on the Group´s cost of or access to funding, especially in an environment in which credit ratings are impacted, it could affect interest and currency exchange rates and the value of assets in our banking book or of securities held by the Group for liquidity purposes.

The Group in the UK is subject to significant regulation and supervision by the European Union. Although legislation has now been passed transferring the European Union regulations into United Kingdom law, there remains significant uncertainty as to the legal and regulatory environment in which the Group´s UK subsidiaries will operate when the transition period ends, and the basis on which cross-border financial business will take place after that date.

Furthermore, at the operational level, the Group's UK subsidiaries and other financial institutions may no longer be able to rely on the European cross-border framework for financial services and it is not clear what the alternative regime will be after Brexit. This uncertainty and the actions taken as a result of it, as well as the new or amended rules, could have significant adverse impacts on the Group's operations, profitability and business.

An adverse effect on the UK economy could have a negative impact on the Group's customers in that country. However, given the current uncertainty, the Group has continued to focus on perfecting the Brexit contingency plans.

The materialisation of one or more of the above risks would have a material adverse effect on the Group's operations, financial situation and prospects.

The Group considered these circumstances in the review of the goodwill assigned to Santander UK, which was impaired in 2019 (see note 17).

2. Accounting policies

The accounting policies applied in preparing the consolidated financial statements were as follows:

a) Foreign currency transactions

i. Presentation currency

The Bank's functional and presentation currency is the euro. Also, the presentation currency of the Group is the euro.

ii. Translation of foreign currency balances

Foreign currency balances are translated to euros in two consecutive stages:

- Translation of foreign currency to the functional currency (currency of the main economic environment in which the entity operates); and
- Translation to euros of the balances held in the functional currencies of entities whose functional currency is not the euro.

Translation of foreign currency to the functional currency

Foreign currency transactions performed by consolidated entities (or entities accounted for using the equity method) not located in European Monetary Union ("EMU") countries are initially recognised in their respective currencies. Monetary items in foreign currency are subsequently translated to their functional currencies using the closing rate.

Furthermore:

- Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.
- Non-monetary items measured at fair value are translated at the exchange rate at the date when the fair value was determined.
- Income and expenses are translated at the average exchange rates for the year for all the transactions performed during the year. When applying this criterion, the Group considers whether there have been significant changes in the exchange rates in the year which, in view of their materiality with respect to the consolidated financial statements taken as a whole, would make it necessary to use the exchange rates at the transaction date rather than the aforementioned average exchange rates.
- The balances arising from non-hedging forward foreign currency/foreign currency and foreign currency/euro purchase and sale transactions are translated at the closing rates prevailing in the forward foreign currency market for the related maturity.

Translation of functional currencies to euros

The balances in the financial statements of consolidated entities (or entities accounted for using the equity method) whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities, at the closing rates.
- Income and expenses, at the average exchange rates for the year.
- Equity items, at the historical exchange rates.

iii. Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognised at their net amount under Exchange differences in the consolidated income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised in the consolidated income statement without distinguishing them from other changes in fair value, and for exchange differences arising on non-monetary items measured at fair value through equity, which are recognised under Other comprehensive income–Items that may be reclassified to profit or loss–Exchange differences (except for exchange differences on equity instruments, where the option to irrevocably elect to be measured at fair value through changes in accumulated other comprehensive income, which are recognised in accumulated other comprehensive income - Items not to be reclassified to profit or loss - Changes in fair value of equity instruments measured at fair value through other comprehensive income (see Note 29).

The exchange differences arising on the translation to euros of the financial statements denominated in functional currencies other than the euro are recognised in Other comprehensive income–Items that may be reclassified to profit or loss–Exchange differences in the consolidated balance sheet, whereas those arising on the translation to euros of the financial statements of entities accounted for using the equity method are recognised in equity under Other comprehensive income–Items that may be reclassified to profit or loss and Items not reclassified to profit or loss–Other recognised income and expense of investments in subsidiaries, joint ventures and associates (see Note 29), until the related item is derecognised, at which time they are recognised in profit or loss.

Exchange differences arising on actuarial gains or losses when converting to euros the financial statements denominated in the functional currencies of entities whose functional currency is different from the euro are recognised under equity–Other comprehensive income–Items not reclassified to profit or loss–Actuarial gains or (-) losses on defined benefit pension plans (see Note 29).

iv. Entities located in hyperinflationary economies

Exchange differences arising on the translation to the Group´s presentation currency of financial statements denominated in functional currencies other than euro for subsidiaries located in countries with high inflation rates are recorded in the consolidated statement of changes in total equity-Other reserves.

At 31 December 2017, none of the functional currencies of the consolidated subsidiaries and associates located abroad corresponded to those of countries considered to have highly inflationary and hyperinflationary economies, in accordance with the criteria established in this connection by the International Financial Reporting Standards adopted by the European Union. Consequently, at the end of the year it was not necessary to adjust the financial statements of any consolidated or associated entity to correct for the effects of inflation. In 2018 the economic situation in Argentina, especially the evolution of the index deteriorated, which caused, among other impacts, a significant increase in inflation, which by the end of that year had reached 48% per year (147% accumulated in three years),). This situation led the Group to conclude that it was necessary to apply IAS 29 for hyperinflationary economies - Financial Information in Hyperinflationary Economies - to its activities in the country in question in its consolidated financial statements for that year, and this situation will continue in 2019.

Consequently, at 1 January 2018, an amount of EUR 1,716 million was reclassified in the statement of total changes in equity from the heading Accumulated Other Comprehensive Income - Translation Differences to the heading Other Reserves, corresponding to the exchange rate losses for 2017 and earlier. In addition, at that date the historical cost of the non-monetary assets and liabilities and the various items of equity of the Argentine companies from their date of acquisition or inclusion in the consolidated balance sheet was adjusted to reflect the changes in the purchasing power of the currency resulting from inflation, and was recorded; consequently, a credit to Other reserves of EUR 131 million was recorded in Other reserves. From that moment:

- The historical cost of non-monetary assets and liabilities and equity items continues to be adjusted to, considering the changes in the purchasing power of the currency due to inflation, in accordance with the official indices published by the National Institute of Statistics and Censuses (INDEC). In accordance with the provisions of the Argentine Federation of Professional Councils in Economic Sciences (FCPCE), which is the organization that issues the professional accounting standards in said country, the indexes result from combining the National Consumer Price Index (CPI) with the Wholesale Internal Price Index (WPI), which at closing) until 30 November 2016 and the National Consumer Price Index (CPI) as from 1 December 2016. Inflation during the year reached 54%.

- The different items of the income statement are adjusted by the inflationary index since their generation, with a balancing entry in Other reserves. - The loss on the net monetary position is recorded in the result for the year, with a credit to Other reserves.

- All components of the financial statements of the Argentine companies are translated at the closing exchange rate, with the corresponding exchange rate at December 31, 2019 of Argentine pesos 67.26 per euro (Argentine pesos 43.12 per euro at 31 December 2018).

The net impact of these effects on Other reserves in 2019 was a loss of 154 million euros (398 million euros in 2018).

v. Exposure to foreign currency risk

The Group hedges a portion of its long-term foreign currency positions using foreign exchange derivative financial instruments (see Note 36). Also, the Group manages foreign exchange risk dynamically by hedging its short-term position (with a potential impact on profit or loss) in order to limit the impact of currency depreciations while optimising the cost of financing the hedges.

The following tables show the sensitivity of the consolidated income statement and consolidated equity to percentage changes of ± 1% in the foreign exchange rate positions arising from investments in Group companies with currencies other than the euro (with its hedges) and in their results (with its hedges), in which the Group maintains significant balances.

The estimated effect on the consolidated equity attributable to the Group and on consolidated profit of a 1% appreciation of the euro against the corresponding currency is as follows:

Million euros

	Effect on consolidated equity			Effect on consolidated profit		
Currency	2019	2018	2017	2019	2018	2017
US dollar	(161.3)	(162.3)	(157.9)	(3.5)	(4.1)	(1.4)
Chilean peso	(21.8)	(22.9)	(29.0)	(2.3)	(5.1)	(1.8)
Pound sterling	(189.2)	(171.2)	(176.6)	(3.9)	(4.5)	(3.1)
Mexican peso	(22.6)	(18.3)	(16.0)	(3.3)	(1.7)	(1.2)
Brazilian real	(71.6)	(85.6)	(93.1)	(10.4)	(5.6)	(6.5)
Polish zloty	(38.3)	(36.2)	(34.5)	(1.2)	(4.2)	(1.5)
Argentine peso	(6.9)	(7.8)	(7.4)	(1.2)	(0.6)	(3.5)

Similarly, the estimated effect on the Group's consolidated equity and on consolidated profit of a 1% depreciation of the euro against the corresponding currency is as follows:

Million euros

	Effect on consolidated equity			Effect on consolidated profit		
Currency	2019	2018	2017	2019	2018	2017
US dollar	164.6	165.6	161.1	3.5	4.2	1.5
Chilean peso	22.2	23.4	29.6	2.4	5.2	1.8
Pound sterling	193.0	174.7	180.2	4.0	4.6	3.2
Mexican peso	23.1	18.6	16.3	3.4	1.8	1.2
Brazilian real	73.1	87.4	95.0	10.6	5.7	6.6
Polish zloty	39.0	36.9	35.2	1.2	4.2	1.5
Argentine peso	7.0	8.0	7.6	1.3	0.6	3.6

The above data were obtained as follows:

a) Effect on consolidated equity: in accordance with the accounting policy detailed in Note 2.a.iii, foreign exchange rate impact arising on the translation to euros of the financial statements in the functional currencies of the Group entities whose functional currency is not the euro are recognised in consolidated equity. The potential effect that a change in the exchange rates of the related currency would have on the Group's consolidated equity was therefore determined by applying the aforementioned change to the net value of each unit's assets and liabilities -including, where appropriate, the related goodwill- and by taking into consideration the offsetting effect of the hedges of net investments in foreign operations.

b) Effect on consolidated profit: the effect was determined by applying the up and down movements in the average exchange rates of the year, as indicated in Note 2.a.ii (except in the case of Argentina, which is a hyperinflationary economy and has applied the closing exchange rate), to translate to euros the income and expenses of the consolidated entities whose functional currency is not the euro, taking into consideration, where appropriate, the offsetting effect of the various hedging transactions in place.

The estimates used to obtain the foregoing data were performed considering the effects of the changes in the exchange rate in standalone basis not considering the effect of the performance of other variables whose changes would affect equity and profit or loss, such as variations in the interest rates of the reference currencies or other market factors. Accordingly, all variables other than the exchange rate variations were kept constant with respect to their positions at 31 December 2019, 2018 and 2017.

b) Basis of consolidation

i. Subsidiaries

Subsidiaries are defined as entities over which the Bank has the capacity to exercise control. The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all balances and effects of the transactions between consolidated companies are eliminated on consolidation.

On acquisition of control of a subsidiary, its assets, liabilities and contingent liabilities are recognised at their acquisition-date fair values. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill (see Note 17). Negative differences are recognised in profit or loss on the date of acquisition.

Additionally, the share of third parties of the Group's equity is presented under Non-controlling interests in the consolidated balance sheet (see Note 28). Their share of the profit for the year is presented under Profit attributable to non-controlling interests in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year-end. Similarly, the results of subsidiaries for which control is lost during the year are included in the consolidated income statement from the beginning of the year to the date of disposal.

At 31 December 2019 the Group controls the following company in which it holds an ownership interest of less than 50% of the share capital, Luri 1, S.A. apart from the structured consolidated entities. The percentage ownership interest in the aforementioned company is 46% (See Appendix I). Although the Group holds less than half the voting power, it manages and, as a result, exercises control over this entity. The company´s corporate purpose for the entity is the acquisition of real estate and other general operations relating thereto, including rental, and the purchase and sale of properties; the company object of the latter entity is the provision of payment services. The impact of the consolidation of this company on the Group's consolidated financial statements is immaterial.

The Appendices contain significant information on the subsidiaries.

ii. Interests in joint ventures

Joint ventures are deemed to be entities that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more parties have interests in entities so that decisions about the relevant activities require the unanimous consent of all the parties sharing control.

In the consolidated financial statements, investments in joint ventures are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with a joint venture are eliminated to the extent of the Group's interest therein.

The Appendices contain relevant information on the joint ventures.

iii. Associates

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control. It is presumed that the Bank exercises significant influence if it holds 20% or more of the voting power of the investee.

In the consolidated financial statements, investments in associates are accounted for using the equity method, i.e. at the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. The profits and losses resulting from transactions with an associate are eliminated to the extent of the Group's interest in the associate.

There are certain investments in entities which, although the Group owns 20% or more of their voting power, are not considered to be associates because the Group is not in a position to exercise significant influence over them. These investments are not significant for the Group.

There are also certain investments in associates where the Group owns less than 20% of the voting rights, as it is determined that it has the capacity to exercise significant influence over them. The impact of these companies is immaterial in the Group's consolidated financial statements.

The Appendices contain significant information on the associates.

iv. Structured entities

When the Group incorporates entities, or holds ownership interests therein, to enable its customers to access certain investments, or for the transfer of risks or other purposes (also called structured entities since the voting or similar power is not a key factor in deciding who controls the entity), the Group determines, using internal criteria and procedures and taking into consideration the applicable legislation, whether control (as defined above) exists and, therefore, whether these entities should be consolidated. Specifically, for those entities to which this policy applies (mainly investment funds and pension funds), the Group analyses the following factors:

- Percentage of ownership held by the Group; 20% is established as the general threshold.
- Identification of the fund manager, and verification as to whether it is a company controlled by the Group since this could affect the Group's ability to direct the relevant activities.
- Existence of agreements between investors that might require decisions to be taken jointly by the investors, rather than by the fund manager.
- Existence of currently exercisable removal rights (possibility of removing the manager from his position), since the existence of such rights might limit the manager's power over the fund, and it may be concluded that the manager is acting as an agent of the investors.
- Analysis of the fund manager's remuneration regime, taking into consideration that a remuneration regime that is proportionate to the service rendered does not, generally, create exposure of such importance as to indicate that the manager is acting as the principal. Conversely, if the remuneration regime is not proportionate to the service rendered, this might give rise to an exposure that would lead the Group to a different conclusion.

These structured entities also include the securitisation special purpose vehicles ("SPV"), which are consolidated in the case of the SPVs over which, being exposed to variable yield, it is considered that the Group continues to exercise control.

The exposure associated with unconsolidated structured entities are not material with respect to the Group's consolidated financial statements.

v. Business combinations

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities.

Business combinations whereby the Group obtains control over an entity or a business are recognised for accounting purposes as follows:

- The Group measures the cost of the business combination, which is normally the consideration transferred, defined as the acquisition-date fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity instruments issued, if any, by the acquirer. In cases where the amount of the consideration to be transferred has not been definitively established at the acquisition date, but rather depends on future events, any contingent consideration is recognised as part of the consideration transferred and measured at its acquisition-date fair value. Moreover, acquisition-related costs do not for these purposes form part of the cost of the business combination.
- The fair values of the assets, liabilities and contingent liabilities of the acquired entity or business, including any intangible assets identified in the business combination which might not have been recognised by the acquiree, are estimated and recognised in the consolidated balance sheet; the Group also estimates the amount of any non-controlling interests and the fair value of the previously held equity interest in the acquiree.
- Any positive difference between the aforementioned items is recognised as discussed in Note 2.m. Any negative difference is recognised under negative goodwill recognised in the consolidated income statement.

Goodwill is only calculated and recognised once, when control of a business or an entity is obtained.

vi. Changes in the levels of ownership interests in subsidiaries

Acquisitions and disposals not giving rise to a change in control are recognised as equity transactions, and no gain or loss is recognised in the income statement and the initially recognised goodwill is not remeasured. The difference between the consideration transferred or received and the decrease or increase in non-controlling interests, respectively, is recognised in reserves.

Similarly, when control over a subsidiary is lost, the assets, liabilities and non-controlling interests and any other items recognised in Other Comprehensive income of that company are derecognised from the consolidated balance sheet, and the fair value of the consideration received and of any remaining equity interest is recognised. The difference between these amounts is recognised in profit or loss.

vii. Acquisitions and sales

Note 3 provides information on the most significant acquisitions and sales in the last three years.

c) Definitions and classification of financial instruments

i. Definitions

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

An equity instrument is a contract that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A financial derivative is a financial instrument whose value changes in response to the change in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price, market index or credit rating), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

Hybrid financial instruments are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

Compound financial instruments are contracts that simultaneously create for their issuer a financial liability and an own equity instrument (such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer).

The preference shares contingently convertible into ordinary shares eligible as Additional Tier 1 capital ("CCPSs") - perpetual shares, which may be repurchased by the issuer in certain circumstances, the interest on which is discretionary, and would convert into variable number of newly issued ordinary shares if the capital ratio of the Bank or its consolidated group falls below a given percentage (trigger event), as those two terms are defined in the related issue prospectuses- are recognised for accounting purposes by the Group as compound instruments. The liability component reflects the issuer's obligation to deliver a variable number of shares and the equity component reflects the issuer's discretion in relation to the payment of the related coupons. In order to effect the initial allocation, the Group estimates the fair value of the liability as the amount that would have to be delivered if the trigger event were to occur immediately and, accordingly, the equity component, calculated as the residual amount, is zero. In view of the aforementioned discretionary nature of the payment of the coupons, they are deducted directly from equity.

Capital perpetual preference shares ("CPPSs"), with the possibility of purchase by the issuer in certain circumstances, whose remuneration is discretionary, and which will be amortised permanently, totally or partially, in the event that the bank or its consolidated group submits a capital ratio lesser than a certain percentage (trigger event), as defined in the corresponding prospectuses, are accounted for by the Group as equity instruments.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates and joint ventures (see Note 13).
- Rights and obligations under employee benefit plans (see Note 25).
- Rights and obligations under insurance contracts (see Note 15).
- Contracts and obligations relating to employee remuneration based on own equity instruments (see Note 34).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as Non-current assets held for sale or they relate to Cash, cash balances at central banks and other deposits on demand, Changes in the fair value of hedged items in portfolio hedges of interest rate risk (asset side), Hedging derivatives and Investments, which are reported separately.

Classification of financial instruments: the classification criteria for financial assets depends on the business model for their management and the characteristics of their contractual flows.

The Group's business models refer to the way in which it manages its financial assets to generate cash flows. In defining these models, the Group takes into account the following factors:

- How key management staff are assessed and reported on the performance of the business model and the financial assets held in the business model.
- The risks that affect the performance of the business model (and the financial assets held in the business model) and, specifically, the way in which these risks are managed.
- How business managers are remunerated.
- The frequency and volume of sales in previous years, as well as expectations of future sales.

The analysis of the characteristics of the contractual flows of financial assets requires an assessment of the congruence of these flows with a basic loan agreement. The Group determines if the contractual cash flows of its financial assets that are only principal and interest payments on the outstanding principal amount at the beginning of the transaction. This analysis takes into consideration four factors (performance, clauses, contractually linked products and currencies). Furthermore, among the most significant judgements used by the Group in carrying out this analysis, the following ones are included:

- The return on the financial asset, in particular in cases of periodic interest rate adjustments where the term of the reference rate does not coincide with the frequency of the adjustment. In these cases, an assessment is made to determine whether or not the contractual cash flows differ significantly from the flows without this change in the time value of money, establishing a tolerance level of 2%.
- The contractual clauses that may modify the cash flows of the financial asset, for which the structure of the cash flows before and after the activation of such clauses is analysed.
- Financial assets whose cash flows have different priority for payment due to a contractual link to underlying assets (e.g. securitisations) require a look-through analysis by

the Group so as to review that both the financial asset and the underlying assets are only principal and interest payments and that the exposure to credit risk of the set of underlying assets belonging to the tranche analysed is less than or equal to the exposure to credit risk of the set of underlying assets of the instrument.

Depending on these factors, the asset can be measured at amortised cost, at fair value with changes in other comprehensive income, or at fair value with changes through profit and loss. IFRS 9 also establishes an option to designate an instrument at fair value with changes in profit or loss, when doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'accounting asymmetry') that would otherwise arise from measuring assets or liabilities or recognising gains and losses on different bases. The Group uses the following criteria for the classification of financial debt instruments:

- Amortised cost: financial instruments under a business model whose objective is to collect principal and interest flows, over which there is no significant unjustified sales and fair value is not a key element in the management of these assets and contractual conditions they give rise to cash flows on specific dates, which are only payments of principal and interest on the outstanding principal amount. In this sense, unjustified sales are considered to be those other than those related to an increase in the credit risk of the asset, unanticipated funding needs (stress case scenarios). Additionally, the characteristics of its contractual flows represent substantially a “basic financing agreement”.

- Fair value with changes in other comprehensive income: financial instruments held in a business model whose objective is to collect principal and interest cash flows and the sale of these assets, where fair value is a key factor in their management. Additionally, the contractual cash flow characteristics substantially represent a “basic financing agreement”.

- Fair value with changes in profit or loss: financial instruments included in a business model whose objective is not obtained through the above mentioned models, where fair value is a key factor in managing of these assets, and financial instruments whose contractual cash flow characteristics do not substantially represent a “basic financing agreement”. In this section it can be enclosed the portfolios classified under “Financial assets held for trading”, “Non-trading financial assets mandatorily at fair value through profit or loss” and “Financial assets at fair value through profit or loss”. In this regard, the most of the financial assets presented in the category of "Financial assets designated at value reasonable with change in results" are instruments financial services that, not being part of the portfolio of negotiation, are contracted jointly with other financial instruments that are recorded in the category of "held for trading", and that by both are recorded at fair value with changes in results, so your record in any other category would produce accounting asymmetries.

Equity instruments will be classified at fair value under IFRS 9, with changes in profit or loss, unless the Group decides, for non-trading assets, to classify them at fair value with changes in other comprehensive income (irrevocably) in the initial moment. The Group has generally applied this option to the equity instruments classified as “Available-for-sale” at 31 December 2017 under IAS 39. In general, the Group has applied this option in the case of equity instruments classified under "Available for Sale" at 31 December 2017 under IAS 39.

Until 31 December 2017, the Group applied IAS 39, under which the following three categories existed that are not applicable under IFRS 9 (see Note 1.d):

- Financial assets available-for-sale: this category includes debt instruments not classified as Held-to-maturity investments, Loans and receivables or Financial assets at fair value through profit or loss, and equity instruments issued by entities other than subsidiaries, associates and joint ventures, provided that such instruments have not been classified as Financial assets held for trading or as Financial assets designated at fair value through profit or loss.

- Loans and receivables: this category includes the investment arising from ordinary lending activities, such as the cash amounts of loans drawn down and not yet repaid by customers or the deposits placed with other institutions, whatever the legal instrument, unquoted debt securities and receivables from the purchasers of goods, or the users of services, constituting part of the Group's business.

- Investments held-to-maturity: this category includes debt instruments with fixed maturity and with fixed or determinable payments, for which the Group has both the intention and proven ability to hold to maturity.

iii. Classification of financial assets for presentation purposes

Financial assets are classified by nature into the following items in the consolidated balance sheet:

- Cash, cash balances at Central Banks and other deposits on demand: cash balances and balances receivable on demand relating to deposits with central banks and credit institutions.

- Loans and advances: includes the debit balances of all credit and loans granted by the Group, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Group, such as cheques drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originating in banking transactions and services, such as the collection of rentals and similar items. They are classified, on the basis of the institutional sector to which the debtor belongs, into:
  - Central banks: credit of any nature, including deposits and money market transactions received from the Bank of Spain or other central banks.

- Credit institutions: credit of any nature, including deposits and money market transactions, in the name of credit institutions.
- Customers: includes the remaining credit, including money market transactions through central counterparties.

- Debt instruments: bonds and other securities that represent a debt for their issuer, that generate an interest return, and that are in the form of certificates or book entries.
- Equity instruments: financial instruments issued by other entities, such as shares, which have the nature of equity instruments for the issuer, other than investments in subsidiaries, joint ventures or associates. Investment fund units are included in this item.
- Derivatives: includes the fair value in favour of the Group of derivatives which do not form part of hedge accounting, including embedded derivatives separated from hybrid financial instruments.
- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts credited to the consolidated income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.
- Hedging derivatives: Includes the fair value in favour of the Group of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as Liabilities associated with non-current assets held for sale or they relate to Hedging derivatives or Changes in the fair value of hedged items in portfolio hedges of interest rate risk (liability side), which are reported separately.

IAS 39 financial liabilities classification and measurement criteria remains substantially unchanged under IFRS 9. Nevertheless, in most cases, the changes in the fair value of financial liabilities designated at fair value with changes recognised through profit or loss for the year, due to the entity credit risk, are classified under other comprehensive income.

Financial liabilities are included for measurement purposes in one of the following categories:

- Financial liabilities held for trading (at fair value through profit or loss): this category includes financial liabilities incurred for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not designated as hedging instruments, and financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements (“reverse repos”) or borrowed (short positions).
- Financial liabilities designated at fair value through profit or loss: financial liabilities are included in this category when they provide more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Group's key management personnel. Liabilities may only be included in this category on the date when they are incurred or originated.
- Financial liabilities at amortised cost: financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which arise from the ordinary borrowing activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the consolidated balance sheet:

- Deposits: includes all repayable balances received in cash by the Group, other than those instrumented as marketable securities and those having the substance of subordinated liabilities (amount of the loans received, which for credit priority purposes are after common creditors), except for the debt instruments. This item also includes cash bonds and cash consignments received the amount of which may be invested without restriction. Deposits are classified on the basis of the creditor’s institutional sector into:
  - Central banks: deposits of any nature, including credit received and money market transactions received from the Bank of Spain or other central banks.
  - Credit institutions: deposits of any nature, including credit received and money market transactions in the name of credit institutions.
  - Customer: includes the remaining deposits, including money market transactions through central counterparties.
- Marketable debt securities: includes the amount of bonds and other debt represented by marketable securities, other than those having the substance of subordinated liabilities (amount of the loans received, which for credit priority purposes are after common creditors, and includes the amount of the financial instruments issued by the Group which, having the legal nature of capital, do not meet the requirements to qualify as equity, such as certain preferred shares issued). This item includes the component that has the consideration of financial liability of the securities issued that are compound financial instruments.
- Derivatives: includes the fair value, with a negative balance for the Group, of derivatives, including embedded derivatives separated from the host contract, which do not form part of hedge accounting.

- Short positions: includes the amount of financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed.
- Other financial liabilities: includes the amount of payment obligations having the nature of financial liabilities not included in other items (includes, among others, the balance of lease liabilities that have started to be recorded in 2019 as a result of the application of IFRS 16), and liabilities under financial guarantee contracts, unless they have been classified as non-performing.
- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts charged to the consolidated income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.
- Hedging derivatives: includes the fair value of the Group's liability in respect of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

d) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial assets and liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price.

In this regard, IFRS 9 states that regular way purchases or sales of financial assets shall be recognised and derecognised on the trade date or on the settlement date. The Group has opted to make such recognition on the trading date or settlement date, depending on the convention of each of the markets in which the transactions are carried out. For example, in relation to the purchase or sale of debt securities or equity instruments traded in the Spanish market, securities market regulations stipulate their effective transfer at the time of settlement and, therefore, the same time has been established for the accounting record to be made.

The fair value of instruments not measured at fair value through profit and loss is adjusted by transaction costs. Subsequently, and on the occasion of each accounting close, they are valued in accordance with the following criteria:

i. Measurement of financial assets

Financial assets are measured at fair value are valued mainly at their fair value without deducting any transaction cost for their sale.

The fair value of a financial instrument on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). At 31 December 2019 there were no significant investments in quoted financial instruments that had ceased to be recognised at their quoted price because their market could not be deemed to be active.

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

All derivatives are recognised in the balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised in Gains/ losses on financial assets and liabilities held for trading (net) in the consolidated income statement. Specifically, the fair value of financial derivatives traded in organised markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement (present value or theoretical close) using valuation techniques commonly used by the financial markets: net present value (NPV), option pricing models and other methods.

The amount of debt securities and loans and advances under a business model whose objective is to collect the principal and interest flows are valued at their amortised cost, using the effective interest rate method in their determination. Amortised cost refers to the acquisition cost of a corrected financial asset or liability (more or less, as the case may be) for repayments of principal and the part systematically charged to the consolidated income statement of the difference between the initial cost and the corresponding reimbursement value at expiration. In the case of financial assets, the amortised cost includes, in addition, the corrections to their value due to the impairment. In the loans and advances covered in fair value hedging transactions, the changes that occur in their fair value related to the risk or the risks covered in these hedging transactions are recorded.

The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Equity instruments and contracts related with these instruments are measured at fair value. However, in certain circumstances the Group estimates cost value as a suitable estimate of the fair value. This can happen if the recent event available information is not enough to measure the fair value or if there is a broad range of possible measures and the cost value represents the best estimates of fair value within this range.

The amounts at which the financial assets are recognised represent, in all material respects, the Group's maximum exposure to credit risk at each reporting date. Also, the Group has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, cash collateral, equity instruments and personal security, assets leased out under finance lease and full-service lease agreements, assets acquired under repurchase agreements, securities loans and credit derivatives.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under Financial liabilities held for trading and Financial liabilities designated at fair value through profit or loss and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value. The changes in credit risk arising from financial liabilities designated at fair value through profit or loss are recognised in accumulated other comprehensive income, unless they generate or increase an accounting mismatch, in which case changes in the fair value of the financial liability in all respects are recognised in the income statement.

iii. Valuation techniques

The following table shows a summary of the fair values, at the end of 2019, 2018 and 2017, of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

Million euros

	2019			2018*			2017		
	Published price quotations in active markets (Level 1)	Internal Models (Level 2 and 3)	Total	Published price quotations in active markets (Level 1)	Internal Models (Level 2 and 3)	Total	Published price quotations in active markets (Level 1)	Internal Models (Level 2 and 3)	Total
Financial assets held for trading	44,581	63,649	108,230	37,108	55,771	92,879	58,215	67,243	125,458
Non-trading financial assets mandatorily at fair value through profit or loss	1,530	3,381	4,911	1,835	8,895	10,730			
Financial assets designated at fair value through profit or loss	2,572	59,497	62,069	3,102	54,358	57,460	3,823	30,959	34,782
Financial assets at fair value through other comprehensive income	103,089	22,619	125,708	103,590	17,501	121,091			
Financial assets available-for-sale**							113,258	18,802	132,060
Hedging derivatives (assets)	—	7,216	7,216	—	8,607	8,607	—	8,537	8,537
Financial liabilities held for trading	9,781	67,358	77,139	16,104	54,239	70,343	21,828	85,796	107,624
Financial liabilities designated at fair value through profit or loss	1,484	59,511	60,995	987	67,071	68,058	769	58,847	59,616
Hedging derivatives (liabilities)	—	6,048	6,048	5	6,358	6,363	8	8,036	8,044
Liabilities under insurance or reinsurance contracts	—	739	739	—	765	765	—	1,117	1,117

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** In addition to the financial instruments measured at fair value shown in the foregoing table, at 31 December 2017, the Group held equity instruments classified as Financial assets available-for-sale and carried at cost amounting to EUR 1,211 million (see Note 51.c).

The financial instruments at fair value determined on the basis of published price quotations in active markets (Level 1) include government debt securities, private-sector debt securities, derivatives traded in organised markets, securitised assets, shares, short positions and fixed-income securities issued.

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set, using its own internal models. In most cases, these internal models use data based on observable market parameters as significant inputs (Level 2) and, in cases, they use significant inputs not observable in market data (Level 3). In order to make these estimates, various techniques are employed, including the extrapolation of observable market data. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

The Group has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all the Group's units. The governance scheme for this process distributes responsibilities between two independent divisions: Treasury (development, marketing and daily management of financial products and market data) and Risk (on a periodic basis, validation of pricing models and market data, computation of risk metrics, new transaction approval policies, management of market risk and implementation of fair value adjustment policies).

The approval of new products follows a sequence of steps (request, development, validation, integration in corporate systems and quality assurance) before the product is brought into production. This process ensures that pricing systems have been properly reviewed and are stable before they are used.

The following subsections set forth the most important products and families of derivatives, and the related valuation techniques and inputs, by asset class:

Fixed income and inflation

The fixed income asset class includes basic instruments such as interest rate forwards, interest rate swaps and cross currency swaps, which are valued using the net present value of the estimated future cash flows discounted taking into account basis swap and cross currency spreads determined on the basis of the payment frequency and currency of each leg of the derivative. Vanilla options, including caps, floors and swaptions, are priced using the Black-Scholes model, which is one of the benchmark industry models. More exotic derivatives are priced using more complex models which are generally accepted as standard across institutions.

These pricing models are fed with observable market data such as deposit interest rates, futures rates, cross currency swap and constant maturity swap rates, and basis spreads, on the basis of which different yield curves, depending on the payment frequency, and discounting curves are calculated for each currency. In the case of options, implied volatilities are also used as model inputs. These volatilities are observable in the market for cap and floor options and swaptions, and interpolation and extrapolation of volatilities from the quoted ranges are carried out using generally accepted industry models. The pricing of more exotic derivatives may require the use of non-observable data or parameters, such as correlation (among interest rates and cross-asset), mean reversion rates and prepayment rates, which are usually defined from historical data or through calibration.

Inflation-related assets include zero-coupon or year-on-year inflation-linked bonds and swaps, valued with the present value method using forward estimation and discounting. Derivatives on inflation indices are priced using standard or more complex bespoke models, as appropriate. Valuation inputs of these models consider inflation-linked swap spreads observable in the market and estimations of inflation seasonality, on the basis of which a forward inflation curve is calculated. Also, implied volatilities taken from zero-coupon and year-on-year inflation options are also inputs for the pricing of more complex derivatives.

Equity and foreign exchange

The most important products in these asset classes are forward and futures contracts; they also include vanilla, listed and OTC (Over-The-Counter) derivatives on single underlying assets and baskets of assets. Vanilla options are priced using the standard Black-Scholes model and more exotic derivatives involving forward returns, average performance, or digital, barrier or callable features are priced using generally accepted industry models or bespoke models, as appropriate. For derivatives on illiquid stocks, hedging takes into account the liquidity constraints in models.

The inputs of equity models consider yield curves, spot prices, dividends, asset funding costs (repo margin spreads), implied volatilities, correlation among equity stocks and indices, and cross-asset correlation. Implied volatilities are obtained from market quotes of European and American-style vanilla call and put options. Various interpolation and extrapolation techniques are used to obtain continuous volatility for illiquid stocks. Dividends are usually estimated for the mid and long term. Correlations are implied, when possible, from market quotes of correlation-dependent products. In all other cases, proxies are used for correlations between benchmark underlyings or correlations are obtained from historical data.

The inputs of foreign exchange models include the yield curve for each currency, the spot foreign exchange rate, the implied volatilities and the correlation among assets of this class. Volatilities are obtained from European call and put options which are quoted in markets as of-the-money, risk reversal or butterfly options. Illiquid currency pairs are usually handled by using the data of the liquid pairs from which the illiquid currency can be derived. For more exotic products, unobservable model parameters may be estimated by fitting to reference prices provided by other non-quoted market sources.

Credit

The most common instrument in this asset class is the credit default swap (CDS), which is used to hedge credit exposure to third parties. In addition, models for first-to-default (FTD), n-to-default (NTD) and single-tranche collateralised debt obligation (CDO) products are also available. These products are valued with standard industry models, which estimate the probability of default of a single issuer (for CDS) or the joint probability of default of more than one issuer for FTD, NTD and CDO.

Valuation inputs are the yield curve, the CDS spread curve and the recovery rate. For indices and important individual issuers, the CDS spread curve is obtained in the market. For less liquid issuers, this spread curve is estimated using proxies or other credit-dependent instruments. Recovery rates are usually set to standard values. For listed single-tranche CDO, the correlation of joint default of several issuers is implied from the market. For FTD, NTD and bespoke CDO, the correlation is estimated from proxies or historical data when no other option is available.

Valuation adjustment for counterparty risk or default risk

The Credit valuation adjustment (CVA) is a valuation adjustment to OTC derivatives as a result of the risk associated with the credit exposure assumed to each counterparty.

The CVA is calculated taking into account potential exposure to each counterparty in each future period. The CVA for a specific counterparty is equal to the sum of the CVA for all the periods. The following inputs are used to calculate the CVA:

- Expected exposure: including for each transaction the mark-to-market (MtM) value plus an add-on for the potential future exposure for each period. Mitigating factors such as collateral and netting agreements are taken into account, as well as a temporary impairment factor for derivatives with interim payments.
- Loss Given Default: percentage of final loss assumed in a counterparty credit event/default.
- Probability of default: for cases where there is no market information (the CDS quoted spread curve, etc.), proxies based on companies holding exchange-listed CDS, in the same industry and with the same external rating as the counterparty, are used.
- Discount factor curve.

The Debit Valuation Adjustment (DVA) is a valuation adjustment similar to the CVA but, in this case, it arises as a result of the Group's own risk assumed by its counterparties in OTC derivatives.

The CVA at 31 December 2019 amounted to EUR 272 million (resulting in a reduction of 22.5% compared to 31 December 2018) and DVA amounted to EUR 171 million (resulting in a reduction of 34.6% compared to 31 December 2018). The variations are due to the fact that credit spreads for the most liquid maturities have been decreased in percentages over 40%.

The CVA at 31 December 2018 amounted to EUR 351 million (8.8% compared to 31 December 2017) and DVA amounted EUR 261 million (18.9% compared to 31 December 2018). The changes were due to the increase in credit spreads of more than 30% in the most liquid terms.

The CVA at 31 December 2017 amounted to EUR 323 million (decrease of 50% compared to 31 December 2016) and DVA amounted EUR 220 million (decrease of 44% compared to 31 December 2016). The decrease was due to the fact that credit spreads were reduced by more than 40% in the most liquid terms and to reductions in the exposure of the main counterparties.

In addition, the Group amounts the funding fair value adjustment (FFVA) is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The FFVA impact is not material for the consolidated financial statements as of 31 December 2019, 2018 and 2017.

As a result of the first application of IFRS 9, the exposure at 1 January, 2018, in level 3 financial instruments, increased by EUR 2,183 million, mainly for loans and receivables, arising from new requirements regarding the classification and measurement of amortised cost items at other fair value items whose value is calculated using unobservable market inputs (see Note 1.d).

The Group has not carried out significant reclassifications of financial instruments between levels other than those disclosed in level 3 movement table during 2019, 2018 and 2017.

In 2019, the Group has reclassified financial instruments amounting to EUR 708 million (net) between levels 2 and 3 (mainly due to the reclassifications to level 2 of positions, both derivatives and debt instruments, with maturities for which are already observable valuation inputs or for which new sources of recurring prices have been accessed; and to level 3 of certain government bonds in Brazil which, based on the Group's observability criteria, do not meet the requirements to be considered as observable inputs).

In 2018, the Group reclassified the market value of certain transactions of bonds, long-term repos and derivatives for approximately EUR 1,300 million, due to the lack of liquidity in certain significant inputs used in the calculation of the fair value, and no significant transfers were made to level 3 in 2017.

Valuation adjustments due to model risk

The valuation models described above do not involve a significant level of subjectivity, since they can be adjusted and recalibrated, where appropriate, through internal calculation of the fair value and subsequent comparison with the related actively traded price. However, valuation adjustments may be necessary when market quoted prices are not available for comparison purposes.

The sources of risk are associated with uncertain model parameters, illiquid underlying issuers, and poor quality market data or missing risk factors (sometimes the best available option is to use limited models with controllable risk). In these situations, the Group calculates and applies valuation adjustments in accordance with common industry practice. The main sources of model risk are described below:

- In the fixed income markets, the sources of model risk include bond index correlations, basis spread modelling, the risk of calibrating model parameters and the treatment of near-zero or negative interest rates. Other sources of risk arise from the estimation of market data, such as volatilities or yield curves, whether used for estimation or cash flow discounting purposes.
- In the equity markets, the sources of model risk include forward skew modelling, the impact of stochastic interest rates, correlation and multi-curve modelling. Other sources of risk arise from managing hedges of digital callable and barrier option payments. Also worthy of consideration as sources of risk are the estimation of market data such as dividends and correlation for quanto and composite basket options.
- For specific financial instruments relating to home mortgage loans secured by financial institutions in the UK (which are regulated and partially financed by the Government) and property asset derivatives, the main input is the Halifax House Price Index (HPI). In these cases, risk assumptions include estimations of the future growth and the volatility of the HPI, the mortality rate and the implied credit spreads.
- Inflation markets are exposed to model risk resulting from uncertainty around modelling the correlation structure among various CPI rates. Another source of risk may arise from the bid-offer spread of inflation-linked swaps.
- The currency markets are exposed to model risk resulting from forward skew modelling and the impact of stochastic interest rate and correlation modelling for multi-asset instruments. Risk may also arise from market data, due to the existence of specific illiquid foreign exchange pairs.
- The most important source of model risk for credit derivatives relates to the estimation of the correlation between the probabilities of default of different underlying issuers. For illiquid underlying issuers, the CDS spread may not be well defined.

Set forth below are the financial instruments at fair value whose measurement was based on internal models (Levels 2 and 3) at 31 December 2019, 2018 and 2017:

Million euros

	Fair values calculated using internal models at 2019**			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**149,711**	**6,651**		
Financial assets held for trading	**63,051**	**598**		
Credit institutions	—	—	Present value method	Yield curves, FX market prices
Customers***	355	—	Present value method	Yield curves, FX market prices
Debt and equity instruments	760	65	Present value method	Yield curves, FX market prices
Derivatives	61,936	533		
Swaps	*51,594*	*182*	Present value method, Gaussian Copula****	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*469*	*8*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*3,073*	*177*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*190*	—	Present value method	Yield curves, FX market prices
Index and securities options	*1,164*	*95*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Liquidity
Other	*5,446*	*71*	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Correlation, HPI, Credit, Others
Hedging derivatives	**7,216**	**—**		
Swaps	*6,485*	—	Present value method	Yield curves, FX market prices, Basis
Interest rate options	*25*	—	Black's Model	Yield curves, FX market prices, Volatility surfaces
Other	*706*	—	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Others
Non-trading financial assets mandatorily at fair value through profit or loss	**1,780**	**1,601**		
Equity instruments	1,272	550	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	498	675	Present value method	Interest rates curves
Loans and receivables***	10	376	Present value method, swap asset model & CDS	Interest rates curves and Credit curves
Financial assets designated at fair value through profit or loss	**58,833**	**664**		
Central banks	6,474	—	Present value method	Interest rates curves, FX market prices
Credit institutions	21,598	50	Present value method	Interest rates curves, FX market prices
Customers	30,729	32	Present value method	Interest rates curves, FX market prices, HPI
Debt instruments	32	582	Present value method	Interest rates curves, FX market prices
Financial assets at fair value through other comprehensive income	**18,831**	**3,788**		
Equity instruments	98	407	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	17,486	188	Present value method	Interest rates curves, FX market prices
Loans and receivables	1,247	3,193	Present value method	Interest rates curves, FX market prices and Credit curves

Million euros

	Fair values calculated using internal models at 2019**			
	Level 2	Level 3	Valuation techniques	Main assumptions
LIABILITIES	**132,582**	**1,074**		
Financial liabilities held for trading	**67,068**	**290**		
Central banks	—	—	Present value method	Yield curves, FX market prices
Credit institutions	—	—	Present value method	Yield curves, FX market prices
Customers	—	—	Present value method	Yield curves, FX market prices
Derivatives	61,789	290		
Swaps	*49,927*	*115*	Present value method, Gaussian Copula****	Yield curves, FX market prices, Basis, Liquidity, HPI
Exchange rate options	*658*	*1*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*4,291*	*34*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*1,309*	*88*	Black-Scholes Model	Yield curves, FX market prices
Interest rate and equity futures	*20*	*2*	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Other	*5,584*	*50*	Present value method, Advanced stochastic volatility models	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Short positions	*5,279*	—	Present value method	Yield curves ,FX & EQ market prices, Equity
Hedging derivatives	**6,048**	**—**		
Swaps	*4,737*	—	Present value method	Yield curves ,FX & EQ market prices, Basis
Interest rate options	*10*	—	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*1,301*	—	Present value method, Advanced stochastic volatility models and other	Yield curves , Volatility surfaces, FX market prices, Credit, Liquidity, Other
Financial liabilities designated at fair value through profit or loss	**58,727**	**784**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	**739**	**—**	**Present Value Method with actuarial techniques**	**Mortality tables and interest rate curves**

Million euros

	Fair values calculated using internal models at 2018* **		Fair values calculated using internal models at 2017**		
	Level 2	Level 3	Level 2	Level 3	Valuation techniques
ASSETS:	**140,659**	**4,473**	**124,178**	**1,363**	
Financial assets held for trading	**55,033**	**738**	**66,806**	**437**	
Credit institutions	—	—	1,696	—	Present value method
Customers***	205	—	8,815	—	Present value method
Debt and equity instruments	314	153	335	32	Present value method
Derivatives	54,514	585	55,960	405	
Swaps	*44,423*	*185*	*44,766*	*189*	Present value method, Gaussian Copula****
Exchange rate options	*617*	*2*	*463*	*5*	Black-Scholes Model
Interest rate options	*3,778*	*149*	*4,747*	*162*	Black's Model, Heath-Jarrow- Morton Model
Interest rate futures	—	—	*2*	—	Present value method
Index and securities options	*1,118*	*198*	*1,257*	*5*	Black-Scholes Model
Other	*4,578*	*51*	*4,725*	*44*	Present value method, Monte Carlo simulation and others
Hedging derivatives	**8,586**	**21**	**8,519**	**18**	
Swaps	*7,704*	*21*	*7,896*	*18*	Present value method
Interest rate options	*20*	—	*13*	—	Black's Model
Other	*862*	—	*610*	—	N/A
Non-trading financial assets mandatorily at fair value through profit or loss	**7,492**	**1,403**			
Equity instruments	*985*	*462*			Present value method
Debt instruments	*5,085*	*481*			Present value method
*Loans and receivables****	*1,422*	*460*			Present value method, swap asset model & CDS
Financial assets designated at fair value through profit or loss	**53,482**	**876**	**30,677**	**282**	
Central banks	9,226	—			
Credit institutions	22,897	201	9,889	—	Present value method
Customers*****	21,355	560	20,403	72	Present value method
Debt instruments	4	115			Present value method
Debt and equity instruments			385	210	Present value method
Financial assets at fair value through other comprehensive income	**16,066**	**1,435**			
Equity instruments	455	581			Present value method
Debt instruments	14,699	165			Present value method
Loans and receivables	912	689			Present value method
Financial assets available-for-sale			**18,176**	**626**	
Debt and equity instruments			18,176	626	Present value method

Million euros

	Fair values calculated using internal models at 2018* **		Fair values calculated using internal models at 2017* **		
	Level 2	Level 3	Level 2	Level 3	Valuation techniques
LIABILITIES:	**127,991**	**442**	**153,600**	**196**	
Financial liabilities held for trading	**53,950**	**289**	**85,614**	**182**	
Central banks	—	—	282	—	Present value method
Credit institutions	—	—	292	—	Present value method
Customers	—	—	28,179	—	Present value method
Derivatives	53,950	289	56,860	182	
Swaps	*43,489*	*111*	*45,041*	*100*	Present value method, Gaussian Copula****
Exchange rate options	*610*	*7*	*497*	*9*	Black-Scholes Model
Interest rate options	*4,411*	*26*	*5,402*	*19*	Black's Model, Heath-Jarrow-Morton Model
Index and securities options	*1,233*	*143*	*1,527*	*41*	Black-Scholes Model
Interest rate and equity futures	*7*	—	*1*	—	Present value method
Other	*4,200*	*2*	*4,392*	*13*	Present value method, Monte Carlo simulation and others
Short positions	—	—	1	—	Present value method
Hedging derivatives	**6,352**	**6**	**8,029**	**7**	
Swaps	*5,868*	*6*	*7,573*	*7*	Present value method
Interest rate options	*158*	—	*287*	—	Black's Model
Other	*326*	—	*169*	—	N/A
Financial liabilities designated at fair value through profit or loss	**66,924**	**147**	**58,840**	**7**	**Present value method**
Liabilities under insurance contracts	**765**	**—**	**1,117**	**—**	**Present value method with actuarial techniques**

* See reconciliation of IAS 39 as of 31 December 2017 as of 1 January 2018 (see Note 1.d).

** Level 2 internal models use data based on observable market parameters, while level 3 internal models use significant non-observable inputs in market data.

*** Includes mainly short-term loans and reverse repurchase agreements with corporate customers (mainly brokerage and investment companies).

**** Includes credit risk derivatives with a net fair value of EUR -6 million at 31 December 2019 (31 December 2018 and 2017: net fair value of EUR 0 million and EUR 0 million, respectively). These assets and liabilities are measured using the Standard Gaussian Copula Model.

***** Includes home mortgage loans to financial institutions in the UK (which are regulated and partly financed by the Government). The fair value of these loans was obtained using observable market variables, including current market transactions with similar amounts and collateral facilitated by the UK Housing Association. Since the Government is involved in these financial institutions, the credit risk spreads have remained stable and are homogeneous in this sector. The results arising from the valuation model are checked against current market transactions.

Level 3 financial instruments

Set forth below are the Group's main financial instruments measured using unobservable market data as significant inputs of the internal models (Level 3):

- Instruments in Santander UK's portfolio (loans, debt instruments and derivatives) linked to the House Price Index (HPI). Even if the valuation techniques used for these instruments may be the same as those used to value similar products (present value in the case of loans and debt instruments, and the Black-Scholes model for derivatives), the main factors used in the valuation of these instruments are the HPI spot rate, the growth and volatility thereof, and the mortality rates, which are not always observable in the market and, accordingly, these instruments are considered illiquid.
  - HPI spot rate: for some instruments the NSA HPI spot rate, which is directly observable and published on a monthly basis, is used. For other instruments where regional HPI rates must be used (published quarterly), adjustments are made to reflect the different composition of the rates and adapt them to the regional composition of Santander UK's portfolio.
  - HPI growth rate: this is not always directly observable in the market, especially for long maturities, and is estimated in accordance with existing quoted prices. To reflect the uncertainty implicit in these estimates, adjustments are made based on an analysis of the historical volatility of the HPI, incorporating reversion to the mean.
  - HPI volatility: the long-term volatility is not directly observable in the market but is estimated on the basis of shorter-term quoted prices and by making an adjustment to reflect the existing uncertainty, based on the standard deviation of historical volatility over various time periods.
  - Mortality rates: these are based on published official tables and adjusted to reflect the composition of the customer portfolio for this type of product at Santander UK.
- Callable interest rate derivatives (Bermudan-style options) where the main unobservable input is mean reversion of interest rates.
- Trading derivatives on interest rates, taking as an underlying asset titling and with the amortization rate (CPR, Conditional prepayment rate) as unobservable main entry.
- Derivatives from trading on inflation in Spain, where volatility is not observable in the market.
- Derivatives on volatility of long-term interest rates (more than 30 years) where volatility is not observable in the market at the indicated term.
- Equity volatility derivatives, specifically indices and equities, where volatility is not observable in the long term.
- HTC&S (Hold to collect and sale) syndicated loans classified in the fair value category with changes in other comprehensive income, where the cost of liquidity is not directly observable in the market, as well as the prepayment option in favour of the borrower.

The measurements obtained using the internal models might have been different if other methods or assumptions had been used with respect to interest rate risk, to credit risk, market risk and foreign currency risk spreads, or to their related correlations and volatilities. Nevertheless, the Bank's directors consider that the fair value of the financial assets and liabilities recognised in the consolidated balance sheet and the gains and losses arising from these financial instruments are reasonable.

The net amount recognised in profit and loss in 2019 arising from models whose significant inputs are unobservable market data (Level 3) amounted to EUR 185 million profit (EUR 10 million profit in 2018 and EUR 116 million loss in 2017).

The table below shows the effect, at 31 December 2019 on the fair value of the main financial instruments classified as Level 3 of a reasonable change in the assumptions used in the valuation. This effect was determined by applying the probable valuation ranges of the main unobservable inputs detailed in the following table:

Portfolio/ Instrument (Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Impacts (Million euros) Unfavourable scenario	Favorable scenario
Financial assets held for trading						
Trading derivatives	Present value model	Curves on TAB indexes*	a	a	(0.2)	0.2
	Present value model, modified Black Scholes	HPI forward growth rate	0%-5%	2.5%	(23.8)	23.1
		HPI spot	n/a	785.87**	(8.5)	8.5
	Interest rate curve, FX market prices	CPR	n/a	n/a	(163.2)	84.4
Caps/Floors	Black Model	No interest rate curve observable in the market. It is valued with the MXNTIIE28 swap curve and an FVA is calculated based on the differential between the corresponding fixings.	MXNTIIE28 curve + (-25bp, -2bp)	(13bp)	0.2	2.1
Cross Currency Swaps	Forward estimation	- No interest rate curve observable in the market. It is valued with the MXNTIIE28 swap curve and an FVA is calculated based on the differential between the corresponding fixings. -MXN long term fees	MXNTIIE91 Curve = MXNTIIE28 Curve + (-25bp, -2bp) Bid Offer Spread IRS TIIE 2bp - 10bp X-CCY USD/MXN 3bp - 10bp Swaps UDI/MXN 5bp - 20bp	TIIE91 -13bp IRS TIIE 6bp X-CCY MXN/ USD 7bp Swaps UDI/ MXN 13bp	(0.4)	0.4
Quanto options	Local term volatility and reference strike under the partial differential equation method.	No market volatility, a proxy is used	Beta vs Volatility Surface STOXX50E 69%-62%	Beta 65%	—	—
Interest Rate Swaps	Forward Estimation	This is a Balance Guaranteed Swap, which, as it did not have the appropriate valuation model, was completely covered Back-to-Back (both IRS clauses contain the same conditions for repayments)	n/a	n/a	—	—
Interest Rate Swaps	Forward Estimation	- No interest rate curve observable in the market. It is valued with the MXNTIIE28 swap curve and an FVA is calculated based on the differential between the corresponding fixings. -MXN long term fees	'MXNTIIE91 Curve = MXNTIIE28 Curve + (-25bp, -2bp) Bid Offer Spread IRS TIIE 2bp - 10bp X-CCY USD/MXN 3bp - 10bp Swaps UDI/MXN 5bp - 20bp	'TIIE91 -13bp IRS TIIE 6bp X-CCY MXN/ USD 7bp Swaps UDI/ MXN 13bp	(0.6)	1.7
Financial assets at fair value through other comprehensive income						
Debt instruments and equity holdings	Present value method, others	Contingencies for litigation	0 - 100%	22%	(26.5)	7.3
	Present value method, others	Late payment and prepayment rate capital cost, long-term profit growth rate	a	a	(11.4)	11.4
	Present value method, others	Interest Rate Curves, FX Market Prices and Credit Curves	a	a	(2.2)	2.2
Loans and advances to customers	Local volatility	Long term volatility	n/a	34%	244.9	(313.8)
	Estimation of default probabilities from credit curves	CDS curves, generic curves are used	CDS Spread (24bp, 55bp)	35.63 spread	(26.6)	—

Non-trading financial assets mandatorily at fair value through profit or loss						
Credit to customers	Weighted average by probability (according to forecast mortality rates) of European HPI options, using the Black-Scholes model	HPI forward growth rate	0%-5%	2.7%	(6.6)	5.8
Debt instruments and equity instruments		HPI spot	n/a	785.87**	(7.7)	7.7
	TD Black	Spain volatility	n/a	4.7%	2.2	(11.5)
	Asset Swap and CDS Model	Model - Interest Rate Curves and Credit	n/a	7.7%	(19.8)	4.4
	Cvx. Adj (SLN)	Long term volatility	n/a	8.0%	(121.2)	105.1
	Present Value Model, others	Credit Spreads	0.2%-1.6%	1.0%	0.1	(0.1)
Financial liabilities held for trading						
Trading derivatives	Present value method, modifed Black-Scholes Model	HPI forward growth rate	0%-5%	2.4%	(7.3)	6.8
		HPI spot	n/a	765.38**	(4.3)	4.9
	Equity Linked Deposits	Basis Risk	1.5% -2%	0.50%	(6.8)	0.8
		Curves on TAB indexes*	a	a	—	—
	Discounted flows denominated in different currencies	This is a Balance Guaranteed Swap, which, as it did not have the appropriate valuation model, was completely covered Back-to-Back (both IRS clauses contain the same conditions for repayments)	n/a	n/a	—	—
	Discounted flows denominated in different currencies	No interest rate curve observable in the market. It is valued with the MXNTIIE28 swap curve and an FVA is calculated*	MXNTIIE28 Curve + (-20bp, 9.5bp)	(5bp)	—	0.1
Hedging derivatives (liabilities)						
Hedging derivatives	Advanced models of local and stochastic volatility	Correlation between the price of shares	55%-75%	65%	n/a	n/a
	Advanced multi-factor interest rates models	Mean reversion of interest rates	0.0001-0.03	0.01***	—	—
Financial liabilities designated at fair value through profit or loss	**—**	**—**	**—**	**—**	**b**	**b**
Customer deposits	Flow Discounting Method	Curve specified by the local regulator	Curve (IGPM + 6%) + 100bps	Curve (IGPM + 6%) + 100bps	(37.0)	37.0

* TAB: "Tasa Activa Bancaria" (Active Bank Rate). Average interest rates on 30, 90, 180 and 360-day deposits published by the Chilean Association of Banks and Financial Institutions (ABIF) in nominal currency (Chilean peso) and in real terms, adjusted for inflation (in Chilean unit of account (Unidad de Fomento - UF)).

** There are national and regional HPIs. The HPI spot value is the weighted average of the indices that correspond to the positions of each portfolio. The impact reported is in response to a 10% shift.

*** Theoretical average value of the parameter. The change made for the favourable scenario is from 0.0001 to 0.03. An unfavourable scenario was not considered as there was no margin for downward movement from the parameter's current level.

a. The exercise was performed for the unobservable inputs described in the column "Main unobservable inputs" under probable scenarios. The weighted average range and value used is not shown because this exercise has been carried out jointly for different inputs or variants of them (for example, the TAB input are vector-term curves, for which there are also nominal and indexed curves to inflation), it is not possible to break down the result in an isolated manner by type of input. In the case of the TAB curve, the result is reported before movements of +/-100 b.p. for the joint sensitivity of this index in CLP (Chilean peso) and UF. The same applies for interest rates in MXN (Mexican peso).

b. The Group calculates the potential impact on the measurement of each instrument on a joint basis, regardless of whether the individual value is positive (assets) or negative (liabilities), and discloses the joint effect associated with the related instruments classified on the asset side of the consolidated balance sheet.

Note: Null impacts in Quanto options arise because the position is completely covered back-to-back.

Lastly, the changes in the financial instruments classified as Level 3 in 2019, 2018 and 2017 were as follows:

	2018	Changes						2019
Million euros	Fair value calculated using internal models (Level 3)	Purchases/ Issuances	Sales/ Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**738**	**142**	**(80)**	**115**	**—**	**(317)**	**—**	**598**
Debt instruments and equity instruments	153	34	(38)	4	—	(88)	—	65
Trading derivatives	585	108	(42)	111	—	(229)	—	533
Swaps	*185*	*10*	*(14)*	*22*	—	*(20)*	*(1)*	*182*
Exchange rate options	*2*	—	—	*6*	—	—	—	*8*
Interest rate options	*149*	—	*(5)*	*33*	—	—	—	*177*
Index and securities options	*198*	*48*	*(18)*	*50*	—	*(182)*	*(1)*	*95*
Other	*51*	*50*	*(5)*	—	—	*(27)*	*2*	*71*
Hedging derivatives (Assets)	**21**	**—**	**—**	**—**	**—**	**(21)**	**—**	**—**
Swaps	*21*	—	—	—	—	*(21)*	—	—
Financial assets at fair value through profit or loss	**876**	**55**	**(16)**	**65**	**—**	**(261)**	**(55)**	**664**
Credit entities	201	—	—	—	—	(151)	—	50
Loans and advances to customers	560	20	(9)	(1)	—	(496)	(42)	32
Debt instruments	115	35	(7)	66	—	386	(13)	582
Non-trading financial assets mandatorily at fair value through profit or loss	**1,403**	**426**	**(325)**	**81**	**—**	**—**	**16**	**1,601**
Loans and advances to customers	460	126	(252)	21	—	—	21	376
Debt instruments	481	199	(7)	(10)	—	—	12	675
Equity instruments	462	101	(66)	70	—	—	(17)	550
Financial assets at fair value through other comprehensive income	**1,435**	**4,424**	**(1,698)**	**—**	**(190)**	**(252)**	**69**	**3,788**
TOTAL ASSETS	**4,473**	**5,047**	**(2,119)**	**261**	**(190)**	**(851)**	**30**	**6,651**
Financial liabilities held for trading	**289**	**136**	**(12)**	**45**	**—**	**(164)**	**(4)**	**290**
Trading derivatives	289	136	(12)	45	—	(164)	(4)	290
Swaps	*111*	*6*	*(5)*	*(17)*	—	*20*	—	*115*
Exchange rate options	*7*	*1*	—	—	—	*(7)*	—	*1*
Interest rate options	*26*	—	—	*8*	—	—	—	*34*
Index and securities options	*143*	*79*	*(7)*	*51*	—	*(177)*	*(1)*	*88*
Securities and interest rate futures	—	*3*	—	—	—	—	*(1)*	*2*
Others	*2*	*47*	—	*3*	—	—	*(2)*	*50*
Hedging derivatives (Liabilities)	**6**	**—**	**—**	**—**	**—**	**(6)**	**—**	**—**
Swaps	*6*	—	—	—	—	*(6)*	—	—
Financial liabilities designated at fair value through profit or loss	**147**	**298**	**(5)**	**31**	**—**	**313**	**—**	**784**
TOTAL LIABILITIES	**442**	**434**	**(17)**	**76**	**—**	**143**	**(4)**	**1,074**

Million euros	2017 Fair value calculated using internal models (Level 3)	Purchases/ Issuances	Sales/ Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	2018* Fair value calculated using internal models (Level 3)
Financial assets held for trading	**437**	**85**	**(60)**	**(16)**	**—**	**312**	**(20)**	**738**
Debt instruments and equity instruments	32	22	(40)	2	—	141	(4)	153
Trading derivatives	405	63	(20)	(18)	—	171	(16)	585
Swaps	*189*	—	*(8)*	*4*	—	*4*	*(4)*	*185*
Exchange rate options	*5*	—	—	*(2)*	—	—	*(1)*	*2*
Interest rate options	*162*	—	*(3)*	*(16)*	—	*8*	*(2)*	*149*
Index and securities options	*5*	*41*	*(1)*	*(35)*	—	*195*	*(7)*	*198*
Other	*44*	*22*	*(8)*	*31*	—	*(36)*	*(2)*	*51*
Hedging derivatives (Assets)	**18**	**—**	**—**	**3**	**—**	**—**	**—**	**21**
Swaps	18	—	—	3	—	—	—	21
Financial assets designated at fair value through profit or loss	**—**	**105**	**—**	**19**	**—**	**699**	**53**	**876**
Credit entities	—		—	(1)	—	202	—	201
Loans and advances to customers	—	—	—	6	—	497	57	560
Debt instruments	—	105	—	14	—	—	(4)	115
Non-trading financial assets mandatorily at fair value through profit or loss	**1,365**	**66**	**(35)**	**12**	**—**	**31**	**(36)**	**1,403**
Loans and advances to customers	465	56	(22)	20	—	—	(59)	460
Debt instruments	518	—	(7)	(29)	—	1	(2)	481
Equity instruments	382	10	(6)	21	—	30	25	462
Financial assets at fair value through other comprehensive income	**1,726**	**162**	**(238)**	**—**	**(269)**	**147**	**(93)**	**1,435**
TOTAL ASSETS	**3,546**	**418**	**(333)**	**18**	**(269)**	**1,189**	**(96)**	**4,473**
Financial liabilities held for trading	**182**	**41**	**(95)**	**9**	**—**	**161**	**(9)**	**289**
Trading derivatives	182	41	(95)	9	—	161	(9)	289
Swaps	*100*	—	*(7)*	*(7)*	—	*28*	*(3)*	*111*
Exchange rate options	*9*	—	—	*(2)*	—	—	—	*7*
Interest rate options	*19*	—	*(1)*	*(1)*	—	*10*	*(1)*	*26*
Index and securities options	*41*	*41*	*(87)*	*25*	—	*128*	*(5)*	*143*
Other	*13*	—	—	*(6)*	—	*(5)*	—	*2*
Hedging derivatives (Liabilities)	**7**	**—**	**—**	**(1)**	**—**	**—**	**—**	**6**
Swaps	*7*		—	*(1)*	—	—	—	*6*
Financial liabilities designated at fair value through profit or loss	**7**	**140**	**—**	**—**	**—**	**—**	**—**	**147**
TOTAL LIABILITIES	**196**	**181**	**(95)**	**8**	**—**	**161**	**(9)**	**442**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note1.d).

Million euros	2016 Fair value calculated using internal models (Level 3)	Changes Purchases/ Issuances	Sales/ Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	2017 Fair value calculated using internal models (Level 3)
Financial assets held for trading	**341**	**45**	**(21)**	**(129)**	**—**	**200**	**1**	**437**
Debt and equity instruments	40	—	(7)	(1)	—	—	—	32
Derivatives	301	45	(14)	(128)	—	200	1	405
Swaps	*55*	*1*	*(6)*	*(59)*	—	*200*	*(2)*	*189*
Exchange rate options	*2*	*5*	—	*(2)*	—	—	—	*5*
Interest rate options	*173*	—	—	*(11)*	—	—	—	*162*
Index and securities options	*26*	—	*(1)*	*(18)*	—	—	*(2)*	*5*
Other	*45*	*39*	*(7)*	*(38)*	—	—	*5*	*44*
Hedging derivatives (Assets)	**27**	**—**	**(2)**	**(7)**	**—**	**—**	**—**	**18**
Swaps	27	—	(2)	(7)	—	—	—	18
Financial assets designated at fair value through profit or loss	**325**	**—**	**(9)**	**(20)**	**—**	**—**	**(14)**	**282**
Loans and advances to customers	74	—	(2)	3	—	—	(3)	72
Debt instruments	237	—	(7)	(21)	—	—	(10)	199
Equity instruments	14	—	—	(2)	—	—	(1)	11
Financial assets available-for-sale	**656**	**1**	**(244)**	**—**	**59**	**(6)**	**160**	**626**
TOTAL ASSETS	**1,349**	**46**	**(276)**	**(156)**	**59**	**194**	**147**	**1,363**
Financial liabilities held for trading	**69**	**33**	**(3)**	**(38)**	**—**	**126**	**(5)**	**182**
Derivatives	69	33	(3)	(38)	—	126	(5)	182
Swaps	*1*	—	—	*(26)*	—	*126*	*(1)*	*100*
Exchange rate options	—	*21*	—	*(11)*	—	—	*(1)*	*9*
Interest rate options	*21*	—	—	*(2)*	—	—	—	*19*
Index and securities options	*46*	—	*(3)*	—	—	—	*(2)*	*41*
Other	*1*	*12*	—	*1*	—	—	*(1)*	*13*
Hedging derivatives (Liabilities)	**9**	**—**	**—**	**(2)**	**—**	**—**	**—**	**7**
Swaps	*9*	—	—	*(2)*	—	—	—	*7*
Financial liabilities designated at fair value through profit or loss	**8**	**—**	**—**	**—**	**—**	**—**	**(1)**	**7**
TOTAL LIABILITIES	**86**	**33**	**(3)**	**(40)**	**—**	**126**	**(6)**	**196**

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognised in the consolidated income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, (which are recognised under Interest income or Interest expense, as appropriate), and those arising for other reasons, which are recognised at their net amount under Gains/losses on financial assets and liabilities.

Adjustments due to changes in fair value arising from:

- Financial assets at fair value with changes in other comprehensive income are recorded temporarily, in the case of debt instruments in other comprehensive income - Elements that can be reclassified to profit or loss - Financial assets at fair value with changes in other comprehensive income, while in the case of equity instruments are recorded in other comprehensive income - Elements that will not be reclassified to line item - Changes in the fair value of equity instruments valued at fair value with changes in other comprehensive income. Exchange differences on debt instruments measured at fair value with changes in other comprehensive income are recognised under Exchange Differences, net of the consolidated income statement. Exchange differences on equity instruments, in which the irrevocable option of being measured at fair value with changes in other comprehensive income has been chosen, are recognised in Other comprehensive income - Items that will not be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income.
- Items charged or credited to Items that may be reclassified to profit or loss – Financial assets at fair value through other comprehensive income and Other comprehensive income – Items that may be reclassified to profit or loss – Exchange differences in equity remain in the Group's consolidated equity until the asset giving rise to them is impaired or derecognised, at which time they are recognised in the consolidated income statement.
- Unrealised gains on Financial assets classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in Other comprehensive income under Items that may be reclassified to profit or loss – Non-current assets held for sale.

v. Hedging transactions

The consolidated entities use financial derivatives for the following purposes: i) to facilitate these instruments to customers who request them in the management of their market and credit risks; ii) to use these derivatives in the management of the risks of the Group entities' own positions and assets and liabilities (hedging derivatives); and iii) to obtain gains from changes in the prices of these derivatives (derivatives).

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure:

   a. Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject (fair value hedge);

   b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions (cash flow hedge);

   c. The net investment in a foreign operation (hedge of a net investment in a foreign operation).

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

   a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective (prospective effectiveness).

   b. There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position (retrospective effectiveness). To this end, the Group checks that the results of the hedge were within a range of 80% to 125% of the results of the hedged item.

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this hedge was expected to be achieved and measured, provided that this is consistent with the Group's management of own risks.

   The changes in value of financial instruments qualifying for hedge accounting are recognised as follows:

   a. In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in the consolidated income statement.

      In fair value hedges of interest rate risk on a portfolio of financial instruments, the gains or losses that arise on measuring the hedging instruments are recognised directly in the consolidated income statement, whereas the gains or losses due to changes in the fair value of the hedged amount (attributable to the hedged risk) are recognised in the consolidated income statement with a balancing entry under Changes in the fair value of hedged items in portfolio hedges of interest rate risk on the asset or liability side of the balance sheet, as appropriate.

b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognised temporarily in Other comprehensive income – under Items that may be reclassified to profit or loss – Hedging derivatives – Cash flow hedges (effective portion) until the forecast transactions occur, when it is recognised in the consolidated income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability.

c. In hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in Other comprehensive income under Items that may be reclassified to profit or loss – Hedges of net investments in foreign operations until the gains or losses – on the hedged item are recognised in profit or loss.

d. The ineffective portion of the gains or losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation is recognised directly under Gains/losses on financial assets and liabilities (net) in the consolidated income statement, in Gains or losses from hedge accounting, net.

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified for accounting purposes as a trading derivative.

When fair value hedge accounting is discontinued, the adjustments previously recognised on the hedged item are amortised to profit or loss at the effective interest rate recalculated at the date of hedge discontinuation. The adjustments must be fully amortised at maturity.

When cash flow hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument recognised in equity under other comprehensive income - Items that may be reclassified to profit or loss (from the period when the hedge was effective) remains in this equity item until the forecast transaction occurs, at which time it is recognised in profit or loss, unless the transaction is no longer expected to occur, in which case the cumulative gain or loss is recognised immediately in profit or loss.

vi. Derivatives embedded in hybrid financial instruments

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as financial assets/liabilities designated at fair value through profit or loss or as Financial assets/liabilities held for trading.

e) Derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

1. If the Group transfers substantially all the risks and rewards to third parties unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

2. If the Group retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised:

   a. An associated financial liability, which is recognised for an amount equal to the consideration received and is subsequently measured at amortised cost, unless it meets the requirements for classification under Financial liabilities designated at fair value through profit or loss.

   b. The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability, without offsetting.

3. If the Group neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:

   a. If the transferor does not retain control of the transferred financial asset, the asset is derecognised and any rights or obligations retained or created in the transfer are recognised.

   b. If the transferor retains control of the transferred financial asset, it continues to recognise it for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the rights to the cash flows they generate have expired or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been extinguished or when they are acquired with the intention either to cancel them or to resell them.

f) Offsetting of financial instruments

Financial asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, only if the Group entities currently have a legally enforceable right to set off the recognised amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Following is the detail of financial assets and liabilities that were offset in the consolidated balance sheets as of 31 December 2019, 2018 and 2017:

	31 December 2019		
	Million euros		
Assets	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	126,389	(55,776)	70,613
Reverse repurchase agreements	89,465	(5,168)	84,297
Total	**215,854**	**(60,944)**	**154,910**

	31 December 2019		
	Million euros		
Liabilities	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	124,840	(55,776)	69,064
Reverse repurchase agreements	81,087	(5,168)	75,919
Total	**205,927**	**(60,944)**	**144,983**

	31 December 2018		
	Million euros		
Assets	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	107,055	(42,509)	64,546
Reverse repurchase agreements	79,114	(4,031)	75,083
Total	**186,169**	**(46,540)**	**139,629**

	31 December 2018		
	Million euros		
Liabilities	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	104,213	(42,509)	61,704
Reverse repurchase agreements	82,201	(4,031)	78,170
Total	**186,414**	**(46,540)**	**139,874**

	31 December 2017		
	Million euros		
Assets	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivatives	103,740	(37,960)	65,780
Reverse repurchase agreements	56,701	(7,145)	49,556
Total	**160,441**	**(45,105)**	**115,336**

	31 December 2017		
	Million euros		
Liabilities	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet
Derivatives	103,896	(37,960)	65,936
Reverse repurchase agreements	110,953	(7,145)	103,808
Total	**214,849**	**(45,105)**	**169,744**

Also, at 31 December 2019 the Group has offset other items amounting to EUR 1,366 million (EUR 1,445 million and EUR 1,645 million at 31 December 2018 and 2017, respectively).

At 31 December 2019 the balance sheet shows the amounts EUR 141,201 million (2018: EUR 128,637 million and 2017: EUR 97,017 million) on derivatives and repos as assets and EUR 134,694 million (2018: EUR 130,969 million and 2017: EUR 153,566 million) on derivatives and repos as liabilities that are subject to netting and collateral arrangements.

g) Impairment of financial assets

i. Definition

The Group associates an impairment in the value to financial assets measured at amortised cost, debt instruments measured at fair value with changes in other comprehensive income, lease receivables and commitments and guarantees granted that are not measured at fair value.

The impairment for expected credit losses is recorded with a charge to the consolidated income statement for the period in which the impairment arises. In the event of occurrence, the recoveries of previously recognised impairment losses are recorded in the consolidated income statement for the period in which the impairment no longer exists or is reduced.

In the case of purchased or originated credit-impaired assets, the Group only recognizes at the reporting date the changes in the expected credit losses during the life of the asset since the initial recognition as a credit loss. In the case of assets measured at fair value with changes in other comprehensive income, the changes in the fair value due to expected credit losses are charged in the consolidated income statement of the year where the change happened, reflecting the rest of the valuation in other comprehensive income.

As a rule, the expected credit loss is estimated as the difference between the contractual cash flows to be recovered and the expected cash flows discounted using the original effective interest rate. In the case of purchased or originated credit-impaired assets, this difference is discounted using the effective interest rate adjusted by credit rating.

Depending on the classification of financial instruments, which is mentioned in the following sections, the expected credit losses may be along 12 months or during the life of the financial instrument:

- 12-month expected credit losses: arising from the potential default events, as defined in the following sections that are estimated to be likely to occur within the 12 months following the reporting date. These losses will be associated with financial assets classified as "normal risk" as defined in the following sections.
- Expected credit losses over the life of the financial instrument: arising from the potential default events that are estimated to be likely to occur throughout the life of the financial instruments. These losses are associated with financial assets classified as "normal risk under watchlist" or "doubtful risk".

With the purpose of estimating the expected life of the financial instrument all the contractual terms have been taken into account (e.g. prepayments, duration, purchase options, etc.), being the contractual period (including extension options) the maximum period considered to measure the expected credit losses. In the case of financial instruments with an uncertain maturity period and a component of undrawn commitment (e.g.: credit cards), the expected life is estimated through quantitative analyses to determine the period during which the entity is exposed to credit risk, also considering the effectiveness of management procedures that mitigate such exposure (e.g. the ability to unilaterally cancel such financial instruments, etc.).

The following constitute effective guarantees:

a) Mortgage guarantees on housing as long as they are first duly constituted and registered in favour of the entity. The properties include:

   i. Buildings and building elements, distinguishing among:

      - Houses.
      - Offices, stores and multi-purpose premises.
      - Rest of buildings such as non-multi-purpose premises and hotels.

   ii. Urban and developable ordered land.

   iii. Rest of properties that classify as: buildings and building elements under construction, such as property development in progress and halted development, and the rest of land types, such as rustic lands.

b) Collateral guarantees on financial instruments in the form of cash deposits and debt securities issued by creditworthy issuers.

c) Other types of real guarantees, including properties received in guarantee and second and subsequent mortgages on properties, as long as the entity demonstrates its effectiveness. When assessing the effectiveness of the second and subsequent mortgages on properties the entity will implement particularly restrictive criteria. It will take into account, among others, whether the previous charges are in favour of the entity itself or not and the relationship between the risk guaranteed by them and the property value.

d) Personal guarantees, as well as the incorporation of new owners, covering the entire amount of the financial instruments and implying direct and joint liability to the entity of persons or other entities whose solvency is sufficiently proven to ensure the repayment of the loan on the agreed terms.

The different aspects that the Group considers for the evaluation of effective guarantees are set out below in relation to the individual analysis.

ii. Financial instruments presentation

For the purposes of estimating the impairment amount, and in accordance with its internal policies, the Group classifies its financial instruments (financial assets, commitments and guarantees) measured at amortised cost or fair value through other comprehensive income in one of the following categories:

- Normal Risk ("Stage 1"): includes all instruments that do not meet the requirements to be classified in the rest of the categories.
- Normal risk under watchlist ("Stage 2"): includes all instruments that, without meeting the criteria for classification as doubtful or default risk, have experienced significant increases in credit risk since initial recognition.

  In order to determine whether a financial instrument has increased its credit risk since initial recognition and is to be classified in Stage 2, the Group considers the following criteria:

Quantitative criteria	Changes in the risk of a default occurring through the expected life of the financial instrument are analysed and quantified with respect to its credit level in its initial recognition. With the purpose of determining if such changes are considered as significant, with the consequent classification into stage 2, each Group unit has defined the quantitative thresholds to consider in each of its portfolios taking into account corporate guidelines ensuring a consistent interpretation in all units. Within the quantitative thresholds, two types are considered: A relative threshold is those that compare current credit quality with credit quality at the time of origination in percentage terms of change. In addition, an absolute threshold compares both references in total terms, calculating the difference between the two. These absolute/relative concepts are used homogeneously (with different values) in all geographies. The use of one type of threshold or another (or both) is determined in accordance with the process described in Note 54, below, and is marked by the type of portfolio and characteristics such as the starting point of the average credit quality of the portfolio.
Qualitative criteria	In addition to the quantitative criteria indicated, various indicators are used that are aligned with those used by the Group in the normal management of credit risk. Irregular positions of more than 30 days and renewals are common criteria in all Group units. In addition, each unit can define other qualitative indicators, for each of its portfolios, according to the particularities and normal management practices in line with the policies currently in force (i.e. use of management alerts, etc.). The use of these qualitative criteria is complemented with the use of an expert judgement, under the corresponding governance.

In the case of forbearances, instruments classified as "normal risk under watchlist" may be generally reclassified to "normal risk" in the following circumstances: at least two years have elapsed from the date of reclassification to that category or from its forbearance date, the client has paid the accrued principal and interest balance, and the client has no other instruments with more than 30 days past due balances.

- Doubtful Risk ("Stage 3"): includes financial instruments, overdue or not, in which, without meeting the circumstances to classify them in the category of default risk, there are reasonable doubts about their total repayment (principal and interests) by the client in the terms contractually agreed. Likewise, off-balance-sheet exposures whose payment is probable and their recovery doubtful are considered in Stage 3. Within this category, two situations are differentiated:
  - Doubtful risk for non-performing loans: financial instruments, irrespective of the client and guarantee, with balances more than 90 days past due for principal, interest or expenses contractually agreed.

    This category also includes all loan balances for a client which overdue amount more than 90 days past due is greater than 20% of the loan receivable balance.

    These instruments may be reclassified to other categories if, as a result of the collection of part of the past due balances, the reasons for their classification in this category do not remain and the client does not have balances more than 90 days past due in other loans.
  - Doubtful risk for reasons other than non-performing loans: this category includes doubtful recovery financial instruments that are not more than 90 days past due.

    The Group considers that a financial instrument to be doubtful for reasons other than delinquency when one or more combined events have occurred with a negative impact on the estimated future cash flows of the financial instrument. To this end, the following indicators, among others, are considered:

    a) Negative net equity or decrease because of losses of the client's net equity by at least 50% during the last financial year.

    b) Continued losses or significant decrease in revenue or, in general, in the client's recurring cash flows.

    c) Generalised delay in payments or insufficient cash flows to service debts.

    d) Significantly inadequate economic or financial structure or inability to obtain additional financing by the client.

    e) Existence of an internal or external credit rating showing that the client is in default.

    f) Existence of overdue customer commitments with a significant amount to public institutions or employees.

These financial instruments may be reclassified to other categories if, as a result of an individualised study, reasonable doubts do not remain about the total repayment under the contractually agreed terms and the client does not have balances with more than 90 days past due.

In the case of forbearances, instruments classified as doubtful risk may be reclassified to the category of 'normal risk under watchlist' when the following circumstances are present: a minimum period of one year has elapsed from the forbearance date, the client has paid the accrued principal and interest amounts, and the client has no other loan balance with more than 90 days past due.

- Default Risk: includes all financial assets, or part of them, for which, after an individualised analysis, their recovery is considered remote due to a notorious and irrecoverable deterioration of their solvency.

  In any event, except in the case of financial instruments with effective collateral covering a substantial portion of the transaction amount, the Group generally consider as remote the following:

  - Those operations that, after an individualized analysis, are categorized as unsustainable debt, assuming an irrecoverability of such debt.
  - Transactions classified as doubtful due to non-performing loans with recovery costs that exceed the amounts receivable.
  - The operations on which the award is executed. The queue of these operations shall be included under default risk, as the recovery of the flows, provided that no further guarantees associated with the operation remain after the award of the property.
  - Those operations on which a deduction is made, the portion of the operation corresponding to that deduction, will be given as a balance at the time of signature.

  A financial asset amount is maintained in the balance sheet until they are considered as a "default risk", either all or a part of it, and the write-off is registered against the balance sheet.

  In the case of operations that have only been partially derecognised, for forgiveness reasons or because part of the total balance is considered unrecoverable, the remaining amount shall be fully classified in the category of "doubtful risk", except where duly justified.

  The classification of a financial asset, or part of it, as a 'default risk' does not involve the disruption of negotiations and legal proceedings to recover the amount.

iii. Impairment valuation assessment

The Group has policies, methods and procedures in place to hedge its credit risk, both due to the insolvency attributable to counterparties and its residence in a specific country.

These policies, methods and procedures are applied in the concession, study and documentation of financial assets, commitments and guarantees, as well as in the identification of their impairment and in the calculation of the amounts needed to cover their credit risk.

The asset impairment model in IFRS 9 applies to financial assets measured at amortised cost, debt instruments at fair value with changes in other comprehensive income, lease receivables and commitments and guarantees granted that are not measured at fair value.

The impairment represents the best estimation of the financial assets expected credit losses at the balance sheet date, assessed both individually and collectively.

- Individually: for the purposes of estimating the provisions for credit risk arising from the insolvency of a financial instrument, the Group individually assesses impairment by estimating the expected credit losses on those financial instruments that are considered to be significant and with sufficient information to make such an estimate.

  Therefore, this classification mostly includes wholesale banking customers - Corporations, specialised financing - as well as some of the largest companies – Chartered and real estate developers - from retail banking. The determination of the perimeter in which the individualised estimate is applied is detailed in a later section.

  The individually assessed impairment estimate is equal to the difference between the gross carrying amount of the financial instrument and the estimated value of the expected cash flows receivable discounted using the original effective interest rate of the transaction. The estimate of these cash flows takes into account all available information on the financial asset and the effective guarantees associated with that asset. This estimation process is detailed below.

- Collectively: the Group also assesses impairment by estimating the expected credit losses collectively in cases where they are not assessed on an individual basis. This includes, for example, loans with individuals, sole proprietors or businesses in retail banking subject to a standardised risk management.

  For the purposes of the collective assessment of expected credit losses, the Group has consistent and reliable internal models. For the development of these models, instruments with similar credit risk characteristics that are indicative of the debtors' capacity to pay are considered.

  The credit risk characteristics used to group the instruments are, among others: type of instrument, debtor's sector of activity, geographical area of activity, type of guarantee, aging of past due balances and any other factor relevant to estimating the future cash flows.

  The Group performs retrospective and monitoring tests to evaluate the reasonableness of the collective estimate.

On the other hand, the methodology required to estimate the expected credit loss due to credit events is based on an unbiased and weighted consideration by the probability of occurrence of a series of scenarios, considering a range of three to five possible future scenarios, depending on the characteristics of each unit, which could have an impact on the collection of contractual cash flows, always taking into account the time value of money, as well as all available and relevant information on past events, current conditions and forecasts of the evolution of macroeconomic factors that are shown to be relevant for the estimation of this amount (for example: GDP (Gross Domestic Product), housing price, unemployment rate, etc.).

For the estimation of the parameters used in the estimation of impairment provisions (EAD (Exposure at Default), PD (Probability of Default), LGD (Loss Given Default)), the Group based its experience in developing internal models for the estimation of parameters both in the regulatory area and for management purposes, adapting the development of the impairment provision models under IFRS 9.

- Exposure at default: is the amount of estimated risk incurred at the time of the counterparty's analysis.
- Probability of default: is the estimated probability that the counterparty will default on its principal and/or interest payment obligations.
- Loss given default: is the estimate of the severity of the loss incurred in the event of non-compliance. It depends mainly on the updating of the guarantees associated with the operation and the future cash flows that are expected to be recovered.

  In any case, when estimating the flows expected to be recovered, portfolio sales are included. It should be noted that due to the Group's recovery policy and the experience observed in relation to the prices of past sales of assets classified as Stage 3 and/or default risk, there is no substantial divergence between the flows obtained from recoveries after performing recovery management of the assets with those obtained from the sale of portfolios of assets discounting structural expenses and other costs incurred.

The definition of default implemented by the Group for the purpose of calculating the impairment provision models is based on the definition in Article 178 of Regulation 575/2013 of the European Union (CRR), which is fully aligned with the requirements of IFRS 9, which considers that a "default" exists in relation to a specific customer/contract when at least one of the following circumstances exists: the entity considers that there are reasonable doubts about the payment of all its credit obligations or that the customer/contract is in an irregular situation for more than 90 days with respect to any significant credit obligation.

In addition, the Group considers the risk generated in all cross-border transactions due to circumstances other than the usual commercial risk of insolvency (sovereign risk, transfer risk or risks arising from international financial activity, such as wars, natural catastrophes, balance of payments crisis, etc.).

IFRS 9 includes a series of practical solutions that can be implemented by entities, with the aim of facilitating its implementation. However, in order to achieve a complete and high-level implementation of the standard, and following the best practices of the industry, the Group does not apply these practical solutions in a generalised manner:

- Rebuttable presumption that the credit risk has increased significantly, when payments are more than 30 days past due: this threshold is used as an additional, but not primary, indicator of significant risk increase. Additionally, there may be cases in the Group where its use has been rebutted as a result of studies that show a low correlation of the significant risk increase with this past due threshold. The volume rebutted does not exceed 0.1% of the Group's total exposure.
- Assets with low credit risk at the reporting date: the Group assesses the existence of significant risk increase in all its financial instruments.

This information is provided in more detail in Note 54 b.

iv. Detail of individual estimate of impairment

For the individual estimate of the correction for impairment of the financial asset, the Group has a specific methodology to estimate the value of the cash flows expected to be collected:

- Recovery through the debtor's ordinary activities ("Going Concern" approach).
- Recovery through the execution and sale of the collateral guaranteeing the operations ("Gone Concern" approach).

"Gone Concern" approach:

a. Evaluation of the effectiveness of guarantees

The Group assesses the effectiveness of all the guarantees associated considering the following:

- The time required to execute these guarantees;
- The Group's ability to enforce or assert these guarantees in its favour;
- The existence of limitations imposed by each local unit´s regulation on the foreclosure of collateral.

Under no circumstances the Group considers that a guarantee is effective if its effectiveness depends substantially on the solvency of the debtor, as could be the case:

- Promises of shares or other securities of the debtor himself when their valuation may be significantly affected by a debtor's default.
- Personal cross-collateralisation: when the guarantor of a transaction is, at the same time, guaranteed by the holder of that transaction.

On the basis of the foregoing, the following types of guarantees are considered to be effective:

- Mortgage guarantees on properties, which are first charge, duly constituted and registered. Real estate includes:
  - Buildings and finished building elements.

- Urban and developable land in order.
- Other real estate, including buildings under construction, developments in progress or at a standstill, and other land, such as rural properties.

- Pledges on financial instruments such as cash deposits, debt securities of reputables issuers or equity instruments.
- Other types of security interests, including movable property received as security and second and subsequent mortgages on real state , provided that they are proven to be effective under particularly restrictive criteria.
- Personal guarantees, including new holders, covering the entire amount and involving direct and joint liability to the entity, from persons or entities whose equity solvency ensures repayment of the transaction under the agreed terms.

b. Valuation of guarantees

The Group assesses the guarantees on the basis of their nature in accordance with the following:

- Mortgage guarantees on properties associated with financial instruments, using a complete individual valuations carried out by independent valuation experts and under generally accepted valuation standards. If this is not possible, alternative valuations are used with duly documented and approved internal valuation models.
- Personal guarantees are valued individually on the basis of the guarantor´s updated information.
- The rest of the guarantees are valued based of current market values.

c. Adjustments to the value of guarantees and estimation of future cash flow inflows and outflows

The Group applies a series of adjustments to the value of the guarantees in order to improve the reference values:

- Adjustments based on the historical sales experience of local units for certain types of assets.
- Individual expert adjustments based on additional management information.

Likewise, to adjust the value of the guarantees, the time value of money is taken into account based on the historical experience of each of the units, estimating:

- Period of adjudication.
- Estimated time of sale of the asset.

In addition, the Group takes into account all those cash inflows and outflows linked to that guarantee until it is sold:

- Possible future income commitments in favour of the borrower which will available after the asset is awarded.
- Estimated foreclosure costs.
- Asset maintenance costs, taxes and community costs.
- Estimated marketing or sales costs.

Finally, since it is considered that the guarantee will be sold in the future, the Group applies an additional adjustment ("index forward") in order to adjust the value of the guarantees to future valuation expectations.

v. Scope of application of the individual estimate of the correction for impairment

The Group determines the perimeter over which it makes an estimate of the correction for impairment on an individual basis based on a relevance threshold set by each of the geographical areas and the stage in which the operations are located. In general, the Group applies the individualised calculation of expected losses to the significant exposures classified in stage 3, although Banco Santander, S.A. has also extended its analyses to some of the exposures classified in stage 2.

It should be noted that, in any case and irrespective of the stage in which their transactions are carried out, for customers who do not receive standardised treatment, a relational risk management model is applied, with individualised treatment and monitoring by the assigned risk analyst. In addition to wholesale customers (SCIB, Santander Corporate & Investment Banking) and large companies, this relational management model also includes other segments of smaller companies for which there is information and capacity for more personalised and expert analysis and monitoring. As indicated in the Group's wholesale credit model, the individual treatment of the client facilitates the continuous updating of information. The risk assumed must be followed and monitored throughout its life cycle, enabling anticipation and action to be taken in the event of possible impairments. In this way, the customer's credit quality is analysed individually, taking into account specific aspects such as his competitive position, financial performance, management, etc. In the wholesale risk management model, every customer with a credit risk position is assigned a rating, which has an associated probability of customer default. Thus, individual analysis of the debtor triggers a specific rating for each customer, which determines the appropriate parameters for calculating the expected loss, so that it is the rating itself that initially modulates the necessary coverage, adjusting the severity of the possible loss to the guarantees and other mitigating factors that the customer may have available. In addition, if as a result of this individualised monitoring of the customer, the analyst finally considers that his coverage is not sufficient, he has the necessary mechanisms to adjust it under his expert judgement, always under the appropriate governance.

h) Repurchase agreements and reverse repurchase agreements

Purchases (sales) of financial instruments under a non-optional resale (repurchase) agreement at a fixed price (repos) are recognised in the consolidated balance sheet as financing granted (received), based on the nature of the debtor (creditor), under Loans and advances with central banks, Loans and advances to credit institutions or Loans and advances to customers (Deposits from central banks, Deposits from credit institutions or Customer deposits).

Differences between the purchase and sale prices are recognised as interest over the contract term.

i) Non-current assets and liabilities associated with non-current assets held for sale

Non-current assets held for sale includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (discontinued operations), whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the recovery of the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be effected through the proceeds from their disposal.

Specifically, property or other non-current assets received by the consolidated entities as total or partial settlement of their debtors' payment obligations to them are deemed to be Non-current assets held for sale, unless the consolidated entities have decided to make continuing use of these assets. In this connection, for the purpose of its consideration in the initial recognition of these assets, the Group obtains, at the foreclosure date, the fair value of the related asset through a request for appraisal by external appraisal agencies.

The Group has in place a corporate policy that ensures the professional competence and the independence and objectivity of the external appraisal agencies, in accordance with the regulations, which require appraisal agencies to meet independence, neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which the Group works in Spain should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which the Group worked in Spain in 2019 are as follows: Eurovaloraciones, S.A., Gloval Valuation, S.A.U., Tinsa Tasaciones Inmobiliarias, S.A.U., and Krata, S.A. Also, this policy establishes that the various subsidiaries abroad work with appraisal companies that have recent experience in the area and the type of asset under appraisal and meet the independence requirements established in the corporate policy. They should verify, inter alia, that the appraisal company is not a party related to the Group and that its billings to the Group in the last twelve months do not exceed 15% of the appraisal company's total billings.

Liabilities associated with non-current assets held for sale includes the balances payable arising from the assets held for sale or disposal groups and from discontinued operations.

Non-current assets and disposal groups of items that have been classified as held for sale are generally recognised at the date of their allocation to this category and are subsequently valued at the lower of their fair value less costs to sell or its book value. Non-current assets and disposal groups of items that are classified as held for sale are not amortised as long as they remain in this category.

At 31 December 2019 the fair value less costs to sell of non-current assets held for sale exceeded their carrying amount by EUR 601 million; however, in accordance with the accounting standards, this unrealised gain could not be recognised.

The valuation of the portfolio of non-current assets held for sale has been made in compliance with the requirements of International Financial Reporting Standards in relation to the estimate of the fair value of tangible assets and the value-in-use of financial assets.

The value of the portfolio is determined as the sum of the values of the individual elements that compose the portfolio, without considering any total or batch grouping in order to correct the individual values.

Banco Santander, in compliance with Bank of Spain Circular 4/2017 on public and private financial reporting standards and financial statement models, has developed a methodology that enables it to estimate the fair value and costs of sale of assets foreclosed or received in payment of debts. This methodology is based on the classification of the portfolio of foreclosed assets into different segments. Segmentation enables the intrinsic characteristics of Banco Santander's portfolio of foreclosed assets to be differentiated, so that assets with homogeneous characteristics are grouped by segment.

Thus, the portfolio is segmented into i) finished assets of a residential and tertiary nature, ii) developments in progress and iii) land[1].

In determining the critical segments in the overall portfolio, assets are classified on the basis of the nature of the asset and its stage of development. This segmentation is made in order to seek the liquidation of the asset (which should be carried out in the shortest possible time).

When making decisions, the situation and/or characteristics of the asset are fundamentally taken into account, as well as the evaluation of all the determining factors that favour the recovery of the debt. For them, the following aspects are analyzed, among others:

- The time that has elapsed since the adjudication.
- The transferability and contingencies of the foreclosed asset.
- The economic viability from the real estate point of view with the necessary investment estimate.
- The expenses that may arise from the marketing process.
- The offers received, as well as the difficulties in finding buyers.

In the case of real estate assets foreclosed in Spain, which represent 86% of the Group's total non-current assets held for sale, the valuation of the portfolio is carried out by applying the following models:

- Market Value Model used in the valuation of finished properties of a residential nature (mainly homes and car parks) and properties of a tertiary nature (offices, commercial premises and multipurpose buildings). For the valuation of finished assets whose availability for sale is immediate, a market sale value provided by a third party external to Banco Santander is considered, calculated under the AVM methodology by the comparable properties method adjusted by our experience in selling similar assets, given the term, price, volume, trend in the value of these assets and the time elapsing until their sale and discounting the estimated costs of sale.

The market value is determined on the basis of the definition established by the International Valuation Standards drawn up by the IVSC (International Valuation Standards Council), understood as the estimated amount for which an asset or a liability should be exchanged on the measurement date between a willing buyer and a willing seller, in an arm's length transaction, after appropriate marketing, and in which the parties have acted with sufficient information, prudently and without coercion.

The current market value of the properties is estimated on the basis of automated valuations obtained by taking comparable properties as a reference; simulating the procedure carried out by an appraiser in a physical valuation according to Order ECO 805/2003: selection of properties and obtaining the unit value by applying homogenisation adjustments. The selection of the properties is carried out by location within the same real estate cluster and according to the characteristics of the properties, filtering by type[2], surface area range and age. The model enables a distinction to be made within the municipality under study as to which areas are similar and comparable and therefore have a similar value in the property market, discriminating between which properties are good comparators and which are not.

Adjustments to homogenize the properties are made according to: i) the age of the property according to the age of the property to be valued, ii) the deviation of the built area from the common area with respect to the property to be valued and iii) by age of the date of capture of the property according to the price evolution index of the real estate market.

In addition, for individually significant assets, complete individual valuations are carried out, including a visit to the asset, market analysis (data relating to supply, demand, current sale or rental price ranges and supply-demand and revaluation expectations) and an estimate of expected income and costs.

For this segmentation of assets, when they are completed, the real costs are known and the actual expenses for the marketing and sale of the asset must be taken into account. Therefore, Banco Santander uses the actual costs in its calculation engine or, failing that, those estimated on the basis of its observed experience.

- Market Value Model according to Evolution of Market Values used to update the valuation of developments in progress. The valuation model estimates the current market value of the properties based on complete individual valuations by third parties, calculated from the values of the feasibility studies and development costs of the promotion, as well as the selling costs, distinguishing by location, size and type of property. The inputs used in the valuation model for residential assets under construction are actual revenues and costs.

  For this purpose, in order to calculate the investment flows, Banco Santander considers, on the basis of the feasibility studies, the expenditure required for construction, the professional fees relating to the project and to project management, the premiums for mandatory building insurance, the developer's administrative expenses, licences, taxes on new construction and fees, and urban development charges.

  With respect to the calculation of income flows, Banco Santander takes into account the square metres built, the number of homes under construction and the estimated selling price over 1.5 years.

  The market value will be the result of the difference between the income flows and the investment flows estimated at each moment.

- Land Valuation model. The methodology followed by the Group regarding land valuation consists of updating the individual reference valuation of each of the land on an annual basis, through updated valuation valuations carried out by independent professionals and following the methodology established in the OM (Ministerial Order) ECO/805/2003, of 27 March, whose main verifications in the case of land valuation, regardless of the degree of urbanisation of the land, correspond to:

  – Visual verification of the assessed property.

  – Registry description.

  – Urban planning.

  – Visible easements.

1. The assets in a situation of "stopped development" are included under "land".
2. Assets qualified as protected housing are taken into account. The Maximum Legal Value of these assets is determined by the VPO module, obtained from the result of multiplying the State Basic Module (MBE) by a zone coefficient determined by each Autonomous Community. To carry out the valuation of a protected property, the useful surface area is used in accordance with current regulations.

– Visible state of occupation, possession, use and exploitation.

– Protection regime.

– Apparent state of preservation.

– Correspondence with cadastral property.

– Existence of expropriation procedure, expropriation plan or project, administrative resolution or file that may lead to expropriation.

– Expiry of the Urbanization or Building deadlines.

– Existence of a procedure for failure to comply with obligations.

– Verification of surfaces.

For the purposes of valuation, the land will be classified in the following levels:

– Level I: It will include all the lands that do not belong to Level II.

– Level II: It shall include land classified as undeveloped where building is not allowed for uses other than agriculture, forestry, livestock or linked to an economic exploitation permitted by the regulations in force. Also included are lands classified as developable that are not included in a development area of urban planning or that, in such an area, the conditions for its development have not been defined.

In those cases where the Group does not have an updated reference value through an ECO valuation for the current year, we use as a reference value the latest available ECO valuation reduced or corrected by the average annual coverage ratio of the land on which we have obtained an updated reference value, through an ECO valuation.

The Group applies a discount to the aforementioned reference values that takes into account both the discount on the reference value in the sales process and the estimated costs of marketing or selling the land:

Discount on reference value = % Discount on Sales + % Marketing Costs

being:

– % Discount on Sales: = 100 - (sales price / updated appraisal value).

– Marketing Costs: Calculated on the basis of our historical experience in sales and in accordance with the marketing management fees negotiated with our suppliers of this type of service.

In this way the Group obtains the corrected market value, an amount that we compare with the net cost of each piece of land to determine its correct valuation and conclude with our valuation process.

In addition, in relation to the previously mentioned valuations, less costs to sell, are contrasted with the sales experience of each type of asset in order to confirm that there is no significant difference between the sale price and the valuation.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognised under Gains or (losses) on non-current assets held for sale not classified as discontinued operations in the consolidated income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognised in the consolidated income statement up to an amount equal to the impairment losses previously recognised.

j) Assets under insurance or reinsurance contracts and liabilities under insurance or reinsurance contracts

Insurance contracts involve the transfer of a certain quantifiable risk in exchange for a periodic or one-off premium. The effects on the Group's cash flows will arise from a deviation in the payments forecast and/or an insufficiency in the premium set.

The Group controls its insurance risk as follows:

- By applying a strict methodology in the launch of products and in the assignment of value thereto.
- By using deterministic and stochastic actuarial models for measuring commitments.
- By using reinsurance as a risk mitigation technique as part of the credit quality guidelines in line with the Group's general risk policy.
- By establishing an operating framework for credit risks.
- By actively managing asset and liability matching.
- By applying security measures in processes.

Reinsurance assets includes the amounts that the consolidated entities are entitled to receive for reinsurance contracts with third parties and, specifically, the reinsurer's share of the technical provisions recorded by the consolidated insurance entities.

At least once a year these assets are reviewed to ascertain whether they are impaired (i.e. there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract and the amount that will not be received can be reliably measured), and any impairment loss is recognised in the consolidated income statement and the assets are written down.

Liabilities under insurance contracts includes the technical provisions recorded by the consolidated entities to cover claims arising from insurance contracts in force at year-end.

Insurers' results relating to their insurance business are recognised, according to their nature, under the related consolidated income statement items.

In accordance with standard accounting practice in the insurance industry, the consolidated insurance entities credit to the income statement the amounts of the premiums written and charge to income the cost of the claims incurred on final settlement thereof.
Insurance entities are therefore required to accrue at period-end the unearned revenues credited to their income statements and the accrued costs not charged to income.

At least at each reporting date the Group assesses whether the insurance contract liabilities recognised in the consolidated balance sheet are adequate. For this purpose, it calculates the difference between the following amounts:

- Current estimates of future cash flows under the insurance contracts of the consolidated entities. These estimates include all contractual cash flows and any related cash flows, such as claims handling costs; and
- The carrying amount recognised in the consolidated balance sheet of its insurance contract liabilities (see Note 15), less any related deferred acquisition costs or related intangible assets, such as the amount paid to acquire, in the event of purchase by the entity, the economic rights held by a broker deriving from policies in the entity's portfolio.

If the calculation results in a positive amount, this deficiency is charged to the consolidated income statement. When unrealised gains or losses on assets of the Group's insurance companies affect the measurement of liabilities under insurance contracts and/or the related deferred acquisition costs and/or the related intangible assets, these gains or losses are recognised directly in equity. The corresponding adjustment in the liabilities under insurance contracts (or in the deferred acquisition costs or in intangible assets) is also recognised in equity.

The most significant items forming part of the technical provisions (see Note 15) are detailed below:

- Non-life insurance provisions:
  i) Provision for unearned premiums: relates to the portion of the premiums received at year-end that is allocable to the period from the reporting date to the end of the policy cover period.
  ii) Provisions for unexpired risks: this supplements the provision for unearned premiums to the extent that the amount of the latter is not sufficient to reflect all the assessed risks and expenses to be covered by the insurance companies in the policy period not elapsed at the reporting date.
- Life insurance provisions: represent the value of the net obligations acquired vis-à-vis life insurance policyholders. These provisions include:
  i) Provision for unearned premiums and unexpired risks: this relates to the portion of the premiums received at year-end that is allocable to the period from the reporting date to the end of the policy cover period.
  ii) Mathematical provisions: these relate to the value of the insurance companies' obligations, net of the policyholders' obligations. These provisions are calculated on a policy-by-policy basis using an individual capitalisation system, taking as a basis for the calculation the premium accrued in the year, and in accordance with the technical bases of each type of insurance updated, where appropriate, by the local mortality tables.
- Provision for claims outstanding: this reflects the total obligations outstanding arising from claims incurred prior to the reporting date. This provision is calculated as the difference between the total estimated or certain cost of the claims not yet reported, settled or paid and all the amounts already paid in relation to such claims.
- Provision for bonuses and rebates: this provision includes the amount of the bonuses accruing to policyholders, insureds or beneficiaries and that of any premiums to be returned to policyholders or insureds, to the extent that such amounts have not been assigned at the reporting date. These amounts are calculated on the basis of the conditions of the related individual policies.
- Technical provisions for life insurance policies where the investment risk is borne by the policyholders: these provisions are calculated on the basis of the indices established as a reference to determine the economic value of the policyholders' rights.

k) Tangible assets

Tangible assets includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

Property, plant and equipment for own use – including tangible assets received by the consolidated entities in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing use and tangible assets acquired under finance leases– are presented at acquisition cost, less the related accumulated depreciation and any estimated impairment losses (carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The period tangible asset depreciation charge is recognised in the consolidated income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Average annual rate
Buildings for own use	2.0%
Furniture	7.7%
Fixtures	7.0%
Office and IT equipment	25.0%
Lease use rights	Less than the lease term or the useful life of the underlying asset

The consolidated entities assess at the reporting date whether there is any indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset, the consolidated entities recognise the reversal of the impairment loss recognised in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least at the end of the reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense in the period in which they are incurred, since they do not increase the useful lives of the assets.

ii. Investment property

Investment property reflects the net values of the land, buildings and other structures held either to earn rentals or for obtaining profits by sales due to future increase in market prices.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

In order to evaluate the possible impairment the Group determines periodically the fair value of its investment property so that, at the end of the reporting period, the fair value reflects the market conditions of the investment property at that date. This fair value is determined annually, taking as benchmarks the valuations performed by independent experts. The methodology used to determine the fair value of investment property is selected based on the status of the asset in question; thus, for properties earmarked for lease, the valuations are performed using the sales comparison approach, whereas for leased properties the valuations are made primarily using the income capitalisation approach and, exceptionally, the sales comparison approach.

In the sales comparison approach, the property market segment for comparable properties is analysed, inter alia, and, based on specific information on actual transactions and firm offers, current prices are obtained for cash sales of those properties. The valuations performed using this approach are considered as Level 2 valuations.

In the income capitalisation approach, the cash flows estimated to be obtained over the useful life of the property are discounted taking into account factors that may influence the amount and actual obtainment thereof, such as: (i) the payments that are normally received on comparable properties; (ii) current and probable future occupancy; (iii) the current or foreseeable default rate on payments. The valuations performed using this approach are considered as Level 3 valuations, since significant unobservable inputs are used, such as current and probable future occupancy and/or the current or foreseeable default rate on payments.

iii. Assets leased out under an operating lease

Property, plant and equipment - Leased out under an operating lease reflects the amount of the tangible assets, other than land and buildings, leased out by the Group under an operating lease.

The criteria used to recognise the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives and to recognise the impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

l) Accounting for leases

Since 1 January 2019, the Group has changed the accounting policy for leases when acting as a lessee (see Note 1.b).

Until 31 December 2018, the accounting policy applied by the Group when acting as lessee was the following:

i. Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the consolidated entities act as the lessors of an asset, the sum of the present value of the lease payments receivable from the lessee, including the exercise price of the lessee's purchase option at the end of the lease term when such exercise price is sufficiently below fair value at the option date such that it is reasonably certain that the option will be exercised, is recognised as lending to third parties and is therefore included under Loans and receivables in the consolidated balance sheet.

When the consolidated entities act as the lessees, they present the cost of the leased assets in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognise a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise price of the purchase option). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

In both cases, the finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to interest and similar income and interest expense and similar charges in the consolidated income statement so as to produce a constant rate of return over the lease term.

ii. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the consolidated entities act as the lessors, they present the acquisition cost of the leased assets under Tangible assets (see Note 16). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised on a straight-line basis under Other operating income in the consolidated income statement.

When the consolidated entities act as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to Other general administrative expenses in their consolidated income statements.

iii. Sale and leaseback transactions

In sale and leaseback transactions where the sale is at fair value and the leaseback is an operating lease, any profit or loss is recognised at the time of sale. In the case of finance leasebacks, any profit or loss is amortised over the lease term.

In accordance with IAS 17, in determining whether a sale and leaseback transaction results in an operating lease, the Group should analyse, inter alia, whether at the inception of the lease there are purchase options whose terms and conditions make it reasonably certain that they will be exercised, and to whom the gains or losses from the fluctuations in the fair value of the residual value of the related asset will accrue.

m) Intangible assets

Intangible assets are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated entities. Only assets whose cost can be estimated reliably and from which the consolidated entities consider it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

i. Goodwill

Any excess of the cost of the investments in the consolidated entities and entities accounted for using the equity method over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

- If it is attributable to specific assets and liabilities of the companies acquired, by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognised in the acquired entities' balance sheets.
- If it is attributable to specific intangible assets, by recognising it explicitly in the consolidated balance sheet provided that the fair value of these assets within twelve months following the date of acquisition can be measured reliably.
- The remaining amount is recognised as goodwill, which is allocated to one or more cash-generating units (a cash-generating unit is the smallest identifiable group of assets that, as a result of continuing operation, generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The cash-generating units represent the Group's geographical and/ or business segments.

Goodwill (only recognised when it has been acquired by consideration) represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognised.

At the end of each annual reporting period or whenever there is any indication of impairment goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to Impairment or reversal of impairment on non-financial assets, net - Intangible assets in the consolidated income statement.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

Other intangible assets includes the amount of identifiable intangible assets (such as purchased customer lists and computer software).

Other intangible assets can have an indefinite useful life - when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the consolidated entities- or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period or whenever there is any indication of impairment the consolidated entities review the remaining useful lives of the assets in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortised over those useful lives using methods similar to those used to depreciate tangible assets.

The intangible asset amortisation charge is recognised under Depreciation and amortisation in the consolidated income statement.

In both cases the consolidated entities recognise any impairment loss on the carrying amount of these assets with a charge to Impairment or reversal of impairment on non-financial assets, net - Intangible assets in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets (see Note 2.k).

Internally developed computer software

Internally developed computer software is recognised as an intangible asset if, among other requisites (basically the Group's ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated.

Expenditure on research activities is recognised as an expense in the year in which it is incurred and cannot be subsequently capitalised into the carrying amount of the intangible asset.

n) Other assets

Other assets in the consolidated balance sheet includes the amount of assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of assets, other than financial instruments, that are held for sale in the ordinary course of business, that are in the process of production, construction or development for such purpose, or that are to be consumed in the production process or in the provision of services. Inventories include land and other property held for sale in the property development business.

  Inventories are measured at the lower of cost and net realisable value, which is the estimated selling price of the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs required to make the sale.

  Any write-downs of inventories -such as those due to damage, obsolescence or reduction of selling price- to net realisable value and other impairment losses are recognised as expenses for the year in which the impairment or loss occurs. Subsequent reversals are recognised in the consolidated income statement for the year in which they occur.

  The carrying amount of inventories is derecognised and recognised as an expense in the period in which the revenue from their sale is recognised.

- Other: this item includes the balance of all prepayments and accrued income (excluding accrued interest, fees and commissions), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the entity's favour, when this net amount is to be reported in the consolidated balance sheet, and the amount of any other assets not included in other items.

Additionally, in this chapter at 31 December 2019, the right of collection acquired from Enagás Transporte is registered in the amount of EUR 666 million of principal charged to the gas system conferred by Royal Decree-Law 13/2004 (for which urgent measures were adopted in relation to with the gas system and due to the extraordinary and urgent need to find a solution to the complex technical situation existing in the underground storage of natural gas «Castor», especially after the resignation of the concession presented by its owner).

In the aforementioned RD-law, it was agreed the hibernation of the Castor gas submarine storage facilities and the assignation of the operations required for its maintenance and operability to Enagás Transporte. It also recognised the value of the investment at EUR 1,350 million and an obligation to pay this amount to the holder of the extinguished concession by Enagás Transporte, recognising a collection right, charged to the monthly billing for access tolls and gas system fees during 30 years, for the amount paid to the holder of the extinguished concession plus the financial remuneration recognised by the RD-law.

Banco Santander acquired, along with other financial entities, the collection right for its nominal redemption value under a contract with full legal effectiveness and protected, in good faith, in the full constitutionality of the RD-law that created it, set its amount, established the legal mechanism for its payment from the gas system and allowed its transfer with full effect against it.

On 21 December 2017 the Constitutional Court gave a judgement declaring unconstitutional certain provisions of RD-Law 13/2014 and cancelling them due to procedural defect, considering that the urgency reasons for which said provisions had to be excluded from the ordinary legislative procedure were not proven. Among others, the recognition of the costs accrued until the entry into force of the Royal Decree by the concessionaire waiving the investment and, therefore, the compensation of EUR 1,350 million, and the recognition of Enagás Transporte's right of collection from the gas system for the amount of this compensation were cancelled.

Because of the termination of the payment of the right of collection and the obligation to reimburse the amounts received following the declaration of unconstitutionality of the RD-law, the Bank has internally analysed the situation and, with due external advice, has concluded that the probability of recovery of the total amount invested is high, highlighting that the opinion of the Permanent Commission of the State Council No. 196/2019, of 27 June, in the ex officio review file of the final settlements paid to the bank under the gas system, and considers that the current situation involves an unjust enrichment of the State (or the gas system) having received a work but not having assumed the cost of its construction by the concessionaire.

The bank has also initiated the administrative and judicial procedures that it has considered appropriate for the defence of its rights. None of these procedures have been concluded yet, but the bank considers them likely to be favourably resolved, existing other recovery channels available in the event that those described above are not successful. This indemnification asset, since it does not arise as a consequence of a contract, but rather from the liability of the State legislator, does not meet the definition of a financial asset. Consequently, and since it has the characteristic of certain, it also does not meet the definition of a contingent asset, it was classified as a non-financial asset.

o) Other liabilities

Other liabilities includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other categories.

p) Provisions and contingent assets and liabilities

When preparing the financial statements of the consolidated entities, the Bank's directors made a distinction between:

- Provisions: credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the consolidated entities, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing.
- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities. They include the present obligations of the consolidated entities when it is not probable that an outflow of resources embodying economic benefits will be required to settle them. The Group does not recognise the contingent liability. The Group will disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.
- Contingent assets: possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised in the consolidated balance sheet or in the consolidated income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not the obligation will have to be settled. In accordance with accounting standards, contingent liabilities must not be recognised in the consolidated financial statements, but must rather be disclosed in the notes.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are classified according to the obligations covered as follows (see Note 25):

- Provision for pensions and similar obligations: includes the amount of all the provisions made to cover post-employment benefits, including obligations to pre-retirees and similar obligations.
- Provisions for contingent liabilities and commitments: include the amount of the provisions made to cover contingent liabilities -defined as those transactions in which the Group guarantees the obligations of a third party, arising as a result of financial guarantees granted or contracts of another kind- and contingent commitments -defined as irrevocable commitments that may give rise to the recognition of financial assets.
- Provisions for taxes and other legal contingencies and Other provisions: include the amount of the provisions recognised to cover tax and legal contingencies and litigation and the other provisions recognised by the consolidated entities. Other provisions includes, inter alia, any provisions for restructuring costs and environmental measures.

q) Court proceedings and/or claims in process

At the end of 2019 certain court proceedings and claims were in process against the consolidated entities arising from the ordinary course of their operations (see Note 25).

r) Own equity instruments

Own equity instruments are those meeting both of the following conditions:

- The instruments do not include any contractual obligation for the issuer: (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.
- The instruments will or may be settled in the issuer's own equity instruments and are: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Transactions involving own equity instruments, including their issuance and cancellation, are charged directly to equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the consolidated financial statements. Consideration received or paid in exchange for such instruments, including the coupons on preference shares contingently convertible into ordinary shares and the coupons associated with CCPP, is directly added to or deducted from equity.

s) Equity-instrument-based employee remuneration

Own equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognised as an expense for services (with the corresponding increase in equity) as the services are rendered by employees during the service period. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments granted are vested immediately, the Group recognises in full, at the grant date, the expense for the services received.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognised in equity will depend on the other conditions being met by the employees (normally length of service requirements), irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognised in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

t) Recognition of income and expenses

The most significant criteria used by the Group to recognise its income and expenses are summarised as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies are recognised as income when the consolidated entities' right to receive them arises.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognised when paid.
- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.
- Those relating to services provided in a single act are recognised when the single act is carried out.

iii. Non-finance income and expenses

They are recognised for accounting purposes when the good is delivered or the non-financial service is rendered. To determine the amount and timing of recognition, a five-step model is followed: identification of the contract with the customer, identification of the separate obligations of the contract, determination of the transaction price, distribution of the transaction price among the identified obligations and finally recording of income as the obligations are satisfied.

iv. Deferred collections and payments

These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination, application and information fees, are accrued and recognised in income over the term of the loan.

u) Financial guarantees

Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, insurance policies or credit derivatives.

The Group initially recognises the financial guarantees provided on the liability side of the consolidated balance sheet at fair value, which is generally the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and simultaneously the Group recognises the amount of the fees, commissions and similar interest received at the inception of the transactions and a credit on the asset side of the consolidated balance sheet for the present value of the fees, commissions and interest outstanding.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost (described in Note 2.g above).

The provisions made for these transactions are recognised under Provisions - Provisions for commitments and guarantees given in the consolidated balance sheet (see Note 25). These provisions are recognised and reversed with a charge or credit, respectively, to Provisions or reversal of provisions, net, in the consolidated income statement.

If a specific provision is required for financial guarantees, the related unearned commissions recognised under Financial liabilities at amortised cost - Other financial liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

v) Assets under management and investment and pension funds managed by the Group

Assets owned by third parties and managed by the consolidated entities are not presented on the face of the consolidated balance sheet. Management fees are included in Fee and commission income in the consolidated income statement.

The investment funds and pension funds managed by the consolidated entities are not presented on the face of the Group's consolidated balance sheet since the related assets are owned by third parties. The fees and commissions earned in the year for the services rendered by the Group entities to these funds (asset management and custody services) are recognised under Fee and commission income in the consolidated income statement.

Note 2.b.iv describes the internal criteria and procedures used to determine whether control exists over the structured entities, which include, inter alia, investment funds and pension funds.

w) Post-employment benefits

Under the collective agreements currently in force and other arrangements, the Spanish banks included in the Group and certain other Spanish and foreign consolidated entities have undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, and the post-employment welfare benefits.

The Group's post-employment obligations to its employees are deemed to be defined contribution plans when the Group makes pre-determined contributions (recognised under Personnel expenses in the consolidated income statement) to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as defined benefit plans (see Note 25).

Defined contribution plans

The contributions made in this connection in each year are recognised under Personnel expenses in the consolidated income statement. The amounts not yet contributed at each year-end are recognised, at their present value, under Provisions - Provision for pensions and similar obligations on the liability side of the consolidated balance sheet.

Defined benefit plans

The Group recognises under Provisions - Provision for pensions and similar obligations on the liability side of the consolidated balance sheet (or under Other assets on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets.

Plan assets are defined as those that will be directly used to settle obligations and that meet the following conditions:

- They are not owned by the consolidated entities, but by a legally separate third party that is not a party related to the Group.
- They are only available to pay or fund post-employment benefits and they cannot be returned to the consolidated entities unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan and of the entity to current and former employees, or they are returned to reimburse employee benefits already paid by the Group.

If the Group can look to an insurer to pay part or all of the expenditure required to settle a defined benefit obligation, and it is practically certain that said insurer will reimburse some or all of the expenditure required to settle that obligation, but the insurance policy does not qualify as a plan asset, the Group recognises its right to reimbursement -which, in all other respects, is treated as a plan asset- under Insurance contracts linked to pensions on the asset side of the consolidated balance sheet.

Post-employment benefits are recognised as follows:

- Current service cost, (the increase in the present value of the obligations resulting from employee service in the current period), is recognised under Staff costs.
- The past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of reductions, is recognised under Provisions or reversal of provisions.
- Any gain or loss arising from a liquidation of the plan is included in the Provisions or reversion of provisions.
- Net interest on the net defined benefit liability (asset), i.e. the change during the period in the net defined benefit liability (asset) that arises from the passage of time, is recognised under Interest expense and similar charges (Interest and similar income if it constitutes income) in the consolidated income statement.

The remeasurement of the net defined benefit liability (asset) is recognised in Other comprehensive income under Items not reclassified to profit or loss and includes:

- Actuarial gains and losses generated in the year, arising from the differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions.
- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).
- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

x) Other long-term employee benefits

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses are recognised under Provisions or reversal of provisions, net, in the consolidated income statement (see Note 25).

y) Termination benefits

Termination benefits are recognised when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed.

z) Income tax

The expense for Spanish income tax and other similar taxes applicable to the foreign consolidated entities is recognised in the consolidated income statement, except when they arise from a transaction whose results are recognised directly in equity, in which case the related tax effect is recognised in equity (see Note 1.b) - Amendment to IFRS Cycle 2015-2017.

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognised in the consolidated income statement.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Tax assets include the amount of all tax assets, which are broken down into current -amounts of tax to be recovered within the next twelve months- and deferred -amounts of tax to be recovered in future years, including those arising from tax loss or tax credit carryforwards.

Tax liabilities includes the amount of all tax liabilities (except provisions for taxes), which are broken down into current -the amount payable in respect of the income tax on the taxable profit for the year and other taxes in the next twelve months- and deferred -the amount of income tax payable in future years.

Deferred tax liabilities are recognised in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, except when the Group is able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future. In this regard, no deferred tax liabilities of EUR 920 million were recognised in relation to the taxation that would arise from the undistributed earnings of certain Group holding companies, in accordance with the legislation applicable in those jurisdictions.

Deferred tax assets are only recognised for temporary differences to the extent that it is considered probable that the consolidated entities will have sufficient future taxable profits against which the deferred tax assets can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable that the consolidated entities will have sufficient future taxable profits against which they can be utilised.

Income and expenses recognised directly in equity are accounted for as temporary differences.

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed.

aa) Residual maturity periods and average interest rates

The analysis of the maturities of the balances of certain items in the consolidated balance sheet and the average interest rates at the end of the reporting periods is provided in Note 51.

ab) Consolidated statement of recognised income and expense

This statement presents the income and expenses generated by the Group as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the consolidated income statement for the year and the other income and expenses recognised directly in consolidated equity.

Accordingly, this statement presents:

a. Consolidated profit for the year.

b. The net amount of the income and expenses recognised in Other comprehensive income under items that will not be reclassified to profit or loss.

c. The net amount of the income and expenses recognised in Other comprehensive income under items that may be reclassified subsequently to profit or loss.

d. The income tax incurred in respect of the items indicated in b) and c) above, except for the valuation adjustments arising from investments in associates or joint ventures accounted for using the equity method, which are presented net.

e. Total consolidated recognised income and expense, calculated as the sum of a) to d) above, presenting separately the amount attributable to the parent company and the amount relating to non-controlling interests.

The statement presents the items separately by nature, grouping together items that, in accordance with the applicable accounting standards, will not be reclassified subsequently to profit and loss since the requirements established by the corresponding accounting standards are met.

ac) Statement of changes in total equity

This statement presents all the changes in equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the consolidated equity items, and the changes are grouped together on the basis of their nature into the following items:

a. Adjustments due to changes in accounting policies and to errors: include the changes in consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated financial statements, distinguishing between those resulting from changes in accounting policies and those relating to the correction of errors.

b. Income and expense recognised in the year: includes, in aggregate form, the total of the aforementioned items recognised in the consolidated statement of recognised income and expense.

c. Other changes in equity: includes the remaining items recognised in equity, including, inter alia, increases and decreases in capital, distribution of profit, transactions involving own equity instruments, equity-instrument-based payments, transfers between equity items and any other increases or decreases in consolidated equity.

ad) Consolidated statement of cash flows

The following terms are used in the consolidated statements of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value, irrespective of the portfolio in which they are classified.

  The Group classifies as cash and cash equivalents the balances recognised under Cash, cash balances at central banks and other deposits on demand in the consolidated balance sheet.

- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

During 2019 the Group received interest amounting to EUR 55,269 million (EUR 50,685 million in 2018) and paid interest amounting to EUR 20,671 million (EUR 19,927 million in 2018).

Also, dividends received and paid by the Group are detailed in Notes 4, 28 and 40, including dividends paid to minority interests (non-controlling interests).

3. Santander Group

a) Banco Santander, S.A. and international Group structure

The growth of the Group in the last decades has led the Bank to also act, in practice, as a holding entity of the shares of the various companies in its Group, and its results are becoming progressively less representative of the performance and earnings of the Group. Therefore, each year the Bank determines the amount of the dividends to be distributed to its shareholders on the basis of the consolidated net profit, while maintaining the Group's objectives of capitalisation and taking into account that the transactions of the Bank and of the rest of the Group are managed on a consolidated basis (notwithstanding the allocation to each company of the related net worth effect).

At the international level, the various banks and other subsidiaries, joint ventures and associates of the Group are integrated in a corporate structure comprising various holding companies which are the ultimate shareholders of the banks and subsidiaries abroad.

The purpose of this structure, all of which is controlled by the Bank, is to optimise the international organisation from the strategic, economic, financial and tax standpoints, since it makes it possible to define the most appropriate units to be entrusted with acquiring, selling or holding stakes in other international entities, the most appropriate financing method for these transactions and the most appropriate means of remitting the profits obtained by the Group's various operating units to Spain.

The Appendices provide relevant data on the consolidated Group companies and on the companies accounted for using the equity method.

b) Acquisitions and disposals

Following is a summary of the main acquisitions and disposals of ownership interests in the share capital of other entities and other significant corporate transactions performed by the Group in the last three years:

i. Agreement for the acquisition of 50.1% of Ebury

On 4 November 2019, Banco Santander, S.A. announced a strategic investment in Ebury, one of the best payment and currency platforms for SMEs, worth GBP 350 million (approximately EUR 400 million). In accordance with the conditions of the operation, Santander will acquire 50.1% of Ebury for GBP 350 million, of which GBP 70 million correspond to new shares (approximately EUR 80 million) to support the company's plans to enter in new markets in Latin America and Asia.

As of 31 December 2019, the Group had acquired a 6.4% interest in Ebury for a price of GBP 40 million (approximately EUR 45 million), pending the rest of the investment in compliance with the usual suspensive conditions in this type of operations, including obtaining regulatory approvals. The rest of the investment is expected to be completed in 2020.

ii. Agreement with Crédit Agricole S.A. on the depositary and custody business

On 17 April 2019, Banco Santander, S.A. announced that it had signed a memorandum of understanding with Crédit Agricole S.A. with the purpose of combining CACEIS and its subsidiaries (the "CACEIS Group"), which is wholly-owned by Crédit Agricole S.A., with Santander Securities Services, S.A.U. and its subsidiaries (the "S3 Group"), which is wholly-owned by Banco Santander, S.A.

The operation consists of the contribution by the Santander Group to the CACEIS Group of 100% of the S3 Group in Spain and 50% of the S3 Group's business in Latin America in exchange for a 30.5% stake in the CACEIS Group Capital and voting rights. The remaining 69.5% remains the property of Crédit Agricole, SA. The S3 Group's Latin American business is under the joint control of the CACEIS Group and the Santander Group.

On 27 June 2019, the signing of the final contracts took place after having carried out the precise prior consultations with the representative bodies of Credit Agricole, SA employees and the CACEIS Group. The closing of the operation took place on 20 December, 2019 once the relevant regulatory authorizations were obtained.

The operation has generated a net capital gain of EUR 693 million recorded for its gross amount under the heading of non-classified assets as non-current assets for sale of the consolidated profit and loss account, of which EUR 219 million correspond to the recognition at fair value of the investment of 49.99% retained by the Group in S3 Latin America. The 30.5% interest in the CACEIS GROUP has been recorded under the heading of Investments - Associates of the consolidated balance sheet for an amount of EUR 1,010 million.

iii. Offer to acquire shares of Banco Santander Mexico, S.A., Institución de Banca Multiple, Grupo Financiero Santander México.

On 12 April 2019, Banco Santander, S.A. announced its intention to make an offer to acquire all the shares of Banco Santander Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México ("Santander México") which are not owned by Grupo Santander, representing approximately 25% of the share capital of Santander México.

The shareholders who have accepted the offer have received 0.337 newly issued shares of Banco Santander, S.A. per share of Santander México and 1.685 American Depositary Shares (ADSs) of Banco Santander, S.A. per ADS of Santander México.

The offer was accepted by holders of shares representing 16.69% of the capital stock of Santander Mexico, so the Group's participation in Santander Mexico has become 91.65% of its share capital. To meet the exchange, the Bank proceeded to issue, in execution of the agreement adopted by the extraordinary general meeting held on 23 July 2019, 381,540,640 shares, which represented approximately 2.35% of the Bank's share capital in the date of issue. This operation meant an increase of191 million euros in Capital, 1,491 million euros in issue premium and a decrease of 670 million euros in Reserves and 1,012 million euros in minority interests.

iv. Reorganization of the banking insurance business, asset management and pension plans in Spain

On 24 June 2019, Banco Santander, S.A. reached an agreement with the Allianz Group to terminate the agreement that Banco Popular Español, S.A.U. ("Banco Popular") held in Spain with the Allianz Group for the exclusive distribution of certain life insurance products, non-life insurance products, collective investment institutions, and pension plans through the Banco Popular network (the "Agreement").

The Agreement was executed on 15 January 2020 for the non-life business and on 31 January 2020 for the remaining businesses, once the regulatory authorisations were obtained in the first half of 2020. The execution of the Termination Agreement entailed the payment by Banco Santander of a total consideration of EUR 859 million (after deducting the dividends paid until the end of the operation).

It is expected that, subject to the fulfilment of certain suspensive conditions, 51% of the life-risk insurance business held by Banco Santander and 51% of the new General Insurance line of business from Banco Popular's network not transferred to Mapfre (in accordance with the agreement indicated below) will be acquired by Aegon. These transactions are not expected to have a significant impact on the Group's income statement.

In addition, under the agreement reached between Banco Santander and Mapfre on 21 January 2019, 50.01% of the car, commercial, SME and corporate liability insurance business throughout Banco Santander's network in Spain was acquired by Mapfre on 25 June 2019 for EUR 82 million.

v. Sale of the 49% stake in WiZink

Once the relevant regulatory authorizations were obtained, on 6 November 2018, the operations related to the agreement reached with entities managed by Värde Partners, Inc ("Varde") and with WiZink Bank, S.A. ("WiZink") communicated by the Group on 26 March 2018 by virtue of which:

i. Banco Santander, S.A. sold its 49% stake in WiZink to Varde for EUR 1,043 million, with no significant impact on the Group's results and,

ii. Banco Santander, S.A. and Banco Santander Totta, S.A. acquired the business of credit and debit cards marketed by Grupo Banco Popular in Spain and Portugal that WiZink had acquired in 2014 and 2016. As a result of this transaction, the Group paid a total of EUR 681 million, receiving net assets worth EUR 306 million (mainly customer loans worth EUR 315 million), with the business combination generating a goodwill of EUR 375 million, managed by the businesses in Spain.

With these transactions, the Group resumed Grupo Banco Popular's debit and credit card business, which improves the commercial strategy.

vi. Acquisition of the retail banking and private banking business of Deutsche Bank Polska S.A.

On 14 December 2017, the Group announced that its subsidiary Santander Bank Polska S.A. (previously Bank Zachodni WBK S.A.) together with Banco Santander, S.A., had reached an agreement with Deutsche Bank, A.G. for the acquisition (through a carve out) of the retail and private banking business of Deutsche Bank Polska S.A., excluding the foreign currency mortgage portfolio and the CIB (Corporate & Investment Banking) business, and including the asset management company DB Securities, S.A. (Poland).

In November 2018, once the regulatory authorisations had been received and approved by the general shareholders' meetings of Santander Bank Polska S.A. and Deutsche Bank Polska, S.A., the acquisition of EUR 298 million in cash and newly issued shares of Santander Bank Polska S.A. subscribed in full by Deutsche Bank, A.G. was closed. As a result of this transaction, the Group has acquired net assets worth EUR 365 million, mainly loans and deposits to customers and credit institutions amounting to EUR 4,304 million and EUR 4,025 million, respectively, and negative value adjustments amounting to EUR 82 million (mainly under line Loans and advances).

The difference between the fair value of the net assets acquired and the transaction value resulted in a gain of EUR 67 million which was recognised under "Negative Goodwill Recognised in Income" in the Group's consolidated income statement.

vii. Acquisition of Banco Popular Español, S.A.U.

On 7 June 2017, (the acquisition date), as part of its growth strategy in the markets where it is present, the Group communicated the acquisition of 100% of the share capital of Banco Popular Español, S.A.U. ("Banco Popular")(merged with Banco Santander, see Note 3.b)v) as a result of a competitive sale process organised in the framework of a resolution scheme adopted by the Single Resolution Board ("SRB") and executed by the FROB, Spanish single resolution board, in accordance with Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 May 2014, and Law 11/2015, of 18 June, for the recovery and resolution of credit institutions and investment firms.

As part of the execution of the resolution:

- All the shares of Banco Popular outstanding at the closing of market on 7 June 2017 and all the shares resulting from the conversion of the regulatory capital instruments Additional Tier 1 issued by Banco Popular have been converted into undisposed reserves.
- All the regulatory capital instruments Tier 2 issued by Banco Popular S.A.U. have been converted into newly issued shares of Banco Popular, all of which have been acquired for a total consideration of one euro by the Group.

The transaction was approved by all the applicable regulatory and antitrust authorities in the territories where Banco Popular operated.

In accordance with IFRS 3, the Group measured the identifiable assets acquired and liabilities assumed at fair value. The detail of this fair value of the identifiable assets acquired and liabilities assumed at the business combination date was as follows:

As of 7 June, 2017	Million euros
Cash and balances with central banks	1,861
Financial assets available-for-sale	18,974
Deposits from credit institutions	2,971
Loans and receivables*	82,057
Investments	1,815
Intangible assets*	133
Tax assets*	3,945
Non-current assets held for sale*	6,531
Other assets	6,259
Total assets	124,546
Deposits from central banks	28,845
Deposits from credit institutions	14,094
Customer deposits	62,270
Marketable debt securities and other financial liabilities	12,919
Provisions ***	1,816
Other liabilities	4,850
Total liabilities **	124,794
Net assets	(248)
Purchase consideration	—
Goodwill	**248**

* The main fair value adjustments were the following:
- Loans and receivables: in the estimation of their fair value, impairment have been considered for an approximate amount of EUR 3,239 million, considering, among others, the sale process carried out by the Bank.
- Foreclosed assets: the valuation, considering the sale process carried out by the company, has meant a reduction in the value of EUR 3,806 million, approximately.
- Intangible assets: includes value reductions amounting to approximately of EUR 2,469 million, mainly recorded under the "Intangible assets - goodwill".
- Deferred tax assets: mainly corresponds to the reduction of the value of negative tax bases and deductions for an approximate amount of EUR 1,711 million.

** After the initial analysis and the conversion of the subordinated debt, the best estimation is there is no significant impact between fair value and previous carrying amount of the financial liabilities.

***As a result of the resolution of Banco Popular S.A.U., it includes the estimated cost of EUR 680 million relating to the potential compensation to the shareholders of Banco Popular S.A.U. of which EUR 535 million have been applied to the fidelity action.

During 2018, the Group closed its assessment exercise of the assets acquired and liabilities assumed at fair value, without any modification with respect to what was recorded in 2017.

viii. Sale agreement of Banco Popular S.A.U.'s real estate business

In relation with Banco Popular Español, S.A.U.'s ("Banco Popular") real estate business, on 8 August 2017, the Group announced the agreement with a Blackstone fund for the acquisition by the fund of 51% of, and hence the assignment of control over, part of Banco Popular's real estate business (the “Business”), which comprises a portfolio of foreclosed properties, real estate companies, non-performing loans relating to the sector and other assets related to these activities owned by Banco Popular and its affiliates (including deferred tax assets allocated to specific real estate companies which are part of the transferred portfolio) registered on certain specified dates (31 March 2017 or 30 April 2017).

The signing took place after the European Commission authorized, without imposing any restrictions, the acquisition of Banco Popular Español S.A.U. by Banco Santander, S.A. for the purposes of competition law. The Group closed its valuation exercise of the assets and liabilities assumed at fair value during 2018 without any change with respect to what was recorded at the end of 2017.

The transaction closed on 22 March 2018 following receipt of the required regulatory authorizations and other usual conditions in this type of transactions. The transaction consisted of the creation of various companies, being the parent company Project Quasar Investments 2017, S.L., in which Banco Santander, S.A. maintains 49% of the share capital and Blackstone the remaining 51%, and to which Banco Popular and some subsidiaries transferred the business constituted by the indicated assets, and its participation in the capital of Aliseda Real Estate Management Services, S.L. The value attributed to the contributed assets is approximately EUR 10,000 million euros, of which approximately 70% was financed with third party bank debt. After the contribution to the vehicle by its shareholders of the necessary liquidity for the transaction of the business, the 49% stake in the capital of the vehicles was recorded in the consolidated balance sheet of the Group for EUR 1,701 million in the "Investments in joint ventures and associates - entities" section, without impact in the Group´s income statement.

ix. Merger by absorption of Banco Santander, S.A. with Banco Popular Español, S.A.U.

On 23 April 2018 the boards of directors of Banco Santander, S.A. and Banco Popular Español, S.A.U. agreed to approve and sign the merger project by absorption of Banco Popular Español, S.A.U. by Banco Santander, S.A.

On 28 September 2018 the merger certificate of Banco Popular Español, S.A.U. by Banco Santander, S.A. was registered in the Mercantile Registry of Cantabria. After the merger, Banco Santander, S.A. acquired, by universal succession, all the rights and obligations of Banco Popular Español, S.A.U., including those that had been acquired from Banco Pastor, S.A.U. and Popular Banca Privada, S.A.U., by virtue of the merger of Banco Pastor and Popular Banca Privada with Banco Popular Español, S.A.U. that was also approved on 23 April 2018 by the respective board of directors. This transaction had no impact on the Group's income statement.

x. Agreement with Santander Asset Management

a) Acquisition of 50% of SAM Investment Holdings Limited

On 16 November 2016, after the agreement with Unicredit Group on 27 July 2016 to integrate Santander Asset Management and Pioneer Investments was abandoned, the Group announced that it had reached an agreement with Warburg Pincus (“WP”) and General Atlantic (“GA”) under which Santander acquired 50% of SAM Investment Holdings Limited, at 22 December 2017.

The Group disbursed a total amount of EUR 545 million and assumed financing of EUR 439 million, with the business combination generating a goodwill of EUR 1,173 million and EUR 320 million of “intangible assets - contracts and relationships with customers” identified in the purchase price allocation, without other value adjustments to net assets of the business. Likewise, the market valuation of the previous participation held did not have an impact on the Group’s income statement.

Considering that the main activity of the business is asset management, the main part of its activity are recorded off balance sheet. The main net assets acquired, in addition to the aforementioned intangible assets, were net deposits in credit institutions (EUR 181 million) and net tax assets (EUR 176 million). Given their nature, the fair value of these assets and liabilities do not differ from the book value recorded.

The Group closed its assessment exercise of assets acquired and liabilities assumed at fair value during the year 2018 without modification with respect to what was recorded at the end of 2017.

b) Sale participation Allfunds Bank, S.A.

As part of the transaction, which consists in the acquisition of 50% of SAM Investment Holdings Limited, that was not owned by the Group, Santander, WP and GA agreed to explore different alternatives for the sale of its stake in Allfunds Bank, S.A. (“Allfunds Bank”), including a possible sale or a public offering. On 7 March 2017, the Bank announced that together with our partners in Allfunds Bank we had reached an agreement for the sale of 100% of Allfunds Bank to funds affiliated with Hellman & Friedman, a leading private equity investor, and GIC, Singapore’s sovereign wealth fund.

On 21 November 2017 the Group announced the closing of the sale by the Bank and its partners of 100% of Allfunds Bank’s capital, obtaining an amount of EUR 501 million from the sale of its 25% stake in Allfunds Bank, resulting in gains net of tax of EUR 297 million, which were recognised as “Gains or losses on disposal of non-financial assets and investments, net”, within the statement of profit or loss.

xi. Purchase of the shares to DDFS LLC in Santander Consumer USA Holdings Inc. (SCUSA)

On 2 July, 2015, the Group announced that it had reached an agreement to purchase the 9.65% ownership interest held by DDFS LLC in SCUSA.

On 15 November 2017, after having agreed on some modifications to the original agreement and having obtained the required regulatory authorizations, the Group completed the acquisition of the aforementioned 9.65% of SCUSA shares for a total sum of USD 942 million (EUR 800 million), which have caused a decrease of EUR 492 million in the non-controlling interests balance and another reduction to reserves of EUR 307 million.

c) Off-shore entities

According to current Spanish regulation (Royal Decree 1080/1991, of 5th July), Santander has entities in 4 off-shore territories: Jersey, Guernsey, Isle of Man and Cayman Islands. Santander has 3 subsidiaries and 4 branches in these territories. Santander also has 4 subsidiaries in off-shore territories, of which 3 are tax resident in the UK and 1 tax resident in Spain, to whose tax regimes they are subjected.

I) Subsidiaries in off-shore territories.

At the reporting date, the Group has 3 subsidiaries resident in off-shore territories, two in Jersey, Whitewick Limited (in liquidation) and Abbey National International Limited, and one in the Isle of Man, ALIL Services Limited (its liquidation is expected in 2020). These subsidiaries contributed with a very immaterial result to the Group's consolidated profit in 2019. During 2019 a subsidiary resident in Jersey has been liquidated.

II) Off-shore branches.

The Group also has 4 operative off-shore branches: 2 in the Cayman Islands, 1 in the Isle of Man and 1 in Jersey. These branches report to and consolidate their balance sheets and income statements with their respective foreign headquarters. Likewise they are taxed with their respective headquarters (Cayman Islands branches, one of Brazil and other of USA) or in the territories where they are located (Jersey and Isle of Man branches belonging to UK).

The aforementioned entities of Sections I and II have a total of 135 employees as of December 2019.

III) Subsidiaries in off-shore territories that are tax resident in the UK and Spain.

As indicated, the Group also has 4 subsidiaries constituted in these territories that are not considered to be off-shore entities, since 3 of them are tax residents in the UK and, therefore, subject to UK tax law during the period and operate exclusively from the UK (one of these subsidiaries is expected to be liquidated in 2020). In addition, since April 2018, the fourth subsidiary ceased to be a resident for tax purposes in the UK to become a tax resident in Spain.

IV) Other off-shore investments.

The Group manages from Brazil a segregated portfolio company called Santander Brazil Global Investment Fund SPC in the Cayman Islands, and manages from the United Kingdom a protected cell company in Guernsey called Guaranteed Investment Products 1 PCC Limited. The Group also has, directly or indirectly, few investments of reduced amount in entities located in the Cayman Islands, as is the case of the minority stakes through a subsidiary in UK.

OECD.

The Group has no presence in non-cooperative territories for tax purposes as defined by the OECD in July 2019. In this sense, it should be noted that Jersey, Guernsey, Isle of Man and Cayman Islands, comply with OECD standards in terms of transparency and exchange of information for tax purposes.

The European Union.

On 5 December 2017, the European Commission published some lists of non-cooperative jurisdictions for tax purposes (where there is no member state of the European Union): blacklist, gray list and territories which have received a grace period. Since then, the European Commission has updated these lists.

After the last update published in February 2020, the EU blacklist is composed of 12 jurisdictions in which the Group only has presence in Cayman Islands, also considered offshore territory by Spanish legislation, and one entity without activity and in process of sale in Panama. On the contrary, the Group has no presence in any of the 13 jurisdictions in the gray list that have committed, in a way considered sufficient, to correct their legal frameworks to align them with international standards and whose implementation will be monitored by the EU.

The Group has established appropriate procedures and controls (risk management, supervision, verification and review plans and periodic reports) to prevent reputational, tax and legal risk at these entities. In addition, the Group has continued to implement its policy of reducing the number of these off-shore units.

The financial statements of the Group's off-shore units are audited by PwC (PricewaterhouseCoopers) member firms in 2019, 2018 and 2017.

4. Distribution of the Bank's profit, shareholder remuneration scheme and earnings per share

a) Distribution of the Bank's profit and shareholder remuneration scheme

The distribution of the Bank's net profit against the results for 2019, that the board of directors will propose for approval by the shareholders at the annual general meeting is as follows:

Million of euros	
Dividend distributed at 31 December*	1,662
Complementary dividend (includes in its case, cash dividend from shareholders who opt to receive cash in scrip dividend)**	1,761
	3,423
To voluntary reserves	107
Net profit for the year	**3,530**

* Recognised under Shareholders' equity – Interim Dividends.
** Assuming a % of cash requests of 20%.

As of 2019, the Bank's shareholders have received the dividend in two payments, instead of the four received in previous years.

On 24 September 2019, the Bank´s Board of Directors approved its first dividend against 2019 earnings of EUR 1,662 million (EUR 0.10 per share), which was entirely paid in cash on 1 November 2019.

A total remuneration of EUR 0.23 per share, charged to the 2019 annual period, will be proposed by the board of directors to the shareholders at the annual general meeting.

b) Earnings per share from continuing and discontinued operations

i. Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity - see Note 23) and the capital perpetual preference shares, if applicable, by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2019	2018	2017
Profit attributable to the parent (million of euros)	6,515	7,810	6,619
Remuneration of contingently convertible preference shares (CCP) (million of euros) (Note 23)	(595)	(560)	(395)
	5,920	7,250	6,224
Of which:			
Profit or Loss from discontinued operations (non controlling interest net) (million of euros)	—	—	—
Profit or Loss from continuing operations (net of non-controlling interests and CCP) (million of euros)	5,920	7,250	6,224
Weighted average number of shares outstanding	16,348,415,883	16,150,090,739	15,394,458,789
Adjusted number of shares	16,348,415,883	16,150,090,739	15,394,458,789
Basic earnings per share (euros)	**0.362**	**0.449**	**0.404**
Basic earnings per share from discontinued operations (euros)	**0.000**	**0.000**	**0.000**
Basic earnings per share from continuing operations (euros)	**0.362**	**0.449**	**0.404**

ii. Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity - see Note 23) and the capital perpetual preference shares, if applicable, by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares and adjusted for all the dilutive effects inherent to potential ordinary shares (share options, and convertible debt instruments).

Accordingly, diluted earnings per share were determined as follows:

	2019	2018	2017
Profit attributable to the parent (million of euros)	6,515	7,810	6,619
Remuneration of contingently convertible preference shares (CCP) (million of euros) (Note 23)	(595)	(560)	(395)
	5,920	7,250	6,224
Of which:			
Profit (Loss) from discontinued operations (net of non-controlling interests) (million of euros)	—	—	—
Profit from continuing operations (net of non-controlling interests and CCP) (million of euros)	5,920	7,250	6,224
Weighted average number of shares outstanding	16,348,415,883	16,150,090,739	15,394,458,789
Dilutive effect of options/rights on shares	35,891,644	42,873,078	50,962,887
Adjusted number of shares	16,384,307,527	16,192,963,817	15,445,421,676
Diluted earnings per share (euros)	**0.361**	**0.448**	**0.403**
Diluted earnings per share from discontinued operations (euros)	**0.000**	**0.000**	**0.000**
Diluted earnings per share from continuing operations (euros)	**0.361**	**0.448**	**0.403**

5. Remuneration and other benefits paid to the Bank's directors and senior managers

The following section contains qualitative and quantitative disclosures on the remuneration paid to the members of the board of directors -both executive and non-executive directors- and senior managers for 2019 and 2018:

a) Remuneration of Directors

i. Bylaw-stipulated emoluments

The annual General Meeting held on 22 March 2013 approved an amendment to the Bylaws, whereby the remuneration of directors in their capacity as board members became an annual fixed amount determined by the annual General Meeting. This amount shall remain in effect unless the shareholders resolve to change it at a general meeting. However, the board of directors may elect to reduce the amount in any years in which it deems such action justified. The remuneration established by the Annual General Meeting was EUR 6 million in 2019 (same amount as in 2018), with two components: (a) an annual emolument and (b) attendance fees.

The specific amount payable for the above-mentioned items to each of the directors is determined by the Board of Directors. For such purpose, it takes into consideration the positions held by each director on the Board, their membership of the Board and the board committees and their attendance to the meetings thereof, and any other objective circumstances considered by the Board.

The total bylaw-stipulated emoluments earned by the Directors in 2019 amounted to EUR 4.9 million (EUR 4.6 million in 2018).

Annual emolument

The amounts received individually by the directors in 2019 and 2018 based on the positions held by them on the board and their membership of the board committees were as follows:

Euros	2019	2018
Members of the board of directors	90,000	90,000
Members of the executive committee	170,000	170,000
Members of the audit committee	40,000	40,000
Members of the appointments committee	25,000	25,000
Members of the remuneration committee	25,000	25,000
Members of the risk supervision, regulation and compliance oversight committee	40,000	40,000
Members of the responsible banking, sustainability and culture committee	15,000	15,000
Chairman of the audit committee	70,000	70,000
Chairman of the appointments committee	50,000	50,000
Chairman of the remuneration committee	50,000	50,000
Chairman of the risk, regulation and compliance oversight committee	70,000	70,000
Chairman of the responsible banking, sustainability and culture committee	50,000	50,000
Lead director*	110,000	110,000
Non-executive deputy chairman	30,000	30,000

* Mr Bruce Carnegie-Brown, for duties performed as part of the board and board committees, specifically as chairman of the appointments and remuneration committees and as lead director, and for the time and dedication required to perform these duties, has been allocated a minimum total annual remuneration of EUR 700,000 since 2015, including the aforementioned annual allowances and attendance fees corresponding to him.

Attendance fees

The directors receive fees for attending board and committee meetings, excluding executive committee meetings, since no attendance fees are received for this committee.

By resolution of the board of directors, at the proposal of the remuneration committee, the fees for attending board and committee meetings - excluding, as aforementioned, executive committee meetings - were as follows:

Meeting attendance fees

Euros	2019	2018
Board of directors	2,600	2,600
Audit committee and risk supervision, regulation and compliance oversight committee	1,700	1,700
Other committees (except the executive committee)	1,500	1,500

ii. Salaries

The executive directors receive salaries. In accordance with the policy approved by the annual general meeting, salaries are composed of a fixed annual remuneration and a variable one, which consists in a unique incentive, which is a deferred variable remuneration plan linked to multi-year objectives, which establishes the following payment scheme:

- 40% of the variable remuneration amount, determined at year-end on the basis of the achievement of the established objectives, is paid immediately.
- The remaining 60% is deferred over five years, to be paid in five portions, provided that the conditions of permanence in the Group and non-concurrence of the malus clauses are met, and subject to long term metrics, taking into account the following accrual scheme:
  - The accrual of the first and second portion (payment in 2021 and 2022) is conditional on none of the malus clauses being triggered.
  - The accrual of the third, fourth, and fifth portion (payment in 2023, 2024 and 2025), is linked to objectives related to the period 2019-2021 and the metrics and scales associated with these objectives. The fulfilment of the objectives determines the percentage to be paid of the deferred amount in these three annuities, which, accordingly, might not be paid, where the maximum amount is the amount determined at closing of 2019, when the total variable remuneration is approved.
- In accordance with current remuneration policies, the amounts already paid will be subject to a possible recovery (clawback) by the Bank during the period set out in the policy in force at each moment.

The immediate payment (or short-term), as well as each deferred payment (linked to long term metrics and not linked to long-term metrics) will be settled 50% in cash and the remaining 50% in Santander shares.

iii. Detail by director

The detail, by bank director, of the short-term (immediate) and deferred (not subject to long-term goals) remuneration for 2019 and 2018 is provided below:

Thousand euros

	2019																		2018
	Bylaw-stipulated emoluments								Short-term and deferred (not subject to long-term goals) salaries of executive directors										
	Annual emolument									Variable - immediate payment		Deferred variable							
	Board[H]	Executive committee	Audit committee	Appointments committee	Remuneration committee	Risk supervision, regulation and compliance oversight committee	Responsible banking, sustainability and culture committee	Attendance fees and commissions	Fixed	In cash	In shares	In cash	In shares	Total	Pension contribution	Other remuneration[I]	Total	Total
Ms Ana Botín-Sanz de Sautuola y O'Shea	90	170	—	—	—	—	15	59	3,176	1,302	1,302	781	781	7,342	1,145	1,132	9,953	10,483
Mr José Antonio Álvarez Álvarez	90	170	—	—	—	—	—	53	2,541	870	870	522	522	5,325	858	1,774	8,270	8,645
Mr Bruce Carnegie-Brown	393	170	—	25	25	—	—	87	—	—	—	—	—	—	—	—	700	732
Mr Rodrigo Echenique Gordillo[A]	90	57	—	17	—	—	—	56	600	400	400	240	240	1,880	—	2,775	4,875	4,830
Mr Guillermo de la Dehesa Romero	90	170	—	25	25	—	—	89	—	—	—	—	—	—	—	—	399	441
Ms Homaira Akbari	90	—	40	—	—	—	15	81	—	—	—	—	—	—	—	—	226	199
Mr Ignacio Benjumea Cabeza de Vaca	90	170	—	—	25	40	15	93	—	—	—	—	—	—	—	91	524	513
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea[B]	90	—	—	—	—	—	—	47	—	—	—	—	—	—	—	—	137	121
Ms Sol Daurella Comadrán	90	—	—	25	25	—	15	85	—	—	—	—	—	—	—	—	240	215
Ms Esther Giménez-Salinas i Colomer	90	—	—	4	—	40	15	79	—	—	—	—	—	—	—	—	228	196
Ms Belén Romana García	160	170	40	—	—	40	15	100	—	—	—	—	—	—	—	—	525	414
Mr Ramiro Mato García-Ansorena	140	170	40	—	—	40	15	95	—	—	—	—	—	—	—	—	500	450
Mr Álvaro Cardoso de Souza[C]	160	—	—	—	—	40	15	61	—	—	—	—	—	—	—	—	276	148
Mr Henrique Manuel Drummond Borges Cirne de Castro[D]	41	—	8	—	4	—	—	33	—	—	—	—	—	—	—	—	86	—
Ms Pamela Ann Walkden[E]	16	—	7	—	—	—	—	11	—	—	—	—	—	—	—	—	34	—
Mr Carlos Fernández González[F]	74	—	33	21	21	—	—	65	—	—	—	—	—	—	—	—	214	266
Mr Juan Miguel Villar Mir[G]	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	108
Total 2019	**1,794**	**1,247**	**168**	**117**	**125**	**200**	**120**	**1,094**	**6,317**	**2,572**	**2,572**	**1,543**	**1,543**	**14,547**	**2,003**	**5,772**	**27,187**	**-**
Total 2018	**1,763**	**1,275**	**160**	**113**	**125**	**247**	**61**	**872**	**7,517**	**3,254**	**3,254**	**1,952**	**1,952**	**17,929**	**2,284**	**2,932**	**-**	**27,761**

A. Ceased to be an executive director on 30 April 2019. Non-executive director since 1 May 2019.
B. All amounts received were reimbursed to Fundación Botín.
C. Director since 1 April 2018.
D. Director since 17 July 2019.
E. Director since 29 October 2019.
F. Ceased to be a director on 28 October 2019
G. Ceased to be a director on 1 January 2019
H. Includes committee chairmanship and other roles emoluments.
I. Includes, inter alia, the life and medical insurance costs borne by the Group relating to Bank directors as well as a fixed supplement approved as part of the benefit systems transformation of the Executive Directors Ms Ana Botín and Mr José Antonio Álvarez

Following is the detail, by executive director, of the salaries linked to multiannual objectives at their fair value, which will only be received if the conditions of permanence in the group, non-applicability of “malus” clauses and achievement of the established objectives are met (or, as the case may be, of the minimum thresholds thereof, with the consequent reduction of amount agreed-upon at the end of the year) in the terms described in Note 47.

Thousand euros

	2019			2018
	Variable subject to Long-term objectives[1]			
	In cash	In shares	Total	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea	821	821	1,642	1,864
Mr. José Antonio Álvarez Álvarez	548	548	1,096	1,246
Mr. Rodrigo Echenique Gordillo	252	252	504	990
Total	**1,621**	**1,621**	**3,242**	**4,100**

1. Corresponds with the fair value of the maximum amount they are entitled to in a total of 3 years: 2023, 2024 and 2025, subject to conditions of continued service, with the exceptions provided, and to the non-applicability of “malus” clauses and achievement of the objectives established.

The fair value has been determined at the grant date based on the valuation report of an independent expert, Willis Towers Watson. Based on the design of the plan for 2019 and the levels of achievement of similar plans in comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60% - 80%. Accordingly, it has been considered that the fair value is 70% of the maximum (see Note 47).

Note 5.e below includes disclosures on the shares delivered from the deferred remuneration schemes in place in previous years and for which delivery conditions were met , as well as on the maximum number of shares that may be received in future years in connection with the aforementioned 2019 and 2018 variable remuneration plans.

b) Remuneration of the Board members as representatives of the Bank

By resolution of the executive committee, all the remuneration received by the Bank's directors who represent the Bank on the Boards of Directors of listed companies in which the Bank has a stake, paid by those companies and relating to appointments made on or after 18 March, 2002, accrues to the Group. In 2019 and 2018 the Bank's directors did not receive any remuneration in respect of these representative duties.

On the other hand, Mr, Alvaro Cardoso de Souza, in his role as non-executive Chairman of Banco Santander (Brasil) S.A. received a remuneration in 2019 of 1,752 thousand Brazilian reales (397 thousand euro), and Mr. Rodrigo Echenique, received a remuneration of 666 thousand euro for his role as Chairman of the board of the Santander Spain business unit for the period from 1 May 2019 to 31 December 2019.

c) Post-employment and other long-term benefits

The executive directors other than Mr Rodrigo Echenique participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of its executive directors. The contracts of the executive directors (and the other members of the Bank's senior management) with defined benefit pension commitments were amended in 2012 to align them with the new system, transforming them into a defined contribution system. The new system gives executive directors the right to receive benefits upon retirement, regardless of whether or not they are active at the Bank at such time, based on contributions to the system, and replaced their previous right to receive a pension supplement in the event of retirement. In the event of pre-retirement and up until the retirement date, executive directors, except for Mr. Rodrigo Echenique, have the right to receive an annual allotment.

The initial balance for each of the executive directors in the new defined benefits system corresponded to the market value of the assets from which the provisions corresponding to the respective accrued obligations had materialised on the date on which the old pension commitments were transferred into the new benefits system.

Since 2013, the Bank has made annual contributions to the benefits system for executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement).

Mr Rodrigo Echenique's contract did not provide for any charge to Banco Santander regarding benefits, without prejudice to the pension rights to which Mr Echenique was entitled prior to his appointment as executive director.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability.

In accordance with the provisions of the remuneration regulations, contributions made calculated on variable remuneration are subject to the discretionary pension benefits regime. Under this regime, contributions are subject to malus clauses and clawback according to the policy in force at any given time and during the same period in which the variable remuneration is deferred.

Furthermore, they must be invested in bank shares for a period of five years from the date when the executive director leaves the Group, regardless of whether or not they leave to retire. Once that period has elapsed, the amount invested in shares will be reinvested, along with the remainder of the cumulative balance corresponding to the executive director, or it will be paid to the executive director or to their beneficiaries in the event of a contingency covered by the benefits system.

Until March 2018, the system also included a supplementary benefits scheme for cases of death (death of spouse and death of parent) and permanent disability of serving directors envisaged in the contracts of Ms Ana Botín and Mr José Antonio Álvarez.

As per the director´s remuneration policy approved at the 23 March 2018 general shareholder´s meeting, the system was changed with a focus on:

- Aligning the annual contributions with practices of comparable institutions.
- Reducing future liabilities by eliminating the supplementary benefits scheme in the event of death (death of spouse or parent) and permanent disability of serving directors.
- Not increasing total costs for the Bank.

The changes to the system were the following:

- Fixed and variable pension contributions were reduced to 22% of the respective pensionable bases. The gross annual salaries and the benchmark variable remuneration were increased in the corresponding amount with no increase in total costs for the Bank. The pensionable base for the purposes of the annual contributions for the executive directors is the sum of fixed remuneration plus 30% of the average of their last three variable remuneration amounts (or, in the event of Mr José Antonio Álvarez's pre-retirement, his fixed remuneration as a senior executive vice president).
- The death and disability supplementary benefits were eliminated since 1 April 2018. A fixed remuneration supplement (included in other remuneration in section a.iii in this note) was implemented the same date.
- The total amount insured for life and accident insurance was increased.

The provisions recognised in 2019 and 2018 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

Thousand euros

	2019	2018
Ms Ana Botín-Sanz de Sautuola y O'Shea	1,145	1,234
Mr José Antonio Álvarez Álvarez	858	1,050
	2,003	**2,284**

Following is a detail of the balances relating to each of the executive directors under the welfare system as of 31 December 2019 and 2018:

Thousand euros

	2019	2018
Ms Ana Botín-Sanz de Sautuola y O'Shea[1]	48,104	46,093
Mr José Antonio Álvarez Álvarez	17,404	16,630
Mr Rodrigo Echenique Gordillo [2]	13,268	13,614
	78,776	**76,337**

1. Includes the amounts relating to the period of provision of services at Banesto, externalised with another insurance company.
2. Mr. Rodrigo Echenique does not participate in the defined pension scheme defined in the preceding paragraphs. However, as a previous executive director and for informational purposes, this year's table includes the rights to which he was entitled prior to his designation as such. The payments made to him in 2019 with respect to his participation in this plan amounted to 0.9 million euros (0.9 million euros in 2018).

d) Insurance

The Group pays for life insurance policies for the Bank's directors, who will be entitled to receive benefits if they are declared disabled; in the event of death, the benefits will be payable to their heirs. The premiums paid by the Group are included in the Other remuneration column of the table shown in Note 5.a.iii above. Also, the following table provides information on the sums insured for the Bank's executive directors:

Insured capital

Thousand euros

	2019	2018
Ms. Ana Botín-Sanz de Sautuola y O'Shea	22,475	22,710
Mr. José Antonio Álvarez Álvarez	19,373	19,694
Mr. Rodrigo Echenique Gordillo	5,400	5,400
	47,248	**47,804**

The insured capital has been modified in 2018 for Ms Ana Botín and Mr José Antonio Alvarez as part of the pension systems transformation set out in Note 5.c) above, which has encompassed the elimination of the supplementary benefits systems (death of spouse and death of parent) and the increase of the life insurance annuities.

During 2019 and 2018, the Group has disbursed a total amount of 11.6 million euros and 10.1 million euros, respectively, for the payment of civil-liability insurance premiums. These premiums correspond to several civil-liability insurance policies that hedge, among others, directors, senior executives and other managers and employees of the Group and the Bank itself, as well as its subsidiaries, in light of certain types of potential claims. For this reason, it is not possible to disaggregate or individualize the amount that correspond to the directors and executives.

As of 31 December 2019 and 2018, no life insurance commitments exist for the Group in respect of any other directors.

e) Deferred variable remuneration systems

The following information relates to the maximum number of shares to which the executive directors are entitled at the beginning and end of 2019 and 2018 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to 2019 and prior years, as well as on the deliveries, in shares or in cash, made to them in 2019 and 2018 once the conditions for the receipt thereof had been met (see Note 47):

i) Deferred conditional variable remuneration plan

From 2011 to 2015, the bonuses of executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration that puts them on the same remuneration level as senior executives and employees who assume risk (all of whom are referred to as identified staff) have been approved by the Board of Directors and instrumented, respectively, through various cycles of the deferred conditional variable remuneration plan. Application of these cycles, insofar as they entail the delivery of shares to the plan beneficiaries, was authorized by the related Annual General Meetings.

The purpose of these plans is to defer a portion of the bonus of the plan beneficiaries (60% in the case of executive directors) over a period of five years (three years for the plans approved up to 2014) for it to be paid, where appropriate, in cash and in Santander shares. The remaining 40% portion of the bonus is paid in cash and Santander shares (in equal parts), upon commencement of this plan, in accordance with the rules set forth below.

In addition to the requirement that the beneficiary remains in Santander Group's employ, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing in the opinion of the Board of Directors -following a proposal of the remuneration committee-, in relation to the corresponding year, in the period prior to each of the deliveries: (i) poor financial performance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or its risk profile. All the foregoing shall be subject in each case to the regulations of the relevant plan cycle.

On each delivery, the beneficiaries will be paid an amount in cash equal to the dividends paid for the amount deferred in shares and the interest on the amount deferred in cash. If the *Santander Dividendo Elección* scrip dividend scheme is applied, payment will be based on the price offered by the Bank for the bonus share rights corresponding to those shares.

The maximum number of shares to be delivered is calculated taking into account the daily volume-weighted average prices for the 15 trading sessions prior to the date on which the Board of Directors approves the bonus for the Bank's Executive Directors for each year.

This plan and the Performance Shares (ILP) plan described below have been integrated for the executive directors and other senior managers in the deferred variable compensation plan linked to multiannual objectives, in the terms approved by the General Meeting of Shareholders held on March 18, 2016.

ii) Deferred variable compensation plan linked to multiannual objectives

In the annual shareholders meeting of 12 March 2016, with the aim of simplifying the remuneration structure, improving the *ex-ante* risk adjustment and increasing the incidence of long-term objectives, the bonus plan (deferred and conditioned variable compensation plan) and ILP were replaced by one single plan, the deferred multiyear objectives variable remuneration plan.

The variable remuneration of executive directors and certain executives (including senior management) corresponding to 2019 has been approved by the Board of Directors and implemented through the fourth cycle of the deferred variable remuneration plan linked to multi-year objectives. The application of the plan was authorised by the annual general meeting of shareholders, as it entails the delivery of shares to the beneficiaries.

As indicated in section a.ii of this Note, 60% of the variable remuneration amount is deferred over five years (three years for certain beneficiaries, not including executive directors), to be paid, where appropriate, in five portions, provided that the conditions of permanence in the group and non-concurrence of malus clauses are met, and subject to long term metrics, according to the following accrual scheme:

- The accrual of the first and second parts (instalments in 2021 and 2022) is conditional on none of the malus clauses being triggered.
- The accrual of the third, fourth and fifth parts (instalments in 2023, 2024 and 2025) is linked to the fulfilment of certain objectives related to the 2019-2021 period and the metrics and scales associated with those objectives, as well as to non-concurrence of malus clauses. These objectives are:
  - the growth of consolidated earnings per share in 2021 compared to 2018;
  - the relative performance of the Bank's total shareholder return (RTA) in the 2019-2021 period in relation to the weighted RTAs of a reference group of 9 credit institutions;
  - compliance with the fully loaded ordinary level 1 capital objective for the year 2021;

The degree of compliance with the above objectives determines the percentage to be applied to the deferred amount in these three annuities, the maximum being the amount determined at the end of the year 2019 when the total variable remuneration is approved.

Both the immediate (short-term) and each of the deferred (long-term and conditioned) portions are paid 50% in cash and the remaining 50% in Santander shares.

The accrual of deferred amounts (whether or not subject to performance measures) is conditioned, in addition to the permanence of the beneficiary in the Group, to non-occurrence, during the period prior to each of the deliveries, of any the circumstances giving rise to the application of *malus* as set out in the Group's remuneration policy in its chapter related to malus and clawback. Likewise, the amounts already paid of the incentive will be subject to clawback by the Bank in the cases and during the term foreseen in said policy, and in accordance with the terms and conditions foreseen in it.

The application of malus and clawback is activated in cases in which there is poor financial performance of the entity as a whole or of a specific division or area of the entity or of the exposures generated by the personnel, and at least the following factors must be considered:

(i) Significant failures in risk management committed by the entity, or by a business unit or risk control.

(ii) The increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures.

(iii) Regulatory sanctions or judicial sentences from events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity.

(iv) Irregular conduct, whether individual or collective. In this regard, the negative effects derived from the marketing of inappropriate products and the responsibilities of the people or bodies that made those decisions will be specially considered.

The maximum number of shares to be delivered is calculated by taking into account the average weighted daily volume of the average weighted listing prices corresponding to the fifteen trading sessions prior to the previous Friday (excluded) to the date on which the bonus is agreed by the board of executive directors of the Bank.

iii) Shares assigned by deferred variable remuneration plans

The following table shows the number of Santander shares assigned to each executive director and pending delivery as of January 1, 2018, December 31, 2018 and 2019, as well as the gross shares that were delivered to them in 2018 and 2019, either in the form of an immediate payment or a deferred payment. In this case after having been appraised by the board, at the proposal of the remuneration committee, that the corresponding one-fifth (one third until 2014) of each plan had accrued. They come from each of the plans through which the variable remunerations of deferred conditional variable remuneration plans in 2014, and 2015 and of the deferred conditional and linked to multiannual objectives in 2016, 2017, 2018 and 2019.

Share-based variable remuneration

	Maximum number of shares to be delivered at January 1, 2018	Shares delivered in 2018 (immediate payment 2017 variable remuneration)	Shares delivered in 2018 (deferred payment 2016 variable remuneration)	Shares delivered in 2018 (deferred payment 2015 variable remuneration)	Shares delivered in 2018 (deferred payment 2014 variable remuneration)	Variable remuneration 2018 (Maximum number of shares to be delivered)
2014 variable remuneration						
Ms Ana Botín-Sanz de Sautuola y O'Shea	61,721				(61,721)	
Mr José Antonio Álvarez Álvarez[2]	26,632				(26,632)	
	88,353				**(88,353)**	
2015 variable remuneration						
Ms Ana Botín-Sanz de Sautuola y O'Shea	257,617			(64,404)		
Mr José Antonio Álvarez Álvarez	171,242			(42,811)		
Mr Rodrigo Echenique Gordillo	126,846			(31,712)		
	555,705			**(138,927)**		
2016 variable remuneration						
Ms Ana Botín-Sanz de Sautuola y O'Shea	360,512		(72,102)			
Mr José Antonio Álvarez Álvarez	243,332		(48,667)			
Mr Rodrigo Echenique Gordillo	180,226		(36,046)			
	784,070		**(156,815)**			
2017 variable remuneration						
Ms Ana Botín-Sanz de Sautuola y O'Shea	574,375	(229,750)				
Mr José Antonio Álvarez Álvarez	384,118	(153,647)				
Mr Rodrigo Echenique Gordillo	299,346	(119,738)				
	1,257,839	**(503,135)**				
2018 variable remuneration						
Ms Ana Botín-Sanz de Sautuola y O'Shea						860,865
Mr José Antonio Álvarez Álvarez						575,268
Mr Rodrigo Echenique Gordillo						456,840
						1,892,973
2019 variable remuneration						
Ms Ana Botín-Sanz de Sautuola y O'Shea						
Mr José Antonio Álvarez Álvarez						
Mr Rodrigo Echenique Gordillo[3]						

1 For each director, 40% of the shares indicated correspond to the short-term variable (or immediate payment). The remaining 60% is deferred for delivery, where appropriate, by fifths in the next five years, the last three being subject to the fulfilment of multiannual objectives.
2 Maximum number of shares resulting from their participation in the corresponding plans during their stage as general manager.
3 Ceased to be an executive director on 30 April 2019.
4 In addition, Mr. Ignacio Benjumea Cabeza de Vaca maintains the right to a maximum of 70,741 shares arising from his participation in the corresponding plans during his term as executive vice president.

Maximum number of shares to be delivered at December 31, 2018	Shares delivered in 2019 (immediate payment 2018 variable remuneration)	Shares delivered in 2019 (deferred payment 2017 variable remuneration)	Shares delivered in 2019 (deferred payment 2016 variable remuneration)	Shares delivered in 2019 (deferred payment 2015 variable remuneration)	Variable remuneration 2019 (Maximum number of shares to be delivered)[1]	Maximum number of shares to be delivered at December 31, 2019[4]
193,213				(64,404)		128,809
128,431				(42,811)		85,620
95,134				(31,712)		63,422
416,778				**(138,927)**		**277,851**
288,410			(72,102)			216,308
194,665			(48,667)			145,998
144,180			(36,046)			108,134
627,255			**(156,815)**			**470,440**
344,625		(68,925)				275,700
230,471		(46,094)				184,377
179,608		(35,922)				143,686
754,704		**(150,941)**				**603,763**
860,865	(344,346)					516,519
575,268	(230,107)					345,161
456,840	(182,736)					274,104
1,892,973	**(757,189)**					**1,135,784**
					887,193	887,193
					592,915	592,915
					272,480	272,480
					1,752,588	**1,752,588**

In addition, the table below shows the cash delivered in 2019 and 2018, by way of either immediate payment or deferred payment, in the latter case once the Board had determined, at the proposal of the remuneration committee, that one-fifth relating to each plan had accrued:

Thousand of euros

	2019		2018	
	Cash paid (immediate payment 2018 variable remuneration)	Cash paid (deferred payments from 2017, 2016 and 2015 variable remuneration)	Cash paid (immediate payment 2017 variable remuneration)	Cash paid (deferred payments from 2016, 2015 and 2014 variable remuneration)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	1,480	1,025	1,370	947
Mr. José Antonio Álvarez Álvarez[1]	989	686	916	574
Mr. Rodrigo Echenique Gordillo	785	519	714	305
	3,254	**2,230**	**3,000**	**1,826**

1. Includes paid cash corresponding to his participation in the corresponding plans during the time as executive vice president.

iv) Information on former members of the Board of Directors

The chart below includes information on the maximum number of shares to which former members of the Board of Directors who ceased in office prior to 1 January 2018 are entitled for their participation in the various deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to the years in which they were Executive Directors. Also set forth below is information on the deliveries, whether in shares or in cash, made in 2019 and 2018 to former board members, upon achievement of the conditions for the receipt thereof (see Note 47):

Maximum number of shares to be delivered[1]

	2019	2018
Deferred conditional variable remuneration plan (2015)	121,694	182,541
Deferred conditional variable remuneration plan and linked to objectives (2016)	98,253	171,696
Deferred conditional variable remuneration plan and linked to objectives (2017)	140,530	175,662

Number of shares delivered

	2019	2018
Deferred conditional variable remuneration plan (2014)	—	148,589
Deferred conditional variable remuneration plan (2015)	60,847	60,847
Performance shares plan ILP (2015)	129,612	—
Deferred conditional variable remuneration plan and linked to objectives (2016)	42,924	42,924
Deferred conditional variable remuneration plan and linked to objectives (2017)	35,132	117,108

In addition, 663 thousand euros and 2,057 thousand euros relating to the deferred portion payable in cash of the aforementioned plans were paid each in 2019 and 2018.

f) Loans

The Group's direct risk exposure to the bank's directors and the guarantees provided for them are detailed below. These transactions were made on terms equivalent to those that prevail in arm's-length transactions or the related compensation in kind was recognised:

Thousand euros

	2019			2018		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea	18	—	18	18	—	18
Mr. José Antonio Álvarez Álvarez	27	—	27	8	—	8
Mr. Bruce Carnegie-Brown	—	—	—	—	—	—
Mr. Rodrigo Echenique Gordillo	33	—	33	29	—	29
Mr. Javier Botín-Sanz de Sautuola y O'Shea	21	—	21	15	—	15
Ms. Sol Daurella Comadran	55	—	55	53	—	53
Mr. Carlos Fernández Gonzàlez[1]	—	—	—	12	—	12
Ms. Esther Gimenez-Salinas i Colomer	1	—	1	1	—	1
Mr. Ignacio Benjumea Cabeza de Vaca	1	—	1	—	—	—
Ms. Belén Romana García	21	—	21	21	—	21
Mr. Guillermo de la Dehesa Romero	56	—	56	21	—	21
	233	**—**	**233**	**178**	**—**	**178**

1. Ceased to be a director on December 2019.

g) Senior managers

The table below includes the amounts relating to the short-term remuneration of the members of senior management at December 31, 2019 and those at December 31, 2018, excluding the remuneration of the executive directors, which is detailed above:

Thousand of euros

		Short-term salaries and deferred remuneration							
			Variable remuneration (bonus) - Immediate payment		Deferred variable remuneration				
Year	Number of persons	Fixed	In cash	In shares[2]	In cash	In shares	Pensions	Other remuneration[1]	Total [3]
2019	18	22,904	7,668	7,669	3,336	3,337	6,282	7,491	58,687
2018	18	22,475	8,374	8,374	3,791	3,791	6,193	7,263	60,261

1. Includes other remuneration items such as life and medical insurance premiums and localization aids .
2. The amount of immediate payment in shares for 2019 is 2,090,536 shares (1,936,037 Santander shares in 2018)
3. The deferred amount in shares not linked to long-term objectives for 2019 is 900,534 shares (877,154 Santander shares in 2018).

Likewise, the shareholders meeting of 12 April 2019 approved the 2019 Digital Transformation Incentive, which is a variable compensation system that includes the delivery of Santander shares and share options subject to meeting certain important milestones of the Group's digital roadmap.

Three senior executives are included within this plan, which is aimed at a larger group of up to 250 employees whose performance is considered essential to the growth and digital transformation of Santander Group. The three employees have been awarded a total overall amount of 2,100 thousand euro[1], which will be provided to them in thirds, on the third, fourth and fifth anniversary of the granting date (2023, 2024 and 2025).

[1] The 2,100 thousand euro amount is implemented in 286,104 Santander shares and 1,495,726 options over Santander shares, using for these purposes the fair value of the options at the moment of their grant (0.702 euros).

See Note 47 for further detail on the Digital Transformation Incentive.

Also, the detail of the breakdown of the remuneration linked to long-term objectives of the members of senior management at December 31, 2019 and 2018 is provided below. These remuneration payments shall be received, as the case may be, in the corresponding deferral periods, upon achievement of the conditions stipulated for each payment (see Note 47):

Thousand of euros

		Variable remuneration subject to long-term objectives[1]		
Year	Number of people	Cash payment	Share payment	Total
2019	18	3,503	3,504	7,007
2018	18	3,981	3,981	7,962

1. Relates in 2019 with the fair value of the maximum annual amounts for years 2022, 2023 and 2024 of the third cycle of the deferred conditional variable remuneration plan (2021, 2022 and 2023 for the first cycle of the deferred variable compensation plan linked to annual objectives for the year 2017).

Senior executive vice presidents who retired in 2019 and, therefore, were not members of senior management at year-end, received in 2019 salaries and other remuneration relating to their termination amounting to EUR 6,789 thousand (EUR 1,861 thousand in 2018). Likewise, these same individuals have generated as senior managers the right to obtain variable remuneration linked to long-term objectives for a total amount of 618 thousand euro (this right has not been generated in 2018 in respect of any employee who has ceased in his/her role as senior manager)

The average total remuneration awarded to women who were part of the senior management during 2019, excluding executive directors, is 1% higher than the average remuneration of men senior managers.

The maximum number of Santander shares that the members of senior management at each plan grant date (excluding executive directors) were entitled to receive as of December 31, 2019 and 2018 relating to the deferred portion under the various plans then in force is the following (see Note 47):

Maximum number of shares to be delivered

	2019	2018
Deferred conditional variable remuneration plan (2015)	391,074	705,075
Performance shares plan ILP (2015)	—	515,456
Deferred conditional variable remuneration plan and linked to objectives (2016)	660,205	1,079,654
Deferred conditional variable remuneration plan and linked to objectives (2017)	1,115,570	1,434,047
Deferred conditional variable remuneration plan and linked to objectives (2018)	1,986,754	2,192,901
Deferred conditional variable remuneration plan and linked to objectives (2019)	2,273,859	—

Since the conditions established in the corresponding deferred share-based remuneration schemes for prior years had been met, the following number of Santander shares was delivered in 2019 and 2018 to the senior management, in addition to the payment of the related cash amounts:

Number of shares delivered

	2019	2018
Deferred conditional variable remuneration plan (2014)	—	248,963
Deferred conditional variable remuneration plan (2015)	257,187	261,109
Performance shares plan ILP (2015)	515,456	—
Deferred conditional variable remuneration plan and linked to objectives (2016)	215,868	258,350
Deferred conditional variable remuneration plan and linked to objectives (2017)	245,575	—

As indicated in Note 5.c above, senior management participate in the benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of its senior managers.

In 2012, the contracts of the senior managers with benefit pension commitments were amended to transform them into a contribution system. The system, which is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., gives senior managers the right to receive benefits upon retirement, regardless of whether or not they are active at the Bank at such time, based on contributions to the system. This new system replaced their previous right to receive a pension supplement in the event of retirement. In the event of pre-retirement, and up to the retirement date, senior managers appointed prior to September 2015 are entitled to receive an annual allowance.

In addition, further to applicable remuneration regulations, from 2016 (inclusive), a discretionary pension benefit component of at least 15% of total remuneration in contributions to the pension system has been included. Under the regime corresponding to these discretionary benefits, the contributions that are calculated on variable remunerations are subject to malus and clawback clauses, subject to policies applicable at each time, and during the same period in which the variable remuneration is deferred.

Likewise, the annual contributions calculated on variable remunerations must be invested in Bank shares for a period of five years from the date tht the senior manager leaves the Group, regardless of whether or not they leave to retire. Once that period has elapsed, the amount invested in shares will be reinvested, along with the remainder of the cumulative balance corresponding to the senior manager, or it will be paid to the senior manager or to their beneficiaries in the event of a contingency covered by the benefits system.

At the begining of 2018 the contracts of certain senior managers went through the amendments set out in note 5.c. for executive directors. The amendments, aimed at aligning the annual contributions with practices of comparable institutions and reducing future liabilities by eliminating the supplementary benefits scheme in the event of death (death of spouse or parent) and in the event of permanent disability while still in active employment, with no increase in total costs for the Bank, were the following:

- Contributions to the pensionable bases were reduced. Gross annual salaries were increased in the corresponding amount .
- The death and disability supplementary benefits were eliminated since January 1, 2018. A fixed remuneration supplement reflected in other remuneration in the table above was implemented on the same date.
- The amounts insured for life and accident insurance were increased.

All of the above was done without an increase in total cost for the Bank.

The balance as of December 31, 2019 in the pension system for those who were part of senior management during the year amounted to EUR: 69.8 million (EUR: 66.5 million in December 31, 2018).

The net charge to income corresponding to pension and supplementary benefits for widows, orphans and permanent invalidity amounted to EUR 6.3 million in 2019 (EUR: 6.4 in December 31, 2018).

In 2019 and 2018 there have been no payments in the form of a single payment of the annual voluntary pre-retirement allowance.

Additionally, the capital insured by life and accident insurance at December 31, 2019 of this group amounts to EUR 134.1 million (EUR: 133.3 million at December 31, 2018).

h) Post-employment benefits to former Directors and former senior executive vice presidents

The post-employment benefits and settlements paid in 2019 to former directors of the Bank, other than those detailed in note 5.c amounted to EUR 6.3 million (2018: EUR 13.8 million). Also, the post-employment benefits and settlements paid in 2019 to former executive vice presidents amounted to EUR 6.5 million (2018: EUR 63 million).

Contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits to previous members of the Bank's board of directors, amounted to EUR 0.2 million in 2019 (EUR 0.5 million in 2018). Likewise, contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits for previous senior managers amounted to EUR 5.5 million in 2019 (EUR 5.4 million in 2018).

In addition, Provisions - Pension Fund and similar obligations in the consolidated balance sheet as at December 31, 2019 included EUR 65.7 million in respect of the post-employment benefit obligations to former Directors of the Bank (December 31, 2018: EUR 70.2 million) and EUR 172 million corresponding to former senior managers (2018: EUR 179 million).

i) Pre-retirement and retirement

In case of termination in their role as executive directors prior to reaching their retirement age, the following executive directors will be entitled to take pre-retirement , subject to the terms indicated below:

Ms. Ana Botín will be entitled to take pre-retirement in the event of termination for reasons other than breach. In such case, she will be entitled to an annual emolument equivalent to her fixed remuneration plus 30% of the average of her latest amounts of variable remuneration, up to a maximum of three years. This emolument would be reduced by up to 8% in the event of voluntary retirement before the age of 60. This assignment will be subject to malus and clawback conditions in effect for a period of 5 years. Mr. José Antonio Álvarez will be entitled to take pre-retirement in the event of termination for reasons other than his own free will or breach. In such case, he will be entitled to an annual emolument equivalent to the fixed remuneration corresponding to him as senior executive vice president. This assignment will be subject to malus and clawback conditions in effect for a period of 5 years.

j) Contract termination

The executive directors and senior managers have indefinite-term employment contracts. Executive directors or senior managers whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the Bank terminates the contract for any other reason, they will be entitled to the corresponding legally-stipulated termination benefit, without prejudice to any compensation that may for non-competition obligations, as detailed in the directors' remuneration policy.

If the Bank were to terminate her contract, Ms. Ana Botín would have to remain at the Bank's disposal for a period of four months in order to ensure an adequate transition, and would receive her fixed salary during that period.

k) Information on investments held by the directors in other companies and conflicts of interest

None of the members of the board of directors or persons related to them perform, as independent professionals or asemployees, activities that involve effective competition, be it present or potential, with the activities of Banco Santander, S.A., or that, in any other way, place the directors in an ongoing conflict with the interests of Banco Santander, S.A.

Without prejudice to the foregoing, following is a detail of the declarations by the directors with respect to their equity interests in companies not related to the Group whose object is banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat.

Administrator	Denomination	Number of shares	Functions
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A.*	5,000,000	—
Mr. Bruce Neil Carnegie-Brown	Moneysupermarket.com Group plc	30,000	—
	Lloyd's of London Ltd	—	President**
Mr. Guillermo de la Dehesa Romero	Goldman, Sachs & Co. (The Goldman Sachs Group, Inc.)	19,546	—
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A.	6,929,853	—
	JB Capital Markets Sociedad de Valores, S.A.	2,077,198	President
Ms. Pamela Ann Walkden	Standard Chartered Bank***	651,141	—
Mr. Ramiro Mato García-Ansorena	BNP Paribas, S.A.	13,806	—
Mr. Rodrigo Echenique Gordillo	Mitsubishi UFJ Financial Group*	17,500	—
	Contingent convertible (CoCos) issued in 2018 by Caixabank, S.A*	1	—
	Ares Capital Corporation	13,128	—

* Indirect ownership.
** Non-executive.
*** includes: Ordinary shares; Deferred shares; Deferred option and Management Long Term Inventive Plan (MLTIP).

In addition, according to the Article 40 of the rules and regulations of the Board, the Board, following a favorable report from the audit committee, must authorize the operations that the bank carries out with directors (unless their approval corresponds by law to the Shareholders Meeting), with the exception of those that simultaneously meet the conditions referred to in paragraph 2 of said Article 40.

Accordingly, the related party transactions carried out during the financial year met the conditions established in the regulations of the board of directors so as not to require a prior favourable report from the audit committee and subsequent authorisation from the board of directors.

In addition, during 2019 there were 49 occasions in which, in accordance with the provisions of article 36.1 (b) (iii) of the Regulations of the Board, the directors have abstained from intervening and voting in the deliberation of matters in the sessions of the board of directors or its committees. The breakdown of the 49 cases is as follows: on 28 occasions they were due to proposals for the appointment, re-election or resignation of directors, as well as members of board committees; on 13 occasions it was about retributive aspects or the granting of loans or credits and on 8 occasions the abstention occurred in relation to the annual verification of the directors' suitability or nature.

6. Loans and advances to central banks and credit institutions

The detail, by classification, type and currency, of Loans and advances to central banks and credit institutions in the consolidated balance sheets is as follows:

Million euros

	2019	2018*	2017
CENTRAL BANKS			
Classification:			
Financial assets held for trading	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—	
Financial assets designated at fair value through profit or loss	6,473	9,226	—
Financial assets designated at fair value through other comprehensive income	—	—	
Financial assets at amortised cost	18,474	15,601	
Loans and receivables			26,278
	24,947	**24,827**	**26,278**
Type:			
Time deposits	17,533	15,601	17,359
Reverse repurchase agreements	7,414	9,226	8,919
Impaired assets	—	—	—
Valuation adjustments for impairment	—	—	—
	24,947	**24,827**	**26,278**
CREDIT INSTITUTIONS			
Classification:			
Financial assets held for trading	—	—	1,696
Non-trading financial assets mandatorily at fair value through profit or loss	—	2	
Financial assets designated at fair value through profit or loss	21,649	23,097	9,889
Financial assets designated at fair value through other comprehensive income	—	—	
Financial assets at amortised cost	40,943	35,480	
Loans and receivables			39,567
	62,592	**58,579**	**51,152**
Type:			
Time deposits	9,699	10,759	8,169
Reverse repurchase agreements	31,180	33,547	21,765
Non- loans advances	21,726	14,283	21,232
Impaired assets	1	2	4
Valuation adjustments for impairment	(14)	(12)	(18)
	62,592	**58,579**	**51,152**
Currency:			
Euro	32,248	24,801	23,286
Pound sterling	3,659	4,073	5,582
US dollar	14,442	19,238	15,325
Brazilian real	30,919	28,310	28,140
Other currencies	6,271	6,984	5,097
TOTAL	**87,539**	**83,406**	**77,430**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

The loans and advances classified under Financial assets designated at fair value through profit or loss consist of assets of Spanish and foreign institutions acquired under reverse repurchase agreements.

The loans and advances to credit institutions classified under Financial assets at amortised cost (IFRS 9) and Loans and receivables (IAS 39) are mainly time accounts and deposits.

Note 51 contains a detail of the residual maturity periods of Financial assets at amortised cost (IFRS 9) and Loans and receivables (IAS 39) and of the related average interest rates.

At 31 December 2019 the exposure by impairment stage of the assets accounted for under IFRS 9 amounts to EUR 59,430, EUR 0 and EUR 1 million (EUR 51,090, EUR 1 and EUR 2 million in 2018), and the loan loss provision by impairment stage amounts to EUR 14, 0 and 0 million (EUR 12, 0 and 0 million in 2018) in stage 1, without loan loss provision in stage 2 and stage 3.

7. Debt instruments

a) Detail

The detail, by classification, type and currency, of Debt instruments in the consolidated balance sheets is as follows:

Million euros

	2019	2018*	2017
Classification:			
Financial assets held for trading	32,041	27,800	36,351
Non-trading financial assets mandatorily at fair value through profit or loss	1,175	5,587	
Financial assets designated at fair value through profit or loss	3,186	3,222	3,485
Financial assets designated at fair value through other comprehensive income	118,405	116,819	
Financial assets available-for-sale			128,481
Financial assets at amortised cost	29,789	37,696	
Loans and receivables			17,543
Held-to-maturity investments			13,491
	184,596	**191,124**	**199,351**
Type:			
Spanish government debt securities	42,054	50,488	59,186
Foreign government debt securities	107,434	99,959	99,424
Issued by financial institutions	9,670	10,574	12,155
Other fixed-income securities	25,265	29,868	28,299
Impaired financial assets	647	870	1,017
Impairment losses	(474)	(635)	(730)
	184,596	**191,124**	**199,351**
Currency:			
Euro	70,357	76,513	93,250
Pound sterling	15,713	19,153	16,203
US dollar	29,846	22,864	25,191
Brazilian real	38,316	40,871	39,233
Other currencies	30,838	32,358	26,204
Total gross	**185,070**	**191,759**	**200,081**
Impairment losses	(474)	(635)	(730)
	184,596	**191,124**	**199,351**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

In the last quarter of 2019, debt securities were transferred from the financial asset at amortised cost to the financial asset at fair value through other comprehensive income. The fair value of these assets at the date of the transfer being EUR 6,359 million.

As established in IFRS 9, the aforementioned transfer was made prospectively, recognising the difference between the previous amortised cost of the transferred financial assets and their fair value in other comprehensive income. In application of this standard, the effective interest rate and the measurement of expected credit losses were not adjusted as a result of the transfer.

The context of adapting the Group´s commercial strategy to the changes in business models, in order to favour a greater alignment of the sensitivity of the Bank's balance sheet masses to interest rates, has led to a change in the assets related to these liabilities from a business model whose objective is to collect the principal and interest flows to a business model whose objective is achieved through the collection of the principal and interest flows and the sale of these assets.

At 31 December 2019 and 2018 the exposure by impairment stage of the book assets under IFRS 9 amounted to EUR 147,575 million and EUR 154,164 million in stage 1, EUR 446 million and EUR 117 million in stage 2, and EUR 647 million and EUR 870 million in stage 3, respectively.

b) Breakdown

The breakdown, by origin of the issuer, of Debt instruments at 31 December 2019, 2018 and 2017, net of impairment losses, is as follows:

Million euros

	2019				2018				2017			
	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%
Spain	3,634	42,054	45,688	24.75%	4,748	50,488	55,236	28.90%	5,272	59,186	64,458	32.33%
United Kingdom	3,806	11,479	15,285	8.28%	5,615	9,512	15,127	7.91%	4,339	10,717	15,056	7.55%
Portugal	2,979	7,563	10,542	5.71%	3,663	6,943	10,606	5.55%	3,972	7,892	11,864	5.95%
Italy	1,384	3,620	5,004	2.71%	857	3,134	3,991	2.09%	1,287	7,171	8,458	4.24%
Ireland	2,387	2	2,389	1.29%	4,543	2	4,545	2.38%	3,147	2	3,149	1.58%
Poland	460	9,361	9,821	5.32%	683	10,489	11,172	5.85%	772	6,619	7,391	3.71%
Other European countries	7,186	1,784	8,970	4.86%	6,101	1,518	7,619	3.99%	7,195	1,733	8,928	4.48%
United States	5,915	15,609	21,524	11.66%	6,833	10,362	17,195	9.00%	7,986	11,670	19,656	9.86%
Brazil	5,808	35,036	40,844	22.13%	5,285	36,583	41,868	21.91%	4,729	34,940	39,669	19.90%
Mexico	708	13,234	13,942	7.55%	520	11,325	11,845	6.20%	461	9,478	9,939	4.99%
Chile	50	4,819	4,869	2.64%	79	2,729	2,808	1.47%	62	4,071	4,133	2.07%
Other American countries	605	1,095	1,700	0.92%	1,111	1,375	2,486	1.30%	755	913	1,668	0.84%
Rest of the world	186	3,832	4,018	2.18%	639	5,987	6,626	3.47%	764	4,218	4,982	2.50%
	35,108	**149,488**	**184,596**	**100%**	**40,677**	**150,447**	**191,124**	**100%**	**40,741**	**158,610**	**199,351**	**100%**

The detail, by issuer rating, of Debt instruments at 31 December 2019, 2018 and 2017 is as follows:

Million euros

	2019				2018				2017			
	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%	Private fixed-income	Public fixed-income	Total	%
AAA	14,737	1,085	15,822	8.57%	18,901	834	19,735	10.33%	16,239	924	17,163	8.61%
AA	5,133	28,325	33,458	18.13%	2,715	20,966	23,681	12.39%	2,714	23,522	26,236	13.16%
A	3,238	59,744	62,982	34.12%	3,464	69,392	72,856	38.12%	4,373	8,037	12,410	6.23%
BBB	4,889	24,766	29,655	16.06%	5,093	21,837	26,930	14.09%	6,449	91,012	97,461	48.89%
Below BBB	1,244	35,466	36,710	19.89%	668	37,412	38,080	19.92%	2,393	35,109	37,502	18.81%
Unrated	5,867	102	5,969	3.23%	9,836	6	9,842	5.15%	8,573	6	8,579	4.30%
	35,108	**149,488**	**184,596**	**100%**	**40,677**	**150,447**	**191,124**	**100%**	**40,741**	**158,610**	**199,351**	**100%**

During 2019, the distribution of the exposure by rating level of the previous table has not been affected by ratings reviews of the sovereign issuers. In 2018, Spain and Poland went from BBB+ to A-, and by 2017, Portugal went from BB+ to BBB- and Chile from AA- to A+.

The detail, by type of financial instrument, of Private fixed-income securities at 31 December 2019, 2018 and 2017, net of impairment losses, is as follows:

Million euros

	2019	2018	2017
Securitised mortgage bonds	1,633	2,942	2,458
Other asset-backed bonds	6,388	9,805	5,992
Floating rate debt	10,348	13,721	13,756
Fixed rate debt	16,739	14,209	18,535
Total	**35,108**	**40,677**	**40,741**

c) Impairment losses

The changes in the impairment losses on Debt instruments are summarised below:

Million of euros

	2019	2018*	2017
Balance at beginning of year	635	704	498
Net impairment losses for the year	(170)	43	348
Of which:			
Impairment losses charged to income	*77*	*138*	*386*
Impairment losses reversed with a credit to income	*(247)*	*(95)*	*(38)*
Exchange differences and other items	9	(112)	(116)
Balance at end of year	**474**	**635**	**730**
Of which:			
By geographical location of risk:			
European Union	*14*	*22*	*30*
Latin America	*460*	*613*	*700*
Of which:			
Loans and advances			*348*
Financial assets at amortised cost	*(176)*	*43*	
Financial assets available for sale			*—*
Financial assets designated at fair value through other comprehensive income	*6*	*—*	

*See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

At 31 December 2019 and 2018 the loan loss provision by impairment stage of the assets accounted for under IFRS9 amounted to EUR 22 million and EUR 30 million in stage 1, EUR 6 million and EUR 9 million in stage 2, and EUR 446 million and EUR 596 million in stage 3, respectively.

8. Equity instruments

a) Breakdown

The detail, by classification and type, of Equity instruments in the consolidated balance sheets is as follows:

Million euros

	2019	2018*	2017
Classification:			
Financial assets held for trading	12,437	8,938	21,353
Non-trading financial assets mandatorily at fair value through profit or loss	3,350	3,260	
Financial assets designated at fair value through profit or loss			933
Financial assets designated at fair value through other comprehensive income	2,863	2,671	
Financial assets available-for-sale			4,790
	18,650	**14,869**	**27,076**
Type:			
Shares of Spanish companies	3,711	3,448	4,199
Shares of foreign companies	12,682	9,107	20,448
Investment fund shares	2,257	2,314	2,429
	18,650	**14,869**	**27,076**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

Note 29 contains a detail of the Other comprehensive income, recognised in equity, on Financial assets designated at fair value through other comprehensive income (IFRS 9) and Financial assets available-for-sale, and also the related impairment losses (IAS 39).

b) Changes

The changes in Financial assets at fair value through other comprehensive income (IFRS 9), and Financial assets available-for-sale (IAS 39) were as follows:

Million euros

	2019	2018*	2017
Balance at beginning of the year	2,671	3,169	5,487
Net additions (disposals)	221	(324)	(331)
Valuation adjustment and other items	(29)	(174)	(366)
Balance at end of year	**2,863**	**2,671**	**4,790**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

c) Notifications of acquisitions of investments

The notifications of the acquisitions and disposals of holdings in investees made by the Bank in 2019, in compliance with Article 155 of the Spanish Limited Liability Companies Law and Article 125 of Spanish Securities Market Law 24/1998, are listed in Appendix IV.

9. Trading Derivatives (assets and liabilities) and short positions

a) Trading Derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Group is as follows (see Note 11):

Million euros

	2019		2018		2017	
	Debit balance	Credit balance	Debit balance	Credit balance	Debit balance	Credit balance
Interest rate risk	42,614	40,956	36,087	36,487	38,030	37,582
Currency risk	18,085	19,870	16,912	17,025	16,320	18,014
Price risk	2,329	1,772	2,828	1,673	2,167	2,040
Other risks	369	418	112	156	726	256
	63,397	**63,016**	**55,939**	**55,341**	**57,243**	**57,892**

b) Short positions

Following is a breakdown of the short positions (liabilities):

Million euros

	2019	2018	2017
Borrowed securities:			
Debt instruments	390	1,213	2,447
Of which:			
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*390*	*1,213*	*890*
Santander UK plc	*—*	*—*	*1,557*
Equity instruments	393	1,087	1,671
Of which:			
Santander UK plc	*—*	*—*	*1,500*
Banco Santander, S.A.	*308*	*987*	*98*
Short sales:			
Debt instruments	13,340	12,702	16,861
Of which:			
Banco Santander, S.A.	*7,980*	*5,336*	*8,621*
Banco Santander (Brasil) S.A.	*5,194*	*7,300*	*8,188*
	14,123	**15,002**	**20,979**

10. Loans and advances to customers

a) Detail

The detail, by classification, of Loans and advances to customers in the consolidated balance sheets is as follows:

Million euros

	2019	2018*	2017
Financial assets held for trading**	355	202	8,815
Non-trading financial assets mandatorily at fair value through profit or loss	386	1,881	
Financial assets designated at fair value through profit or loss	30,761	21,915	20,475
Financial assets at fair value through other comprehensive income	4,440	1,601	
Financial assets at amortised cost	906,276	857,322	
Loans and receivables			819,625
Of which:			
Impairment losses	*(22,242)*	*(23,307)*	*(23,934)*
	942,218	882,921	848,915
Loans and advances to customers disregarding impairment losses	**964,460**	**906,228**	**872,849**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** The decrease in 2018 reflects the run-down of UK's trading business due to the banking reform (Ring-fencing) in 2018.

Note 51 contains a detail of the residual maturity periods of financial assets at amortised cost (IFRS 9) and loans and receivables (IAS 39) and of the related average interest rates.

Note 54 shows the Group's total exposure, by geographical origin of the issuer.

There are no loans and advances to customers for material amounts without fixed maturity dates.

b) Breakdown

Following is a breakdown, by loan type and status, geographical area of residence and interest rate formula, of the loans and advances to customers of the Group, which reflect the Group's exposure to credit risk in its core business, disregarding impairment losses:

Million euros

	2019	2018	2017
Loan type and status:			
Commercial credit	37,753	33,301	29,287
Secured loans	513,929	478,068	473,936
Reverse repurchase agreements	45,703	32,310	18,864
Other term loans	267,154	265,696	257,441
Finance leases	35,788	30,758	28,511
Receivable on demand	7,714	8,794	6,721
Credit cards receivables	23,876	23,083	21,809
Impaired assets	32,543	34,218	36,280
	964,460	**906,228**	**872,849**
Geographical area:			
Spain	204,810	215,764	227,446
European Union (excluding Spain)	460,338	411,550	390,536
United States and Puerto Rico	100,152	89,325	75,777
Other OECD countries	86,327	82,607	74,463
South America (non - OECD)	92,145	87,406	88,302
Rest of the world	20,688	19,576	16,325
	964,460	**906,228**	**872,849**
Interest rate formula:			
Fixed rate	546,619	497,365	447,788
Floating rate	417,841	408,863	425,061
	964,460	**906,228**	**872,849**

At 31 December 2019, 2018 and 2017 the Group had granted loans amounting to EUR 9,993, 13,615 and 16,470 million to Spanish public sector agencies which had a rating at 31 December 2019 of A (ratings of A at 31 December 2018 and ratings of BBB at 31 December 2017), and EUR 12,218, 10,952 and 18,577 million to the public sector in other countries (at 31 December 2019, the breakdown of this amount by issuer rating was as follows: 15.9% AAA, 11.6% AA, 3.4% A, 56% BBB and 13.1% below BBB).

Without considering the Public Administrations, the amount of the loans and advances at 31 December 2019 amounts to EUR 942,249 million, of which, EUR 909,741 million euros are classified as performing.

The above-mentioned ratings were obtained by converting the internal ratings awarded to customers by the Group (see Note 54) into the external ratings classification established by Standard & Poor's, in order to make them more readily comparable.

Following is a detail, by activity, of the loans to customers at 31 December 2019, net of impairment losses:

Million euros

			Secured loans						
			Net exposure		Loan-to-value ratio***				
	Total	Without collateral	Of which: property collateral	Of which: other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public sector	20,053	19,018	252	783	116	104	83	640	92
Other financial institutions (financial business activity)	67,830	14,375	1,001	52,454	521	757	623	51,157	397
Non-financial corporations and individual entrepreneurs (non-financial business activity) (broken down by purpose)	319,616	172,659	71,474	75,483	26,695	21,566	20,872	43,227	34,597
Of which:									
Construction and property development	*18,434*	*2,517*	*9,954*	*5,963*	*4,057*	*2,175*	*1,158*	*2,244*	*6,283*
Civil engineering construction	*3,533*	*2,140*	*309*	*1,084*	*137*	*282*	*54*	*442*	*478*
Large companies	*173,090*	*111,739*	*23,716*	*37,635*	*10,888*	*7,467*	*8,874*	*21,575*	*12,547*
SMEs and individual entrepreneurs	*124,559*	*56,263*	*37,495*	*30,801*	*11,613*	*11,642*	*10,786*	*18,966*	*15,289*
Households – other (broken down by purpose)	519,996	111,771	342,847	65,378	87,432	107,553	113,603	62,346	37,291
Of which:									
Residential	*332,881*	*1,764*	*330,491*	*626*	*80,001*	*101,285*	*106,210*	*36,669*	*6,952*
Consumer loans	*167,338*	*106,886*	*2,463*	*57,989*	*3,132*	*3,909*	*4,114*	*20,557*	*28,740*
Other purposes	*19,777*	*3,121*	*9,893*	*6,763*	*4,299*	*2,359*	*3,279*	*5,120*	*1,599*
Total*	**927,495**	**317,823**	**415,574**	**194,098**	**114,764**	**129,980**	**135,181**	**157,370**	**72,377**
Memorandum item									
*Refinanced and restructured transactions***	23,430	5,333	13,248	4,849	3,228	2,645	2,412	2,814	6,998

* In addition, the Group has granted advances to customers amounting to EUR 14,723 million, bringing the total of loans and advances to EUR 942,218 million.
** Includes the net balance of the impairment of the accumulated value or accumulated losses in the fair value due to credit risk.
*** The ratio is the carrying amount of the transactions at 31 December 2019 provided by the latest available appraisal value of the collateral.

Note 54 contains information relating to the refinanced/ restructured loan book.

Following is the movement of the gross exposure broken down by impairment stage of loans and advances to customers recognised under "Financial assets at amortised cost" and "Financial assets at fair value through other comprehensive income" under IFRS 9 during 2019 and 2018:

2019

Million euros	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of year	795,829	52,183	33,461	881,473
Movements				
Transfers				
Transfer to Stage 2 from Stage 1	(28,369)	28,369		—
Transfer to Stage 3 from Stage 1	(4,101)		4,101	—
Transfer to Stage 3 from Stage 2		(13,240)	13,240	—
Transfer to Stage 1 from Stage 2	12,436	(12,436)		—
Transfer to Stage 2 from Stage 3		2,439	(2,439)	—
Transfer to Stage 1 from Stage 3	488		(488)	—
Net changes on financial assets	61,581	(8,092)	(3,608)	49,881
Write-offs	—	—	(12,593)	(12,593)
Exchange differences and others	12,075	1,253	163	13,491
Loss allowance as of 31 December 2019	**849,939**	**50,476**	**31,837**	**932,252**

2018

Million of euros	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of year	746,654	60,304	35,477	842,435
Movements				
Transfers				
Transfer to Stage 2 from Stage 1	(31,234)	31,234		—
Transfer to Stage 3 from Stage 1	(3,980)		3,980	—
Transfer to Stage 3 from Stage 2		(13,998)	13,998	—
Transfer to Stage 1 from Stage 2	21,795	(21,795)		—
Transfer to Stage 2 from Stage 3		4,103	(4,103)	—
Transfer to Stage 1 from Stage 3	835		(835)	—
Net changes on financial assets	79,727	(5,265)	(1,997)	72,465
Write-offs	—	—	(12,673)	(12,673)
Exchange differences and others	(17,968)	(2,400)	(386)	(20,754)
Loss allowance as of 31 December 2018	**795,829**	**52,183**	**33,461**	**881,473**

At 31 December 2019, the Group had EUR 706 million (31 December 2018: EUR 757 million) in purchased credit-impaired assets, which relate mainly to the business combinations carried out by the Group.

c) Impairment losses on loans and advances to customers at amortised cost and at fair value through other comprehensive income

The changes in the impairment losses on the assets making up the balances of financial assets at amortised cost and at fair value through other comprehensive income - Loans and advances - Customers:

Million euros	2019	2018*	2017
Balance at beginning of the year	23,307	25,936	24,393
Impairment losses charged to income for the year	11,108	10,501	10,513
Of which:			
Impairment losses charged to profit or loss	*19,192*	*17,850*	*19,006*
Impairment losses reversed with a credit to profit or loss	*(8,084)*	*(7,349)*	*(8,493)*
Write-off of impaired balances against recorded impairment allowance	(12,593)	(12,673)	(13,522)
Exchange differences and other changes**	420	(457)	2,550
Balance at end of the year	**22,242**	**23,307**	**23,934**
Which correspond to:			
Impaired assets	*13,933*	*14,906*	*16,207*
Other assets	*8,309*	*8,401*	*7,727*
Of which:			
Individually calculated	*3,555*	*4,905*	*5,311*
Collective calculated	*18,687*	*18,402*	*18,623*

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** In 2017, mainly includes the balances from the acquisition of Banco Popular Español, S.A.U.

In addition, releases with a credit to fixed-income results amounting to EUR 170 million were recorded in the year (additions amounting to EUR 43 million and EUR 348 million as of 31 December 2018 and 2017, respectively) and written-off assets recoveries have been recorded in the year amounting to EUR 1,586 million. (31 December 2018: EUR 1,558 million; 31 December 2017: EUR 1,620 million). With this, the impairment recorded in Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes: Financial assets at fair value through other comprehensive income and Financial assets at amortised cost (IFRS 9) and, Loans and receivables (IAS 39); amounts EUR 9,352 million (31 December 2018: EUR 8,986 million; 31 December 2017: EUR 9,241 million).

Following is the movement of the loan loss provision broken down by impairment stage of loans and advances to customers, under IFRS 9 during 2019 and 2018:

2019

Million euros	Stage 1	Stage 2	Stage 3	Total
Loss allowance as of 1 January 2019	3,658	4,743	14,906	23,307
Transfers				
Transfer from Stage 2 to Stage 1	(964)	3,235		2,271
Transfer from Stage 3 to Stage 1	(214)		1,296	1,082
Transfer from Stage 3 to Stage 2		(3,065)	5,612	2,547
Transfer from Stage 1 to Stage 2	301	(1,048)		(747)
Transfer from Stage 2 to Stage 3		381	(817)	(436)
Transfer from Stage 1 to Stage 3	29		(123)	(94)
Net changes of the exposure and modifications in the credit risk	1,119	(182)	5,548	6,485
Write-offs	—	—	(12,593)	(12,593)
FX and other movements	(94)	410	104	420
Carrying amount as of 31 December 2019	**3,835**	**4,474**	**13,933**	**22,242**

2018

Million of euros	Stage 1	Stage 2	Stage 3	Total
Loss allowance as of 1 January 2018	4,349	5,079	16,507	25,935
Transfers				
Transfer from Stage 2 to Stage 1	(1,173)	3,854		2,681
Transfer from Stage 3 to Stage 1	(279)		1,264	985
Transfer from Stage 3 to Stage 2		(1,971)	4,528	2,557
Transfer from Stage 1 to Stage 2	438	(1,656)		(1,218)
Transfer from Stage 2 to Stage 3		435	(1,264)	(829)
Transfer from Stage 1 to Stage 3	84		(173)	(89)
Net changes of the exposure and modifications in the credit risk	304	(961)	7,070	6,413
Write-offs	—	—	(12,673)	(12,673)
FX and other movements	(65)	(37)	(353)	(455)
Carrying amount as of 31 December 2018	**3,658**	**4,743**	**14,906**	**23,307**

d) Impaired assets and assets with unpaid past-due amounts

The detail of the changes in the balance of the financial assets classified as Financial assets at amortised cost – Customers (IFRS 9) and Loans and receivables - Loans and advances to customers (IAS 39) considered to be impaired due to credit risk is as follows:

Million euros	2019	2018	2017
Balance at beginning of year	34,218	36,280	32,573
Net additions	10,755	10,821	8,409
Written-off assets	(12,593)	(12,673)	(13,522)
Changes in the scope of consolidation	—	177	9,618
Exchange differences and other	163	(387)	(798)
Balance at end of year	**32,543**	**34,218**	**36,280**

This amount, after deducting the related allowances, represents the Group's best estimate of the discounted value of the flows that are expected to be recovered from the impaired assets.

At 31 December 2019, the Group's written-off assets totalled EUR 46,209 million (31 December 2018: EUR 47,751 million; 31 December 2017: EUR 43,508 million).

Following is a detail of the financial assets classified as Financial assets at amortised cost (IFRS 9) and Loans and receivables to costumers (IFRS 39) and considered to be impaired due to credit risk at 31 December 2019, classified by geographical location of risk and by age of the first maturity of each operation:

Million euros

	With no past-due balances or less than 90 days past due	With balances past due by				
		90 to 180 days	180 to 270 days	270 days to 1 year	More than 1 year	Total
Spain	4,018	914	686	668	8,608	14,894
European Union (excluding Spain)	2,659	1,169	723	622	2,567	7,740
United States and Puerto Rico	1,725	403	34	21	125	2,308
Other OECD countries	1,426	574	172	124	494	2,790
Latin America (non-OECD)	1,948	932	724	592	615	4,811
	11,776	**3,992**	**2,339**	**2,027**	**12,409**	**32,543**

The detail at 31 December 2018 is as follows:

Million euros

	With no past-due balances or less than 90 days past due	With balances past due by				
		90 to 180 days	180 to 270 days	270 days to 1 year	More than 1 year	Total
Spain	5,671	780	551	656	8,724	16,382
European Union (excluding Spain)	2,940	1,213	577	519	2,662	7,911
United States and Puerto Rico	1,906	531	30	31	178	2,676
Other OECD countries	1,414	498	143	162	520	2,737
Latin America (non-OECD)	1,221	1,145	782	561	803	4,512
	13,152	**4,167**	**2,083**	**1,929**	**12,887**	**34,218**

The detail at 31 December 2017 is as follows:

Million euros

	With no past-due balances or less than 90 days past due	With balances past due by				
		90 to 180 days	180 to 270 days	270 days to 1 year	More than 1 year	Total
Spain	6,012	938	793	814	9,643	18,200
European Union (excluding Spain)	2,023	1,526	811	558	3,829	8,747
United States and Puerto Rico	1,221	641	42	50	192	2,146
Other OECD countries	1,523	563	166	128	378	2,758
Latin America (non-OECD)	945	1,309	709	578	888	4,429
	11,724	**4,977**	**2,521**	**2,128**	**14,930**	**36,280**

Set forth below for each class of impaired asset are the gross amount, associated allowances and information relating to the collateral and/or other credit enhancements obtained at 31 December 2019:

Million euros

	Gross amount	Allowance recognised	Estimated collateral value*
Without associated real collateral	11,408	7,144	—
With real estate collateral	16,076	4,429	10,819
With other collateral	5,059	2,360	1,900
Total	**32,543**	**13,933**	**12,719**

* Including the estimated value of the collateral associated with each loan. Accordingly, any other cash flows that may be obtained, such as those arising from borrowers' personal guarantees, are not included.

When classifying assets in the previous table, the main factors considered by the Group to determine whether an asset has become impaired are the existence of amounts past due -assets impaired due to arrears- or other circumstances may be arise which will not result in all contractual cash flow being recovered, such as a deterioration of the borrower's financial situation, the worsening of its capacity to generate funds or difficulties experienced by it in accessing credit.

Past-due amounts receivable

In addition, at 31 December 2019, there were amounts receivable that were past due by 90 days or less, the detail of which, by age of the oldest past-due amount, is as follows:

Million euros

	Less than 1 month	1 to 2 months	2 to 3 months
Loans and advances to customers	1,738	894	351
Of which Public Sector	*1*	—	—
Total	**1,738**	**894**	**351**

e) Securitisation retained on the balance sheet

Loans and advances to customers includes, inter alia, the securitised loans transferred to third parties on which the Group has retained the risks and rewards, albeit partially, and which therefore, in accordance with the applicable accounting standards, cannot be derecognised. This is mainly due to mortgage loans, loans to companies and consumer loans in which the group retains subordinate financing and/or grants some kind of credit enhancement to new holders.

Securitisation is used as a tool for the management of regulatory capital and as a means of diversifying the Group's liquidity sources.

Million euros

	2019	2018	2017
Retained on the balance sheet	93,553	88,767	91,208
Of which			
Securitised mortgage assets	*31,868*	*33,900*	*36,844*
Of which: UK assets	*13,002*	*13,519*	*15,694*
Other securitised assets	*61,685*	*54,867*	*54,364*
Total*	**93,553**	**88,767**	**91,208**

* Note 22 details the liabilities associated with these securitisation transactions.

Additionally, there are EUR 676 million (EUR 797 million and EUR 1,139 million in 2018 and 2017, respectively) of off-balance sheet securitised assets that mainly come from the business combination of Banco Popular Español, S.A.U. and that were never recorded on the Group's balance sheet.

11. Trading derivatives

The detail of the notional amounts and the market values of the trading derivatives held by the Group in 2019, 2018 and 2017 is as follows:

Million euros

	2019		2018		2017	
	Notional amount	Market value	Notional amount	Market value	Notional amount	Market value
Trading derivatives:						
Interest rate risk						
Forward rate agreements	218,252	(8)	308,340	(1)	190,553	(15)
Interest rate swaps	4,322,199	2,573	4,197,246	115	3,312,025	974
Options, futures and other derivatives	794,140	(907)	543,138	(514)	540,424	(511)
Credit risk						
Credit default swaps	23,701	(71)	18,889	33	25,136	68
Foreign currency risk						
Foreign currency purchases and sales	325,720	(441)	275,449	301	236,805	(29)
Foreign currency options	44,763	(182)	54,215	2	43,488	(37)
Currency swaps	379,176	(1,162)	334,524	(416)	295,753	(1,628)
Securities and commodities derivatives and other	61,966	579	59,932	1,078	70,325	529
Total	**6,169,917**	**381**	**5,791,733**	**598**	**4,714,509**	**(649)**

12. Non-current assets

The detail of Non-current assets held for sale in the consolidated balance sheets is as follows:

Million euros

	2019	2018	2017
Tangible assets	4,588	5,424	11,661
Of which:			
Foreclosed assets	*4,485*	*5,334*	*11,566*
*Of which: property assets in Spain**	*3,667*	*4,488*	*10,533*
Other tangible assets held for sale	103	90	95
Other assets**	13	2	3,619
Total	**4,601**	**5,426**	**15,280**

* During 2019, the sale of real estate assets to Cerberus from awards has materialised, generating losses of EUR 180 million. In March 2018, the agreement for the operation of Banco Popular Español, S.A.U. real estate business with Blackstone was materialised (see Note 3).

** In 2017, the item Other assets includes, mainly, Banco Popular Español, S.A.U. assets under the sale of the real estate business to Blackstone (see Note 3).

At 31 December 2019, the allowances recognised for the total non-current assets held for sale represented 48% (2018: 49% and 2017: 50% without considering the assets of Banco Popular Español, S.A.U. sold on March 2018). The charges recorded in those years amounted to EUR 279 million, EUR 320 million and EUR 347 million, respectively, and the recoveries during these exercises are amounted to EUR 133 million, EUR 61 million and EUR 41 million, respectively.

13. Investments

a) Breakdown

The detail, by company, of Investments is as follows:

Million euros

	2019	2018	2017
Associated entities			
Merlin Properties, SOCIMI, S.A.	1,511	1,358	1,242
Project Quasar Investment 2017 S.L.	1,351	1,701	—
Metrovacesa, S.A.	1,226	1,255	—
Caceis (Note 3)	1,010	—	—
Zurich Santander Insurance America S.L. - Consolidated	1,009	961	988
Testa Residencial, SOCIMI, S.A.	—	—	651
Allianz Popular, S.L.	409	431	438
Companies Santander Insurance - Consolidated	402	392	358
Other companies	529	511	520
	7,447	**6,609**	**4,197**
Joint Ventures entities			
WiZink Bank, S.A.	—	—	1,017
Santander Securities Services Latam Holding, S.L. - Consolidated	349	—	—
Unión de Créditos Inmobiliarios, S.A., E.F.C. - Consolidated	206	202	207
Santander Generales Seguros y Reaseguros, S.A. y Santander Vida Seguros y Reaseguros, S.A. (former Aegon Santander Seguros)	170	163	186
Other companies	600	614	577
	1,325	**979**	**1,987**

Of the entities included above, at 31 December 2019, the entities Merlin Properties, SOCIMI, S.A, Metrovacesa S.A. and Compañía Española de Viviendas en Alquiler, S.A. are the only listed companies.

b) Changes

The changes in the investments were as followed:

Million euros

	2019	2018*	2017
Balance at beginning of year	7,588	6,150	4,836
Acquisitions (disposals) of companies and capital increases (reductions)	(123)	(1,761)	1,893
Of which:			
WiZink Bank, S.A.	—	*(1,033)*	*1,017*
Allianz Popular, S.L.	—	—	*438*
Changes in the consolidation method (Note 3)	1,368	2,967	(582)
Of which:			
Caceis	*1,010*	—	—
Santander Securities Services Latam Holding , S.L. - Consolidated	*349*	—	—
Project Quasar Investments 2017, S.L.	—	*1,701*	—
Metrovacesa, S.A.	—	*1,255*	—
Effect of equity accounting	324	737	704
Dividends paid and reimbursements of share premium	(407)	(404)	(376)
Exchange differences and other changes	22	(101)	(291)
Balance at end of year	**8,772**	**7,588**	**6,184**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January, 2018 (Note 1.d).

c) Impairment losses

In 2019, 2018 and 2017 there was no evidence of material impairment on the Group's investments.

d) Other information

Following is a summary of the financial information on the associated entities and joint ventures (obtained from the information available at the date of preparation of the financial statements):

Million euros

	2019	2018	2017
Total assets	165,386	74,765	63,093
Total liabilities	(143,987)	(58,153)	(51,242)
Net assets	**21,399**	**16,612**	**11,851**
Investments in Group joint ventures and associates in the net assets of associates	6,729	6,157	4,194
Goodwill	2,043	1,431	1,990
Of which:			
Zurich Santander Insurance America S.L. - Consolidated	*526*	*526*	*526*
Caceis	*466*	*—*	*—*
Allianz Popular, S.L.	*347*	*347*	*347*
Santander Securities Services Latam Holding, S.L. - Consolidated	*207*	*—*	*—*
Companies Santander Insurance - Consolidated	*205*	*205*	*205*
WiZink Bank, S.A.	*—*	*—*	*553*
Total Group share	**8,772**	**7,588**	**6,184**
Total income	14,172	12,174	12,536
Total profit	*1,375*	1,867	1,699
Group's share of profit	**324**	**737**	**704**

Following is a summary of the financial information for 2019 on the main associates and joint ventures (obtained from the information available at the date of preparation of the financial statements):

Million euros

	Total assets	Total liabilities	Total income	Total profit
Joint Ventures entities	**24,284**	**22,247**	**2,708**	**349**
Of which:				
Unión de Créditos Inmobiliarios, S.A., E.F.C. - Consolidated	*13,088*	*12,683*	*261*	*11*
Santander Generales Seguros y Reaseguros, S.A. y Santander Vida Seguros y Reaseguros, S.A. (former Aegon Santander Seguros)	*817*	*600*	*521*	*65*
Santander Securities Services Latam Holding , S.L. - Consolidated	*391*	*99*	*103*	*59*
Associated entities	**141,102**	**121,740**	**11,464**	**1,026**
Of which:				
Caceis	*88,015*	*84,045*	*1,632*	*159*
Zurich Santander Insurance America, S.L. - Consolidated	*15,865*	*14,875*	*5,579*	*406*
Project Quasar Investments 2017, S.L.	*9,928*	*6,712*	*494*	*(714)*
Allianz Popular, S.L.	*2,749*	*2,593*	*361*	*76*
Companies Santander Insurance - Consolidated	*2,424*	*2,024*	*817*	*84*
Total	**165,386**	**143,987**	**14,172**	**1,375**

14. Insurance contracts linked to pensions

The detail of Insurance contracts linked to pensions in the consolidated balance sheets is as follows:

Million euros

	2019	2018	2017
Assets relating to insurance contracts covering post-employment benefit plan obligations:			
Banco Santander, S.A.	192	210	239
	192	**210**	**239**

15. Liabilities and assets under insurance contracts and reinsurance assets

The detail of Liabilities under insurance contracts and reinsurance assets in the consolidated balance sheets (see Note 2.j) is as follows:

Million euros

	2019			2018			2017		
Technical provisions for:	Direct insurance and reinsurance assumed	Reinsurance ceded	Total (balance payable)	Direct insurance and reinsurance assumed	Reinsurance ceded	Total (balance payable)	Direct insurance and reinsurance assumed	Reinsurance ceded	Total (balance payable)
Unearned premiums and unexpired risks	59	(52)	7	52	(47)	5	50	(41)	9
Life insurance	206	(151)	55	227	(163)	64	483	(151)	332
Unearned premiums and risks	*139*	*(132)*	*7*	*140*	*(127)*	*13*	*100*	*(96)*	*4*
Mathematical provisions	*67*	*(19)*	*48*	*87*	*(36)*	*51*	*383*	*(55)*	*328*
Claims outstanding	399	(55)	344	397	(86)	311	423	(115)	308
Bonuses and rebates	22	(10)	12	20	(9)	11	29	(11)	18
Other technical provisions	53	(24)	29	69	(19)	50	132	(23)	109
	739	**(292)**	**447**	**765**	**(324)**	**441**	**1,117**	**(341)**	**776**

16. Tangible assets

a) Changes

The changes in Tangible assets in the consolidated balance sheets were as follows:

Million euros

	Tangible assets				Of which: Right-of-use for operating lease			
	For own use	Leased out under an operating lease	Investment property	Total	For own use	Leased out under an operating lease	Investment property	Total
Cost:								
Balances at 1 January 2017	18,112	18,238	3,465	39,815				
Additions / disposals (net) due to change in the scope of consolidation	1,740	205	—	1,945				
Additions / disposals (net)	781	2,445	(100)	3,126				
Transfers, exchange differences and other items	(1,357)	(2,215)	(223)	(3,795)				
Balances at 31 December 2017	**19,276**	**18,673**	**3,142**	**41,091**				
Additions / disposals (net) due to change in the scope of consolidation	34	44	(630)	(552)				
Additions / disposals (net)	589	5,545	(182)	5,952				
Transfers, exchange differences and other items	(1,164)	825	48	(291)				
Balances at 31 December 2018	**18,735**	**25,087**	**2,378**	**46,200**				
IFRS 16 Adoption impact	6,693	—	—	6,693	6,693	—	—	6,693
Balances at 1 January 2019	25,428	25,087	2,378	52,893	6,693	—	—	6,693
Additions / disposals (net) due to change in the scope of consolidation	(5)	—	(15)	(20)	—	—	—	—
Additions / disposals (net)	1,863	3,148	(310)	4,701	(997)*	—	—	(997)
Transfers, exchange differences and other items	(178)	(3,781)	(603)	(4,562)	(10)	—	—	(10)
Balances at 31 December 2019	**27,108**	**24,454**	**1,450**	**53,012**	**5,686**	**—**	**—**	**5,686**
Accumulated depreciation:								
Balances at 1 January 2017	(10,211)	(5,169)	(197)	(15,577)				
Disposals due to change in the scope of consolidation	—	—	—	—				
Disposals	478	639	8	1,125				
Charge for the year	(1,165)	—	(25)	(1,190)				
Transfers, exchange differences and other items	(22)	(1,574)	25	(1,571)				
Balances at 31 December 2017	**(10,920)**	**(6,104)**	**(189)**	**(17,213)**				
Disposals due to change in the scope of consolidation	(12)	(34)	—	(46)				
Disposals	629	413	17	1,059				
Charge for the year	(1,159)	—	(13)	(1,172)				
Transfers, exchange differences and other items	938	(2,679)	(14)	(1,755)				
Balances at 31 December 2018	**(10,524)**	**(8,404)**	**(199)**	**(19,127)**				
IFRS 16 Adoption impact	—	—	—	—	—	—	—	—
Balances at 1 January 2019	(10,524)	(8,404)	(199)	(19,127)	—	—	—	—
Disposals due to change in the scope of consolidation	3	—	6	9	—	—	—	—
Disposals	356	2,149	32	2,537	37	—	—	37
Charge for the year	(2,021)	—	(14)	(2,035)	(807)	—	—	(807)
Transfers, exchange differences and other items	212	1,045	31	1,288	5	—	—	5
Balances at 31 December 2019	**(11,974)**	**(5,210)**	**(144)**	**(17,328)**	**(765)**	**—**	**—**	**(765)**

* Includes contract extensions on operating leases.

Million euros

	Tangible assets				Of which: Right-of-use for operating lease			
	For own use	Leased out under an operating lease	Investment property	Total	For own use	Leased out under an operating lease	Investment property	Total
Impairment losses:								
Balances at 1 January 2017	(41)	(159)	(752)	(952)				
Impairment charge for the year	(16)	(42)	(21)	(79)				
Releases	4	—	3	7				
Disposals due to change in the scope of consolidation	—	(2)	(1)	(3)				
Exchange differences and other	(24)	5	142	123				
Balances at 31 December 2017	**(77)**	**(198)**	**(629)**	**(904)**				
Impairment charge for the year	(30)	(56)	(8)	(94)				
Releases	6	—	5	11				
Disposals due to change in the scope of consolidation	—	—	—	—				
Exchange differences and other	40	15	16	71				
Balances at 31 December 2018	**(61)**	**(239)**	**(616)**	**(916)**				
IFRS 16 Adoption impact	—	—	—	—	—	—	—	—
Balances at 1 January 2019	(61)	(239)	(616)	(916)	—	—	—	—
Impairment charge for the year	(14)	(12)	(36)	(62)	—	—	—	—
Releases	8	6	3	17	—	—	—	—
Disposals due to change in the scope of consolidation	—	—	—	—	—	—	—	—
Exchange differences and other	(26)	222	316	512	—	—	—	—
Balances at 31 December 2019	**(93)**	**(23)**	**(333)**	**(449)**	**—**	**—**	**—**	**—**
Tangible assets, net:								
Balances at 31 December 2017	8,279	12,371	2,324	22,974				
Balances at 31 December 2018	8,150	16,444	1,563	26,157				
IFRS 16 Adoption impact	6,693	—	—	6,693	6,693	—	—	6,693
Balances at 1 January 2019	14,843	16,444	1,563	32,850	6,693	—	—	6,693
Balances at 31 December 2019	**15,041**	**19,221**	**973**	**35,235**	**4,921**	**—**	**—**	**4.921**

b) Tangible assets - For own use

i. Property, plant and equipment owned

The detail, by class of asset, of Property, plant and equipment which is owned by the Group in the consolidated balance sheets is as follows:

Million euros

	Tangible assets for own use				
	Cost	Accumulated depreciation	Impairment losses	Carrying amount	Of which: Right-of-use for operating lease
Land and buildings	5,892	(2,014)	(77)	3,801	
IT equipment and fixtures	5,608	(4,422)	—	1,186	
Furniture and vehicles	7,213	(4,391)	—	2,822	
Construction in progress and other items	563	(93)	—	470	
Balances at 31 December 2017	**19,276**	**(10,920)**	**(77)**	**8,279**	
Land and buildings	6,127	(2,056)	(61)	4,010	
IT equipment and fixtures	5,605	(4,455)	—	1,150	
Furniture and vehicles	6,686	(3,946)	—	2,740	
Construction in progress and other items	317	(67)	—	250	
Balances at 31 December 2018	**18,735**	**(10,524)**	**(61)**	**8,150**	
Land and buildings	13,972	(2,889)	(93)	10,990	4,908
IT equipment and fixtures	5,995	(4,808)	—	1,187	2
Furniture and vehicles	6,952	(4,216)	—	2,736	11
Construction in progress and other items	189	(61)	—	128	—
Balances at 31 December 2019	**27,108**	**(11,974)**	**(93)**	**15,041**	**4,921**

The carrying amount at 31 December 2019 in the foregoing table includes the following approximate amounts EUR 7,737 million (31 December 2018: EUR 5,390 million; 31 December 2017: EUR 5,455 million) relating to property, plant and equipment owned by Group entities and branches located abroad.

c) Tangible assets - Leased out under an operating lease

The Group has assets leased out under operating leases where the company is the lessor and do not meet the accounting requirements to be classified as finance leases. The net cost of these leases is recorded as an asset and depreciated on a straight-line basis over the contractual term of the lease to the expected residual value.

The expected residual value and, consequently, the monthly depreciation expense may change during the term of the lease. The Group estimates expected residual values using independent data sources and internal statistical models. It also assesses the estimate of the residual value of these leases and adjusts the depreciation rate in line with the change in the expected value of the asset at the end of the lease.

The Group periodically assesses its investment in operating leases for impairment in certain circumstances, such as a systemic and material decrease in the values of used vehicles. If assets leased out under operating leases are deemed to be impaired, impairment is measured as the amount by which the carrying amount of the assets exceeds the fair value as estimated by discounted cash flows. In 2019, 2018 and 2017 the Group did not recognise any material impairment in this respect.

Of the EUR 19,221 million that the Group had assigned to operating leases at 31 December 2019, EUR 14,779 million relate to vehicles of Santander Consumer USA Holdings Inc. and the variable lease payments of various items of this entity amounted to EUR 24 million, EUR 26 million and EUR 21 million at 31 December 2019, 2018 and 2017, respectively.

In addition, the maturity analysis of the payments for assets leased out under operating leases from Santander Consumer USA Holdings Inc. is as follows:

Million euros

	2019
Maturity Analysis	
2020	2,467
2021	6,330
2022	5,474
2023	1,362

d) Tangible assets - Investment property

The fair value of investment property at 31 December 2019 amounted to EUR 1,076 million (2018: EUR 1,825 million; 2017: EUR 2,452 million). A comparison of the fair value of investment property at 31 December 2019, with the net book value shows gross unrealised gains of EUR 103 million (2018: EUR 262 million and 2017: EUR 128), attributed completely to the group.

The rental income earned from investment property and the direct costs related both to investment properties that generated rental income in 2019, 2018 and 2017 and to investment properties that did not generate rental income in those years are not material in the context of the consolidated financial statements.

17. Intangible assets – Goodwill

The detail of goodwill, based on the cash-generating units giving rise thereto, is as follows:

Million euros

	2019	2018	2017
Santander UK	7,147	8,307	8,375
Banco Santander (Brasil)	4,388	4,459	4,988
Santander Bank Polska	2,427	2,402	2,473
Santander Consumer USA	2,143	2,102	2,007
Santander Bank, National Association	1,828	1,793	1,712
Santander Consumer Germany	1,236	1,217	1,217
SAM Investment Holdings Limited	1,173	1,173	1,173
Santander Portugal	1,040	1,040	1,040
Santander España*	1,027	1,023	648
Banco Santander - Chile	589	627	676
Santander Consumer Nordics	496	502	518
Grupo Financiero Santander (México)	460	434	413
Other companies	292	387	529
Total Goodwill	**24,246**	**25,466**	**25,769**

* Includes mainly goodwill arising from purchases of Grupo Banco Popular S.A.U.´s network and WiZink´s card business.

The changes in goodwill were as follows:

Million euros

	2019	2018	2017
Balance at beginning of year	25,466	25,769	26,724
Additions (Note 3)	41	383	1,644
Of which:			
SAM Investment Holdings Limited	*—*	*—*	*1,173*
*Santander España**	*4*	*375*	*248*
Impairment losses	(1,491)	—	(899)
Of which:			
Santander UK plc	*(1,491)*	*—*	*—*
Santander Consumer USA	*—*	*—*	*(799)*
Disposals or changes in scope of consolidation	—	(130)	—
Exchange differences and other items	230	(556)	(1,700)
Balance at end of year	**24,246**	**25,466**	**25,769**

* At 31 December 2018, this includes EUR 375 million for the unsold part of the WiZink stake. As of 31 December 2017, includes EUR 248 million for the acquisition of Banco Popular Español S A.U.

The Group has goodwill generated by cash-generating units located in non-euro currency countries (mainly the UK, Brazil, the United States, Poland, Chile, Norway, Sweden and Mexico) and, therefore, this gives rise to exchange differences on the translation to euros, at closing rates, of the amounts of goodwill denominated in foreign currencies. Accordingly, in 2019 there was an increase of EUR 230 million (decrease of EUR 556 and 1,704 million in 2018 and 2017) due to exchange differences and other items which, pursuant to current standards, were recognised with a debit to Other comprehensive income - Items that may be reclassified to profit or loss - Exchange differences in other comprehensive income in the consolidated statement of recognised income and expense (see Note 29.d).

At least once per year (or whenever there is any indication of impairment), the Group reviews goodwill for impairment (i.e. a potential reduction in its recoverable value to below its carrying amount). The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, i.e. the Group's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The amount to be recovered of each cash-generating unit is determined taking into consideration the carrying amount (including any fair value adjustment arising on the business combination) of all the assets and liabilities of all the independent legal entities composing the cash-generating unit, together with the related goodwill.

The amount to be recovered of the cash-generating unit is compared with its recoverable amount in order to determine whether there is any impairment.

The Group's directors assess the existence of any indication that might be considered to be evidence of impairment of the cash-generating unit by reviewing information including the following: (i) certain macroeconomic variables that might affect its investments (population data, political situation, economic situation -including banking concentration level-, among others) and (ii) various microeconomic variables comparing the investments of the Group with the financial services industry of the country in which the cash-generating unit carries on most of its business activities (balance sheet composition, total funds under management, results, efficiency ratio, capital adequacy ratio, return on equity, among others).

Regardless of whether there is any indication of impairment, every year the Group calculates the recoverable amount of each cash-generating unit to which goodwill has been allocated and, to this end, it uses price quotations, market references (multiples), internal estimates and appraisals performed by independent experts, other than the external auditor.

Firstly, the Group determines the recoverable amount by calculating the fair value of each cash-generating unit on the basis of the quoted price of the cash-generating units, if available, and of the Price Earnings Ratio of comparable local entities.

In addition, the Group performs estimates of the recoverable amounts of certain cash-generating units by calculating their value in use using discounted cash flow projections. The main assumptions used in this calculation are: (i) earnings projections based on the financial budgets approved by the Group's directors which cover between three and five year period (unless a longer time horizon can be justified), (ii) discount rates determined as the cost of capital taking into account the risk-free rate of return plus a risk premium in line with the market and the business in which the units operate and (iii) constant growth rates used in order to extrapolate earnings in perpetuity which do not exceed the long-term average growth rate for the market in which the cash-generating unit in question operates.

The cash flow projections used by Group management to obtain the values in use are based on the financial budgets approved by both local management of the related local units and the Group's directors. The Group's budgetary estimation process is common for all the cash-generating units. The local management teams prepare their budgets using the following key assumptions:

a) Microeconomic variables of the cash-generating unit: management takes into consideration the current balance sheet structure, the product mix on offer and the business decisions taken by local management in this regard.

b) Macroeconomic variables: growth is estimated on the basis of the changing environment, taking into consideration expected GDP growth in the unit's geographical location and forecast trends in interest and exchange rates. These data, which are based on external information sources, are provided by the Group's economic research service.

c) Past performance variables: in addition, management takes into consideration in the projection the difference (both positive and negative) between the cash-generating unit's past performance and that of the market.

Following is a detail of the main assumptions used in determining the recoverable amount, at 2019 year-end, of the most significant cash-generating units which were valued using the discounted cash flow method:

	2019		
	Projected period	Discount rate*	Nominal perpetual growth rate
Santander UK	5 years	8.5%	2.5%
Santander Bank Polska**	5 years	9.2%	3.5%
Santander Consumer USA	3 years	9.5%	1.5%
Santander Bank, National Association	5 years	9.6%	3.6%
Santander Consumer Germany	5 years	8.2%	2.5%
SAM Investment Holdings Limited	5 years	10.0%	2.5%
Santander Portugal	5 years	8.9%	2.0%
Santander Consumer Nordics	5 years	8.6%	2.5%

* Post-tax discount rate.
** The recoverable amount has been calculated using the market price in previous years.

The discount and nominal perpetual growth rates used in 2018 and 2017 are presented below for comparison purposes:

	Discount rate*		Nominal perpetual growth rate	
	2018	2017	2018	2017
Santander UK	8.4%	8.4%	2.5%	2.5%
Santander Consumer USA	11.1%	10.7%	1.5%	2.5%
Santander Bank, National Association	10.6%	10.1%	3.8%	3.7%
Santander Consumer Germany	8.5%	8.6%	2.5%	2.5%
SAM Investment Holdings Limited	9.6%	n.a.	2.5%	n.a.
Santander Portugal	9.6%	10.0%	2.0%	2.5%
Santander Consumer Nordics	9.2%	9.0%	2.5%	2.5%

* Post-tax discount rate.

Given the degree of uncertainty of these assumptions, the Group performs a sensitivity analysis thereof using reasonable changes in the key assumptions on which the recoverable amount of the cash-generating units is based in order to confirm whether their recoverable amount still exceeds their carrying amount. The sensitivity analysis involved adjusting the discount rate by +/- 50 basis points and the perpetuity growth rate by +/- 50 basis points. Following the sensitivity analysis performed, the value in use of all the cash-generating units still exceeds their recoverable amount, albeit:

- In the case of Santander UK, the Group recognised a goodwill impairment amounting to EUR 1,491 million. The mentioned impairment was estimated considering the following reasons: decrease in Unit´s capacity of benefits generation in contrast with the forecast carried out in the previous years, the general competitive environment in the United Kingdom, the impact of banking reform on retail businesses, and the impact of the uncertainty generated by Brexit on the economic growth of the country.
- In the case of Santander Consumer USA, the Group recognised in 2017 a goodwill impairment amounting to EUR 799 million. The mentioned impairment was estimated considering the decrease in the entity's profit in contrast with the forecasts carried out in the previous years, derived from a change in the long term business strategy.

The recoverable amount of Banco Santander - Chile, Grupo Financiero Santander (México) and Banco Santander (Brasil) was calculated as the fair values of the aforementioned cash-generating units obtained from the market prices of their shares at year-end. This value exceeded the recoverable amount.

Based on the above, and in accordance with the estimates, forecasts and sensibility analysis available for the managers of the bank, during 2019 the Group recognised goodwill impairment losses within Impairment or reversal of impairment on non-financial assets, net - Intangible assets caption amounting to EUR 1,491 million, which corresponds to Santander UK (no impairment during 2018 and EUR 899 during 2017). Goodwill is deducted from the CET1 for regulatory purposes, so an impairment of goodwill has no impact on the Group's capital ratios.

18. Intangible assets - Other intangible assets

The detail of Intangible assets - Other intangible assets in the consolidated balance sheets and of the changes therein in 2019, 2018, and 2017 is as follows:

Million euros

	Estimated useful life	31 December 2018	Net additions and disposals	Change in scope of consolidation	Amortization and impairment	Application of amortization and impairment	Exchange differences and other	31 December 2019
With indefinite useful life:								
Brand names		36	2	2		—	2	42
With finite useful life:								
IT developments	3 -7 years	7,134	1,374	(19)		(639)	95	7,945
Other		1,510	1	(24)		(248)	37	1,276
Accumulated amortisation		(5,432)	—	8	(966)	806	(102)	(5,686)
Development		*(4,743)*	—	*4*	*(874)*	*570*	*(96)*	*(5,139)*
Other		*(689)*	—	*4*	*(92)*	*236*	*(6)*	*(547)*
Impairment losses		(154)	—	—	(73)	81	10	(136)
Of which: addition		—	—	—	*(75)*	—	—	—
liberation		—	—	—	*2*	—	—	—
		3,094	**1,377**	**(33)**	**(1,039)**	**—**	**42**	**3,441**

Million euros

	Estimated useful life	31 December 2017	Net additions and disposals	Change in scope of consolidation	Amortization and impairment	Application of amortization and impairment	Exchange differences and other	31 December 2018
With indefinite useful life:								
Brand names		35	—	—		—	1	36
With finite useful life:								
IT developments	3-7 years	6,945	1,468	1		(1,102)	(178)	7,134
Other		1,560	1	12		(50)	(13)	1,510
Accumulated amortisation		(5,386)	—	(1)	(1,253)	1,035	173	(5,432)
Development		*(4,721)*	—	*(1)*	*(1,153)*	*985*	*147*	*(4,743)*
Other		*(665)*	—	—	*(100)*	*50*	*26*	*(689)*
Impairment losses		(240)	—	—	(117)	117	86	(154)
Of which: addition		—	—	—	*(118)*	—	—	—
liberation		—	—	—	*1*	—	—	—
		2,914	**1,469**	**12**	**(1,370)**	**—**	**69**	**3,094**

Million euros

	Estimated useful life	31 December 2016	Net additions and disposals	Change in scope of consolidation	Amortization and impairment	Application of amortization and impairment	Exchange differences and other	31 December 2017
With indefinite useful life:								
Brand names		39	—	—		—	(4)	35
With finite useful life:								
IT developments	3-7 years	6,558	1,470	42	—	(679)	(446)	6,945
Other		1,245	68	436	—	(126)	(63)	1,560
Accumulated amortisation		(4,848)	—	(64)	(1,403)	694	235	(5,386)
Development		*(4,240)*	—	*(14)*	*(1,310)*	*627*	*216*	*(4,721)*
Other		*(608)*	—	*(50)*	*(93)*	*67*	*19*	*(665)*
Impairment losses		(297)	—	—	(174)	111	120	(240)
Of which: addition		—	—	—	*(174)*	—	—	—
		2,697	**1,538**	**414**	**(1,577)**	**—**	**(158)**	**2,914**

In 2019, 2018 and 2017, impairment losses of EUR 73 million, EUR 117 million and EUR 174 million, respectively, were recognised under Impairment or reversal of impairment on non-financial assets, net – intangible assets. This impairment losses related mainly to the decline in or loss of the recoverable value of certain computer systems and applications as a result of the processes initiated by the Group to adapt to the various regulatory changes and to transform or integrate businesses.

19. Other assets

The detail of Other assets is as follows:

Million euros

	2019	2018	2017
Transactions in transit	157	143	206
Net pension plan assets (Note 25)	903	1,015	604
Prepayments and accrued income	3,129	3,089	2,326
Other (Note 2.n)	5,752	4,744	4,427
	9,941	**8,991**	**7,563**

20. Deposits from central banks and credit institutions

The detail, by classification, counterparty, type and currency, of Deposits from central banks and Deposits from credit institutions in the consolidated balance sheets is as follows:

Million euros

	2019	2018	2017
CENTRAL BANKS			
Classification:			
Financial liabilities held for trading	—	—	282
Financial liabilities designated at fair value through profit or loss	12,854	14,816	8,860
Financial liabilities at amortised cost	62,468	72,523	71,414
	75,322	**87,339**	**80,556**
Type:			
Deposits on demand	5	5	5
Time deposits	67,424	82,797	78,801
Reverse repurchase agreements	7,893	4,537	1,750
	75,322	**87,339**	**80,556**
CREDIT INSTITUTIONS			
Classification:			
Financial liabilities held for trading	—	—	292
Financial liabilities designated at fair value through profit or loss	9,340	10,891	18,166
Financial liabilities at amortised cost	90,501	89,679	91,300
	99,841	**100,570**	**109,758**
Type:			
Deposits on demand	9,136	6,154	6,444
Time deposits	61,406	53,422	54,158
Reverse repurchase agreements	29,115	40,873	49,049
Subordinated deposits	184	121	107
	99,841	**100,570**	**109,758**
Currency:			
Euro	79,008	97,323	119,606
Pound sterling	18,129	19,301	14,820
US dollar	53,403	45,848	33,259
Brazilian real	13,022	18,657	16,485
Other currencies	11,601	6,780	6,144
TOTAL	**175,163**	**187,909**	**190,314**

At 31 December 2019, the European Central Bank's targeted longer-term refinancing operations (TLTROs (Targeted Long-Term Refinancing Operation)) amounted to EUR 46,201 million (EUR 55,382 million at 31 December 2018).

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

21. Customer deposits

The detail, by classification, geographical area and type, of Customer deposits is as follows:

Million of euros

	2019	2018	2017
Classification:			
Financial liabilities held for trading	—	—	28,179
Financial liabilities designated at fair value through profit or loss	34,917	39,597	28,945
Financial liabilities at amortised cost*	789,448	740,899	720,606
	824,365	**780,496**	**777,730**
Geographical area:			
Spain	271,103	267,210	260,181
European Union (excluding Spain)	334,542	309,615	318,580
United States and Puerto Rico	60,011	53,843	50,771
Other OECD countries	71,235	67,462	62,980
South America	87,474	82,343	84,752
Rest of the world	—	23	466
	824,365	**780,496**	**777,730**
Type:			
Demand deposits-			
Current accounts	373,146	346,345	328,217
Savings accounts	208,701	196,493	189,845
Other demand deposits	6,686	5,873	7,010
Time deposits-			
Fixed-term deposits and other term deposits	194,163	195,540	195,285
Home-purchase savings accounts	44	40	45
Discount deposits	3	3	3
Hybrid financial liabilities	2,711	3,419	4,295
Subordinated liabilities	—	23	21
Repurchase agreements	38,911	32,760	53,009
	824,365	**780,496**	**777,730**

* The decrease reflects the run-down of UK's trading business due to the banking reform (Ring-fencing).

Note 51 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

22. Marketable debt securities

a) Breakdown

The detail, by classification and type, of Marketable debt securities is as follows:

Million euros

	2019	2018	2017
Classification:			
Financial liabilities held for trading	—	—	—
Financial liabilities designated at fair value through profit or loss	3,758	2,305	3,056
Financial liabilities at amortised cost	258,219	244,314	214,910
	261,977	**246,619**	**217,966**
Type:			
Bonds and debentures outstanding	208,455	195,498	176,719
Subordinated	20,878	23,676	21,382
Notes and other securities	32,644	27,445	19,865
	261,977	**246,619**	**217,966**

The distribution of the book value of debt securities issued by contractual maturity is shown below:

Million euros

	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Subordinated debt	—	—	—	—	130	1,313	19,435	20,878
Senior unsecured debt	—	3.128	9.504	18,923	33,263	31,199	22,283	118,300
Senior secured debt	—	8.172	1.938	13,333	33,106	14,743	18,863	90,155
Promissory notes and other securities	—	4.941	11.455	16,248	—	—	—	32,644
Debt securities issued	**—**	**16.241**	**22.897**	**48,504**	**66,499**	**47,255**	**60,581**	**261,977**

The distribution by contractual maturity of the notional amounts of these debt securities issued is as follows:

Million euros

	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Subordinated debt	—	—	—	—	129	1,299	19,221	20,649
Senior unsecured debt	—	3,056	9,286	18,489	32,499	30,483	21,771	115,584
Senior secured debt	—	8,152	1,934	13,301	33,026	14,707	18,818	89,938
Promissory notes and other securities	—	5,058	11,725	16,631	—	—	—	33,414
Debt securities issued	**—**	**16,266**	**22,945**	**48,421**	**65,654**	**46,489**	**59,810**	**259,585**

b) Bonds and debentures outstanding

The detail, by currency of issue, of Bonds and debentures outstanding is as follows:

	Million euros			2019	
Currency of issue	2019	2018	2017	Outstanding issue amount in foreign currency (Million)	Annual interest rate (%)
Euro	89,008	85,479	83,321	89,008	1.13%
US dollar	64,952	62,021	48,688	72,967	3.01%
Pound sterling	20,178	16,616	13,279	17,167	2.15%
Brazilian real	15,292	15,778	17,309	69,054	4.94%
Chilean peso	6,848	6,460	5,876	5,791,169	4.48%
Other currencies	12,177	9,144	8,246		
Balance at end of year	**208,455**	**195,498**	**176,719**		

The changes in Bonds and debentures outstanding were as follows:

Million euros

	2019	2018	2017
Balance at beginning of year	**195,498**	**176,719**	**183,278**
Net inclusion of entities in the Group	—	—	11,426
Of which:			
Banco Santander, S.A. (Group Banco Popular S.A.U.)	—	—	*11,426*
Issues	**64,184**	**68,306**	**62,260**
Of which:			
Santander Consumer USA Holdings Inc.	*15,631*	*15,627*	*11,242*
Banco Santander (Brasil) S.A.	*13,227*	*16,422*	*16,732*
*Banco Santander, S.A.**	*12,066*	*7,683*	*10,712*
Santander Consumer Finance, S.A.	*5,150*	*3,605*	*2,508*
Grupo Santander UK	*4,547*	*14,984*	*7,625*
Santander Holdings USA, Inc.	*2,778*	*1,210*	*4,133*
Banco Santander - Chile	*1,644*	*1,483*	*579*
Santander Consumer Bank A.S.	*1,572*	*1,342*	*1,117*
PSA Banque France	*1,132*	*716*	*1,032*
PSA Bank Deutschland GmbH	*1,104*	*600*	*13*
Santander International Products, Plc.	*848*	*249*	*588*
SCF Rahoituspalvelut VIII DAC	*799*	—	—
Santander Consumer Bank AG	*750*	—	*749*
Santander Consumer Bank S.p.A.	*589*	—	*151*
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*577*	*560*	*118*
Banco Santander Totta, S.A.	—	—	*1,999*
SCF Rahoituspalvelut KIMI VI DAC	—	—	*635*
Redemptions and repurchases	**(52,462)**	**(48,319)**	**(66,871)**
Of which:			
Santander Consumer USA Holdings Inc.	*(14,517)*	*(11,939)*	*(10,264)*
Banco Santander (Brasil) S.A.	*(12,817)*	*(14,802)*	*(23,187)*
Santander Group UK	*(9,115)*	*(6,800)*	*(13,303)*
*Banco Santander, S.A.**	*(3,303)*	*(4,752)*	*(9,956)*
Santander Consumer Finance, S.A.	*(2,550)*	*(2,366)*	*(1,618)*
Santander Holdings USA, Inc.	*(1,990)*	*(903)*	*(759)*
Santander Consumer Bank AS	*(1,551)*	*(1,268)*	*(337)*
PSA Bank Deutschland GmbH	*(902)*	*(488)*	*(23)*
Banco Santander- Chile	*(848)*	*(204)*	*(1,442)*
Banco Santander Totta, S.A.	*(739)*	*(41)*	*(998)*
Santander International Products, Plc.	*(722)*	*(491)*	*(310)*
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*(159)*	*(579)*	*(224)*
Santander Bank, National Association	—	—	*(886)*
Banca PSA Italia S.p.A.	—	*(600)*	—
Exchange differences and other movements	1,235	(1,208)	(13,374)
Balance at year-end	**208,455**	**195,498**	**176,719**

* As of 31 December 2017, issuer entities were included.

c) Notes and other securities

These notes were issued basically by Santander Consumer Finance, S.A., Santander UK plc, Banco Santander (México), S.A. Institución de Banca Múltiple, Grupo Financiero Santander México, Banco Santander, S.A. , Santander Consumer Bank AG, PSA Banque France, Banco Santander - Chile and Santander Bank Polska, S.A.

d) Guarantees

Set forth below is information on the liabilities secured by financial assets:

Million euros

	2019	2018	2017
Asset-backed securities	38,616	38,140	32,505
Of which, mortgage-backed securities	*3,819*	*5,197*	*4,034*
Other mortgage securities	50,269	46,026	52,497
Of which: mortgage-backed bonds	*24,736*	*22,023*	*23,907*
Territorial covered bond	1,270	1,270	1,270
	90,155	**85,436**	**86,272**

The main characteristics of the assets securing the aforementioned financial liabilities are as follows:

1. Asset-backed securities:

   a. Mortgage-backed securities- these securities are secured by mortgage assets (see Note 10.e) with average maturities of more than ten years that must: be a first mortgage for acquisition of principal or second residence, be current in payments, have a loan-to-value ratio below 80% and have a liability insurance policy in force covering at least the appraisal value. The value of the financial liabilities broken down in the foregoing table is lower than the balance of the assets securing them - securitised assets retained on the balance sheet - mainly because the Group repurchases a portion of the bonds issued, and in such cases they are not recognised on the liability side of the consolidated balance sheet.

   b. Other asset - backed securities - including asset-backed securities and notes issued by special-purpose vehicles secured mainly by mortgage loans that do not meet the foregoing requirements and other loans (mainly personal loans with average maturities of five years and loans to SMEs with average maturities of seven years).

2. Other mortgage securities include mainly: (i) mortgage-backed bonds with average maturities of more than ten years that are secured by a portfolio of mortgage loans and credits (included in secured loans - see Note 10.b) which must: not be classified as of procedural stage; have available appraisals performed by specialised entities; have a loan-to-value (LTV) ratio below 80% in the case of home loans and below 60% for loans for other assets and have sufficient liability insurance, (ii) other debt securities issued as part of the Group's liquidity strategy in the UK, mainly covered bonds in the UK secured by mortgage loans and other assets.

The fair value of the guarantees received by the Group (financial and non-financial assets) which the Group is authorised to sell or pledge even if the owner of the guarantee has not defaulted is scantly material taking into account the Consolidated financial statements as a whole.

e) Spanish mortgage-market issues

The members of the board of directors hereby state that the Group entities operating in the Spanish mortgage-market issues area have established and implemented specific policies and procedures to cover all activities carried on and guarantee strict compliance with mortgage-market regulations applicable to these activities as provided for in Royal Decree 716/2009, of 24 April implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circulars 7/2010 and 5/2011, and other financial and mortgage system regulations. Also, financial management defines the Group entities' funding strategy.

The risk policies applicable to mortgage market transactions envisage maximum loan-to-value (LTV) ratios, and specific policies are also in place adapted to each mortgage product, which occasionally require the application of stricter limits.

The Bank's general policies in this respect require the repayment capacity of each potential customer (the effort ratio in loan approval) to be analysed using specific indicators that must be met. This analysis must determine whether each customer's income is sufficient to meet the repayments of the loan requested. In addition, the analysis of each customer must include a conclusion on the stability over time of the customer's income considered with respect to the life of the loan. The aforementioned indicator used to measure the repayment capacity (effort ratio) of each potential customer takes into account mainly the relationship between the potential debt and the income generated, considering on the one hand the monthly repayments of the loan requested and other transactions and, on the other, the monthly salary income and duly supported income.

The Group entities have specialised document comparison procedures and tools for verifying customer information and solvency (see Note 54).

The Group entities' procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Group.

In accordance with Article 3 of Mortgage Market Law 41/2007, any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, the Group entities perform several checks and select, from among these companies, a small group with which they enter into cooperation agreements with special conditions and automated control mechanisms. The Group's internal regulations specify, in detail, each of the internally approved companies, as well as the approval requirements and procedures and the controls established to uphold them. In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of the Group related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation (see Note 2.i).

Basically, the companies wishing to cooperate with the Group must have a significant level of activity in the mortgage market in the area in which they operate, they must pass a preliminary screening process based on criteria of independence, technical capacity and solvency -in order to ascertain the continuity of their business- and, lastly, they must pass a series of tests prior to obtaining definitive approval.

In order to comply in full with the legislation, any appraisal provided by the customer is reviewed, irrespective of which appraisal company issues it, to check that the requirements, procedures and methods used to prepare it are formally adapted to the valued asset pursuant to current legislation and that the values reported are customary in the market.

The information required by Bank of Spain Circulars 7/2010 and 5/2011, by application of Royal Decree 716/2009, of 24 April is as follows:

Million euros

	2019	2018	2017
Face value of the outstanding mortgage loans and credits that support the issuance of mortgage-backed and mortgage bonds pursuant to Royal Decree 716/2009 (excluding securitised bonds)	84,720	85,610	91,094
Of which:			
Loans eligible to cover issues of mortgage-backed securities	*59,517*	*60,195*	*59,422*
Transfers of assets retained on balance sheet: mortgage-backed certificates and other securitised mortgage assets	*14,569*	*15,807*	*18,202*

Mortgage-backed bonds

The mortgage-backed bonds ("cédulas hipotecarias") issued by the Group entities are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the property register, by mortgage on all those that at any time are recorded in favour of the issuer and are not affected by the issuance of mortgage bonds and / or are subject to mortgage participations, and / or mortgage transfer certificates, and, if they exist, by substitution assets eligible to be hedged and for the economic flows generated by derivative financial instruments linked to each issue, and without prejudice to the issuer's unlimited liability.

The mortgage bonds include the credit right of its holder against the issuing entity, guaranteeing in the manner provided for in the previous paragraph, and involve the execution to claim from the issuer the payment after due date. The holders of these securities are recognised as preferred creditors, singularly privileged, with the preference, included in number 3º of article 1,923 of the Spanish Civil Code against any other creditor, in relation with the entire group of loans and mortgage loans registered in favour of the issuer, except those that act as coverage for mortgage bonds and / or are subject to mortgage participations and / or mortgage transfer certificates.

In the event of insolvency, the holders of mortgage-backed bonds, as long as they are not considered "persons especially related" to the issuing entity in accordance with the Insolvency Law 22/2003, of 9 July, will enjoy the special privilege established in Article 90.1.1 of the aforementioned law. Without prejudice to the foregoing, in accordance with Article 84.2.7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision 19 of the Insolvency Law).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measure indicated in Article 155.3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds. If the same credit or loan is subject to the payment of bonds and a mortgage bond issue, it will be paid first to the holders of the bonds.

The outstanding mortgage-backed bonds issued by the Group totalled EUR 24,736 million at 31 December 2019 (all of which were denominated in euros), of which EUR 24,286 million were issued by Banco Santander, S.A. and EUR 450 million were issued by Santander Consumer Finance, S.A. The issues outstanding at 31 December 2019 and 2018 are detailed in the separate financial statements of each of these companies.

Mortgage-backed bond issuers have an early redemption option for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations. In addition, the issuing entity may advance the mortgage-backed bonds, if this has been expressly established in the final conditions of the issue in question and under the conditions set out therein.

None of the mortgage-backed bonds issued by the Group entities had replacement assets assigned to them.

23. Subordinated liabilities

a) Breakdown

The detail, by currency of issue, of Subordinated liabilities in the consolidated balance sheets is as follows:

	Million euros			2019	
Currency of issue	2019	2018	2017	Outstanding issue amount in foreign currency (Million euros)	Annual interest rate (%)
Euro	12,542	14,001	11,240	12,542	4.15%
US dollar	6,506	7,813	8,008	7,309	5.80%
Pound sterling	655	628	874	557	8.91%
Brazilian real	—	—	131		
Other currencies	1,359	1,378	1,257		
Balance at end of year	**21,062**	**23,820**	**21,510**		
Of which, preference shares	*321*	*345*	*404*		
Of which, preference participations	*7,709*	*9,717*	*8,369*		

Note 51 contains a detail of the residual maturity periods of subordinated liabilities at each year-end and of the related average interest rates in each year.

b) Changes

The changes in Subordinated liabilities (Note 22.a) in the last three years were as follows:

Million euros	2019	2018	2017
Balance at beginning of year	23,676	21,382	19,873
Net inclusion of entities in the Group (Note 3)	—	—	11
Of which:			
Banco Santander, S.A. (Grupo Banco Popular)	—	—	11
Placements	1,056	3,266	2,916
Of which:			
*Banco Santander, S.A.**	*1,056*	*2,750*	*2,894*
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	—	*281*	—
Santander Bank Polska S.A.	—	*235*	—
Net redemptions and repurchases**	(4,009)	(1,259)	(870)
Of which:			
*Banco Santander, S.A.**	*(3,782)*	*(401)*	*(453)*
Banco Santander (Brasil) S.A.	*(124)*	*(61)*	—
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	*(69)*	*(125)*	—
Santander Bank, National Association	*(19)*	*(163)*	*(285)*
Santander UK plc	*(16)*	*(313)*	*(60)*
Santander Holdings USA, Inc.	—	*(195)*	*(72)*
Exchange differences and other movements	155	287	(548)
Balance at end of year	**20,878**	**23,676**	**21,382**

* As of 31 December 2017, issuer entities were included.

** The balance relating to issuances, redemptions and repurchases (EUR 2,953 million), together with the interest paid in remuneration of these issuances including PPCC (EUR 1,091 million), is included in the cash flow from financing activities.

c) Other disclosures

This item includes the contingently convertible or redeemable preference shares (participaciones preferentes) and other financial instruments issued by the consolidated companies which do not meet the requirements for classification as equity (preference shares).

The preference shares do not carry any voting rights and are non-cumulative. They were subscribed to by non-Group third parties and, except for the placements of Santander UK plc referred to below, are redeemable at the discretion of the issuer, based on the terms and conditions of each issue.

The Bank's contingent convertible preference shares are subordinated payment obligations and rank, for credit priority purposes, behind common creditors and any other subordinated creditors that by law and/or by their terms, to the extent permitted by Spanish law, rank higher than the contingent convertible preference shares. The remuneration of these securities, which have no voting rights, is conditional upon the obtainment of sufficient distributable profit and upon the limits imposed by regulations on equity. The other issues of Banco Santander, S.A. mentioned under this heading are also subordinated payment obligations and, therefore, for the purposes of payment priority, they are junior to all general creditors of the issuers and ahead of any other subordinated claims ranking equally with the Bank's contingent convertible preference shares.

The main issues of subordinated debt securities issued, broken down by company, are detailed below:

Banco Santander, S.A. Placements

On 5 March, 8 May and 2 September 2014, three placements of preference shares contingently convertible into newly issued ordinary shares of the bank where launched (“CCPS”) for a nominal amount of EUR 1,500 million, USD 1,500 million and EUR 1,500 million, respectively, payment of which is subject to certain conditions and is discretionary. The remuneration of the placements, was set at 6.25% per annum for the first five years (to be repriced thereafter by applying a 541 basis-point spread to the 5-year Mid-Swap Rate) for the March issue, at 6.375% per annum for the first five years (to be repriced thereafter by applying a 478.8 basis-point spread to the 5-year Mid-Swap Rate) for the May issue, and at 6.25% per annum for the first seven years (to be repriced every five years thereafter by applying a 564 basis-point spread to the 5-year Mid-Swap Rate) for the September issue.

In April 2019, the voluntary early redemption of all the preferred participations was announced in relation to the second placement made on 8 May 2014 for an amount of EUR 1,345 million at the date of the redemption.

On 8 February 2018, Banco Santander, S.A. carried out an issuance of “CCPS" for a nominal amount of USD 1,200 million (EUR 1,056 million). The remuneration of the placement, whose payment is subject to certain conditions and is also discretionary, was set at 7.50% per annum, payable quarterly, for the first seven years (being revised thereafter by applying a 498.9 basis-point spread over the Mid-swap rate).

On 19 March 2018, a placement of "CCPS" was carried out, for a nominal amount of EUR 1,500 million. The remuneration of the placement, whose payment is subject to certain conditions and is also discretionary, was fixed at an annual 4.75%, payable quarterly, for the first seven years (being revised thereafter applying a margin of 410 basis points over the type Mid-swap).

On 8 February 2018, a placement of subordinated obligations for a term of ten years was carried out, amounting to EUR 1,250 million. The placement accrues an annual interest of 2.125% payable annually.

On 25 April and 29 September 2017, Banco Santander, S.A. issued “CCPS” for a nominal amount of EUR 750 million, and EUR 1,000 million euros, respectively. The remuneration of the "CCPS", whose payment is subject to certain conditions and is also discretionary, was fixed at 6.75% annually for the first five years (being reviewed thereafter by applying a margin of 680.3 basis points over the 5-year Mid-Swap Rate) for the issue paid out in April, and at 5.25% annually for the first six years (reviewed thereafter by applying a margin of499.9 basis points over the 5-year Mid-Swap Rate) for the issue paid out in September.

Banco Santander (Brasil) S.A. Placements

On 29 January 2014 Banco Santander (Brasil), S.A. launched a placement of Tier 1 perpetual subordinated notes for a nominal amount of USD 1,248 million, of which the Group has acquired 89.6%. The notes are perpetual and would convert into ordinary shares of Banco Santander (Brasil) S.A. if the common equity Tier 1 ratio, calculated as established by the Central Bank of Brazil, were to fall below 5.125%. This placement was fully redeemed in 2019.

Banco Santander México, S.A. Institución de Banca Múltiple, Grupo Financiero Santander México Placements

On 1 October 2018 a ten-year subordinated bond placement was carried out, for a nominal amount of USD 1,300 million at an interest rate of 5.95%, acquiring the Group the 75% of the issue.

Furthermore, on 30 December 2016, a placement of perpetual subordinated notes was carried out, for a nominal amount of USD 500 million, acquiring the Group the 88.2%. Perpetual obligations are automatically converted into shares when the Regulatory Capital Index (CET1) is equal to or less than 5.125% at the conversion price.

Santander Bank Polska S.A. Placements

On 20 April 2018, Santander Bank Polska S.A. carried out an issue of subordinated obligations for a term of ten years and with an option to amortize the fifth anniversary of the issue date, for an amount of EUR 1,000 million Polish zlotys. The issue accrues a floating interest of Wibor (6M) + 160 basic points payable semiannually.

The accrued interests from the subordinated liabilities during 2019 amounted to EUR 645 million (EUR 770 million and EUR 966 million during 2018 and 2017, respectively).

Interests from the “CCPS” during 2019 amounted to EUR 595 million (EUR 560 million and EUR 395 million in 2018 and 2017, respectively).

24. Other financial liabilities

The detail of Other financial liabilities in the consolidated balance sheets is as follows:

Million euros

	2019	2018	2017
Trade payables	1,279	1,323	1,559
Clearing houses	165	434	767
Tax collection accounts:			
Public Institutions	4,122	3,968	3,212
Factoring accounts payable	409	263	290
Unsettled financial transactions	3,693	3,373	6,375
Lease liabilities (Note 2.l)	5,108	190	202
Other financial liabilities	15,459	15,113	16,023
	30,235	**24,664**	**28,428**

Note 51 contains a detail of the residual maturity periods of other financial liabilities at each year-end.

Lease liabilities

The total cash outflow of leases in 2019 was EUR 946 million.

The analysis of the maturities of lease liabilities as of 31 December 2019 is shown below:

Million euros

	2019
Maturity Analysis - Discounted payments	
Within 1 year	766
Between 1 and 3 years	1,254
Between 3 and 5 years	875
Later than 5 years	2,213
Total Discounted payments at 31 December 2019	**5,108**

During 2019, there were no significant variable lease payments not included in the valuation of lease liabilities.

25. Provisions

a) Breakdown

The detail of Provisions in the consolidated balance sheets is as follows:

Million euros

	2019	2018	2017
Provision for pensions and other obligations post-employments	6,358	5,558	6,345
Other long term employee benefits	1,382	1,239	1,686
Provisions for taxes and other legal contingencies	3,057	3,174	3,181
Provisions for contingent liabilities and commitments (Note 2)	739	779	617
Other provisions	2,451	2,475	2,660
Provisions	**13,987**	**13,225**	**14,489**

b) Changes

The changes in Provisions in the last three years were as follows:

Million euros

	2019					2018					2017				
	Provisions for pensions and other post-retirement obligations	Provision for other long term employee benefits	Provisions for contingent liabilities and commitments	Other provisions	Total	Provisions for pensions and other post-retirement obligations	Provision for other long term employee benefits	Provisions for contingent liabilities and commitments *	Other provisions	Total	Provisions for pensions and other post-retirement obligations	Provision for other long term employee benefits	Provisions for contingent liabilities and commitments	Other provisions	Total
Balances at beginning of year	**5,558**	**1,239**	**779**	**5,649**	**13,225**	**6,345**	**1,686**	**814**	**5,841**	**14,686**	**6,576**	**1,712**	**459**	**5,712**	**14,459**
Incorporation of Group companies, net	—	(1)	—	—	(1)	—	—	—	(30)	(30)	59	184	146	1,365	1,754
Additions charged to income:	173	729	(31)	2,836	3,707	38	251	(49)	2,253	2,493	237	293	(49)	2,863	3,344
Interest expense (Note 39)	128	17	—	—	145	165	21	—	—	186	175	23	—	—	198
Staff Costs (Note 47)	65	7	—	—	72	78	6	—	—	84	82	6	—	—	88
Provisions or reversion of provisions	(20)	705	(31)	2,836	3,490	(205)	224	(49)	2,253	2,223	(20)	264	(49)	2,863	3,058
Addition	10	713	422	4,276	5,421	7	227	455	4,612	5,301	2	264	606	3,855	4,727
Release	(30)	(8)	(453)	(1,440)	(1,931)	(212)	(3)	(504)	(2,359)	(3,078)	(22)	—	(655)	(992)	(1,669)
Other additions arising from insurance contracts linked to pensions	4	—	—	—	4	(7)	—	—	—	(7)	(7)	—	—	—	(7)
Changes in value recognised in equity	1,520	—	—	—	1,520	(482)	—	—	—	(482)	369	—	—	—	369
Payments to pensioners and pre-retirees with a charge to internal provisions	(331)	(612)	—	—	(943)	(332)	(625)	—	—	(957)	(355)	(498)	—	—	(853)
Benefits paid due to settlements	—	—	—	—	—	—	—	—	—	—	(260)	—	—	—	(260)
Insurance premiums paid	(1)	—	—	—	(1)	(2)	—	—	—	(2)	—	—	—	—	—
Payments to external funds	(455)	—	—	—	(455)	(368)	—	—	—	(368)	(273)	—	—	—	(273)
Amounts used	—	—	—	(2,907)	(2,907)	—	—	(3)	(2,548)	(2,551)	—	—	(3)	(2,997)	(3,000)
Transfer, exchange differences and other changes	(110)	27	(9)	(70)	(162)	366	(73)	17	133	443	(1)	(5)	64	(1,102)	(1,044)
Balances at end of year	**6,358**	**1,382**	**739**	**5,508**	**13,987**	**5,558**	**1,239**	**779**	**5,649**	**13,225**	**6,345**	**1,686**	**617**	**5,841**	**14,489**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January, 2018 (Note 1.d).

c) Provision for pensions and other obligations post – employments and Other long term employee benefits

The detail of Provisions for pensions and similar obligations is as follows:

Million euros

	2019	2018	2017
Provisions for post-employment plans - Spanish entities	3,951	3,930	4,274
Provisions for other similar obligations - Spanish entities	1,321	1,189	1,643
Of which: pre-retirements	*1,303*	*1,172*	*1,630*
Provisions for post-employment plans - United Kingdom	329	130	323
Provisions for post-employment plans - Other subsidiaries	2,078	1,498	1,748
Provisions for other similar obligations - Other subsidiaries	61	50	43
Provision for pensions and other obligations post -employments and Other long term employee benefits	**7,740**	**6,797**	**8,031**
Of which: defined benefits	*7,731*	*6,791*	*8,026*

i. Spanish entities - Post-employment plans and other similar obligations

At 31 December 2019, 2018 and 2017, the Spanish entities had post-employment benefit obligations under defined contribution and defined benefit plans. In addition, in various years some of the consolidated entities offered certain of their employees the possibility of taking pre-retirement and, therefore, provisions are recognised each year for the obligations to employees taking pre-retirement -in terms of salaries and other employee benefit costs- from the date of their pre-retirement to the agreed end date. In 2019, 3,571 employees benefited from the pre-retirement and incentivised retirement plan, being the provision set up to cover these commitments of EUR 688 million. In 2018 and 2017 the provisions accounted for benefit plans and contribution commitments were EUR 209 and 248 million respectively.

In October 2017, the Bank and the workers' representatives reached an agreement for the elimination and compensation of certain passive rights arising from extra-covenant improvement agreements. The effect of the settlement of the mentioned commitments is shown in the tables included below in the "benefit paid for settlement" line.

The expenses incurred by the Spanish companies in 2019, 2018 and 2017 in respect of contributions to defined contribution plans amounted to EUR 89 million, EUR 87 million and EUR 90 million, respectively.

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	Post-employment plans			Other similar obligations		
	2019	2018	2017	2019	2018	2017
Annual discount rate	0.80%	1.55%	1.40% and 1.38% B. Popular	0.80%	1.55%	1.40%
Mortality tables	PERM/F-2000	PERM/F-2000	PERM/F-2000	PERM/F-2000	PERM/F-2000	PERM/F-2000
Cumulative annual CPI growth	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Annual salary increase rate	1.25%*	2.00%*	B. Popular 1.75% in 2018 and Rest B. Santander 1.25%	N/A	N/A	N/A
Annual social security pension increase rate	1.00%	1.00%	1.00%	N/A	N/A	N/A
Annual benefit increase rate	N/A	N/A	N/A	0%	From 0% to 1.50%	From 0% to 1.50%

* Corresponds to the Group's defined-benefit obligations.

The discount rate used for the flows was determined by reference to high-quality corporate bonds (at least AA in euros) with terms consistent with those of the obligations.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2019, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the post-employment obligations of 5.50% (-50 b.p) to -5.02% (+50 b.p.),respectively, and an increase or decrease in the present value of the long-term obligations of 1.14% (-50 b.p.) to -1.11% (+50 b.p.), respectively.

These changes would be offset in part by increases or decreases in the fair value of the assets and insurance contracts linked to pensions.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The fair value of insurance contracts was determined as the present value of the related payment obligations, taking into account the following assumptions:

	Post-employment plans			Other similar obligations		
	2019	2018	2017	2019	2018	2017
Expected rate of return on plan assets	0.80%	1.55%	1.40%	0.80%	1.55%	1.40%
Expected rate of return on reimbursement rights	0.80%	1.55%	1.40%	N/A	N/A	N/A

The funding status of the defined benefit obligations in 2019 and the four preceding years is as follows:

Million euros

	Post-employment plans					Other similar obligations				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Present value of the obligations:										
To current employees	59	60	138	50	48	—	—	—	—	—
Vested obligations to retired employees	5,393	5,332	5,662	4,423	4,551	—	—	—	—	—
To pre-retirees employees	—	—	—	—	—	1,317	1,187	1,647	1,644	1,801
Long-service bonuses and other benefits	—	—	—	—	—	18	17	13	13	12
Other	42	35	112	383	380	—	—	—	—	—
	5,494	**5,427**	**5,912**	**4,856**	**4,979**	**1,335**	**1,204**	**1,660**	**1,657**	**1,813**
Less - Fair value of plan assets	1,547	1,500	1,640	157	157	14	15	17	—	—
Provisions - Provisions for pensions	**3,947**	**3,927**	**4,272**	**4,699**	**4,822**	**1,321**	**1,189**	**1,643**	**1,657**	**1,813**
Of which:										
Internal provisions for pensions	*3,759*	*3,720*	*4,036*	*4,432*	*4,524*	*1,321*	*1,189*	*1,642*	*1,657*	*1,813*
Insurance contracts linked to pensions (Note 14)	*192*	*210*	*238*	*269*	*299*	—	—	*1*	—	—
Unrecognised net assets for pensions	*(4)*	*(3)*	*(2)*	*(2)*	*(1)*	—	—	—	—	—

The amounts recognised in the consolidated income statements in relation to the aforementioned defined benefit obligations are as follows:

Million euros

	Post-employment plans			Other similar obligations		
	2019	2018	2017	2019	2018	2017
Current service cost	12	18	16	1	1	1
Interest cost (net)	53	73	79	15	18	21
Expected return on insurance contracts linked to pensions	(2)	(4)	(4)	—	—	—
Provisions or reversion of provisions						
Actuarial (gains)/losses recognised in the year	—	—	—	7	7	13
Past service cost	3	3	—	1	5	—
Pre-retirement cost	1	1	—	687	208	248
Other	(29)	(4)	(2)	(2)	—	—
	38	**87**	**89**	**709**	**239**	**283**

In addition, in 2019 Other comprehensive income – Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans has increased by EUR 278 million with respect to defined benefit obligations (decrease of EUR 65 million and increase of EUR 41 million in 2018 and 2017, respectively).

The changes in the present value of the accrued defined benefit obligations were as follows:

Million euros

	Post-employment plans			Other similar obligations		
	2019	2018	2017	2019	2018	2017
Present value of the obligations at beginning of year	5,427	5,912	4,856	1,204	1,660	1,657
Incorporation of Group companies, net	—	(36)	1,563	(1)	—	202
Current service cost	12	18	16	1	1	1
Interest cost	72	99	94	15	18	21
Pre-retirement cost	1	1	—	687	208	248
Effect of curtailment/settlement	(29)	(4)	(2)	(2)	—	—
Benefits paid	(400)	(423)	(388)	(599)	(617)	(490)
Benefits paid due to settlements	—	—	(260)	—	—	—
Past service cost	3	3	—	1	5	—
Actuarial (gains)/losses	407	(145)	57	7	6	13
Demographic actuarial (gains)/losses	*15*	*(21)*	*(7)*	*(9)*	*(3)*	*10*
Financial actuarial (gains)/losses	*392*	*(124)*	*64*	*16*	*9*	*3*
Exchange differences and other items	1	2	(24)	22	(77)	8
Present value of the obligations at end of year	**5,494**	**5,427**	**5,912**	**1,335**	**1,204**	**1,660**

The changes in the fair value of plan assets and of insurance contracts linked to pensions were as follows:

Plan Assets

Million euros

	Post-employment plans			Other similar obligations		
	2019	2018	2017	2019	2018	2017
Fair value of plan assets at beginning of year	1,500	1,640	157	15	17	—
Incorporation of Group companies, net	—	—	1,507	—	—	18
Expected return on plan assets	19	26	15	—	—	—
Benefits paid	(108)	(115)	(58)	(2)	(2)	(1)
Contributions/(surrenders)	8	21	3	—	—	—
Actuarial gains/(losses)	128	(73)	24	—	(1)	—
Exchange differences and other items	—	1	(8)	1	1	—
Fair value of plan assets at end of year	**1,547**	**1,500**	**1,640**	**14**	**15**	**17**

Insurance Contracts linked to pensions

Million euros

	Post-employment plans			Other similar obligations		
	2019	2018	2017	2019	2018	2017
Fair value of insurance contracts linked to pensions at beginning of year	210	238	269	—	1	—
Incorporation of Group companies, net	—	—	—	—	—	2
Expected return on insurance contracts linked to pensions	2	4	4	—	—	—
Benefits paid	(24)	(27)	(29)	—	(1)	(1)
Paid premiums	—	2	1	—	—	—
Actuarial gains/(losses)	4	(7)	(7)	—	—	—
Fair value of insurance contracts linked to pensions at end of year	**192**	**210**	**238**	**—**	**—**	**1**

In view of the conversion of the defined-benefit obligations to defined-contribution obligations, the Group has not made material current contributions in Spain in 2019 to fund its defined-benefit pension obligations.

The plan assets and the insurance contracts linked to pensions are instrumented mainly through insurance policies.

The following table shows the estimated benefits payable at 31 December 2019 for the next ten years:

Million euros	
2020	836
2021	638
2022	569
2023	491
2024	421
2025 to 2029	1,560

ii. United Kingdom

At the end of each of the last three years, the businesses in the United Kingdom had post-employment benefit obligations under defined contribution and defined benefit plans. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 93 million in 2019 (2018: EUR 93 million; 2017: EUR 82 million).

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

2. Actuarial assumptions used: unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2019	2018	2017
Annual discount rate	2.11%	2.90%	2.49%
Mortality tables	"S3 Middle" tables weighted at 84% CMI_2018 projection with initial addition 0.15%, smoothing parameter 7 and 1.25% improvements	108/86 S2 Light	108/86 S2 Light
Cumulative annual CPI growth	3.01%	3.22%	3.15%
Annual salary increase rate	1.00%	1.00%	1.00%
Annual pension increase rate	2.91%	2.94%	2.94%

The discount rate used for the flows was determined by reference to high-quality corporate bonds (at least AA in pounds sterling) that coincide with the terms of the obligations.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2019, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the obligations of 10.27% (-50 b.p.) and -9.08% (+50 b.p.), respectively.If the inflation assumption had been increased or decreased by 50 basis points, there would have been an increase or decrease in the present value of the obligations of 6.85% (+50 b.p.) and -6.80% (-50 b.p.), respectively. These changes would be offset in part by increases or decreases in the fair value of the assets.

The funding status of the defined benefit obligations in 2019 and the four preceding years is as follows:

Million euros

	2019	2018	2017	2016	2015
Present value of the obligations	14,297	12,079	13,056	12,955	12,271
Less-					
Fair value of plan assets	14,755	12,887	13,239	13,118	12,880
Provisions - Provisions for pensions	**(458)**	**(808)**	**(183)**	**(163)**	**(609)**
Of which:					
Internal provisions for pensions	*329*	*130*	*323*	*306*	*150*
Net assets for pensions	*(787)*	*(938)*	*(506)*	*(469)*	*(759)*

The amounts recognised in the consolidated income statements in relation to the aforementioned defined benefit obligations are as follows:

Million euros

	2019	2018	2017
Current service cost	27	31	36
Interest cost (net)	(24)	(6)	(6)
	3	**25**	**30**

In addition, in 2019 Other comprehensive income – Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans increase by EUR 601 million with respect to defined benefit obligations (2018: decrease of EUR 481 million; 2017: increase of EUR 121 million).

The changes in the present value of the accrued defined benefit obligations were as follows:

Million euros

	2019	2018	2017
Present value of the obligations at beginning of year	12,079	13,056	12,955
Current service cost	27	31	36
Interest cost	352	320	347
Benefits paid	(441)	(489)	(445)
Contributions made by employees	18	24	20
Past service cost	—	—	—
Actuarial (gains)/losses	1,594	(766)	602
Demographic actuarial (gains)/losses	*48*	*(21)*	*(184)*
Financial actuarial (gains)/losses	*1,546*	*(745)*	*786*
Exchange differences and other items	668	(97)	(459)
Present value of the obligations at end of year	**14,297**	**12,079**	**13,056**

The changes in the fair value of the plan assets were as follows:

MIlion euros

	2019	2018	2017
Fair value of plan assets at beginning of year	12,887	13,239	13,118
Expected return on plan assets	376	326	353
Benefits paid	(441)	(489)	(445)
Contributions	244	209	208
Actuarial gains/(losses)	993	(285)	481
Exchange differences and other items	696	(113)	(476)
Fair value of plan assets at end of year	**14,755**	**12,887**	**13,239**

In 2020 the Group expects to make current contributions to fund these obligations for amounts similar to those made in 2019.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2019	2018	2017
Equity instruments	12%	17%	20%
Debt instruments	46%	50%	46%
Properties	11%	10%	13%
Other	31%	23%	21%

The following table shows the estimated benefits payable at 31 December 2019 for the next ten years:

Million euros

2020	391
2021	362
2022	388
2023	403
2024	428
2025 to 2029	2,450

iii. Other foreign subsidiaries

Certain of the consolidated foreign entities have acquired commitments to their employees similar to post-employment benefits.

At 31 December 2019, 2018 and 2017, these entities had defined-contribution and defined-benefit post-employment benefit obligations. The expenses incurred in respect of contributions to defined contribution plans amounted to EUR 110 million in 2019 (2018: EUR 107 million; 2017: EUR 99 million).

The actuarial assumptions used by these entities (discount rates, mortality tables and cumulative annual CPI growth) are consistent with the economic and social conditions prevailing in the countries in which they are located.

Specifically, the discount rate used for the flows was determined by reference to high-quality corporate bonds, except in the case of Brazil where there is no extensive corporate bond market and, accordingly the discount rate was determined by reference to the series B bonds issued by the Brazilian National Treasury Secretariat for a term coinciding with that of the obligations. In Brazil the discount rate used was between 7.05% and 7.22%, the CPI 3.50% and the mortality table the AT2000.

Any changes in the main assumptions could affect the calculation of the obligations. At 31 December 2019, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the obligations of 6.19% and -5.58%, respectively.These changes would be offset in part by increases or decreases in the fair value of the assets.

The funding status of the obligations similar to post-employment benefits and other long-term benefits in 2019 and the four preceding years is as follows:

Million euros

	2019	*Of which business in Brazil*	2018	2017	2016	2015
Present value of the obligations	10,717	7,774	9,116	9,534	9,876	8,337
Less-						
Of which: with a charge to the participants	*176*	*176*	*167*	*193*	*153*	*133*
Fair value of plan assets	8,826	6,875	7,743	7,927	8,445	7,008
Provisions - Provisions for pensions	**1,715**	**723**	**1,206**	**1,414**	**1,278**	**1,196**
Of which:						
Internal provisions for pensions	*2,129*	*1,098*	*1,541*	*1,787*	*1,613*	*1,478*
Net assets for pensions	*(116)*	*(77)*	*(77)*	*(98)*	*(52)*	*(28)*
Unrecognised net assets for pensions	*(298)*	*(298)*	*(258)*	*(275)*	*(283)*	*(254)*

The amounts recognised in the consolidated income statements in relation to these obligations are as follows:

Million euros

	2019	2018	2017
Current service cost	32	34	35
Interest cost (net)	101	101	104
Provisions or reversion of provisions			
Actuarial (gains)/losses recognised in the year	12	5	1
Past service cost	6	3	3
Pre-retirement cost	—	(6)	—
Other	(1)	(203)	(19)
	150	**(66)**	**124**

In addition, in 2019 Other comprehensive income – Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans increase by EUR 641 million with respect to defined benefit obligations (increased EUR 64 million and increased EUR 207 million in 2018 and 2017, respectively).

In June 2018, the Group in Brazil reached an agreement with the labour unions to modify the scheme of contributions to certain health benefits, which implied a reduction in commitments amounting to EUR 186 million, shown in the following tables under the heading "Effect to curtailment/settlement".

The changes in the present value of the accrued obligations were as follows:

Million euros

	2019	2018	2017
Present value of the obligations at beginning of year	9,116	9,534	9,876
Incorporation of Group companies, net	—	36	165
Current service cost	32	34	35
Interest cost	651	646	807
Pre-retirement cost	—	(6)	—
Effect of curtailment/settlement	(1)	(199)	(19)
Benefits paid	(666)	(634)	(716)
Benefits paid due to settlements	—	—	(24)
Contributions made by employees	5	5	6
Past service cost	6	3	3
Actuarial (gains)/losses	1,652	390	404
Demographic actuarial (gains)/losses	*3*	*(59)*	*(140)*
Financial actuarial (gains)/losses	*1,649*	*449*	*544*
Exchange differences and other items	(78)	(693)	(1,003)
Present value of the obligations at end of year	**10,717**	**9,116**	**9,534**

The changes in the fair value of the plan assets were as follows:

Million euros

	2019	2018	2017
Fair value of plan assets at beginning of year	7,743	7,927	8,445
Incorporation of Group companies, net	—	—	166
Expected return on plan assets	573	573	732
Benefits paid	(613)	(602)	(683)
Benefits paid due to settlements	—	—	(24)
Contributions	214	199	94
Actuarial gains/(losses)	1,021	308	203
Exchange differences and other items	(112)	(662)	(1,006)
Fair value of plan assets at end of year	**8,826**	**7,743**	**7,927**

In 2020 the Group expects to make contributions to fund these obligations for amounts similar to those made in 2019.

The main categories of plan assets as a percentage of total plan assets are as follows:

	2019	2018	2017
Equity instruments	8%	7%	6%
Debt instruments	84%	83%	84%
Properties	1%	1%	3%
Other	7%	9%	7%

The following table shows the estimated benefits payable at 31 December 2019 for the next ten years:

Million euros

2020	609
2021	615
2022	629
2023	641
2024	655
2025 to 2029	3,418

d) Provisions for taxes and other legal contingencies and Other provisions

Provisions - Provisions for taxes and other legal contingencies and Provisions - Other provisions, which include, inter alia, provisions for restructuring costs and tax-related and non-tax-related proceedings, were estimated using prudent calculation procedures in keeping with the uncertainty inherent to the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, these obligations have no fixed settlement period and, in other cases, depend on the legal proceedings in progress.

The detail, by geographical area, of Provisions for taxes and other legal contingencies and Other provisions is as follows:

Million euros

	2019	2018	2017
Recognised by Spanish companies	1,381	1,647	1,666
Recognised by other EU companies	1,100	1,044	1,127
Recognised by other companies	3,027	2,958	3,048
Of which:			
Brazil	*2,484*	*2,496*	*2,504*
	5,508	**5,649**	**5,841**

Set forth below is the detail, by type of provision, of the balance at 31 December 2019, 2018 and 2017 of Provisions for taxes and other legal contingencies and Other provisions.

The types of provision were determined by grouping together items of a similar nature:

Million euros

	2019	2018	2017
Provisions for taxes	759	864	1,006
Provisions for employment-related proceedings (Brazil)	776	859	868
Provisions for other legal proceedings	1,522	1,451	1,307
Provision for customer remediation	725	652	885
Regulatory framework-related provisions	67	105	101
Provision for restructuring	641	492	360
Other	1,018	1,226	1,314
	5,508	**5,649**	**5,841**

Relevant information is set forth below in relation to each type of provision shown in the preceding table:

The provisions for taxes include provisions for tax-related proceedings.

The provisions for employment-related proceedings (Brazil) relate to claims filed by trade unions, associations, the prosecutor's office and ex-employees claiming employment rights to which, in their view, they are entitled, particularly the payment of overtime and other employment rights, including litigation concerning retirement benefits. The number and nature of these proceedings, which are common for banks in Brazil, justify the classification of these provisions in a separate category or as a separate type from the rest. The Group calculates the provisions associated with these claims in accordance with past experience of payments made in relation to claims for similar items. When claims do not fall within these categories, a case-by-case assessment is performed and the amount of the provision is calculated in accordance with the status of each proceeding and the risk assessment carried out by the legal advisers.

The provisions for other legal proceedings include provisions for court, arbitration or administrative proceedings (other than those included in other categories or types of provisions disclosed separately) brought against Santander Group companies.

The provisions for customer remediation include mainly the estimated cost of payments to remedy errors relating to the sale of certain products in the UK and the estimated amount related to the floor clauses of Banco Popular Español, S.A.U. To calculate the provision for customer remediation, the best estimate of the provision made by management is used, which is based on the estimated number of claims to be received and, of these, the number that will be accepted, as well as the estimated average payment per case.

The regulatory framework-related provisions include mainly the provisions relating to the FSCS (Financial Services Compensation Scheme), the Bank Levy in the UK and in Poland the provision related to the Banking Tax.

The provisions for restructuring include only the costs arising from restructuring processes carried out by the various Group companies.

Qualitative information on the main litigation is provided in Note 25.e to the consolidated financial statements.

Our general policy is to record provisions for tax and legal proceedings in which we assess the chances of loss to be probable and we do not record provisions when the chances of loss are possible or remote. We determine the amounts to be provided for as our best estimate of the expenditure required to settle the corresponding claim based, among other factors, on a case-by-case analysis of the facts and the legal opinion of internal and external counsel or by considering the historical average amount of the loss incurred in claims of the same nature. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, the obligations do not have a fixed settlement term and, in others, they depend on legal proceedings in progress.

The main movements during the 2019 of the breakdown provisions are shown below:

Regarding the provisions for labour processes and others of a legal nature, Brazil has provided EUR 291 and 183 million respectively, with payments of EUR 394 and 229 million, respectively.

Regarding the provisions arising for customer remediation, EUR 192 million provisions in United Kingdom and EUR 59 million provisions in Puerto Rico for customer compensation have been allocated, partially offset with EUR 175 million provisions in United Kingdom and EUR 41 million provisions in Puerto Rico used, and Banco Popular, S.A.U., which an amount of EUR 47 million has been used in the period from floor clauses.

Regarding the provisions constituted by regulatory framework, EUR 99 million have been charged and EUR 103 million have been used in United Kingdom (Bank Levy and FSCS). In addition, EUR 123 have been provisioned in Poland.

Regarding the provisions for restructuring process, EUR 271 million have been provisioned in Spain, EUR 186 million have been provisioned in United Kigdom, EUR 166 million have been provisioned in Brazil and EUR 63 million have been provisioned in in Poland. This increase was partially offset by the use of EUR 165 million in Spain, EUR 139 million in United Kingdom, EUR 40 million in Brazil and EUR 58 million in Poland.

e) Litigation and other matters

i. Tax-related litigation

At 31 December 2019 the main tax-related proceedings concerning the Group were as follows:

- Legal actions filed by Banco Santander (Brasil) S.A. and other Group entities to avoid the application of Law 9.718/98, which modifies the basis to calculate PIS and COFINS social contribution, extending it to all the entities income, and not only to the income from the provision of services. In relation of Banco Santander (Brasil) S.A. process, in May 2015 the Federal Supreme Court (FSC) admitted the extraordinary appeal filed by the Federal Union regarding PIS, and dismissed the extraordinary appeal lodged by the Brazilian Public Prosecutor's Office regarding COFINS contribution, confirming the decision of Federal Regional Court favourable to Banco Santander (Brasil) S.A. of August 2007. The appeals filed by the other entities before the Federal Supreme Court, both for PIS and COFINS, are still pending. These claims are fully provisioned.
- Banco Santander (Brasil) S.A. and other Group companies in Brazil have appealed against the assessments issued by the Brazilian tax authorities questioning the deduction of loan losses in their income tax returns (IRPJ and CSLL) in relation to different administrative processes of various years on the ground that the requirements under the applicable legislation were not met. The appeals are pending decision in CARF. No provision was recognised in connection with the amount considered to be a contingent liability.
- Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against several municipalities that demand payment of the Service Tax on certain items of income from transactions not classified as provisions of services. There are several cases in different judicial instances. A provision was recognised in connection with the amount of the estimated loss.
- Banco Santander (Brasil) S.A. and other Group companies in Brazil are involved in administrative and legal proceedings against the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. There are several cases in different judicial instances. A provision was recognised in connection with the amount of the estimated loss.
- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliarios Ltda. (DTVM, currently Santander Brasil Tecnologia S.A.) and Banco Santander (Brasil) S.A. in relation to the Provisional Tax on Financial Movements (CPMF) of the years 2000, 2001 and part of 2002. In July 2015, after the unfavourable decision of CARF, both entities appealed at Federal Justice in a single proceeding. In June 2019 this action has been dismissed, and the resolution has been appealed to the higher court. There is a provision recognised for the estimated loss.

- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros S.A. (Brazil), currently Zurich Santander Brasil Seguros e Previdência S.A., as the successor by merger to ABN AMRO Brasil dois Participações S.A., in relation to income tax (IRPJ and CSLL) for 2005, questioning the tax treatment applied to a sale of shares of Real Seguros, S.A. Actually it is appealed before the CARF. As the former parent of Santander Seguros S.A. (Brasil), Banco Santander (Brasil) S.A. is liable in the event of any adverse outcome of this proceeding. No provision was recognised in connection with this proceeding as it is considered to be a contingent liability.

- In November 2014 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to corporate income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortisation of the goodwill of Banco ABN AMRO Real S.A. performed prior to the absorption of this bank by Banco Santander (Brasil) S.A., but accepting the amortisation performed after the merger. Actually, it is appealed before the Higher Chamber of CARF. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.

- Banco Santander (Brasil) S.A. has also appealed against infringement notices issued by the tax authorities questioning the tax deductibility of the amortisation of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A from years 2007 to 2012. No provision was recognised in connection with this matter as it was considered to be a contingent liability.

- Banco Santander (Brazil) S.A. and other companies of the Group in Brazil are undergoing administrative and judicial procedures against Brazilian tax authorities for not admitting tax compensation with credits derived from other tax concepts, not having registered a provision for such amount since it is considered to be a contingent liability.

- Banco Santander (Brasil) S.A. is involved in appeals in relation to infringement notices initiated by tax authorities regarding the offsetting of tax losses in the CSLL ('Social Contribution on Net Income') of year 2009. The appeal is pending decision in CARF. No provision was recognised in connection with this matter as it is considered to be a contingent liability.

  The total amount for the aforementioned Brazil lawsuits related to tax legal obligations or with probable loss risk is approximately EUR 1,145 million, fully provisioned, and the total amount for tax litigation with possible loss risk is approximately EUR 3,962 million.

- Legal action brought by Sovereign Bancorp, Inc. (currently Santander Holdings USA, Inc.) claiming its right to take a foreign tax credit for taxes paid outside the United States in fiscal years 2003 to 2005 as well as the related issuance and financing costs. On 17 July 2018, the District Court finally ruled against Santander Holdings USA, Inc. On September 5, 2019 the Federal District Court in Massachussests entered a stipulated judgement resolving the Company's tax liability for fiscal years 2003 to 2005, which had no effect on income. The Company has agreed to resolve the treatment of the same transactions for 2006 and 2007, subject to review by the Congressional Joint Committee on Taxation and final IRS approval, with no effect on income.

- Banco Santander has appealed before European Courts the Decisions 2011/5/CE of 28 October 2009, and 2011/282/UE of 12 January 2011 of the European Commission, ruling that the deduction regulated pursuant to Article 12.5 of the Corporate Income Tax Law constituted illegal State aid. On November 2018 the General Court confirmed these Decisions but these judgements have been appealed at the Court of justice of the European Union. The dismissal of this appeal would not have effect on equity.

  At the date of approval of these consolidated financial statements certain other less significant tax-related proceedings were also in progress.

ii. Non-tax-related proceedings

At 31 December 2019 the main non-tax-related proceedings concerning the Group were as follows:

- Payment Protection Insurance (PPI): claims associated with the sale by Santander UK plc of payment protection insurance or PPI to its customers. As of 31 December 2019, the remaining provision for PPI redress and related costs amounted to GBP 189 million (EUR 222 million) (2018: GBP 246 million (EUR 275 million)). There was no additional provision in the fourth quarter of 2019. The Financial Conduct Authority ("FCA") set a deadline of 29 August 2019 for PPI complaints and delivered a nationwide communications campaign to raise awareness of this deadline among consumers. In line with industry experience, we received unprecedented volumes of information requests in August 2019 and saw a significant spike in both these requests and complaints in the final days prior to the complaint deadline, with the processing of these claims ongoing.

  Given the passing of the FCA's August 2019 time bar, the level of judgment required by management in determining appropriate assumptions has reduced. At 31 December 2019, the key assumptions in calculating the provision were around the estimated number of customer complaints that would be received in respect of customers with successful information requests.

  The uphold rates are informed by historical experience and the average cost of redress can be predicted reasonably accurately given that management is dealing with a high volume and reasonably homogenous population.

  Cumulative complaints to 31 December 2019 were 4.4 million, including c.327,000 that were still being reviewed. Future expected claims, regardless of the likelihood of Santander UK incurring a liability, were c. 49,000. For every additional 10,000 inbound PPI complaints, it would be expected an additional charge of GBP 3.3 million (EUR 3.7 million). In addition, there are legal claims being made by Claims Management Companies challenging the FCA's industry guidance on the treatment of Plevin/recurring non-disclosure assessments.

In 2019, it was charged an additional GBP 169 million (EUR 192 million) in respect of PPI. During 2018, no additional provision was registered.

The provision for conduct remediation recognised represents management's best estimate of Santander UK's liability in respect of mis-selling of PPI policies.

- Delforca: dispute arising from equity swaps entered into by Gaesco (now Delforca 2008, S.A.) on shares of Inmobiliaria Colonial, S.A. Banco Santander, S.A. is claiming to Delforca a total of EUR 66 million from the liquidation of the swaps. Mobiliaria Monesa, S.A. (Delforca's parent company) has commenced a civil proceeding against the Bank claiming damages which, as of date have not been determined. The proceeding has been stayed because the jurisdiction of the Court has been challenged. Within insolvency proceedings before the Commercial Court, both Delforca and Mobiliaria Monesa have instigated a claim against the Bank seeking the recovery of EUR 56.8 million that the Bank received from the liquidation of the swap. The Bank has filed a claim against Delforca seeking the Bank's recognition of its right to receive the credit. At 31 December 2019, the risk is considered remote. The Bank has not recognised any provisions in this connection.
- Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cia. de Arrendamiento Mercantil: a claim was filed in 1998 by the association of retired Banespa employees (AFABESP) requesting the payment of a half-yearly bonus contemplated in the by-laws of Banespa in the event that Banespa obtained a profit and that the distribution of this profit were approved by the Board of Directors. The bonus was not paid in 1994 and 1995 since Banespa had not made a profit during those years. Partial payments were made from 1996 to 2000, as approved by the Board of Directors. The relevant clause was eliminated in 2001. The Regional Labor Court and the High Employment Court ordered Santander Brasil, as successor to Banespa, to pay this half-yearly bonus for the period from 1996 to the present. On 20 March 2019, a decision from the Federal Court of Justice (Supremo Tribunal Federal, or "STF") rejected the extraordinary appeal filed by Santander Brasil. A rescission action was brought to revert the decision in the main proceedings and suspend procedural enforcement. The external legal advisor of the Bank has classified the risk of loss as probable. The current court decision does not define a specific amount to be paid by the defendants (this would only be determined once a final decision is issued and the enforcement process has begun).
- "Planos Económicos": like the rest of the banking system in Brasil, Santander Brasil has been the target of customer complaints and collective civil suits stemming from legislative changes and its application to bank deposits, fundamentally ('economic plans'). At the end of 2017, there was an agreement between regulatory entities and the Brazilian Federation of Banks (Febraban), already approved by the Supremo Tribunal Federal, with the purpose of closing the lawsuits. Discussions focused on specifying the amount to be paid to each affected client according to the balance in their notebook at the time of the Plan. Finally, the total value of the payments will depend on the number of endorsements they have made and the number of savers who have demonstrated the existence of the account and its balance on the date the indexes were changed. In November 2018, the STF ordered the suspension of all economic plan processes for two years from May 2018.The provisions recorded for the economic plan processes are considered to be sufficient.
- Floor clauses ("cláusulas suelo"): in consequence of the acquisition of Banco Popular, S.A.U, the Group has been exposed to a material number of transactions with floor clauses. The so-called "floor clauses" or minimum clauses are those under which the borrower accepts a minimum interest rate to be paid to the lender, regardless of the applicable reference interest rate. Banco Popular Español, S.A.U. included "floor clauses" in certain asset transactions with customers. In relation to this type of clauses, and after several rulings made by the Court of Justice of the European Union and the Spanish Supreme Court, and the extrajudicial process established by the Spanish Royal Decree-Law 1/2017, of 2 January, Banco Popular Español, S.A.U. made extraordinary provisions that were updated in order to cover the effect of the potential return of the excess interest charged for the application of the floor clauses between the contract date of the corresponding mortgage loans and May 2013. The Group considered that the maximum risk associated with the floor clauses applied in its contracts with consumers, in the most severe and not probable scenario, would amount to approximately EUR 900 million, as initially measured and without considering the returns performed. For this matter, after the purchase of Banco Popular Español, S.A.U., EUR 402 million provisions have been used by the Group (EUR 238 million in 2017, EUR 119 million in 2018 and EUR 45 million in 2019) mainly for refunds as a result of the extrajudicial process mentioned above. As of 31 December 2019, the amount of the Group's provisions in relation to this matter amounts to EUR 79.9 million (2018: EUR 104 million).
- Banco Popular´s acquisition: considering the declaration setting out the resolution of Banco Popular Español, S.A.U., the redemption and conversion of its capital instruments and the subsequent transfer to Banco Santander, S.A. of the shares resulting from this conversion in exercise of the resolution instrument involving the sale of the institution's business, in the application accordance with the single resolution framework regulation referred to in Note 3 of the 2018 consolidated annual accounts, some investors have filed claims against the EU's Single Resolution Board decision, the FROB's resolution executed in accordance to the aforementioned decision, and claims have been filed and may be filed in the future against Banco Santander, S.A. or other Santander Group companies deriving from or related to the acquisition of Banco Popular Español, S.A.U.. There are also criminal investigations in progress led by the Spanish National Court in connection with Banco Popular Español, S.A.U., although not with its acquisition. On 15 January 2019, the Spanish National Court, applying article 130.2 of the Spanish Criminal Code, declared the Bank the successor entity to Banco Popular Español, S.A.U. (following the merger of the Bank and Banco Popular Español, S.A.U. on 28 September 2018), and, as a result, determined that the Bank assumed the role of the party being investigated in the

criminal proceeding. The decision was appealed and on 30 April 2019, the Spanish National Court ruled in favor of Banco Santander, S.A. declaring that Banco Santander, S.A. cannot inherit Banco Popular's potential criminal liability. This ruling was appealed before the Supreme Court who have rejected the appeal.

At this time it is not possible to foresee the total number of lawsuits and additional claims that could be put forth by the former shareholders, nor their economic implications (particularly considering that the resolution decision in application of the new laws is unprecedented in Spain or any other Member State of the European Union and that possible future claims might not specify any specific amount, allege new legal interpretations or involve a large number of parties). The estimated cost of the potential compensation to the shareholders of Banco Popular Español, S.A.U. has been accounted for as disclosed in the aforementioned Note 3.

- German shares investigation: the Cologne Public Prosecution Office is conducting an investigation against the Bank, and other group entities based in UK - Santander UK plc, Abbey National Treasury Services plc and Cater Allen International Limited -, in relation to a particular type of tax dividend linked transactions known as cum-ex transactions

  The Group is cooperating with the German authorities. According to the state of the investigations, the results and the effects for the Group, which may potentially include the imposition of financial penalties, cannot be anticipated. The Bank has not recognised any provisions in relation to the potential imposition of financial penalties.

- Attorneys General Investigation of auto loan securitisation transactions and fair lending practices: in October 2014, May 2015, July 2015 and February 2017, Santander Consumer USA Inc. (SC) received subpoenas and/or Civil Investigative Demands (CIDs) from the Attorneys General of the U.S. states of California, Illinois, Oregon, New Jersey, Maryland and Washington under the authority of each state's consumer protection statutes. These states serve on behalf of a group of 33 state Attorneys General. The subpoenas and CIDs contained broad requests for information and the production of documents related to SC's underwriting, securitization, the recovery efforts servicing and collection of nonprime vehicle loans. SC responded to these requests within the deadlines specified and has otherwise cooperated with the Attorneys General with respect to this matter. The provisions recorded for this investigation are considered sufficient.

- Financial Industry Regulatory Authority ("FINRA") Puerto Rico Arbitrations: as of 31 December 2019, Santander Securities LLC (SSLLC) had received 751 FINRA arbitration cases related to Puerto Rico Bonds issued by public and public related entities, as well as Puerto Rico closed-end funds (CEFs). The statements of claims allege, among other things, fraud, negligence, breach of fiduciary duty, breach of contract, unsuitability, over-concentration of the investments and failure to supervise. There were 439 arbitration cases that remained pending as of 31 December 2019.

  As a result of various legal, economic and market factors impacting or that could impact of the value Puerto Rico bonds and CEFs, it is possible that additional arbitration claims and/or increased claim amounts may be asserted against SSLLC in future periods. The provisions recorded for these matters are considered sufficient.

- IRPH Index: a portion of our Spanish mortgage loan portfolio bears interest at a rate indexed to the "Índice de Referencia de Préstamos Hipotecarios" known as "IRPH," which, at the time the contracts were entered into, served as reference rate for mortgage loan agreements in Spain and was published by the Bank of Spain. Consumers in Spain have brought lawsuits against most of the Spanish banking sector alleging that the use and related disclosures of such rate did not comply with the transparency requirements of European regulation. On 14 December 2017, the Supreme Court of Spain ruled that these clauses were valid, as the IRPH is an official rate and therefore non-subject to transparency requirements. The matter has been referred to the Court of Justice of the European Union through a preliminary ruling procedure. Pending the outcome of this referral, the IRPH remains valid as a result of the decision of the Supreme Court of Spain.

  On 10 September 2019, the Advocate General of Court of Justice of the European Union (CJEU) issued a non-binding opinion stating that the IRPH index clause is not excluded from the scope of the Directive 93/13 and article 4 of the Directive 93/13 does not apply. The Advocate General concludes that the consumer information must be sufficient to enable the consumer to make a prudent and fully informed decision about the method of calculating the interest rate applicable to the contract and its components parts, specifying not only the full definition of the index used by this calculation method but also the provisions of the relevant national legislation determining that index; and must refer to the past performance of the index. The Advocate General adds that it is for the national court, when carrying out the transparency control, to verify, taking into account all the circumstances surrounding the conclusion of the contract, on the one hand, whether the contract transparently sets out the method of calculating the interest rate, so that the consumer would be able to assess, on the basis of precise and intelligible criteria, the economic consequences for the contract and, on the other hand, whether this contract complies with all the information obligations laid down in national law.

  In the event the Court of Justice of the European Union questions these clauses, it would need to be determined the effects of the decision which carries the uncertainty as to the interest rate that would apply to the relevant mortgage loans. Additionally, it is unclear whether such a ruling by the Court of Justice of the European Union would have retroactive effect and to what extent.

  The uncertainty regarding the ruling by the Court of Justice of the European Union as well as the effects of such ruling make estimating the potential exposure difficult. Currently, the balance of the relevant mortgage loans held by us equals approximately EUR 4.3 billion. Although it is considered that the decision of the Supreme Court of Spain is well-founded, an unfavorable decision by the Court of Justice of the European Union could result in the charge of a material provision.

- Banco Santander has been sued in a legal proceeding in which the plaintiff alleges that a contract was concluded whereby he would be entrusted with the functions of CEO of the Bank. In the complaint, the claimant mainly requests a declaratory ruling that affirms the validity and conclusion of such contract and its enforcement together with the payment of certain amounts. If the main request is not granted, the claimant seeks compensation for a total amount of approximately EUR 112 million or, an alternative relief for other minor amounts. Banco Santander, S.A. has answered to the complaint. In this answer, it is stated that the conditions to which the appointment was subject to were not met and that the contract required by law was not concluded. The proceeding is ongoing.
- CHF Polish Mortgage Loans: On 3 October 2019, the Court of Justice of the European Union (CJEU) rendered its decision in relation to a lawsuit against an unrelated bank in Poland, with regards to unfair contractual clauses in consumer agreements, specifically the consequences of potentially unfair contractual clauses in CHF-indexed loan agreements. The CJEU has left to Polish courts the decision on whether the whole contract can be maintained once the abusive terms have been removed, which should in turn decide whether the effects of the annulment of the contract are prejudicial to the consumer. In that case, the court may only integrate the contract with default provisions of national law and decide, in accordance with those provisions, on the applicable rate.

  As at 31 December 2019, the Group has a portfolio of mortgage loans denominated in, or indexed to, CHF of approximately PLN 9,891 million (EUR 2,323 million).

  In 2019 the Group (Santander Bank Polska and Santander Consumer Bank) in Poland created PLN 173 million(EUR 40.9 million) provision for CHF. This provision represents the best estimate to date given the difficulty to predict the financial impact, as, it is for national courts to decide the relevant issues.

The Bank and the other Group companies are subject to claims and, therefore, are party to certain legal proceedings incidental to the normal course of their business including those in connection with lending activities, relationships with employees and other commercial or tax matters.

With the information available to it, the Group considers that, at 31 December 2019, it had reliably estimated the obligations associated with each proceeding and had recognized, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal risks. Subject to the qualifications made, it also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on the Group's business, financial position or results of operations.

26. Other liabilities

The detail of Other liabilities in the consolidated balance sheets is as follows:

Million euros

	2019	2018	2017
Transactions in transit	663	803	811
Accrued expenses and deferred income	6,909	6,621	6,790
Other	5,220	5,664	4,990
	12,792	**13,088**	**12,591**

27. Tax matters

a) Consolidated Tax Group

Pursuant to current legislation, the Consolidated Tax Group includes Banco Santander, S.A. (as the parent) and the Spanish subsidiaries that meet the requirements provided for in Spanish legislation regulating the taxation of the consolidated profits of corporate groups (as the controlled entities).

The other Group companies file income tax return in accordance with the tax regulations applicable to them.

b) Years open for review by the tax authorities

In 2018 the conformity and non-conformity acts relating to the Corporate Income Tax financial years 2009 to 2011 were formalised. The adjustments signed in conformity had no significant impact on results and, in relation to the concepts signed in disconformity both in this year and in previous years (Corporate Income Tax 2003 to 2007), that have been appealed, Banco Santander, S.A., as the Parent of the Consolidated Tax Group, considers, in accordance with the advice of its external lawyers, that the adjustments made should not have a significant impact on the consolidated financial statements, and there are sound arguments as proof in the appeals filed against them. Consequently, no provision has been recorded for this concept. Following the completion of these actions for 2009 to 2011, subsequent years up to and including 2019 are subject to review. At the date of approval of these accounts, the Corporate Income Tax proceedings for periods not yet prescribed up to and including 2015, and the proceedings relate to other taxes up to and including 2016 are on going.

Likewise, relating the Consolidated Tax Group of which Banco Popular Español S.A.U. was the parent, in 2018 a certificate of conformity was drawn up in a partial proceeding, confirming the 2016 Corporate Income Tax return. During 2019, a certificate of disconformity has been drawn up for 2017 Corporate Income Tax, with no impact on profit, and the final assessment has been appealed. In relation to this Consolidated Tax Group, the years 2010 to 2017 inclusive are subject to review.

The other entities have the corresponding years open for review, pursuant to their respective tax regulations.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the years reviewed and of the open years might give rise to contingent tax liabilities which cannot be objectively quantified. However, the Group's tax advisers consider that it is unlikely that such tax liabilities will arise, and that in any event the tax charge arising therefrom would not materially affect the Group's consolidated financial statements.

c) Reconciliation

The reconciliation of the income tax expense calculated at the tax rate applicable in Spain (30%) to the income tax expense recognised and the detail of the effective tax rate are as follows:

Million euros

	2019	2018	2017
Consolidated profit (loss) before tax:			
From continuing operations	12,543	14,201	12,091
From discontinued operations	—	—	—
	12,543	14,201	12,091
Income tax at tax rate applicable in Spain (30%)	3,763	4,260	3,628
By the effect of application of the various tax rates applicable in each country*	243	509	539
Of which:			
Brazil	*502*	*719*	*656*
United Kingdom	*(80)*	*(99)*	*(78)*
United States	*(71)*	*(57)*	*68*
Chile	*(35)*	*(35)*	*(48)*
Effect of profit or loss of associates and joint ventures	(97)	(221)	(211)
Effect of deduction of goodwill in Brazil	—	—	(164)
Effect of reassessment of deferred taxes	(612)	—	(282)
Permanent differences**	1,130	338	374
Current income tax	**4,427**	**4,886**	**3,884**
Effective tax rate	35.29%	34.40%	32.12%
Of which:			
Continuing operations	*4,427*	*4,886*	*3,884*
Discontinued operations (Note 37)	—	—	—
Of which:			
Current taxes	*3,962*	*4,763*	*3,777*
Deferred taxes	*465*	*123*	*107*
Income tax (receipts)/ payments	2,593	3,342	4,137

* Calculated by applying the difference between the tax rate applicable in Spain and the tax rate applicable in each jurisdiction to the profit or loss contributed to the Group by the entities which operate in each jurisdiction.

** Including the impairment of goodwill in Santander UK in 2019 and the recognition of tax credits in Portugal in 2018.

d) Tax recognised in equity

In addition to the income tax recognised in the consolidated income statement, the Group recognised the following amounts in consolidated equity in 2019, 2018 and 2017:

Million euros

	2019	2018*	2017
Other comprehensive income			
Items not reclassified to profit or loss	**500**	**(225)**	**60**
Actuarial gains or (-) losses on defined benefit pension plans	499	(199)	60
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	(42)	—	
Financial liabilities at fair value with changes in results attributable to changes in credit risk	43	(26)	
Items that may be reclassified to profit or loss	**(832)**	**124**	**—**
Cash flow hedges	(17)	(50)	108
Changes in the fair value of debt instruments through other comprehensive income	(811)	167	
Financial assets available for sale			(97)
Debt instruments			*(366)*
Equity instruments			*269*
Other recognised income and expense of investments in subsidiaries, joint ventures and associates	(4)	7	(11)
Total	**(332)**	**(101)**	**60**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January, 2018 (Note 1.d).

e) Deferred taxes

Tax assets in the consolidated balance sheets includes debit balances with the Public Treasury relating to deferred tax assets. Tax liabilities includes the liability for the Group's various deferred tax liabilities.

On 26 June, 2013, the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV) and Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR), directly applicable in every member state as from 1 January 2014, albeit with a gradual timetable with respect to the application of, and compliance with, various requirements.

This legislation establishes that deferred tax assets, the use of which relies on future profits being obtained, must be deducted from regulatory capital.

In this regard, pursuant to Basel III, in recent years several countries have amended their tax regimes with respect to certain deferred tax assets so that they may continue to be considered regulatory capital since their use does not rely on the future profits of the entities that generate them (referred to hereinafter as "monetizable tax assets").

Italy had a very similar regime to that described above, which was introduced by Decree-Law no. 225, of 29 December 2010, and amended by Law no. 10, of 26 February 2011. In addition, in 2013 in Brazil, by means of Provisional Measure no. 608, of 28 February 2013 and, in Spain, through Royal Decree-Law 14/2013, of 29 November confirmed by Law 27/2014, of 27 November tax regimes were established whereby certain deferred tax assets (arising from provisions to allowances for loan losses in Brazil and provisions to allowances for loan losses, provisions to allowances for foreclosed assets and provisions for pension and pre-retirement obligations in Spain) may be converted into tax receivables in specific circumstances. As a result, their use does not rely on the entities obtaining future profits and, accordingly, they are exempt from deduction from regulatory capital.

In 2015 Spain completed its regulations on monetizable tax assets with the introduction of a financial contribution which will involve the payment of 1.5% for maintaining the right to monetise which will be applied to the portion of the deferred tax assets that qualify under the legal requirements as monetizable assets generated prior to 2016.

In a similar manner, Italy, by decree of 3 May 2016 has introduced a fee of 1.5% annually to maintain the monetizable of part of the deferred tax assets.

The detail of deferred tax assets, by classification as monetizable or non-monetizable assets, and of deferred tax liabilities at 31 December 2019, 2018 and 2017 is as follows:

Million euros

	2019		2018		2017	
	Monetizable* **	Other	Monetizable* **	Other	Monetizable* **	Other
Tax assets:	**11,233**	**11,525**	**10,866**	**12,392**	**11,046**	**12,164**
Tax losses and tax credits	—	3,428	—	4,276	—	4,457
Temporary differences	11,233	8,097	10,866	8,116	11,046	7,707
Of which:						
Non-deductible provisions	—	*2,751*	—	*2,613*	—	*2,336*
Valuation of financial instruments	—	*400*	—	*609*	—	*530*
Loan losses	*7,645*	*1,086*	*7,279*	*1,308*	*7,461*	*1,159*
Pensions	*3,587*	*1,009*	*3,587*	*632*	*3,585*	*723*
Valuation of tangible and intangible assets	—	*1,317*	—	*1,215*	—	*1,077*
Tax liabilities:	**—**	**6,522**	**—**	**5,568**	**—**	**4,837**
Temporary differences	—	6,522	—	5,568	—	4,837
Of which:						
Valuation of financial instruments	—	*2,073*	—	*1,168*	—	*1,207*
Valuation of tangible and intangible assets	—	*1,962*	—	*1,503*	—	*1,256*
Investments in Group companies	—	*831*	—	*880*	—	*808*

* Not deductible from regulatory capital.

** As the circumstances of the aforementioned regulations were met, Banco Popular Español, S.A.U. requested the conversion of part of its monetizable assets in 2016 income tax return (EUR 486 million conversion approved in 2018) and in 2017 income tax form (EUR 995 million, in this case Spanish tax authorities have expressly confirmed the nature of the assets as monetizable, but it considers that conditions for conversion are not met at the end of 2017, without prejudice to the conversion in future years).

The Group only recognises deferred tax assets for temporary differences or tax loss and tax credit carryforwards where it is considered probable that the consolidated entities that generated them will have sufficient future taxable profits against which they can be utilised.

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed.

These analyses take into consideration all evidence, both positive and negative, of the recoverability of such deferred tax assets, among which we can find, (i) the results generated by the different entities in previous years, (ii) the projections of results of each entity or fiscal group, (iii) the estimation of the reversal of the different temporary differences according to their nature and (iv) the period and limits established under the applicable legislation of each country for the recovery of the different deferred tax assets, thus concluding on the ability of each entity or fiscal group to recover the deferred tax assets registered.

The projections of results used in this analysis are based on the financial budgets approved by both the local directions of the corresponding units and by the Group's administrators. The Group's budget estimation process is common for all units. The Group's management prepares its financial budgets based on the following key assumptions:

a. Microeconomic variables of the entities that make up the fiscal group in each location: the existing balance structure, the mix of products offered and the commercial strategy at each moment defined by local directions are taken into account, based on the competition, regulatory and market environment.

b. Macroeconomic variables: estimated growths are based on the evolution of the economic environment considering the expected evolution in the Gross Domestic Product of each location, and the forecasts of interest rates, inflation and exchange rates fluctuations. These data is provided by the Group's Studies Service, based on external sources of information.

Additionally, the Group performs retrospective contrasts (backtesting) on the variables projected in the past. The differential behavior of these variables with respect to the real market data is considered in the projections estimated in each fiscal year. Thus, and in relation to Spain, the deviations identified by the Directors in recent past years are due to non-recurring events outside the operation of the business, such as the impacts due to the first application of new regulations, the costs assumed for the acceleration of the restructuring plans and the changing effect of the current macroeconomic environment.

Finally, and given the degree of uncertainty of these assumptions, the Group conducts a sensitivity analysis of the most significant assumptions considered in the deferred tax assets' recoverability analysis, considering any reasonable change in the key assumptions on which the projections of results of each entity or fiscal group and the estimation of the reversal of the different temporary differences are based. In relation to Spain, the sensitivity analysis has consisted of adjusting 50 basis points for growth (gross domestic product) and adjusting 50 basis points for inflation. Following the sensitivity analysis performed, the Group does not estimate significant variations in its future taxable income, in relation to its deferred tax assets.

Relevant information is set forth below for the main countries which have recognised deferred tax assets:

Spain

The deferred tax assets recognised at the Consolidated Tax Group total EUR 12,511million, of which EUR 7,422 million were for monetizable temporary differences with the right to conversion into a credit against the Public Finance, EUR 2,330 million for other temporary differences and EUR 2,759 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences will be recovered in a maximum period of 15 years. This period would also apply to the recovery of the recognised tax loss and tax credit carryforwards.

Brazil

The deferred tax assets recognised in Brazil total EUR 6,120 million, of which EUR 3,615 million were for monetizable temporary differences, EUR 2,402 million for other temporary differences and EUR 103 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences, tax losses and credits will be recovered in approximately 10 years.

United States

The deferred tax assets recognised in the United States total EUR 1,303 million, of which EUR 940 million were for temporary differences and EUR 363 million for tax losses and credits.

The Group estimates that the recognised deferred tax assets for temporary differences, tax losses and credits will be recovered in a period of 15 years.

The changes in Tax assets - Deferred and Tax liabilities - Deferred in the last three years were as follows:

Million euros

	Balances at 31 December 2018	(Charge)/Credit to income	Foreign currency balance translation differences and other items	(Charge)/Credit to asset and liability valuation adjustments	Acquisition for the year (net)	Balances at 31 December 2019
Deferred tax assets	**23,258**	**215**	**(610)**	**(92)**	**(13)**	**22,758**
Tax losses and tax credits	4,276	(301)	(548)	—	—	3,427
Temporary differences	18,982	516	(62)	(92)	(13)	19,331
Of which: monetizable	*10,866*	*427*	*(60)*	*—*	*—*	*11,233*
Deferred tax liabilities	**(5,568)**	**(680)**	**92**	**(366)**	**—**	**(6,522)**
Temporary differences	*(5,568)*	*(680)*	*92*	*(366)*	*—*	*(6,522)*
	17,690	**(465)**	**(518)**	**(458)**	**(13)**	**16,236**

Million euros

	Balances at 31 December 2017	IFRS 9 Adoption impact (Balance at January 1, 2018)	(Charge)/Credit to income	Foreign currency balance translation differences and other items	(Charge)/Credit to asset and liability valuation adjustments	Acquisition for the year (net)	Balances at 31 December 2018
Deferred tax assets	**23,210**	**680**	**241**	**(807)**	**149**	**(215)**	**23,258**
Tax losses and tax credits	*4,457*	—	*(128)*	*1*	—	*(54)*	*4,276*
Temporary differences	*18,753*	680	*369*	*(808)*	*149*	*(161)*	*18,982*
Of which: monetizable	*11,046*	273	*391*	*(844)*	—	—	*10,866*
Deferred tax liabilities	**(4,837)**	**—**	**(364)**	**(114)**	**(315)**	**62**	**(5,568)**
Temporary differences	*(4,837)*	—	*(364)*	*(114)*	*(315)*	*62*	*(5,568)*
	18,373	**680**	**(123)**	**(921)**	**(166)**	**(153)**	**17,690**

Million euros

	Balances at 31 December 2016	(Charge)/Credit to income	Foreign currency balance translation differences and other items	(Charge)/Credit to asset and liability valuation adjustments	Acquisitions for the year (net)	Balances at 31 December 2017
Deferred tax assets	**21,264**	**(675)**	**(756)**	**(1)**	**3,378**	**23,210**
Tax losses and tax credits	*4,934*	*(279)*	*(205)*	—	*7*	*4,457*
Temporary differences	*16,330*	*(396)*	*(551)*	*(1)*	*3,371*	*18,753*
Of which: monetizable	*9,649*	*(185)*	*(455)*	—	*2,037*	*11,046*
Deferred tax liabilities	**(5,694)**	**568**	**414**	**19**	**(144)**	**(4,837)**
Temporary differences	*(5,694)*	*568*	*414*	*19*	*(144)*	*(4,837)*
	15,570	**(107)**	**(342)**	**18**	**3,234**	**18,373**

Also, the Group did not recognise deferred tax assets relating to tax losses, tax credits for investments and other incentives amounting to approximately EUR 6,700 million, the use of which EUR 370 million is subject, among other requirements, to time limits.

f) Tax reforms

The following significant tax reforms were approved in 2019 and previous years:

The Tax Cuts and Jobs Act (the 2017 Act) was approved in the United States on 22 December 2017. The main amendments introduced in this tax regulation affected the US corporate tax rates, some business-related exclusions and deductions and credits. Likewise, this amendment entailed a tax impact for many companies that operate internationally. The main impact is derived from the decrease in the federal tax rate that was reduced from 35% to 21%, which affected both the amount and estimation of the recoverability of deferred tax assets and liabilities during 2017 as well as the profit after tax from 2018. The estimated impact on the Group, arisen from the affected subsidiaries, which was already recorded as of 31 December 2017, did not represent a significant amount in the attributable profit.

On 29 December 2017, Law No. 27430 on the reform of the Argentine tax system was published, whose main measures entered into force on 1 January, 2018, therefore it had no effect on the Group's accounts in 2017. Among other measures, it is established a gradual reduction of the income tax from the 35% applicable until 2017, to 30% in 2018 and 2019, and up to 25% in 2020 and ahead, which is complemented by a dividend withholding of 7% for those distributed with a charge to 2018 and 2019 financial years, and 13% if distributed with a charge to 2020 onwards.

On December 2016, the Royal Decree-Law 3-2016 was approved in Spain under which the following tax measures were adopted , among others,: (i) The limit for the integration of deferred monetizable tax assets, as well as for set-off for the negative tax was reduced (the limit was reduced from 70% to 25% of the tax base), (ii) this regulation set out a new limit of 50% of the tax rate for the application of deductions in order to avoid double taxation, (iii) this regulation also set out the compulsory impairment reversion for deductible participations in previous years by one fifths independently from the recovery of the participated, and (iv) the regulation included the non-deductibility of the losses generated from the transmission of participations performed from 1 January 2017.

In the United Kingdom, a progressive reduction was approved in 2016 regarding the tax rate of the Corporate Tax, from 20% to 17%. The applicable rate from 1 April, 2017 is 19% and it will be 17% from 1 April 2020. Also, in 2015, a surcharge of 8% on the standard income tax rate for bank profits was approved. This surcharge applies from 1 January 2016. In addition, from 2015 customer remediation payments are no longer considered to be tax-deductible.

In Brazil, in 2015, there was also an increase for insurance and financial companies and in the rate of the Brazilian social contribution tax on net income ("Contribuição Social sobre o Lucro Líquido"; CSLL) from 15% to 20% (applicable from 1 September, 2015 to 31 December 2018). Since 1 January, 2019, the tax rate is 15% again, as a result of which the income tax rate (25)% plus the CSLL rate total 40% for those companies. The main change in 2019 was the approval on 12 November of Constitutional Amendment 103/19 modifying the social security system, which includes, among other measures, an increase in the CSLL tax rate for credit institutions from 15% to 20%, effective 1 March 2020. This increase lifted the aggregate tax rate - sum of CSLL and the corporate income tax (Imposto de Renda Pessoa Jurídica; IRPJ)- for credit institutions from 40% to 45%.

In Argentina, the Law Num. 27541 (B.O.E. of 23 December 2019), on Social Solidarity and Production Reactivation in the Context of the Public Emergency, have introduced various modifications to the Argentinean tax system to increase tax receipts. The main amendments are the delay of previously approved lowering of the corporate tax rate from 30% to 25% (scheduled to take effect on 1 January 2020), as well as increasing in dividend withholdings from 7% to 13% (pushed back to 1 January 2021). Additionally the adjustment for tax inflation that was to be applied on a transitional basis in 1/3 of 2019, with the remaining two-thirds pending application in equal parts in 2020 and 2021, has been lowered to 1/6 in 2019, with the rest being deferred over the next five years. The same deferral rule will apply if there is an inflation adjustment in 2020.

On 27 November 2019 has entered into force the Protocol amending the Convention between the United States of America and the kingdom of Spain for the Avoidance of Double Taxation (DTT). The revision of the Convention introduces substantial reductions in the withholding rates that apply to different types of income, highlighting the reduction of the withholding rate on dividends to 5% for shareholdings of more than 10%, the elimination of withholding for shareholdings greater than 80% and elimination of withholding at source on interests and royalties.

g) Other information

In compliance with the disclosure requirement established in the Listing Rules Instrument 2005 published by the UK Financial Conduct Authority, it is hereby stated that shareholders of the Bank resident in the United Kingdom will be entitled to a tax credit for taxes paid abroad in respect of withholdings that the Bank has to pay on the dividends to be paid to such shareholders if the total income of the dividend exceeds the amount of exempt dividends of GBP 2,000 for the year 2019/20. The shareholders of the Bank resident in the United Kingdom who hold their ownership interest in the Bank through Santander Nominee Service will be informed directly of the amount thus withheld and of any other data they may require to complete their tax returns in the United Kingdom. The other shareholders of the Bank resident in the United Kingdom should contact their bank or securities broker.

Banco Santander, S.A. is part of the Large Business Forum and has adhered since 2010 to the Code of Good Tax Practices in Spain. Also Santander UK is a member of the HMRC's Code of Practice on Taxation in the United Kingdom, actively participating in both cases in the cooperative compliance programs being developed by these Tax Administrations.

28. Non-controlling interests

Non-controlling interests include the net amount of the equity of subsidiaries attributable to equity instruments that do not belong, directly or indirectly, to the Bank, including the portion attributed to them of profit for the year.

a) Breakdown

The detail, by Group company, of Equity - Non-controlling interests is as follows:

	2019	2018	2017
Santander Consumer USA Holdings Inc.	1,565	1,652	1,479
Santander Bank Polska S.A.	1,597	1,538	1,901
Grupo PSA	1,569	1,409	1,305
Banco Santander (Brasil) S.A.	1,167	1,114	1,489
Banco Santander - Chile	1,101	1,085	1,209
Banco Santander México, S.A. Institución de Banca Múltiple, Grupo Financiero Santander México	333	1,093	1,056
Grupo Metrovacesa	—	—	836
Other companies*	1,655	1,493	1,481
	8,987	**9,384**	**10,756**
Profit/(Loss) for the year attributable to non-controlling interests	1,601	1,505	1,588
Of which:			
Banco Santander (Brasil) S.A.	*373*	*292*	*288*
Banco Santander - Chile	*283*	*279*	*264*
Grupo PSA	*266*	*232*	*206*
Santander Consumer USA Holdings Inc.	*230*	*218*	*368*
Banco Santander México, S.A. Institución de Banca Múltiple, Grupo Financiero Santander México	*195*	*216*	*194*
Santander Bank Polska S.A.	*162*	*173*	*160*
Other companies	*92*	*95*	*108*
TOTAL	**10,588**	**10,889**	**12,344**

* Includes a Santander UK plc issuance of perpetual convertible equity instruments, at the option of Santander UK plc, into preference shares of Santander UK itself for a nominal amount of GBP 2,250 million (the Group having acquired GBP 1,100 million). Carrying amount of EUR 1,346 million in 2019 (EUR 1,280 million and EUR 1,290 million in 2018 and 2017, respectively).

b) Changes

The changes in Non-controlling interests are summarised as follows:

Million euros

	2019	2018*	2017
Balance at the end of the previous year	10,889	12,344	11,761
Effect of changes in accounting policies**	—	(1,292)	—
Balance at beginning of year	10,889	11,052	11,761
Other comprehensive income***	310	(109)	(583)
Other	(611)	(54)	1,166
Profit attributable to non-controlling interests	1,601	1,505	1,588
Modification of participation rates	(1,623)	(65)	(819)
Change of perimeter	110	(660)	(39)
Dividends paid to minority shareholders	(895)	(687)	(665)
Changes in capital and others concepts	196	(147)	1,101
Balance at end of year	**10,588**	**10,889**	**12,344**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** See change in consolidated statements of changes in total equity.

*** Mainly due to Exchange differences.

On 6 September 2019, the period for acceptance of the offer by Banco Santander S.A. to acquire shares of Banco Santander México, S.A. Institución de Banca Múltiple, Grupo Financiero Santander México ended (see Note 3). The offer was accepted by securities representing 16.69% of the share capital of Banco Santander México and, consequently, the Group's interest in Banco Santander México was reduced to 91.65% of its share capital, which meant a decrease of EUR 1,012 million in minority interests, as reported in the table above under Changes in percentage of ownership.

During the year 2017, the Group completed the acquisition of 9.65% of shares of Santander Consumer USA Holdings Inc (see Note 3), which resulted in a reduction of EUR 492 million in the balance of Non - controlling interests.

In 2018 there was a loss of control over Metrovacesa, S.A. in the Group, which has led to a decrease of EUR 826 million in the balance of Minority interests (see Note 3).

The foregoing changes are shown in the consolidated statement of changes in total equity.

c) Other information

The financial information on the subsidiaries with significant non-controlling interests at 31 December 2019 is summarised below:

Million euros*

	Banco Santander (Brasil) S.A.	Banco Santander (Chile), S.A.	Grupo Financiero Santander México, S.A.B. de C.V.	Santander Bank Polska S.A.	Santander Consumer USA Holdings Inc.
Total assets	172,033	62,151	72,441	44,688	43,706
Total liabilities	156,251	57,246	66,086	39,659	37,097
Net assets	**15,782**	**4,905**	**6,355**	**5,029**	**6,609**
Total income	13,951	2,539	3,998	1,717	4,575
Total profit	**3,311**	**919**	**1,145**	**511**	**806**

* Information prepared in accordance with the segment reporting criteria described in Note 52 and, therefore, it may not coincide with the information published separately by each entity.

29. Other comprehensive income

The balances of Other comprehensive income include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised in equity through the consolidated statement of recognised income and expense. The amounts arising from subsidiaries are presented, on a line by line basis, in the appropriate items according to their nature.

Respect to items that may be reclassified to profit or loss, the consolidated statement of recognised income and expense includes changes in other comprehensive income as follows:

- Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.
- Amounts transferred to income statement: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the income statement.
- Amounts transferred to initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the initial carrying amount of assets or liabilities as a result of cash flow hedges.
- Other reclassifications: includes the amount of the transfers made in the year between the various valuation adjustment items.

a) Breakdown of Other comprehensive income - Items that will not be reclassified in results and Items that can be classified in results

Million of euros

	2019 (IFRS 9)	2018 (IFRS 9)*	2017 (IAS 39)
Other comprehensive income	**(22,032)**	**(22,141)**	**(21,776)**
Items that will not be reclassified to profit or loss	**(4,288)**	**(2,936)**	**(4,034)**
Actuarial gains and losses on defined benefit pension plans	(4,764)	(3,609)	(4,033)
Non-current assets held for sale	—	—	—
Share in other income and expenses recognised in investments, joint ventures and associates	1	1	(1)
Other valuation adjustments	—	—	—
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income	514	597	
Inefficiency of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income	—	—	
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedged item)	44	—	
Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income (hedging instrument)	(44)	—	
Changes in the fair value of financial liabilities measured at fair value through profit or loss attributable to changes in credit risk	(39)	75	
Items that may be reclassified to profit or loss	**(17,744)**	**(19,205)**	**(17,742)**
Hedges of net investments in foreign operations (Effective portion)	(5,464)	(4,312)	(4,311)
Exchange differences	(14,607)	(15,730)	(15,430)
Hedging derivatives. Cash flow hedges (Effective portion)	300	277	152
Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income	2,321	828	
Hedging instruments (items not designated)	—	—	
Financial assets available-for-sale			2,068
Debt instruments			*1,154*
Equity instruments			*914*
Non-current assets classified as held for sale	—	—	—
Share in other income and expenses recognised in investments, joint ventures and associates	(294)	(268)	(221)

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

b) Other comprehensive income- Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans

Other comprehensive income – Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans include the actuarial gains and losses and the return on plan assets, less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Its variation is shown in the consolidated statement of income and expense.

The provisions against equity in 2019 amounted to EUR 1,677 million - see Note 25.b -, with the following breakdown:

- Increase of EUR 278 million in the accumulates actuarial losses relating to the Group´s entities in Spain, mainly due to the evolution experienced by the discount rate - reduction from 1.55% to 0.80%.
- Increase of EUR 601 million in the cumulative actuarial losses relating to the Group´s businesses in the UK, mainly due to the evolution experienced by the main actuarial hypotheses – reduction in the discount rate from 2.90% to 2.11%.
- Increase of EUR 310 million in accumulated actuarial losses corresponding to the Group’s business in Brazil, mainly due to the reduction in the discount rate (from 9.11% to 7.05% in pension benefits and 9.26% to 7.22% in medical benefits), as well as variations in the other hypotheses.
- Increase of EUR 150 million in the accumulated actuarial losses relating to the Group's business in Portugal, due mainly to the evolution of the main actuarial assumptions -reduction in the discount rate from 2.10% to 1.10%.

The other modification in accumulated actuarial profit or losses is a increase of the losses of EUR 338 million as a result of the evolution of exchange rates and other effects, mainly in the United Kingdom (appreciation of the pound).

c) Other comprehensive income - Items that will not be reclassified in results - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income

Includes the net amount of unrealised fair value changes of equity instruments at fair value with changes in other comprehensive income.

The following is a breakdown of the composition of the balance as of 31 December 2019 (IFRS 9) under "Other comprehensive income" - Items that will not be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value with changes in other global result depending on the geographical origin of the issuer:

Million of euros

	31/12/2019			
	Capital gains by valuation	Capital losses by valuation	Net gains/losses by valuation	Fair Value
Equity instruments				
Spain	*21*	*(445)*	*(424)*	*184*
International				
Rest of Europe	*68*	*(72)*	*(4)*	*379*
United States	*15*	*(3)*	*12*	*44*
Latin America and rest	*934*	*(4)*	*930*	*2,256*
	1,038	**(524)**	**514**	**2,863**
Of which:				
Publicly listed	*936*	*(14)*	*922*	*2,283*
Non publicly listed	*102*	*(510)*	*(408)*	*580*

d) Other comprehensive income - Items that may be reclassified to profit or loss - Hedge of net investments in foreign operations (effective portion) and exchange differences

The changes in 2019 reflect the positive effect of the appreciation of the pound sterling and US dollar and the negative effect of the depreciation of the Brazilian real, whereas the changes in 2018 reflect the negative effect of the depreciation of large part of the currencies, mainly the Brazilian real and pound sterling.

Of the change in the balance in these years, a profit of EUR 230 million, a loss of EUR 556 million and a loss of EUR 1,704 million in 2019, 2018 and 2017, respectively relate to the measurement of goodwill.

The detail, by country is as follows:

	2019	2018	2017
Net balance at end of year	(20,071)	(20,042)	(19,741)
Of which:			
Brazilian Real	*(13,579)*	*(12,950)*	*(11,056)*
Pound Sterling	*(3,135)*	*(3,924)*	*(3,732)*
Mexican Peso	*(2,439)*	*(2,312)*	*(2,230)*
*Argentine Peso**	*—*	*—*	*(1,684)*
Chilean Peso	*(1,560)*	*(1,238)*	*(866)*
US Dollar	*1,654*	*1,330*	*555*
Other	*(1,012)*	*(948)*	*(728)*

* In 2019 and 2018, due to the application of IAS 29 for hyperinflationary economies, they have been transferred to Other Reserves (see Note 33).

e) Other comprehensive income -Items that may be reclassified to profit or loss - Hedging derivatives – Cash flow hedges (Effective portion)

Other comprehensive income – Items that may be reclassified to profit or loss - Cash flow hedges includes the gains or losses attributable to hedging instruments that qualify as effective hedges. These amounts will remain under this heading until they are recognised in the consolidated income statement in the periods in which the hedged items affect it (see Note 11).

f) Other comprehensive income - Items that may be reclassified to profit or loss – Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income (IFRS 9) and available-for-sale (IAS 39)

Includes the net amount of unrealised changes in the fair value of assets classified as Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income (IFRS 9) and Financial assets available-for-sale (IAS 39) (see Notes 7 and 8).

The breakdown, by type of instrument and geographical origin of the issuer, of Other comprehensive income – Items that may be reclassified to profit or loss - Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income (IFRS 9) and Financial assets available-for-sale (IAS 39) at 31 December 2019, 2018 and 2017 is as follows:

Million euros

	31 December 2019				31 December 2018*				31 December 2017			
	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value
Debt instruments												
Government debt securities and debt Instruments issued by central banks												
Spain (Note 7)	*947*	*(2)*	*945*	*32,413*	*326*	*(3)*	*323*	*38,550*	*660*	*(25)*	*635*	*48,217*
Rest of Europe	*664*	*(38)*	*626*	*19,052*	*373*	*(55)*	*318*	*17,494*	*306*	*(24)*	*282*	*20,244*
Latin America and rest of the world	*839*	*(121)*	*718*	*51,284*	*448*	*(117)*	*331*	*42,599*	*404*	*(129)*	*275*	*39,132*
Private-sector debt securities	81	(49)	32	20,096	37	(178)	(141)	19,777	90	(128)	(38)	20,888
	2,531	**(210)**	**2,321**	**122,845**	**1,184**	**(353)**	**831**	**118,420**	**1,460**	**(306)**	**1,154**	**128,481**
Equity instruments												
Domestic												
Spain									*5*	*(2)*	*3*	*1,373*
International												
Rest of Europe									*166*	*(2)*	*164*	*979*
United States									*14*	*(5)*	*9*	*560*
Latin America and rest of the world									*744*	*(6)*	*738*	*1,878*
									929	**(15)**	**914**	**4,790**
Of which:												
Listed									*828*	*(5)*	*823*	*2,900*
Unlisted									*101*	*(10)*	*91*	*1,890*
	2,531	**(210)**	**2,321**	**122,845**	**1,184**	**(353)**	**831**	**118,420**	**2,389**	**(321)**	**2,068**	**133,271**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

At the end of 2017 the Group assessed whether there is any objective evidence that the instruments classified Changes in the fair value of debt and equity instruments measured at fair value with changes in other comprehensive income and Financial assets available-for-sale (IAS 39) (debt securities and equity instruments) were impaired.

This assessment included but was not limited to an analysis of the following information: i) the issuer's economic and financial position, the existence of default or late payment, analysis of the issuer's solvency, the evolution of its business, short-term projections, trends observed with respect to its earnings and, if applicable, its dividend distribution policy; ii) market-related information such as changes in the general economic situation, changes in the issuer's sector which might affect its ability to pay; iii) changes in the fair value of the security analysed, analysis of the origins of such changes - whether they are intrinsic or the result of the general uncertainty concerning the economy or the country - and iv) independent analysts' reports and forecasts and other independent market information.

As of 1 January 2018, with the entry into force of IFRS 9, the Group estimates the expected losses on debt instruments measured at fair value with changes in other comprehensive income. These losses are recorded with a charge to the consolidated income statement for the period.

At the end of the years 2019, 2018 and 2017, the Group recorded under Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, net due to modification of the consolidated income statement, in the line of financial assets at fair value with changes in other comprehensive income (IFRS 9) a provision of EUR 12 million and EUR 1 million in 2019 and 2018, respectively, and in the line of available-for-sale financial assets (IAS 39) a provision of EUR 10 million in equity instruments in 2017.

Until 31 December 2017, in the case of quoted equity instruments, when the changes in the fair value of the instrument under analysis were assessed, the duration and significance of the fall in its market price below cost for the Group was taken into account. As a general rule, for these purposes the Group considers a significant fall to be a 40% drop in the value of the asset or a continued fall over a period of 18 months. Nevertheless, it should be noted that the Group assessed, on a case-by-case basis, each of the securities that have suffered losses, and monitors the performance of their prices, recognising an impairment loss as soon as it is considered that the recoverable amount could be affected, even though the price may not have fallen by the percentage or for the duration mentioned above.

If, after the above assessment has been carried out, the Group considers that the presence of one or more of these factors could affect recovery of the cost of the asset, an impairment loss was recognised in the income statement for the amount of the loss registered in equity under Other comprehensive income – Items that may be reclassified to profit or loss – Items not reclassified to profit or loss – Other Valuation adjustments. Also, where the Group was not intend and/or is not able to hold the investment for a sufficient amount of time to recover the cost, the instrument was written down to its fair value.

As of 1 January 2018, with the entry into force of IFRS 9, no impairment analysis is performed of equity instruments recognised under Other comprehensive income . IFRS 9 eliminates the need to carry out the impairment estimate on this class of equity instruments and the reclassification to profit and loss on the disposal of these assets, being recognised at fair value with changes in equity.

g) Other comprehensive income - Items that may be reclassified to profit or loss and Items not reclassified to profit or loss - Other recognised income and expense of investments in subsidiaries, joint ventures and associates

The changes in other comprehensive income - Entities accounted for using the equity method were as follows:

Million euros	2019	2018	2017
Balance at beginning of year	(267)	(222)	(153)
Revaluation gains/(losses)	(33)	(65)	(84)
Net amounts transferred to profit or loss	7	20	15
Balance at end of year	**(293)**	**(267)**	**(222)**
Of which:			
Zurich Santander Insurance América, S.L.	*(145)*	*(159)*	*(145)*

30. Shareholders' equity

The changes in Shareholders' equity are presented in the consolidated statement of changes in total equity. Significant information on certain items of Shareholders' equity and the changes therein in 2019 is set forth below.

31. Issued capital

a) Changes

At 31 December 2016 the Bank's share capital consisted of 14,582,340,701 shares with a total par value of EUR 7,291 million.

As a result of the acquisition of Banco Popular Español, S.A.U. described in Note 3, and in order to strengthen and optimize the bank's equity structure to provide adequate coverage of the acquisition, the Group, on 3 July 2017, reported on the agreement of the executive committee of Banco Santander , S.A.to increase the capital of the Bank by EUR 729 million by issuing and putting into circulation 1,458,232,745 new ordinary shares of the same class and series as the shares currently in circulation and with preferential subscription rights for the shareholders.

The issue of new shares was carried out at a nominal value of fifty euro cents (EUR 0.50) plus a premium of EUR 4.35 per share, so the total issue rate of the new shares was EUR 4.85 per share and the total effective amount of the capital increase (including nominal and premium) of EUR 7,072 million.

Each outstanding share had been granted a preferential subscription right during the preferential subscription period that took place from 6 to 20 July 2017, where 10 preferential subscription rights were required to subscribe 1 new share.

On 7 November 2017, a capital increase of EUR 48 million was made, through which the Santander Dividendo Elección scrip dividend scheme took place, whereby 95,580,136 shares were issued (0.66% of the share capital).

At 31 December 2017, the Bank's share capital consisted of 16,136,153,582 shares with a total par value of EUR 8,068 million.

On 7 November 2018, a capital increase of EUR 50 million was made, through which the Santander Dividendo Elección scrip dividend scheme took place, whereby 100,420,360 shares were issued (0.62% of the share capital).

At 31 December 2018, the Bank's share capital consisted of 16,236,573,942 shares with a total par value of EUR 8,118 million.

On 10 September 2019, a capital increase of EUR 191 million was carried out with the issuance of 381,540,640 shares (2.35% of the Bank's share capital). to meet the takeover bid for 16.69% of the share capital of Banco Santander México, S.A. (see Note 3.a).

Therefore, the Bank's new capital consists of EUR 8,309 million at 31 December 2019, represented by 16,618,114,582 shares of EUR 0.50 of nominal value each one and all of them from a unique class and series.

The Bank's shares are listed on the Spanish Stock Market Interconnection System and on the New York, London, Mexico and Warsaw Stock Exchanges, and all of them have the same features and rights. Santander shares are listed on the London Stock Exchange under Crest Depository Interest (CDI's), each CDI representing one Bank's share. They are also listed on the New York Stock Exchange under American Depositary Receipts (BDRs), each BDR representing one share. During 2018 and the beginning of 2019 the number of markets where the Bank is listed has been reduced; the Bank's shares has been delisted from Buenos Aires, Milan, Lisboa and Sao Paulo's markets.

At 31 December 2019, no shareholder of the Bank individually held more than 3% of its total share capital (which is the significant threshold generally established under Spanish regulations for a significant holding in a listed company to be disclosed). While at 31 December 2019 certain custodians appeared in the register of shareholders as holding more than 3% of the share capital, the Bank understands that those shares were held in custody on behalf of other investors, none of which exceeded that threshold individually. These custodians were State Street Bank and Trust Company (14.06%), The Bank of New York Mellon Corporation (8.12%), Chase Nominees Limited (6.38%), EC Nominees Limited (3.97%) and BNP Paribas (3.40%).

Also, as of that date, BlackRock Inc. had communicated a significant participation in voting rights in the Bank (5.426%), although it specified that the corresponding shares were held on behalf of several funds or other investment entities and that none of them exceeded 3% individually.

Throughout 2019 BlackRock Inc. informed the CNMV of the movements regarding its voting rights in the Bank: 6 February, increase above 5%, 17 April, decrease below 5%, 9 May, increase above 5% and, 23 October, decrease below 5%.

It should be noted that there may be some overlap in the holdings declared by the above mentioned custodians and asset manager.

At 31 December 2019, neither the Bank´s shareholders registry nor the CNMV's registry showed any shareholder resident in a tax haven with a shareholding of 1% or higher of the share capital (which is the other threshold applicable under Spanish regulations).

b) Other considerations

The ordinary general meeting of shareholders of 7 April 2017 also agreed to delegate to the board of directors the broadest powers so that, within one year from the date of the meeting, it can indicate the date and set the conditions for a capital increase with the issuance of new shares, for an amount of EUR 500 million. The capital increase will have no value or effect if, within the period of one year, the board of directors does not exercise the powers delegated to it.

Likewise, the additional capital authorised by the ordinary general meeting of shareholders on 7 April 2017 is not more than EUR 3,645,585,175. The term available to the Bank's administrators to execute and carry out capital increases up to that limit ends on 7 April 2020. The agreement grants the board the power to totally or partially exclude the pre-emptive subscription right under the terms of article 506 of the Capital Companies Law, although this power is limited to EUR 1,458,234,070.

At 23 March 2018, the ordinary general meeting of shareholders also agreed to delegate to the board of directors the broadest power to execute the capital increase agreement adopted by the shareholders meeting and the authorization to the Board of directors to increase it.

At 31 December 2019 the shares of the following companies were listed on official stock markets: Banco Santander Río, S.A.; Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México; Banco Santander - Chile; Santander Chile Holding S.A.; Banco Santander (Brasil) S.A., Santander Bank Polska S.A. (former Bank Zachodni WBK S.A.) and Santander Consumer USA Holdings Inc.

At 31 December 2019 the number of Bank shares owned by third parties and managed by Group management companies (mainly portfolio, collective investment undertaking and pension fund managers) or jointly managed was 40 million shares, which represented 0.24% of the Bank's share capital (63 and 52 million shares, representing 0.39% and 0.32% of the share capital in 2018 and 2017, respectively). In addition, the number of Bank shares owned by third parties and received as security was 227 million shares (equal to 1.36% of the Bank's share capital).

At 31 December 2019 the capital increases in progress at Group companies and the additional capital authorised by their shareholders at the respective general meetings were not material at Group level (See Appendix V).

32. Share premium

Share premium includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value.

The Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

The change in the balance of Share premium corresponds to the capital increases detailed in Note 31.a). The increase in 2017 is the result of the capital increase of EUR 6,343 million approved on 3 July 2017 and the reduction of EUR 48 million is due the capital increases charge to reserve arising from the Santander Diviendo Elección program.

The decrease produced in 2018 was a consequence of the decrease of EUR 50 million to cope with the capital increase due to Santander Dividendo Elección program.

The increased produced in 2019 is a consequence of the increase of EUR 1,491 million to cope with the capital increase for the acquisition of Banco Santander México, S.A, Institución de Banca Múltiple, Grupo Financiero Santander México shares on September 10,2019.

Also, in 2019, and an amount of EUR 38 million was transferred from the Share premium account to the Legal reserve (2018: EUR 10 million; 2017: EUR 154 million) (see note 33.b.i).

33. Accumulated retained earnings

a) Definitions

The balance of Equity - Accumulated gains and Other reserves includes the net amount of the accumulated results (profits or losses) recognised in previous years through the consolidated income statement which in the profit distribution were allocated in equity, the expenses of own equity instrument issues, the differences between the amount for which the treasury shares are sold and their acquisition price, as well as the net amount of the results accumulated in previous years, generated by the result of non-current assets held for sale, recognised through the consolidated income statement.

b) Breakdown

The detail of Accumulated retained earnings and Reserves of entities accounted for using the equity method is as follows:

Million euros

	2019	2018	2017
Restricted reserves	**2,595**	**2,580**	**2,880**
Legal reserve	1,662	1,624	1,614
Own shares	879	902	1,212
Revaluation reserve Royal Decree-Law 7/1996	43	43	43
Reserve for retired capital	11	11	11
Unrestricted reserves	**10,664**	**12,099**	**11,369**
Voluntary reserves*	4,603	5,737	6,904
Consolidation reserves attributable to the Bank	6,061	6,362	4,465
Reserves of subsidiaries	**41,357**	**37,593**	**36,862**
Reserves of entities accounted for using the equity method	**1,166**	**917**	**724**
	55,782	**53,189**	**51,835**

* In accordance with the commercial regulations in force in Spain.

i. Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

In 2019 the Bank transferred EUR 38 million from the Share premium account to the Legal reserve (2018: EUR 10 million; 2017: EUR 154 million).

Consequently, once again, after the capital increases described in Note 31 had been carried out, the balance of the Legal reserve reached 20% of the share capital, and at 31 December 2019 the Legal reserve was of the stipulated level.

ii. Reserve for treasury shares

Pursuant to the Consolidated Spanish Limited Liability Companies Law, a restricted reserve has been recognised for an amount equal to the carrying amount of the Bank shares owned by subsidiaries. The balance of this reserve will become unrestricted when the circumstances that made it necessary to record it cease to exist. Additionally, this reserve covers the outstanding balance of loans granted by the Group secured by Bank shares and the amount equivalent to loans granted by Group companies to third parties for the acquisition of treasury shares plus the own treasury shares amount.

iii. Revaluation reserve Royal Decree Law 7/1996, of 7 June

The balance of Revaluation reserve Royal Decree-Law 7/1996 can be used, free of tax, to increase share capital. From 1 January 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognised.

If the balance of this reserve were used in a manner other than that provided for in Royal Decree-Law 7/1996, of 7 June, it would be subject to taxation.

iv. Reserves of subsidiaries

The detail, by company, of Reserves of subsidiaries, based on the companies' contribution to the Group (considering the effect of consolidation adjustments) is as follows:

Million euros	2019	2018	2017
Banco Santander (Brasil) S.A. (Consolidated Group)	12,400	10,755	9,874
Santander UK Group	8,079	8,207	7,724
Group Santander Holdings USA	4,528	4,260	4,150
Santander Consumer Finance Group	4,012	2,841	2,465
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	3,810	3,436	3,229
Banco Santander - Chile	3,116	2,963	2,764
Banco Santander Totta, S.A. (Consolidated Group)	2,823	2,729	2,821
Santander Bank Polska S.A.	1,738	1,387	1,093
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	823	714	638
Banco Santander (Suisse) SA.	348	369	381
Santander Investment, S.A.	146	208	202
Banco Santander Río S.A.	(197)	(82)	1,639
Other companies and consolidation adjustments*	(269)	(194)	(118)
	41,357	**37,593**	**36,862**
Of which, restricted	*3,193*	*2,964*	*2,777*

* Includes the charge relating to cumulative exchange differences in the transition to International Financial Reporting Standards.

34. Other equity instruments and own shares

a) Equity instruments issued not capital and other equity instruments

Other equity instruments includes the equity component of compound financial instruments, the increase in equity due to personnel remuneration, and other items not recognised in other "Shareholders' equity" items.

On 8 September 2017, Banco Santander issued contingent redeemable perpetual bonds (the "Fidelity Bonds") amounting to EUR 981 million nominal value -EUR 686 million fair value. On 31 December 2019 amounted to EUR 598 million (EUR 565 million on 31 December 2018).

Additionally, at 31 December 2019 the Group had other equity instruments amounting to EUR 146 million.

b) Own shares

Shareholders' equity - Own shares includes the amount of own equity instruments held by all the Group entities.

Transactions involving own equity instruments, including their issuance and cancellation, are recognised directly in equity, and no profit or loss may be recognised on these transactions. The costs of any transaction involving own equity instruments are deducted directly from equity, net of any related tax effect.

The Bank's shares owned by the consolidated companies accounted for 0.051% of issued share capital at 31 December 2019 (31 December 2018: 0.075%; 31 December 2017: 0.024%).

The average purchase price of the Bank's shares in 2019 was EUR 4.09 per share and the average selling price was EUR 4.11 per share.

The effect on equity, net of tax, arising from the purchase and sale of Bank shares is of EUR 6 million of losses in 2019 (2018: EUR 0 million; 2017: EUR 26 million of profit).

35. Memorandum items

Memorandum items relates to balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions performed by the consolidated entities although they may not impinge on their net assets.

Contingent liabilities includes all transactions under which an entity guarantees the obligations of a third party and which result from financial guarantees granted by the entity or from other types of contract. The detail is as follows:

	2019	2018	2017
Loans commitment granted	**241,179**	**218,083**	**207,671**
Of which doubtful	*352*	*298*	*81*
Financial guarantees granted	**13,650**	**11,723**	**14,499**
Of which doubtful	*154*	*181*	*254*
Financial guarantees	13,619	11,557	14,287
Credit derivatives sold	31	166	212
Other commitments granted	**68,895**	**74,389**	**64,917**
Of which doubtful	*747*	*983*	*992*
Technical guarantees	33,890	35,154	30,273
Other	35,005	39,235	34,644

The breakdown as at 31 December 2019 of the exposures and the provision fund (see note 25) out of balance sheet by impairment stage under IFRS 9 is EUR 316,116 million and EUR 417 million (EUR 297,409 million and EUR 382 million in 2018) in stage 1, EUR 6,355 million and EUR 145 million (EUR 5,324 million and EUR 132 million in 2018) in stage 2 and EUR 1,253 million and EUR 177 million (EUR 1,462 million and EUR 265 million in 2018) in stage 3, respectively.

Additionally, the Group had provisions for guarantees and commitments granted for an amount of EUR 617 million and a doubtful exposure amounting to EUR 1,327 million, as at 31 December 2017.

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under Fee and commission income in the consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

i. Loan commitments granted

Loan commitments granted: firm commitments of grating of credit under predefined terms and conditions, except for those that comply with the definition of derivatives as these can be settled in cash or through the delivery of issuance of another financial instrument. They include stand-by credit lines and long-term deposits.

ii. Financial guarantees granted

Financial guarantees includes, inter alia, financial guarantee contracts such as financial bank guarantees, credit derivatives sold, and risks arising from derivatives arranged for the account of third parties.

iii. Other commitments granted

Other contingent liabilities include all commitments that could give rise to the recognition of financial assets not included in the above items, such as technical guarantees and guarantees for the import and export of goods and services.

b) Memorandum items

i. Off-balance-sheet funds under management

The detail of off-balance-sheet funds managed by the Group and by joint ventures is as follows:

Million euros

	2019	2018	2017
Investment funds	142,988	127,564	135,749
Pension funds	11,843	11,160	11,566
Assets under management	22,079	19,131	19,259
	176,910	**157,855**	**166,574**

ii. Non-managed marketed funds

At 31 December 2019 there are non-managed marketed funds totalling EUR 49,490 million (31 December 2018: EUR 42,211 million; 31 December 2017: EUR 41,398 million).

c) Third-party securities held in custody

At 31 December 2019 the Group held in custody debt securities and equity instruments totalling EUR 229,381 million (31 December 2018: EUR 940,650 million; 31 December 2017 EUR 997,061 million) entrusted to it by third parties. The decrease in 2019 is due to the agreement to sell the deposit and custody business to Crédit Agricole S.A. (see note 3).

36. Hedging derivatives

The Group, within its financial risk management strategy, and in order to reduce asymmetries in the accounting treatment of its operations, enters into hedging derivatives on interest, exchange rate, credit risk or variation of stock prices, depending on the nature of the risk covered.

Based on its objective, the Group classifies its hedges in the following categories:

- Cash flow hedges: cover the exposure to the variation of the cash flows associated with an asset, liability or a highly probable forecast transaction. This cover the variable-rate issues in foreign currencies, fixed-rate issues in non-local currency, variable-rate interbank financing and variable-rate assets (bonds, commercial loans, mortgages, etc.).
- Fair value hedges: cover the exposure to the variation in the fair value of assets or liabilities, attributable to an identified and hedged risk. This covers the interest risk of assets or liabilities (bonds, loans, bills, issues, deposits, etc.) with coupons or fixed interest rates, interests in entities, issues in foreign currencies and deposits or other fixed rate liabilities.
- Hedging of net investments abroad: cover the exchange rate risk of the investments in subsidiaries domiciled in a country with a different currency from the functional one of the Group.

The following tables contains details of the hedging instruments used in the Group's hedging strategies as of 31 December 2019 and 31 December 2018:

Million euros

	2019				
		Carrying amount			
	Notional Value	Assets	Liabilities	Changes in fair value used for calculating hedge ineffectiveness	Balance sheet line ítems
Fair value hedges	**202,548**	**3,570**	**3,649**	**(1,522)**	
Interest rate risk	**183,586**	**3,032**	**3,160**	**(1,346)**	
Equity swap	*78*	*—*	*1*	*1*	*Hedging derivatives*
Future interest rate	*12,325*	*—*	*32*	*(476)*	*Hedging derivatives*
Interest rate swap	*117,439*	*2,651*	*2,297*	*(429)*	*Hedging derivatives*
Call money swap	*44,791*	*91*	*472*	*(295)*	*Hedging derivatives*
Currency swap	*8,728*	*272*	*349*	*(126)*	*Hedging derivatives*
Swaption	*50*	*9*	*9*	*—*	*Hedging derivatives*
Collar	*15*	*1*	*—*	*—*	*Hedging derivatives*
Floor	*160*	*8*	*—*	*(21)*	*Hedging derivatives*
Exchange rate risk	**10,006**	**73**	**55**	**(60)**	
Curency swap	*284*	*24*	*1*	*—*	*Hedging derivatives*
Fx forward	*9,722*	*49*	*54*	*(60)*	*Hedging derivatives*
Interest rate and exchange rate risk	**8,698**	**465**	**428**	**(116)**	
Interest rate swap	*869*	*16*	*1*	*(45)*	*Hedging derivatives*
Call money swap	*277*	*—*	*4*	*(4)*	*Hedging derivatives*
Currency swap	*7,552*	*449*	*423*	*(67)*	*Hedging derivatives*
Inflation risk	**—**	**—**	**—**	**5**	
Call money swap	*—*	*—*	*—*	*5*	*Hedging derivatives*
Credit risk	**258**	**—**	**6**	**(5)**	
CDS	*258*	*—*	*6*	*(5)*	*Hedging derivatives*
Cash flow hedges	**135,439**	**3,398**	**1,618**	**(1,540)**	
Interest rate risk	**55,810**	**277**	**261**	**(267)**	
Futures	*21,655*	*33*	*147*	*(93)*	*Hedging derivatives*
Future interest rate	*771*	*—*	*—*	*(64)*	*Hedging derivatives*
Interest rate swap	*21,492*	*99*	*97*	*(105)*	*Hedging derivatives*
Call money swap	*6,164*	*30*	*12*	*8*	*Hedging derivatives*
Currency swap	*2,345*	*98*	*5*	*(17)*	*Hedging derivatives*
Floor	*3,383*	*17*	*—*	*4*	*Hedging derivatives*
Exchange rate risk	**31,803**	**463**	**660**	**(405)**	
FX forward	*10,595*	*237*	*216*	*(145)*	*Hedging derivatives*
Future interest rate	*9,290*	*—*	*—*	*113*	*Hedging derivatives*
Interest rate swap	*888*	*12*	*11*	*(6)*	*Hedging derivatives*
Currency swap	*11,030*	*214*	*433*	*(365)*	*Hedging derivatives*
Deposits borrowed	*—*	*—*	*—*	*(2)*	*Deposits*
Interest rate and exchange rate risk	**38,938**	**2,625**	**640**	**(826)**	
Interest rate swap	*7,347*	*133*	*5*	*201*	*Hedging derivatives*
Currency swap	*27,044*	*2,492*	*622*	*(1,020)*	*Hedging derivatives*
Call money swap	*4,547*	*—*	*13*	*(7)*	*Hedging derivatives*
Inflation risk	**8,830**	**33**	**53**	**(44)**	
Fx forward	*2,230*	*5*	*4*	*4*	*Hedging derivatives*
Currency swap	*6,511*	*28*	*42*	*(44)*	*Hedging derivatives*
Call money swap	*89*	*—*	*7*	*(4)*	*Hedging derivatives*
Equity risk	**58**	**—**	**4**	**2**	
Option	*58*	*—*	*4*	*2*	*Hedging derivatives*
Other risk	**—**	**—**	**—**	**—**	
Future FX and c/v term RF	*—*	*—*	*—*	*—*	*Hedging derivatives*
Hedges of net investments in foreign operations	**24,477**	**248**	**781**	**—**	
Exchange rate risk	**24,477**	**248**	**781**	**—**	
FX forward	*24,477*	*248*	*781*	*—*	*Hedging derivatives*
	362,464	**7,216**	**6,048**	**(3,062)**	

Million euros

	2018				
		Carrying amount			
	Notional Value	Assets	Liabilities	Changes in fair value used for calculating hedge ineffectiveness	Balance sheet line ítems
Fair value hedges	**178,719**	**3,451**	**5,114**	**96**	
Interest rate risk	**163,069**	**2,642**	**4,620**	**16**	
Equity swap	*109*	*—*	*2*	*—*	*Hedging derivatives*
Future interest rate	*7,702*	*—*	*—*	*(126)*	*Hedging derivatives*
Interest rate swap	*129,045*	*2,339*	*4,172*	*281*	*Hedging derivatives*
Call money swap	*19,579*	*170*	*250*	*(32)*	*Hedging derivatives*
Currency swap	*4,957*	*121*	*45*	*(17)*	*Hedging derivatives*
Inflation swap	*—*	*—*	*—*	*9*	*Hedging derivatives*
Swaption	*51*	*6*	*6*	*—*	*Hedging derivatives*
Collar	*15*	*1*	*—*	*—*	*Hedging derivatives*
Floor	*1,611*	*5*	*145*	*(99)*	*Hedging derivatives*
Exchange rate risk	**3,191**	**17**	**(3)**	**43**	
Fx forward	*3,191*	*17*	*(3)*	*43*	*Hedging derivatives*
Interest rate and exchange rate risk	**12,237**	**792**	**493**	**42**	
Interest rate swap	*3,022*	*143*	*20*	*(15)*	*Hedging derivatives*
Call money swap	*20*	*—*	*—*	*—*	*Hedging derivatives*
Currency swap	*9,195*	*649*	*473*	*57*	*Hedging derivatives*
Inflation risk	**168**	**—**	**4**	**(5)**	
Call money swap	*64*	*—*	*3*	*(3)*	*Hedging derivatives*
Currency swap	*104*	*—*	*1*	*(2)*	*Hedging derivatives*
Credit risk	**54**	**—**	**—**	**—**	
CDS	*54*	*—*	*—*	*—*	*Hedging derivatives*
Cash flow hedges	**118,400**	**4,865**	**976**	**(28)**	
Interest rate risk	**39,165**	**307**	**250**	**182**	
Fx forward	*985*	*—*	*22*	*(22)*	*Hedging derivatives*
Future interest rate	*127*	*—*	*—*	*29*	*Hedging derivatives*
Interest rate swap	*33,956*	*240*	*202*	*159*	*Hedging derivatives*
Currency swap	*2,350*	*57*	*26*	*11*	*Hedging derivatives*
Floor	*1,747*	*10*	*—*	*5*	*Hedging derivatives*
Exchange rate risk	**38,457**	**971**	**568**	**(878)**	
Future FX and c/v term FV	*4,955*	*—*	*—*	*(697)*	*Hedging derivatives*
FX forward	*3,283*	*186*	*15*	*(36)*	*Hedging derivatives*
Future interest rate	*4,946*	*—*	*—*	*(12)*	*Hedging derivatives*
Interest rate swap	*1,055*	*10*	*5*	*8*	*Hedging derivatives*
Currency swap	*23,904*	*775*	*548*	*(142)*	*Hedging derivatives*
Floor	*314*	*—*	*—*	*—*	*Hedging derivatives*
Deposits borrowed	*—*	*—*	*—*	*1*	*Deposits*
Interest rate and exchange rate risk	**34,383**	**3,542**	**124**	**665**	
Interest rate swap	*12,572*	*20*	*97*	*(7)*	*Hedging derivatives*
Currency swap	*21,811*	*3,522*	*27*	*672*	*Hedging derivatives*
Inflation risk	**6,318**	**45**	**30**	**11**	
FX forward	*414*	*—*	*9*	*(1)*	*Hedging derivatives*
Currency swap	*5,904*	*45*	*21*	*12*	*Hedging derivatives*
Equity risk	**77**	**—**	**4**	**(8)**	
Option	*77*	*—*	*4*	*(8)*	*Hedging derivatives*
Other risk	**—**	**—**	**—**	**—**	
Future FX and c/v term RF	*—*	*—*	*—*	*—*	*Hedging derivatives*
Hedges of net investments in foreign operations	**21,688**	**291**	**273**	**(1)**	
Exchange rate risk	**21,688**	**291**	**273**	**(1)**	
FX forward	*21,688*	*291*	*273*	*(1)*	*Hedging derivatives*
	318,807	**8,607**	**6,363**	**67**	

Considering the main contributions of hedging within the Group, the main types of hedgings that are being carried are in Santander UK Group, Banco Santander, S.A., Consumer Group, Banco Santander Mexico and Banco Santander Brazil that are detailed below.

Santander UK Group enters into derivatives to provide customers with risk management solutions and to manage and hedge the Group's own risks.

Within fair value hedges, Santander UK Group has portfolios of assets and liabilities at fixed rate that are exposed to changes in fair value due to changes in market interest rates. These positions are managed by contracting mainly Interest Rate Swaps. Effectiveness is assessed by comparing the changes in the fair value of these portfolios generated by the hedged risk with the changes in the fair value of the derivatives contracted.

Santander UK Group also has access to international markets to obtain financing by issuing fixed-rate debt in its functional currency and other currencies. As such, they are exposed to changes in interest rates and exchange rates, mainly in EUR and USD. This risk is mitigated with Cross Currency Swaps and Interest Rate Swaps in which they pay a fixed rate and receive a variable rate. Effectiveness is evaluated using linear regression techniques to compare changes in the fair value of the debt at interest and exchange rates with changes in the fair value of Interest Rate Swaps or Cross Currency Swaps.

Within the cash flow hedges, Santander UK Group has portfolios of assets and liabilities at variable rates, normally at SONIA or LIBOR. To mitigate this risk of variability in market rates, it contracts Interest Rate Swaps.

As Santander UK Group obtains financing in the international markets, it assumes a significant exposure to currency risk mainly USD and EUR. To manage this exchange rate risk, Spot, Forward and Cross Currency Swap are contracted to match the cash flow profile and the maturity of the estimated interest and principal repayments of the hedged item.

Effectiveness is assessed by comparing changes in the fair value of the derivatives with changes in the fair value of the hedged item attributable to the hedged risk by applying a hypothetical derivative method using linear regression techniques.

In addition, within the hedges that cover equity risk, Santander UK Group offers employees the opportunity to purchase shares of the Bank at a discount under the Sharesave scheme, exposing the Bank to share price risk. As such, options are purchased allowing them to purchase shares at a pre-set price.

Banco Santander, S.A. covers the risks of its balance sheet in a variety of ways. On the one hand, documented as fair value hedges, it covers the interest rate, foreign currency and credit risk of fixed-income portfolios at a fixed rate (REPOs are included in this category). Resulting, in an exposure to changes in their fair value due to variations in market conditions based on the various risks hedged, which has an impact on the Bank's income statement. To mitigate these risks, the Bank contracts derivatives, mainly Interest rate Swaps, Cap&Floors, Forex Forward and Credit Default Swaps.

On the other hand, the interest and exchange rate risk of loans granted to corporate clients at a fixed rate is generally covered. These coverages, are carried out through Interest Rate Swaps, Cross Currency Swaps and Exchange Rate Derivatives (Forex Swaps and Forex Forward).

In addition, the Bank manages the interest and exchange risk of debt issues in their various categories (issuing covered bonds, perpetual, subordinated and senior bond) and in different currencies, denominated at fixed rates, and therefore subject to changes in their fair value. These issues are covered through Interest Rate Swaps, Cross Currency Swaps or a combination of both by applying differentiated fair value hedging strategies for interest rate risk and cash flow hedging strategies to cover foreign exchange risk.

The Bank's methodology for measuring the effectiveness of this type of coverage is based on comparing the markets value of the hedged items (based on the objective risk of the hedge) and of the hedging instruments in order to analyse whether the changes in the market value of the hedged items are offset by the market value of the hedging instruments, thereby mitigating the hedged risk. Prospectively, the same analysis is performed, measuring the theoretical market values in the event of parallel variations in the market curves of a positive basis point.

Regarding cash flow hedges, the objective is to hedge the cash flow exposure to changes in interest rates and exchange rates.

For retrospective purposes, all cash flows generated by the structure (hedged item and hedging instrument) are compared to measure effectiveness. The objective is to obtain a synthetic hedge resulting from the application of the hedging instrument. The total discounted cash flows obtained are compared with the target set for the calculation of potential ineffectiveness.

For prospective purposes, the cash flows of the structure are calculated by shifting the curve by one basis point. As in the retrospective test, the calculation of the flows will take into account the time factor. The measurement of effectiveness is identical to that of the retrospective test, using the new flows based on the new curve-shift scenario applied to both the hedged item and the hedging instrument.

Consumer Group entities mainly have loans portfolios at fixed interest rates and are therefore, exposed to changes in fair value due to movements in market interest rates. The entities manage this risk by contracting Interest Rate Swaps in which they pay a fixed rate and receive a variable rate. Interest rate risk is the only one hedged and, therefore, other risks, such as credit risk, are managed but not hedged by the entities. The interest rate risk component is determined as the change in fair value of fixed rate loans arising solely from changes in a reference rate. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of loans attributable to changes in reference interest rates with changes in the fair value of interest rate swaps.

In addition, in order to access international markets with the aim of obtaining sources of financing, some Consumer Group´s entities issue fixed rate debt in their own currency and in other currencies that differ from their functional currency. Therefore, they are exposed to changes in both interest rates and exchange rates, which they mitigate with derivatives (Interest Rate Swaps, Fx Forward and Cross Currency Swaps) in which they receive a fixed interest rate and pay a variable interest rate, implemented with a fair value hedge.

The cash flow hedges of the Santander Group´s entities hedge the foreign currency risk of loans and financing.

Finally, it has hedges of net investments abroad to hedge the foreign exchange risk of the shareholding in NOK and CNY currencies.

Banco Santander Mexico has mainly long-term loan portfolios at fixed interest rates, portfolios of short-term deposits in local currency, portfolios of Mexican Government bonds and corporate bonds in currencies other than the local currency and are therefore exposed to changes in fair value due to movements in market interest rates, as well as these latter portfolios also to variations in exchange rates. The entity manages this risk by contracting derivatives (Interest Rate Swaps or Cross Currency Swaps) in which they pay a fixed rate and receive a variable rate. The interest rate is hedged and the exchange risk, if applicable, too. Thus, other risks, such as credit risk, are managed but not hedged by the entities.

The interest rate risk component is determined as the change in the fair value of fixed rate loans arising solely from changes in a reference rate. This strategy is designated as a fair value hedge and its effectiveness is assessed by comparing changes in the fair value of loans attributable to changes in benchmark interest rates with changes in the fair value of interest rate swaps.

Regarding cash flow hedges, Banco Santander Mexico has a portfolio of unsecured bonds issued at a variable rate in its local currency, which it manages with an Interest Rate Swap in which it receives a variable rate and pays a fixed rate. On the other hand, it also has different items in currencies other than the local currency: unsecured floating rate bonds, commercial bank loans at variable rates, fixed rate issues, Mexican and Brazilian government bonds at fixed rates and loans received in USD from other banks. In all these portfolios, the Bank is exposed to exchange rate variations, which it mitigates by contracting Cross Currency Swaps or FX Forward.

Banco Santander Brazil has, on the one hand, fixed-rate government bond portfolios and, therefore, they are exposed to changes in fair value due to movements in market interest rates. The entity manages this risk by contracting derivatives (Interest Rate Swaps or Futures) in which they pay a fixed rate and receive a variable rate. The interest rate risk is the only one hedged and consequently other risks, such as credit risk, are managed but not hedged by the entity. This strategy is designated as a fair value hedge and its effectiveness is evaluated by comparing by linear regression the changes in the fair value of the bonds with the changes in the fair value of the derivatives. On the other hand, as part of the fair value hedge strategy, it has corporate loans in different currencies than the local one and is therefore exposed to changes in fair value due to exchange rates. This risk is mitigated by contracting Cross Currency Swaps. Its effectiveness is evaluated by comparing changes in the fair value of loans attributable to changes subject of hedge with changes in the fair value of derivatives.

Finally, it also has a portfolio of long-term Corporate Bonds with inflation-indexed rates. With reference to what it has been mentioned before, they are exposed to variations in market value due to variations in market inflation rates. In order to achieve its mitigation, they contract futures in which they pay the indexed inflation and receive variable interest rates.

Its effectiveness is assessed by comparing through lineal regression the changes in the fair value of the bonds to the changes in fair value of the derivatives.

In the hedge of cash flows, Banco Santander Brazil has portfolios of loans and government bonds in different currency than the entity's functional currency and, therefore, it is subject to the risk of changes in currency rates. This exposure will be mitigated by hiring cross currency swaps and futures. Its effectiveness is assessed by comparing changes in fair value of loans and bonds, caused by the hedge risk, to changes in fair value of such derivatives.

Finally, they have a portfolio of variable rate government bonds, so they are exposed to changes in the value due to changes in interest rates. In order to mitigate these changes, a future is hired in which a variable rate is paid and a fixed rate is received. Its effectiveness is assessed by comparing changes in the fair value loans and bonds to changes in the fair value of the futures.

In any case, in the event of ineffectiveness in fair value or cash flow hedges, the entity mainly considers the following causes:

- Possible economic events affecting the entity (e.g.: default),
- For movements and possible market-related differences in the collateralized and non-collateralized curves used in the valuation of derivatives and hedged items, respectively.
- Possible differences between the nominal value, settlement/price dates and credit risk of the hedged item and the hedging element.

Regarding net foreign investments hedges, basically, they are allocated in Banco Santander, S.A. and Santander Consumer Finance Group. The Group assumes, as a priority objective in risk management, to minimize – up to a determined limit set up by the responsible for the financial management of the Group- the impact on the calculation of the capital ratio of their permanent investments included within the consolidation perimeter of the Group, and whose shares are legally named in a different currency than the holding has. For this purpose, financial instruments (generally derivatives) on exchange rates are hired, that allow mitigating the impact on the capital ratio of changes in the forward exchange rate. The Group hedges the risk, mainly, for the following currencies: BRL, CLP, MXN, CAD, COP, CNY, GBP, CHF, NOK, USD, SAR, MAD and PLN.

The instruments used to hedge the risk of these investments are Forex Swaps, Forex Forward and buys/sells of spot currencies.

In the case of this type of hedge, the ineffectiveness scenarios are considered to be of low probability, given that the hedging instrument is designated considering the determined position and the spot rate at which it is found.

The following table sets out the maturity profile of the hedging instruments used in the Group's non-dynamic hedging strategies:

Million euros

	31 December 2019					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges	**5,816**	**14,591**	**43,236**	**90,707**	**48,198**	**202,548**
Interest rate risk	**5,468**	**9,055**	**37,627**	**86,119**	**45,317**	**183,586**
Equity swap	—	11	25	42	—	78
Future interest rate	16	—	606	6,066	5,637	12,325
Interest rate swap	734	3,532	24,382	62,474	26,317	117,439
Call money swap	4,674	5,318	12,085	14,653	8,061	44,791
Currency swap	44	194	529	2,819	5,142	8,728
Swaption	—	—	—	50	—	50
Collar	—	—	—	15	—	15
Floor	—	—	—	—	160	160
Exchange rate risk	**333**	**4,090**	**5,172**	**411**	**—**	**10,006**
Currency swap	4	—	90	190	—	284
Fx forward	329	4,090	5,082	221	—	9,722
Interest rate and exchange rate risk	**15**	**1,432**	**437**	**3,933**	**2,881**	**8,698**
Interest rate swap	—	—	—	869	—	869
Call money swap	—	—	—	21	256	277
Currency swap	15	1,432	437	3,043	2,625	7,552
Credit risk	**—**	**14**	**—**	**244**	**—**	**258**
CDS	—	14	—	244	—	258
Cash flow hedges	**16,506**	**5,912**	**38,678**	**62,119**	**12,224**	**135,439**
Interest rate risk	**13,023**	**2,179**	**13,011**	**26,332**	**1,265**	**55,810**
Futures	12,304	385	3,196	5,770	—	21,655
Future interest rate	—	—	—	771	—	771
Interest rate swap	460	864	7,441	12,585	142	21,492
Call money swap	—	398	1,253	3,925	588	6,164
Currency swap	259	354	231	966	535	2,345
Floor	—	178	890	2,315	—	3,383
Exchange rate risk	**2,300**	**2,572**	**14,324**	**11,753**	**854**	**31,803**
FX forward	2,173	1,746	3,404	3,272	—	10,595
Future interest rate	—	—	9,290	—	—	9,290
Interest rate swap	—	—	—	888	—	888
Currency swap	127	826	1,630	7,593	854	11,030
Interest rate and exchange rate risk	**1,086**	**308**	**9,221**	**20,782**	**7,541**	**38,938**
Interest rate swap	—	—	1,917	2,880	2,550	7,347
Currency swap	1,086	308	5,553	15,106	4,991	27,044
Call money swap	—	—	1,751	2,796	—	4,547
Inflation risk	**97**	**853**	**2,114**	**3,204**	**2,562**	**8,830**
FX forward	—	117	1,205	908	—	2,230
Currency swap	97	736	909	2,207	2,562	6,511
Call money swap		—	—	89	—	89
Equity risk	**—**	**—**	**8**	**48**	**2**	**58**
Option	—	—	8	48	2	58
Other risk	**—**	**—**	**—**	**—**	**—**	**—**
Future FX and c/v term RF	—	—	—	—	—	—
Hedges of net investments in foreign operations	**2,735**	**4,191**	**14,192**	**3,359**	**—**	**24,477**
Exchange rate risk	**2,735**	**4,191**	**14,192**	**3,359**	**—**	**24,477**
FX forward	2,735	4,191	14,192	3,359	—	24,477
	25,057	**24,694**	**96,106**	**156,185**	**60,422**	**362,464**

Million euros

	31 December 2018					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges:	**9,377**	**17,989**	**23,773**	**78,541**	**49,039**	**178,719**
Interest rate risk	**8,436**	**12,519**	**21,987**	**73,817**	**46,310**	**163,069**
Equity swap	*—*	*27*	*46*	*36*	*—*	*109*
Future interest rate	*668*	*2,012*	*981*	*2,650*	*1,391*	*7,702*
Interest rate swap	*7,672*	*10,213*	*18,423*	*60,330*	*32,407*	*129,045*
Call money swap	*96*	*267*	*1,823*	*6,967*	*10,426*	*19,579*
Currency swap	*—*	*—*	*714*	*2,368*	*1,875*	*4,957*
Swaption	*—*	*—*	*—*	*51*	*—*	*51*
Collar	*—*	*—*	*—*	*—*	*15*	*15*
Floor	*—*	*—*	*—*	*1,415*	*196*	*1,611*
Exchange rate risk	**17**	**1,855**	**1,147**	**172**	**—**	**3,191**
Fx forward	*17*	*1,855*	*1,147*	*172*	*—*	*3,191*
Interest rate and exchange rate risk	**924**	**3,615**	**639**	**4,503**	**2,556**	**12,237**
Interest rate swap	*445*	*1,462*	*35*	*710*	*370*	*3,022*
Call money swap	*—*	*—*	*—*	*—*	*20*	*20*
Currency swap	*479*	*2,153*	*604*	*3,793*	*2,166*	*9,195*
Inflation risk	**—**	**—**	**—**	**—**	**168**	**168**
Call money swap	*—*	*—*	*—*	*—*	*64*	*64*
Currency swap	*—*	*—*	*—*	*—*	*104*	*104*
Credit risk	**—**	**—**	**—**	**49**	**5**	**54**
CDS	*—*	*—*	*—*	*49*	*5*	*54*
Cash flow hedges	**18,684**	**6,994**	**16,954**	**62,947**	**12,821**	**118,400**
Interest rate risk	**2,079**	**2,984**	**7,530**	**26,020**	**552**	**39,165**
Fx forward	*49*	*377*	*559*	*—*	*—*	*985*
Future interest rate	*2*	*—*	*—*	*125*	*—*	*127*
Interest rate swap	*2,028*	*2,161*	*5,957*	*23,593*	*217*	*33,956*
Currency swap	*—*	*446*	*839*	*730*	*335*	*2,350*
Floor	*—*	*—*	*175*	*1.572*	*—*	*1,747*
Exchange rate risk	**16,166**	**3,478**	**5,896**	**11,984**	**933**	**38,457**
Future FX and c/v term FV	*4,955*	*—*	*—*	*—*	*—*	*4,955*
FX forward	*1,423*	*—*	*47*	*1,813*	*—*	*3,283*
Future interest rate	*4,946*	*—*	*—*	*—*	*—*	*4,946*
Interest rate swap	*—*	*—*	*—*	*1,055*	*—*	*1,055*
Currency swap	*4,842*	*3,478*	*5,535*	*9,116*	*933*	*23,904*
Floor	*—*	*—*	*314*	*—*	*—*	*314*
Interest rate and exchange rate risk	**—**	**8**	**2,921**	**21,930**	**9,524**	**34,383**
Interest rate swap	*—*	*8*	*898*	*8,456*	*3,210*	*12,572*
Currency swap	*—*	*—*	*2,023*	*13,474*	*6,314*	*21,811*
Inflation risk	**439**	**524**	**566**	**2,977**	**1,812**	**6,318**
FX forward	*—*	*121*	*156*	*137*	*—*	*414*
Currency swap	*439*	*403*	*410*	*2,840*	*1,812*	*5,904*
Equity risk	**—**	**—**	**41**	**36**	**—**	**77**
Option	*—*	*—*	*41*	*36*	*—*	*77*
Other risk	**—**	**—**	**—**	**—**	**—**	**—**
Future FX and c/v term RF	*—*	*—*	*—*	*—*	*—*	*—*
Hedges of net investments in foreign operations	**555**	**777**	**11,067**	**9,289**	**—**	**21,688**
Exchange rate risk	**555**	**777**	**11,067**	**9,289**	**—**	**21,688**
FX forward	*555*	*777*	*11,067*	*9,289*	*—*	*21,688*
	28,616	**25,760**	**51,794**	**150,777**	**61,860**	**318,807**

Additionally, the profile information of maturities and the price/average rate for the most representative geographies is shown:

Santander UK Group

	31 December 2019					
	Million euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	*5,118*	*6,822*	*32,210*	*51,307*	*15,397*	*110,854*
Average fixed interest rate (%) GBP	*0.770*	*0.900*	*0.880*	*1.330*	*3.000*	
Average fixed interest rate (%) EUR	*(0.410)*	*0.290*	*2.210*	*1.360*	*2.360*	
Average fixed interest rate (%) USD	—	*1.540*	*1.990*	*2.690*	*4.560*	
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	—	*887*	—	*394*	*738*	*2,019*
Average GBP/EUR exchange rate	—	—	—	*1.178*	*1.160*	
Average GBP/USD exchange rate	—	*1.511*	—	—	—	
Average fixed interest rate (%) EUR	—	—	—	*3.520*	*2.120*	
Average fixed interest rate (%) USD	—	*2.380*	—	—	—	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	*398*	*1,253*	*5,490*	*588*	*7,729*
Average fixed interest rate (%) GBP	—	*0.760*	*0.820*	*1.460*	*0.400*	
Foreign exchange risk						
Exchange rate instruments						
Nominal	*1,395*	*2,491*	*4,417*	*7,019*	—	*15,322*
Average GBP/JPY exchange rate	—	*145.928*	*143.086*	*140.815*	—	
Average GBP/EUR exchange rate	—	*1.144*	*1.117*	*1.153*	—	
Average GBP/USD exchange rate	*1.286*	*1.252*	*1.293*	*1.299*	—	
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	*954*	—	*7,626*	*15,089*	*7,291*	*30,960*
Average GBP/EUR exchange rate	*1.274*	—	*1.169*	*1.311*	*1.209*	
Average GBP/USD exchange rate	—	—	*1.536*	*1.581*	*1.450*	
Average fixed interest rate (%) GBP	*2.490*	—	*2.160*	*2.870*	*2.960*	

	31 December 2018					
	Million euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	*6,888*	*9,403*	*16,333*	*44,166*	*17,498*	*94,288*
Average fixed interest rate (%) GBP	*0.633*	*0.788*	*1.057*	*1.586*	*2.849*	
Average fixed interest rate (%) USD	*(0.223)*	*0.670*	*0.911*	*1.085*	*1.261*	
Average fixed interest rate (%) EUR	*1.513*	*1.314*	*1.337*	*2.684*	*2.179*	
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	*877*	*2,894*	—	*1,331*	*585*	*5,687*
Average GBP/EUR exchange rate	—	—	—	*1.183*	*1.168*	
Average GBP/USD exchange rate	*1.580*	*1.332*	—	*1.511*	—	
Average fixed interest rate (%) EUR	—	—	—	*3.888*	*3.923*	
Average fixed interest rate (%) USD	*3.615*	*2.500*	—	*2.375*	*7.950*	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	*1,917*	*2,225*	*3,466*	—	*7,608*
Average fixed interest rate (%) GBP	—	*0.726*	*0.733*	*1.334*	—	
Foreign exchange risk						
Exchange rate instruments						
Nominal	*4,378*	*2,853*	*3,310*	*7,132*	—	*17,673*
Average GBP/JPY exchange rate	—	*147.215*	*146.372*	*145.319*	—	
Average GBP/EUR exchange rate	—	—	*1.280*	*1.135*	—	
Average GBP/USD exchange rate	*1.304*	*1.307*	*1.310*	*1.305*	—	
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	—	—	*2,859*	*21,288*	*9,495*	*33,642*
Average GBP/EUR exchange rate	—	—	1.252	1.271	1.217	
Average GBP/USD exchange rate	—	—	*1.633*	*1.545*	*1.511*	
Average fixed interest rate (%) GBP	—	—	*2.340*	*2.660*	*2.900*	

Banco Santander, S.A.

	31 December 2019					
	Million euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	8	106	1,406	16,707	10,219	28,446
Average fixed interest rate (%) GBP	—	—	—	1.43	6.82	
Average fixed interest rate (%) EUR	5.30	2.41	3.20	0.79	2.58	
Average fixed interest rate (%) CHF	—	—	—	0.80	0.40	
Average fixed interest rate (%) JPY	—	—	—	0.46	—	
Average fixed interest rate (%) USD	—	—	2.05	3.12	3.93	
Foreign exchange risk						
Exchange rate instruments						
Nominal	211	3,903	4,777	—	—	8,891
Average fixed interest rate (%) GBP/EUR	—	0.86	0.87	—	—	
Average fixed interest rate (%) USD/EUR	—	1.12	1.12	—	—	
Average fixed interest rate (%) USDCLP	747.72	747.90	746.70	—	—	
Average CNY/EUR exchange rate	—	7.91	8.01	—	—	
Average SAR/EUR exchange rate	4.16	4.18	—	—	—	
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	14	289	346	2,599	949	4,197
Average fixed interest rate (%) AUD/EUR	—	—	—	4	4.66	
Average fixed interest rate (%) CZK/EUR	—	—	—	0.86	—	
Average fixed interest rate (%) EUR/COP	—	—	6.16	—	—	
Average fixed interest rate (%) RON/EUR	—	—	—	4.85	—	
Average fixed interest rate (%) HKD/EUR	—	—	2.52	2.58	—	
Average fixed interest rate (%) JPY/EUR	—	—	0.54	0.66	1.28	
Average fixed interest rate (%) NOK/EUR	—	—	—	—	3.61	
Average fixed interest rate (%) CHF/EUR	—	—	—	—	1.24	
Average fixed interest rate (%) USD/COP	7.54	—	5.67	7.62	7.22	
Average AUD/EUR exchange rate	—	—	—	1.4989	1.5080	
Average CZK/EUR exchange rate	—	—	—	25.407	26.030	
Average EUR/GBP exchange rate	—	1.1711	—	—	—	
Average EUR/COP exchange rate	—	—	0.0003	—	—	
Average HKD/EUR exchange rate	—	—	8.7185	8.782	—	
Average JPY/EUR exchange rate	—	—	130.4700	132.4608	125.883	
Average MXN/EUR exchange rate	—	—	—	14.696	—	
Average NOK/EUR exchange rate	—	—	—	—	9.606	
Average RON/EUR exchange rate	—	—	—	4.7271	—	
Average CHF/EUR exchange rate	—	—	—	1.0924	1.1053	
Average USD/COP exchange rate	0.0003	—	0.0003	0.0003	0.0003	
Average USD/MXN exchange rate	—	—	—	0.0520	—	
Credit Risk						
Credit risk instruments						
Nominal	—	13	—	244	—	257
Cash flow hedges						
Interest rate and foreign exchange rate risk						
Interest rate and foreign exchange rate instruments						
Nominal	—	—	353	4,410	207	4,970
Interest rate risk						
Bond Forward instruments						
Nominal	11,626	—	1,792	5,443	—	18,861

Hedges of net investments in foreign operations						
Exchange rate risk						
Exchange rate instruments						
Nominal	2,592	3,838	13,595	3,359	—	23,384
Average BRL/EUR exchange rate	*4.59*	*4.74*	*4.74*	*4.88*	—	
Average CLP/EUR exchange rate	*822.13*	*822.32*	*811.64*	*824.36*	—	
Average COP/EUR exchange rate	—	—	*3,828.61*	—	—	
Average GBP/EUR exchange rate	*0.89*	*0.91*	*0.94*	—	—	
Average MAD/EUR exchange rate	—	*10.77*	*10.87*	—	—	
Average MXN/EUR exchange rate	*23.49*	*23.10*	*23.27*	—	—	
Average PLN/EUR exchange rate	*4.37*	*4.38*	*4.39*	—	—	

	31 December 2018					
	Million euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	*500*	*665*	*425*	*12,987*	*22,025*	*36,602*
Average fixed interest rate (%) GBP	—	—	—	—	*7.08*	
Average fixed interest rate (%) EUR	*3.75*	*0.63*	*2.06*	*1.81*	*3.20*	
Average fixed interest rate (%) CHF	—	—	—	*0.76*	*1.04*	
Average fixed interest rate (%) USD	—	—	*1.38*	*3.43*	*4.11*	
Foreign exchange risk						
Exchange rate instruments						
Nominal	—	*1,825*	*771*	—	—	*2,596*
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	*41*	*461*	*120*	*2,083*	*951*	*3,656*
Average fixed interest rate (%) AUD/EUR	—	—	—	*4.00*	—	
Average fixed interest rate (%) CZK/EUR	—	—	—	*0.86*	—	
Average fixed interest rate (%) EUR/COP	—	—	*7.54*	—	—	
Average fixed interest rate (%) HKD/EUR	—	—	—	*2.52*	—	
Average fixed interest rate (%) JPY/EUR	—	—	—	*0.64*	*1.28*	
Average fixed interest rate (%) NOK/EUR	—	—	—	—	*3.61*	
Average fixed interest rate (%) USD/COP	*6.13*	*6.71*	—	*9.47*	—	
Average AUD/EUR exchange rate	—	—	—	*1.499*	*1.499*	
Average CZK/EUR exchange rate	—	—	—	*25.407*	*26.030*	
Average EUR/GBP exchange rate	—	*1.145*	—	—	—	
Average EUR/COP exchange rate	—	—	*0.0003*	—	—	
Average EUR/MXN exchange rate	—	—	—	—	—	
Average HKD/EUR exchange rate	—	—	—	*8.718*	—	
Average JPY/EUR exchange rate	—	—	—	*132.014*	*125.883*	
Average MXN/EUR exchange rate	—	—	—	*14.696*	—	
Average NOK/EUR exchange rate	—	—	—	—	*9.606*	
Average USD/COP exchange rate	—	—	*0.269*	—	—	
Average USD/MXN exchange rate	—	*0.0003*	*0.0003*	—	*0.0003*	
Credit Risk						
Credit risk instruments						
Nominal	—	—	—	*49*	*5*	*54*
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	*1,942*	—	—	*6,130*	*20*	*8,092*
Average fixed interest rate (%) EUR	—	—	—	—	*0.55*	
Hedges of net investments in foreign operations						
Exchange rate risk						
Exchange rate instruments						
Nominal	*373*	*497*	*10,587*	*9,289*	—	*20,746*
Average BRL/EUR exchange rate	*4.46*	—	*4.46*	*4.73*	—	
Average CLP/EUR exchange rate	—	*766.01*	*768.25*	*795.1*	—	
Average CNY/EUR exchange rate	—	—	*8.14*	—	—	
Average COP/EUR exchange rate	—	*3,728.01*	*3,685.8*	—	—	
Average GBP/EUR exchange rate	—	*0.91*	*0.89*	—	—	
Average MXN/EUR exchange rate	*22.98*	—	*24.51*	*24.5*	—	
Average PLN/EUR exchange rate	—	—	*4.38*	*4.26*	—	

Consumer Group

	31 December 2019					
	Million euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	*159*	*1,394*	*2,154*	*5,669*	*18*	*9,394*
Average fixed interest rate (%) EUR	*(0.164)*	*(0.027)*	*(0.119)*	*(0.110)*	*(0.123)*	
Average fixed interest rate (%) CHF	*(0.700)*	*(0.700)*	*(0.630)*	*(0.560)*	—	
Foreign exchange risk						
Exchange rate instruments						
Nominal	*118*	*187*	*304*	—	—	*609*
Average DKK/EUR exchange rate	*7.458*	*7.465*	*7.458*	—	—	
Average PLN/EUR exchange rate	*4.382*	*4.302*	*4.347*	—	—	
Average CHF/EUR exchange rate	*1.093*	*1.096*	—	—	—	
Average SEK/EUR exchange rate	—	*10.687*	—	—	—	
Interest rate and foreign exchange rate risk						
Interest rate and exchange rate instruments						
Nominal	—	*249*	—	*499*	—	*748*
Average fixed interest rate (%) DKK	—	*7.462*	—	*7.443*	—	
Average DKK/EUR exchange rate	—	0.004	—	0.006	—	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	*54*	*152*	*379*	*562*	—	*1,147*
Average fixed interest rate (%) EUR	*0.212*	*0.212*	*0.212*	*0.212*	—	
Foreign exchange risk						
Nominal exchange rate instruments						
Nominal	*14*	*25*	*254*	*953*	*72*	*1,318*
Average SEK/EUR exchange rate	—	—	*10.461*	*10.529*	*10.456*	
Average CHF/EUR exchange rate	—	—	*1.094*	*1.121*	—	
Average CAD/EUR exchange rate	*1,539*	*1.500*	*1.528*	*1.491*	—	
Average DKK/EUR exchange rate	—	—	*7.474*	—	—	
Average JPY/EUR exchange rate	—	—	*131.960*	*123.116*	—	
Interest rate and foreign exchange rate risk						
Interest rate and exchange rate instruments						
Nominal	*130*	*175*	*1,025*	*452*	—	*1,782*
Average SEK/EUR exchange rate	*10.415*	*10.362*	*10.488*	*10.318*	—	
Average NOK/EUR exchange rate	—	*9.241*	*9.082*	*9.281*	—	
Average CHF/EUR exchange rate	—	*1.085*	*1.090*	*1.089*	—	
Average CAD/EUR exchange rate	—	—	—	—	—	
Average DKK/EUR exchange rate	*7.468*	*7.466*	*7.460*	*7.457*	—	
Average JPY/EUR exchange rate	—	—	—	*4.287*	—	
Average fixed interest rate (%) EUR	—	—	—	*0.410*	—	
Average fixed interest rate (%) CHF	—	—	—	*0.330*	—	
Hedges of net investments in foreign operations						
Foreign exchange risk						
Exchange rate instruments						
Nominal	*143*	*352*	*597*	—	—	*1,092*
Average NOK/EUR exchange rate	*9.920*	*9.878*	*10.186*	—	—	
Average CNY/EUR exchange rate	—	*7.9675*	—	—	—	

	31 December 2018					
	Million euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	253	672	3,488	6,883	63	11,359
Average fixed interest rate (%) EUR	*(0.197)*	*(0.125)*	*(0.036)*	*(0.065)*	*(0.113)*	
Average fixed interest rate (%) CHF	*(0.659)*	*(0.696)*	*(0.679)*	*(0.561)*	—	
Foreign exchange risk						
Exchange rate instruments						
Nominal	17	30	376	—	—	423
Average DKK/EUR exchange rate	*7.455*	—	*7.456*	—	—	
Average NOK/EUR exchange rate	—	—	*9.687*	—	—	
Average CHF/EUR exchange rate	—	*1.138*	*1.127*	—	—	
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	—	240	339	448	—	1,027
Average SEK/EUR exchange rate	—	—	*0.104*	—	—	
Average DKK/EUR exchange rate	—	*0.134*	*0.134*	*0.134*	—	
Average fixed interest rate (%) SEK	—	—	*0.008*	—	—	
Average fixed interest rate (%) DKK	—	*0.002*	*0.003*	*0.004*	—	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	85	99	313	423	—	920
Average fixed interest rate (%) EUR	*0.183*	*0.183*	*0.183*	*0.183*	—	
Foreign exchange risk						
Exchange rate instruments						
Nominal	339	557	2,368	1,061	—	4,325
Average SEK/EUR exchange rate	*0.101*	*0.098*	*0.099*	*0.099*	—	
Average NOK/EUR exchange rate	*0.108*	*0.108*	*0.108*	*0.108*	—	
Average CHF/EUR exchange rate	*0.896*	*0.859*	*0.870*	*0.900*	—	
Average CAD/EUR exchange rate	*0.654*	*0.658*	*0.652*	*0.656*	—	
Average DKK/EUR exchange rate	*0.134*	*0.134*	*0.134*	—	—	
Average PLN/EUR exchange rate	—	—	*0.234*	*0.233*	—	
Average USD/EUR exchange rate	—	—	*0.897*	—	—	
Average JPY/EUR exchange rate	—	—	*0.008*	*0.008*	—	
Hedges of net investments in foreign operations						
Foreign exchange risk						
Exchange rate instruments						
Nominal	181	282	480	—	—	943
Average NOK/EUR exchange rate	*103.751*	*103.538*	*102.963*	—	—	
Average CNY/EUR exchange rate	—	—	*121.796*	—	—	

Banco Santander Mexico

	31 December 2019					
	Million euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	*6*	*140*	*174*	*121*	*2,262*	*2,703*
Average fixed interest rate (%) MXN	*5,005*	*8,475*	*8,420*	*7,126*	*6,584*	
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	*1*	*5*	*66*	*423*	*1,195*	*1,690*
Average EUR/MXN exchange rate	*21,230*	—	—	*20,992*	*21,755*	
Average GBP/MXN exchange rate	—	—	—	*25,196*	—	
Average USD/MXN exchange rate	—	*13,300*	—	*13,300*	*19,278*	
Average MXV/MXN exchange rate	—	—	*4,680*	—	*4,680*	
Average fixed interest rate (%) USD	—	*3,930*	—	*2,460*	*7,077*	
Average fixed interest rate (%) EUR	*0.500*	—	—	*2,076*	*3,012*	
Average fixed interest rate (%) GBP	—	—	—	*6,750*	—	
Average fixed interest rate (%) MXN	—	—	*2,500*	—	*4,500*	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	—	—	*533*	—	*533*
Average fixed interest rate (%) MXN	—	—	—	*7,182*	—	
Foreign exchange risk						
Exchange rate instruments						
Nominal	*890*	—	*103*	*2,793*	—	*3,786*
Average BRL/MXN exchange rate	*3.55*	—	*4.32*	*5.21*	—	
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	*2*	*133*	*163*	*208*	*43*	*549*
Average EUR/MXN exchange rate	*16,710*	*19,318*	—	*19,169*	*21,493*	
Average GBP/MXN exchange rate	—	—	*23,130*	*25,196*	—	
Average USD/MXN exchange rate	—	—	*16,220*	*12,725*	*18,227*	
Average MXV/MXN exchange rate	—	—	—	—	—	
Average fixed interest rate (%) USD	—	*7,930*	*2,628*	*3,441*	*4,125*	
Average fixed interest rate (%) EUR	*1,510*	—	—	*2,600*	*0.151*	
Average fixed interest rate (%) GBP	—	—	*1,083*	*6,750*	—	

	31 December 2018					
	Million euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	1	346	80	—	427
Average fixed interest rate (%) MXN	—	*5.180*	*6.907*	*5.593*	—	
Average fixed interest rate (%) USD	—	—	*1.465*	*1.465*	—	
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	—	—	41	282	1,009	1,332
Average EUR/MXN exchange rate	—	—	—	*20.470*	*21.890*	
Average GBP/MXN exchange rate	—	—	—	*24.870*	*25.310*	
Average USD/MXN exchange rate	—	—	*13.920*	*13.920*	*18.390*	
Average MXV/MXN exchange rate	—	—	*5.059*	*5.059*	*5.059*	
Average fixed interest rate (%) USD	—	—	*8.000*	*3.980*	*4.125*	
Average fixed interest rate (%) EUR	—	—	—	*2.420*	*2.750*	
Average fixed interest rate (%) GBP	—	—	—	—	*6.750*	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	—	—	178	—	178
Average fixed interest rate (%) MXN	—	—	—	*7.258*	—	
Foreign exchange risk						
Exchange rate instruments						
Nominal	1,415	44	56	2,719	103	4,337
Average EUR/MXN exchange rate	—	—	*16.679*	*18.932*	*18.688*	
Average GBP/MXN exchange rate	—	—	—	*23.127*	*25.947*	
Average USD/MXN exchange rate	*18.729*	*20.289*	*17.918*	*16.443*	*18.508*	
Average BRL/MXN exchange rate	*5.863*	—	*5.732*	*5.736*	—	

Banco Santander Brazil

	31 December 2019					
	Million euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	16	—	606	6,065	5,638	12,325
Average fixed interest rate (%) BRL	*7.9200*	—	*9.2500*	*6.8800*	*0.04*	
Foreign exchange risk						
Exchange rate instruments						
Nominal	—	*1*	*90*	*193*	—	*284*
Average USD/BRL exchange rate	—	3.7300	3.7500	3.8300	—	
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	—	—	*7*	—	—	*7*
Average EUR/MXN exchange rate	—	—	—	—	—	
Average fixed interest rate (%) BRL	—	—	*4.57*	—	—	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	—	—	—	772	—	772
Average fixed interest rate (%) BRL	—	—	—	*4.5000*	—	
Foreign exchange risk and others						
Exchange rate instruments						
Nominal	—	—	9,290	—	—	9,290
Average USD/BRL exchange rate	—	—	*4.57*	—	—	
Interest rate and foreign exchange rate risk						
Exchange rate instruments						
Nominal	—	—	—	*389*	—	*389*
Average EUR/MXN exchange rate	—	—	—	4.57	—	
Average fixed interest rate (%) BRL	—	—	—	—	—	

	31 December 2018					
	Million euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges						
Interest rate risk						
Interest rate instruments						
Nominal	668	2,045	—	3,529	1,378	7,620
Average fixed interest rate (%) BRL	*9.500*	*6.967*	*6.937*	*10.055*	*10.030*	
Foreign exchange rate risk and other						
Exchange rate instruments						
Nominal	6	15	36	316	38	411
Average USD/BRL exchange rate	*3.247*	*3.303*	*3.551*	*3.642*	*3.265*	
Cash flow hedges						
Interest rate risk						
Interest rate instruments						
Nominal	3,877	2,997	3,030	119	—	10,023
Average fixed interest rate (%) BRL	*6.500*	*6.500*	*6.500*	*6.500*	—	
Foreign exchange risk and other						
Exchange rate instruments						
Nominal	—	8	26	—	238	272
Average USD/BRL exchange rate	—	*3.716*	*3.648*	—	*3.135*	

The following table contains details of the hedged exposures covered by the Group's hedging strategies of 31 December 2019 and 31 December 2018:

	Million euros							
	31 December 2019							
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged item				Cash flow reserves or conversion reserves	
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item	Change in fair value of hedged item for ineffectiveness assessment	Continuing hedges	Discontinued hedges
Fair value hedges	**134,958**	**60,487**	**2,768**	**2,298**		**1,583**	**—**	**—**
Interest rate risk	**122,560**	**55,538**	**2,764**	**2,099**		**1,370**	**—**	**—**
Deposits	*66,087*	*8,814*	*1,584*	*(5)*	*Loans and advances/ Deposits*	*578*	—	—
Bond	*33,202*	*24,145*	*1,150*	*1,302*	*Debt instruments/ Debt instruments issued*	*825*	—	—
Repo	*22,057*	*589*	*27*	*18*	*Loans and advances/ Deposits*	—	—	—
Liquidity facilities	*1,214*	*4,531*	*3*	*(219)*	*Loans and advances/ Deposits*	*177*	—	—
Issuances assurance	—	*3,171*	—	*12*	*Debt instruments/ Debt instruments issued*	*(4)*	—	—
Securitisation	—	*14,288*	—	*991*	*Debt instruments/ Debt instruments issued*	*(206)*	—	—
Exchange rate risk	**8,613**	**—**	**19**	**—**		**58**	**—**	**—**
Liquidity facilities	*57*	—	*3*	—	*Loans and advances/ Deposits*	*3*	—	—
Deposits	2,912	—	1	—	*Loans and advances/ Deposits*	37	—	—
Bonds	5,644	—	15	—	*Debt instruments*	18	—	—
Interest and Exchange rate risk	**3,532**	**4,949**	**(21)**	**199**		**154**	**—**	**—**
Borrowed deposits	460	—	—	—	*Loans and advances/ Deposits*	—	—	—
Bonds	2,262	3,366	(16)	51	*Loans and advances/ Deposits*	4	—	—
Securitisation	—	1,483	—	150	*Debt instruments*	152	—	—
Repos	810	100	(5)	(2)	*Loans and advances/ Deposits*	(2)	—	—
Inflation risk	**—**	**—**	**—**	**—**		**(4)**	**—**	**—**
Deposits	—	—	—	—	*Loans and advances/ Deposits*	(1)	—	—
Bonds	—	—	—	—	*Debt instruments*	(3)	—	—
Credit risk	**253**	**—**	**6**	**—**		**5**	**—**	**—**
Bonds	253	—	6	—	*Debt instruments*	5	—	—

	Million euros							
	31 December 2019							
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged item				Cash flow reserves or conversion reserves	
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item	Change in fair value of hedged item for ineffectiveness assessment	Continuing hedges	Discontinued hedges
Cash flow hedges						**(204)**	**522**	**(79)**
Interest rate risk						**(128)**	**4**	**(74)**
Firm commitment					*Other assets/liabilities*	*18*	*(11)*	*—*
Deposits					*Deposits and loans and advances*	*1*	*(5)*	*14*
Government bonds					*Debt instruments*	*(24)*	*(22)*	*(63)*
Liquidity facilities					*Loans and advances*	*(121)*	*27*	*(25)*
Secondary market loans					*Loans and advances*	*(2)*	*3*	*—*
Highly likely scheduled transactions					*Other assets/liabilities*	*—*	*12*	*—*
Exchange rate risk						**(32)**	**130**	**(4)**
Deposits					*Deposits and loans and advances*	(3)	140	—
Bonds					*Deposits and loans and advances*	(237)	4	(4)
Issuances assurance						—	(3)	—
Secondary market loans					*Loans and advances*	194	(9)	—
Senior titulisation					*Debt instruments*	*15*	*(4)*	*—*
Highly likely scheduled transactions					*Other assets/liabilities*	*(1)*	*2*	*—*
Interest and Exchange rate risk						**(169)**	**510**	**—**
Deposits					*Deposits and loans and advances*	*54*	*(6)*	*—*
Bonds					*Debt instruments*	*29*	*(25)*	*—*
Securitisation					*Debt instruments*	*(252)*	*541*	*—*
Inflation risk						**20**	**(22)**	**0**
Deposits					*Deposits and loans and advances*	*23*	*(24)*	*—*
Bonds					*Debt instruments*	*(3)*	*2*	*—*
Liquidity facilities					*Loans and advances*	*—*	*—*	*—*
Equity risk						**7**	**(2)**	**(1)**
Highly likely scheduled transactions					*Other assets/liabilities*	*7*	*(2)*	*(1)*
Other risks						**98**	**(98)**	**—**
Bonds					*Other assets/liabilities*	*98*	*(98)*	*—*
Net foreign investments hedges	**1,070**	**—**	**—**	**—**		**—**	**—**	**—**
Exchange rate risk	**1,070**	**—**	**—**	**—**		—	—	—
Equity instruments	*1,070*	*—*	*—*	*—*	*Equity instruments*	—	—	—
	136,028	**60,487**	**2,768**	**2,298**		**1.379**	**522**	**(79)**

	Million euros							
	31 December 2018							
	Accumulated amount of fair value adjustments on the hedged item		Accumulated amount of fair value adjustments on the hedged item			Change in fair value of hedged item for ineffectiveness assessment	Cash flow reserves or conversion reserves	
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item		Continuing hedges	Discontinued hedges
Fair value hedges	**110,669**	**46,830**	**1,915**	**1,765**		**(20)**	**—**	**—**
Interest rate risk	**104,393**	**39,251**	**1,886**	**1,478**		**(74)**	**—**	**—**
Deposits	*59,319*	*1,370*	*1,021*	*(1)*	*Deposits and loans and advances*	*(265)*	*—*	*—*
Bond	*27,235*	*21,759*	*792*	*791*	*Debt instruments*	*(35)*	*—*	*—*
Repo	*13,874*	*561*	*25*	*16*	*Other assets*	*18*	*—*	*—*
Loans of securities	*—*	*—*	*—*	*—*	*Loans and advances*	*—*	*—*	*—*
Liquidity facilities	*3,965*	*232*	*48*	*2*	*Loans and advances*	*35*	*—*	*—*
Issuances assurance	*—*	*2,013*	*—*	*12*	*Other assets/liabilities*	*3*	*—*	*—*
Securitisation	*—*	*13,316*	*—*	*658*	*Debt instruments*	*170*	*—*	*—*
Equity instruments	*—*	*—*	*—*	*—*	*Equity instruments*	*—*	*—*	*—*
Exchange rate risk	**3,378**	**—**	**5**	**—**		**(3)**	**—**	**—**
Deposits	*1,614*	*—*	*9*	*—*	*Debt instruments*	*8*	*—*	*—*
Bonds	*1,764*	*—*	*(4)*	*—*	*Debt instruments*	*(11)*	*—*	*—*
Interest and Exchange rate risk	**2,776**	**7,474**	**21**	**287**		**53**	**—**	**—**
Borrowed deposits	*751*	*—*	*19*	*—*	*Deposits and loans and advances*	*16*	*—*	*—*
Bonds	*1,591*	*3,571*	*2*	*26*	*Debt instruments*	*(31)*	*—*	*—*
Securitisation	*—*	*3,358*	*—*	*262*	*Debt instruments*	*67*	*—*	*—*
Repos	*434*	*99*	*—*	*(1)*	*Other assets/liabilities*	*1*	*—*	*—*
CLO	*—*	*446*	*—*	*—*	*Other assets/liabilities*	*—*	*—*	*—*
Inflation risk	**68**	**105**	**3**	**0**		**4**	**—**	**—**
Deposits	*—*	*105*	*—*	*—*	*Deposits and loans and advances*	*1*	*—*	*—*
Bonds	*68*	*—*	*3*	*—*	*Debt instruments*	*3*	*—*	*—*
Credit risk	**54**	**—**	**—**	**—**		**—**	**—**	**—**
Bonds	*54*	*—*	*—*	*—*	*Debt instruments*	*—*	*—*	*—*
Cash flow hedges						**(432)**	**447**	**(10)**
Interest rate risk						**(52)**	**111**	**(12)**
Firm commitment					*Other assets/liabilities*	*(24)*	*(75)*	*—*
Deposits					*Deposits and loans and advances*	*(26)*	*47*	*—*
Government bonds					*Debt instruments*	*(13)*	*72*	*—*
Liquidity facilities					*Loans and advances*	*8*	*65*	*(12)*
Secondary market loans					*Other assets/liabilities*	*4*	*2*	*—*
Senior securitization					*Debt instruments*	*(1)*	*—*	*—*
Exchange rate risk						**(416)**	**(23)**	**2**
Deposits					*Other assets/liabilities*	*83*	*(8)*	*—*
Bonds					*Deposits and loans and advances*	*(309)*	*(16)*	*2*
Secondary market loans					*Loans and advances*	*(179)*	*(21)*	*—*
Senior titulisation					*Debt instruments*	*(11)*	*21*	*—*
CLO					*Other assets/liabilities*	*—*	*1*	*—*

	Million euros							
	31 December 2018							
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged item			Change in fair value of hedged item for ineffectiveness assessment	Cash flow hedge/currency translation reserve	
	Assets	Liabilities	Assets	Liabilities	Balance sheet line item		Continuing hedges	Discontinued hedges
Interest and Exchange rate risk						**4**	**341**	**—**
Deposits					*Deposits and loans and advances*	*7*	*2*	*—*
Bonds					*Debt instruments*	*(13)*	*(9)*	*—*
Securitisation					*Debt instruments*	*10*	*348*	*—*
Inflation risk						**15**	**22**	**—**
Deposits					*Deposits and loans and advances*	*25*	*25*	*—*
Bonds					*Debt instruments*	*(3)*	*(3)*	*—*
Liquidity facilities					*Loans and advances*	*(7)*	*—*	*—*
Equity risk						**17**	**(4)**	**—**
Highly likely scheduled transactions					*Other assets/liabilities*	*17*	*(4)*	*—*
Other risks						**—**	**—**	**—**
Bonds					*Other assets/liabilities*	*—*	*—*	*—*
Net foreign investments hedges	**792**	**—**	**10**	**—**		**—**	**—**	**—**
Exchange rate risk	**792**	**—**	**10**	**—**		**—**	**—**	**—**
Firm commitment	*13*	*—*	*—*	*—*	*Other assets/liabilities*	*—*	*—*	*—*
Equity instruments	*779*	*—*	*10*	*—*	*Equity instruments*	*—*	*—*	*—*
	111,461	**46,830**	**1,925**	**1,765**		**(452)**	**447**	**(10)**

The cumulative amount of adjustments of the fair value hedging instruments that remain in the balance for covered items that are no longer adjusted by profit and loss of coverage as of 31 December 2019 is EUR 340 million (2018: EUR 71 million euros.)

The net impact of the coverages are shown in the following table:

	Million euros				
	31 December 2019				
				Reclassified amount of reserves to the income statement due to:	
	Earnings/ (loses) recognised in another cumulative overall result	Ineffective coverage recognised in the income statement	Line of the income statement that includes the ineffectiveness of cash flows	Cover transaction affecting the income statement	Line of the income statement that includes reclassified items
Fair value hedges		**58**			
Interest rate risk		**5**			
Deposits		7	*Gains or losses of financial assets/liabilities*		
Bonds		5	*Gains or losses of financial assets/liabilities*		
Securitisations		(7)	*Gains or losses of financial assets/liabilities*		
Equity instruments		—	*Gains or losses of financial assets/liabilities*		
Risk of Exchange rate		**(3)**			
Deposits		(1)	*Gains or losses of financial assets/liabilities*		
Bonds		(2)	*Gains or losses of financial assets/liabilities*		
Risk of interest rate and exchange rate		**56**			
Deposits		1	*Gains or losses of financial assets/liabilities*		
Securitisations		55	*Gains or losses of financial assets/liabilities*		
Inflation Risks		**—**			
Deposits		(1)	*Gains or losses of financial assets/liabilities*		
Bonds		1	*Gains or losses of financial assets/liabilities*		
Cash flow hedges	**8**	**(86)**		**(1,112)**	
Risk of interest rate	**(263)**	**1**		**8**	
Firm Commitment	65	—	*Gains or losses of financial assets/liabilities*	*(37)*	*Interest margin*
Deposits	(37)	—	*Gains or losses of financial assets/liabilities*	*7*	*Interest margin*
Bonds	(254)	—	*Gains or losses of financial assets/liabilities*	*(26)*	*Interest margin*
Liquidity lines	(48)	1	*Gains or losses of financial assets/liabilities*	*61*	*Interest margin*
Loans secondary markets	(1)	—	*Gains or losses of financial assets/liabilities*	*3*	*Interest margin*
Highly likely scheduled transactions	12	—	*Gains or losses of financial assets/liabilities*	—	*Interest margin*
Risk of Exchange rate	**145**	**(34)**		**(364)**	
Deposits	148	(31)	Gains or losses of financial assets/liabilities	(39)	Interest margin / Gains or losses of financial assets/ liabilities
Bonds	11	—	Gains or losses of financial assets/liabilities	154	Interest margin / Gains or losses of financial assets/ liabilities
Repo	—	—	Gains or losses of financial assets/liabilities	(4)	Interest margin / Gains or losses of financial assets/ liabilities

	Million euros				
	31 December 2019				
				Reclassified amount of reserves to the income statement due to:	
	Earnings/ (loses) recognised in another cumulative overall result	Ineffective coverage recognised in the income statement	Line of the income statement that includes the ineffectiveness of cash flows	Cover transaction affecting the income statement	Line of the income statement that includes reclassified items
Loans secondary markets	12	2	Gains or losses of financial assets/liabilities	8	Interest margin / Gains or losses of financial assets/ liabilities
Securitisations	(27)	(4)	Gains or losses of financial assets/liabilities	(166)	Interest margin / Gains or losses of financial assets/ liabilities
CLO	(1)	—	Gains or losses of financial assets/liabilities	(13)	Interest margin / Gains or losses of financial assets/ liabilities
Highly likely scheduled transactions	2	(1)	Gains or losses of financial assets/liabilities	(304)	Interest margin / Gains or losses of financial assets/ liabilities
Risk of interest rate and exchange rate	**168**	**(53)**		**(769)**	
Deposits	(8)	—	Gains or losses of financial assets/liabilities	(10)	Interest margin
Bonds	(16)	(4)	Gains or losses of financial assets/liabilities	57	Interest margin
Securitisations	192	(49)	Gains or losses of financial assets/liabilities	(816)	Interest margin / Gains or losses of financial assets/ liabilities
Risk of inflation	**(44)**	**—**		**13**	
Deposits	(49)	—	Gains or losses of financial assets/liabilities	9	Interest margin
Asset bonds	5	—	Gains or losses of financial assets/liabilities	4	Interest margin
Risk of equity	**2**	**—**		**—**	
Highly probable planned transactions	2	—	Gains or losses of financial assets/liabilities	—	
Other risks	**—**	**—**		**—**	
Bonds	—	—	Gains or losses of financial assets/liabilities	—	
Coverage of net investment abroad	**—**	**—**		**—**	
Risk of Exchange rate	**—**	**—**		**—**	
Equity instruments	—	—	Gains or losses of financial assets/liabilities	—	
	8	**(28)**		**(1,112)**	

	Million euros				
	31 December 2018				
	Earnings/ (loses) recognised in another cumulative overall result	Ineffective coverage recognised in the income statement	Line of the income statement that includes the ineffectiveness of cash flows	Reclassified amount of reserves to the income statement due to: Cover transaction affecting the income statement	Line of the income statement that includes reclassified items
Fair value hedges		**75**			
Interest rate risk		**(18)**			
Deposits		(24)	Gains or losses of financial assets/liabilities		
Bonds		(61)	*Gains or losses of financial assets/liabilities*		
Repo		1	*Gains or losses of financial assets/liabilities*		
Loans of fixed-income securities		46	*Gains or losses of financial assets/liabilities*		
Liquidity lines		12	*Gains or losses of financial assets/liabilities*		
Securitisations		8	*Gains or losses of financial assets/liabilities*		
Risk of interest rate and exchange rate		**95**			
Deposits		39	*Gains or losses of financial assets/liabilities*		
Bonds		8	*Gains or losses of financial assets/liabilities*		
Securitisations		49	*Gains or losses of financial assets/liabilities*		
CLO		(1)	*Gains or losses of financial assets/liabilities*		
Other Risks		**(2)**			
Securitisations		(2)	*Gains or losses of financial assets/liabilities*		
Cash flow hedges	**200**	**8**		**317**	
Risk of interest rate	**193**	**(4)**		**57**	
Firm Commitment	(2)	—	*Gains or losses of financial assets/liabilities*	*(24)*	Interest margin
Deposits	50	(21)	Gains or losses of financial assets/liabilities	16	Interest margin
Bonds	104	2	Gains or losses of financial assets/liabilities	15	Interest margin/ Gains or losses of financial assets/liabilities
Loans secondary markets	85	16	Gains or losses of financial assets/liabilities	47	Interest margin/ Gains or losses of financial assets/liabilities
Liquidity lines	2	—	Gains or losses of financial assets/liabilities	3	Interest margin
Repo	(46)	—	Gains or losses of financial assets/liabilities	—	Interest margin
Securitisations	—	(1)	*Gains or losses of financial assets/liabilities*	—	

	Million euros				
	31 December 2018				
				Reclassified amount of reserves to the income statement due to:	
	Earnings/ (loses) recognised in another cumulative overall result	Ineffective coverage recognised in the income statement	Line of the income statement that includes the ineffectiveness of cash flows	Cover transaction affecting the income statement	Line of the income statement that includes reclassified items
Risk of Exchange rate	**(20)**	**(688)**		**(631)**	
Deposits	(25)	(698)	Gains or losses of financial assets/liabilities	(563)	Interest margin/ Gains or losses of financial assets/liabilities
Asset bonds	(25)	43	Gains or losses of financial assets/liabilities	(168)	Interest margin/ Gains or losses of financial assets/liabilities
Repo	—	—	Gains or losses of financial assets/liabilities	—	Gains or losses of financial assets/ liabilities
Loans secondary markets	5	4	Gains or losses of financial assets/liabilities	(75	Interest margin/ Gains or losses of financial assets/liabilities
Securitisations	24	(37)	Gains or losses of financial assets/liabilities	150	Interest margin / Gains or losses of financial assets/ liabilities
CLO	1	—	Gains or losses of financial assets/liabilities	25	Interest margin / Gains or losses of financial assets/ liabilities
Risk of interest rate and exchange rate	**45**	**700**		**887**	
Deposits	1	743	Gains or losses of financial assets/liabilities	35	Interest margin
Bonds	(4)	447	Gains or losses of financial assets/liabilities	581	Interest margin/ Gains or losses of financial assets/liabilities
Securitisations	48	(490)	Gains or losses of financial assets/liabilities	271	Interest margin/ Gains or losses of financial assets/liabilities
Risk of inflation	**11**	**—**		**4**	
Deposits	14	—	Gains or losses of financial assets/liabilities	3	Interest margin
Asset bonds	(3)	—	Gains or losses of financial assets/liabilities	1	Interest margin
Risk of equity	**(8)**	**—**		**—**	
Highly probable planned transactions	(8)	—	Gains or losses of financial assets/liabilities	—	
Other risks	**(21)**	**—**		**—**	
Bonds	(21)	—	Gains or losses of financial assets/liabilities	—	
Coverage of net investment abroad	**—**	**—**		**—**	
Risk of Exchange rate	**—**	**—**		**—**	
Equity instruments	—	—	Gains or losses of financial assets/liabilities	—	
	200	**83**		**317**	

The following table shows the movement in the impact of equity for cash flow hedges for the year:

Million euros	2019	2018
Balance at beginning of year	**277**	**152**
Cash flow hedges		
Risks of interest rate	**(264)**	**172**
Amounts transferred to income statements	*(8)*	*(57)*
Gain or loss in value CFE - recognized in equity	*(256)*	*229*
Risks of exchange rate	**146**	**(20)**
Amounts transferred to income statements	*364*	*631*
Gain or loss in value CFE - recognized in equity	*(218)*	*(651)*
Risks of interest rate and exchange rate	**168**	**45**
Amounts transferred to income statements	*769*	*(887)*
Gain or loss in value CFE - recognized in equity	*(601)*	*932*
Risk of inflation	**(44)**	**11**
Amounts transferred to income statements	*(13)*	*(4)*
Gain or loss in value CFE - recognized in equity	*(31)*	*15*
Risk of equity	**2**	**(8)**
Amounts transferred to income statements	—	—
Gain or loss in value CFE - recognized in equity	*2*	*(8)*
Other risks	**—**	**—**
Amounts transferred to income statements	—	—
Gain or loss in value CFE - recognized in equity	—	—
Minorities	32	(25)
Taxes	(17)	(50)
Balance at end of year	**300**	**277**

37. Discontinued operations

No operations were discontinued in 2019, 2018 or 2017.

38. Interest income

Interest and similar income in the consolidated income statement comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value; and the rectifications of income as a result of hedge accounting. Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main interest and similar income items earned in 2019, 2018 and 2017 is as follows:

Million euros	2019	2018	2017
Loans and advances, central banks	1,314	1,320	1,881
Loans and advances, credit institutions	1,785	1,555	1,840
Debt instruments	6,378	6,429	7,141
Loans and advances, customers	46,180	43,489	43,640
Other interest	1,128	1,532	1,539
	56,785	**54,325**	**56,041**

Most of the interest and similar income was generated by the Group's financial assets that are measured either at amortised cost or at fair value through Other comprehensive income.

39. Interest expense

Interest expense and similar charges in the consolidated income statement includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions recorded for pensions.

The detail of the main items of interest expense and similar charges accrued in 2019, 2018 and 2017 is as follows:

Million euros	2019	2018	2017
Central banks deposits	468	421	216
Credit institution deposits	2,576	2,588	2,037
Customer deposits	10,137	9,062	11,074
Debt securities issued and subordinated liabilities	6,679	6,073	6,651
Marketable debt securities	*6,034*	*5,303*	*5,685*
Subordinated liabilities (Note 23)	*645*	*770*	*966*
Provisions for pensions (Note 25)	145	186	198
Lease Liabilities	273	9	8
Other interest expense	1,224	1,645	1,561
	21,502	**19,984**	**21,745**

Most of the interest expense and similar charges was generated by the Group's financial liabilities that are measured at amortised cost.

40. Dividend income

Dividend income includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The detail of Income from dividends as follows:

Million euros

	2019	2018*	2017
Dividend income classified as:			
Financial assets held for trading	388	241	234
Non-trading financial assets mandatorily at fair value through profit or loss	34	23	
Financial assets available-for-sale			150
Financial assets at fair value through other comprehensive income	111	106	
	533	**370**	**384**

* See further detail regarding the impacts of the entry into force of IFRS 9 as of 1 January 2018 (Note 1.d).

41. Income from companies accounted for using the equity method

Income from companies accounted for using the equity method comprises the amount of profit or loss attributable to the Group generated during the year by associates and joint ventures.

The detail of Income from companies accounted for using the equity method is as follows:

Million euros

	2019	2018	2017
Zurich Santander Insurance America, S.L. - Consolidated	197	194	241
WiZink Bank, S.A.	—	56	36
Allianz Popular, S.L.	30	45	15
Companhia de Crédito, Financiamento e Investimento RCI Brasil	25	21	19
SAM Investment Holdings Limited	—	—	87
Project Quasar Investments 2017, S.L.	(350)	—	—
Other entities	422	421	306
	324	**737**	**704**

42. Commission income

Commission income comprises the amount of all fees and commissions accruing in favour of the Group in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of fee and commission income is as follows:

Million euros

	2019	2018	2017
Coming from collection and payment services:			
Bills	328	334	368
Demand accounts	1,382	1,371	1,490
Cards	3,858	3,514	3,515
Orders	478	475	449
Cheques and other	155	138	154
	6,201	**5,832**	**5,976**
Coming from non-banking financial products:			
Investment funds	943	1,024	751
Pension funds	180	124	92
Insurance	2,631	2,433	2,517
	3,754	**3,581**	**3,360**
Coming from Securities services:			
Securities underwriting and placement	364	283	374
Securities trading	281	251	302
Administration and custody	485	458	359
Asset management	293	305	251
	1,423	**1,297**	**1,286**
Other:			
Foreign exchange	612	546	471
Financial guarantees	521	549	559
Commitment fees	293	291	283
Other fees and commissions	2,545	2,568	2,644
	3,971	**3,954**	**3,957**
	15,349	**14,664**	**14,579**

43. Commission expense

Commission expense shows the amount of all fees and commissions paid or payable by the Group in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of commission expense is as follows:

Million euros

	2019	2018	2017
Commissions assigned to third parties	**2,350**	**1,972**	**1,831**
Cards	1,616	1,358	1,391
By collection and return of effects	12	11	12
Other fees assigned	722	603	428
Other commissions paid	**1,220**	**1,207**	**1,151**
Brokerage fees on lending and deposit transactions	27	42	49
Sales of insurance and pension funds	232	232	205
Other fees and commissions	961	933	897
	3,570	**3,179**	**2,982**

44. Gains or losses on financial assets and liabilities

Gains/losses on financial assets and liabilities includes the amount of the Other comprehensive income of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The detail, by origin, of Gains/losses on financial assets and liability:

Million euros

	2019	2018*	2017
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net (IFRS 9)	1,136	604	
Financial assets at amortised cost	308	39	
Other financial assets and liabilities	828	565	
Of which: debt instruments	*804*	*563*	
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net (IAS 39)			404
Of which financial assets available for sale			*472*
Of which: debt instruments			*316*
Of which: equity instruments			*156*
Gains or losses on financial assets and liabilities held for trading, net**	1,349	1,515	1,252
Gains or losses on non-trading financial assets and liabilities mandatory at fair value through profit or loss	292	331	
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net**	(286)	(57)	(85)
Gains or losses from hedge accounting, net	(28)	83	(11)
	2,463	**2,476**	**1,560**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** Includes the net result obtained by transactions with debt securities, equity instruments, derivatives and short positions included in this portfolio when the Group jointly manages its risk in these instruments.

As explained in Note 45, the above breakdown should be analysed in conjunction with the exchange differences, net:

Million euros

	2019	2018	2017
Exchange differences, net	(932)	(679)	105

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

Million euros

	2019	2018	2017
Loans and receivables:	59,624	56,323	40,875
Central banks	6,473	9,226	—
Credit institutions	21,649	23,099	11,585
Customers	31,502	23,998	29,290
Debt instruments	36,402	36,609	39,836
Equity instruments	15,787	12,198	22,286
Derivatives	63,397	55,939	57,243
	175,210	**161,069**	**160,240**

The Group mitigates and reduces this exposure as follows:

- With respect to derivatives, the Group has entered into framework agreements with a large number of credit institutions and customers for the netting-off of asset positions and the provision of collateral for non-payment.

  At 31 December 2019 the actual credit risk exposure of the derivatives was EUR 32,552 million.

- Loans and advances to credit institutions and Loans and advances to customers included reverse repos amounting to EUR 39,555 million at 31 December 2019.

  Also, mortgage-backed assets totalled EUR 1,882 million.

- Debt instruments include EUR 29,941 million of Spanish and foreign government securities.

At 31 December 2019 the amount of the change in the year in the fair value of financial assets at fair value through profit or loss attributable to variations in their credit risk (spread) was not material.

The detail of the amount of the liability balances is as follows:

Million euros

	2019	2018	2017
Deposits	57,111	65,304	84,724
Central banks	12,854	14,816	9,142
Credit institutions	9,340	10,891	18,458
Customer	34,917	39,597	57,124
Marketable debt securities	3,758	2,305	3,056
Short positions	14,123	15,002	20,979
Derivatives	63,016	55,341	57,892
Other financial liabilities	126	449	589
	138,134	**138,401**	**167,240**

At 31 December 2019, the amount of the change in the fair value of financial liabilities at fair value through profit or loss attributable to changes in their credit risk during the year is not material.

In relation to liabilities designated at fair value through profit or loss where it has been determined at initial recognition that the credit risk is recorded in accumulated other comprehensive income (see Statement of recognised income and expense) the amount that the Group would be contractually obliged to pay on maturity of these liabilities at 31 December 2019 is EUR 26 million lower than their carrying amount (EUR 32 million at 31 December 2018).

45. Exchange differences, net

Exchange differences shows basically the gains or losses on currency dealings, the differences that arise on translations of monetary items in foreign currencies to the functional currency, and those disclosed on non-monetary assets in foreign currency at the time of their disposal.

The Group manages the currencies to which it is exposed together with the arrangement of derivative instruments and, accordingly, the changes in this line item should be analysed together with those recognised under Gains/ losses on financial assets and liabilities (see Note 44).

46. Other operating income and expenses

Other operating income and Other operating expenses in the consolidated income statements include:

Million euros	2019	2018	2017
Insurance activity	**120**	**51**	**57**
Income from insurance and reinsurance contracts issued	2,534	3,175	2,546
Of which:			
Insurance and reinsurance premium income	*2,404*	*3,011*	*2,350*
Reinsurance income (Note 15)	*130*	*164*	*196*
Expenses of insurance and reinsurance contracts	(2,414)	(3,124)	(2,489)
Of which:			
Claims paid, other insurance-related expenses and net provisions for insurance contract liabilities	*(2,183)*	*(2,883)*	*(2,249)*
Reinsurance premiums paid	*(231)*	*(241)*	*(240)*
Other operating income	**1,797**	**1,643**	**1,618**
Non- financial services	379	367	472
Other operating income	1,418	1,276	1,146
Other operating expense	**(2,138)**	**(2,000)**	**(1,966)**
Non-financial services	(351)	(270)	(302)
Other operating expense:	(1,787)	(1,730)	(1,664)
Of which, credit institutions deposit guarantee fund and single resolution fund	*(911)*	*(895)*	*(848)*
	(221)	**(306)**	**(291)**

Most of the Bank's insurance activity is carried on in life insurance.

The amount of the Group recognises in relation to income from sub-leases of rights of use is not material.

47. Staff costs

a) Breakdown

The detail of Staff costs is as follows:

Million euros	2019	2018	2017
Wages and salaries	9,020	8,824	8,879
Social Security costs	1,426	1,412	1,440
Additions to provisions for defined benefit pension plans (Note 25)	72	84	88
Contributions to defined contribution pension funds	292	287	271
Other staff costs	1,331	1,258	1,369
	12,141	**11,865**	**12,047**

b) Headcount

The average number of employees in the Group, by professional category, was as follows:

Average number of employees

	2019	2018	2017
The Bank:			
Senior management*	20	22	64
Other line personnel	29,147	30,399	21,327
Clerical staff**	—	—	—
General services personnel**	—	—	—
	29,167	**30,421**	**21,391**
Rest of Spain	8,269	7,944	12,703
Santander UK plc	17,961	18,757	19,079
Banco Santander (Brasil) S.A.	47,253	46,645	46,210
Other companies***	98,464	98,062	96,349
	201,114	**201,829**	**195,732**

* During 2018, categories of deputy assistant executive vice president and above were no longer included.

** During 2017, clerical staff and general services personnel categories were no longer included, considering all the staff in the aforementioned categories on the Other line personnel category.

*** Does not include staff affected by discontinued operations.

The number of employees, at the end of 2019, 2018 and 2017, was 196,419, 202,713 and 202,251, respectively.

The functional breakdown (final employment), by gender, at 31 December, 2019 is as follows:

Functional breakdown by gender

	Senior executives		Other executives		Other personnel	
	Men	Women	Men	Women	Men	Women
Continental Europe	918	283	6,043	3,534	24,117	30,370
Latin America and Others	543	143	4,615	2,876	42,626	51,388
United Kingdom	99	31	1,076	496	8,870	13,391
	1,560	**457**	**11,734**	**6,906**	**75,613**	**100,149**

The same information, expressed in percentage terms at 31 December, 2019, is as follows:

Functional breakdown by gender

	Senior executives		Other executives		Other personnel	
	Men	Women	Men	Women	Men	Women
Continental Europe	58.73%	61.93%	51.40%	51.09%	32.00%	30.27%
Latin America and Others	34.92%	31.29%	39.44%	41.74%	56.23%	56.39%
United Kingdom	6.35%	6.78%	9.16%	7.18%	11.77%	13.34%
	100.00%	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

The number of employees in the Group with disabilities, distributed by professional categories, at 31 December, 2019, is as follows:

Number of employees*

	2019
Senior management	6
Other management	92
Other staff	3,486
	3,584

* An employee with disabilities is considered to be a person who is recognised by the State or the company in each jurisdiction where the Group operates and that entitles them to receive direct monetary assistance, or other types of aid such as, for example, reduction of their taxes. In the case of Spain, employees with disabilities have been considered to be those with a degree of disabilities greater than or equal to 33%. The amount does not include employees in the United States.

The number of Group employees with disabilities at 2018 and 2017, was 3,436 and 3,289, respectively, (not including the United States).

Likewise, the average number of employees of Banco Santander, S.A. with disabilities, equal to or greater than 33%, during 2019 was 318 (241 and 209 employees during 2018 and 2017). At the end of fiscal year 2019, there were 295 employees (304 and 211 employees at 31 December, 2018 and 2017).

c) Share-based payments

The main share-based payments granted by the Group in force at 31 December, 2019, 2018 and 2017 are described below.

i. Bank

The variable remuneration policy for the Bank's executive directors and certain executive personnel of the Bank and of other Group companies includes Bank share-based payments, the implementation of which requires, in conformity with the law and the Bank's Bylaws, specific resolutions to be adopted by the general meeting.

Were it necessary or advisable for legal, regulatory or other similar reasons, the delivery mechanisms described below may be adapted in specific cases without altering the maximum number of shares linked to the plan or the essential conditions to which the delivery thereof is subject.

These adaptations may involve replacing the delivery of shares with the delivery of cash amounts of an equal value.

The plans that include share-based payments are as follows: (i) Deferred and Conditional Variable Remuneration Plan; (ii) Performance Shares Plan (iii) Deferred Multiyear Objectives Variable Remuneration Plan; (iv) Digital Transformation Award. The characteristics of the plans are set forth below:

<table>
<tr><th>Deferred variable remuneration systems</th><th>Description and plan beneficiaries</th><th>Conditions</th><th>Calculation Base</th></tr>
<tr><td>(i) Deferred and conditional variable remuneration plan (2014, 2015, 2016, 2017, 2018 and 2019)</td><td>The purpose of these cycles is to defer a portion of the variable remuneration of the beneficiaries over a period of three years for the fourth and the sixth cycles, and over three or five years for the fifth, seventh, eighth and ninth cycles, for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the variable remuneration is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below.

Beneficiaries:
• Executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration which puts them on the same remuneration level as senior executives and employees who assume risks (third, fourth and fifth cycle)

• In the case of the sixth, seventh, eighth and ninth cycle, the beneficiaries are Material Risk Takers (Identified staff) that are not beneficiaries of the Deferred Multiyear Objectives Variable Remuneration Plan.</td><td>For the fourth, fifth and sixth cycles (2014 to 2016), the accrual of deferred compensation is conditioned, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations upon none of the following circumstances existing during the period prior to each of the deliveries, pursuant to the provisions set forth in each case in the plan regulations:
i. Poor financial performance of the Group;
ii. breach by the beneficiary of internal regulations, including, in particular, those relating to risks;
iii. material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards; or
iv. Significant changes in the Group's economic capital or risk profile
In the case of the seventh, eight and ninth cycles (2017 to 2019), the accrual of deferred compensation is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations, to no assumptions in which there is a poor performance of the entity as a whole or of a specific division or area of the entity or of the exposures generated by the personnel, and at least the following factors must be considered:
i. significant failures in risk management committed by the entity , or by a business unit or risk control unit;
ii. the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures;
iii. Regulatory sanctions or judicial sentences for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity; and
iv. Irregular behaviours, whether individual or collective, considering in particular the negative effects derived from the marketing of inappropriate products and the responsibilities of the persons or bodies that made those decisions.</td><td>Fourth and fifth cycles (2014 and 2015, respectively):
• Executive directors and members of the Identified Staff with total variable remuneration higher than 2.6 million euros: 40% paid immediately and 60% deferred over 3 years (fourth cycle) or 5 years (fifth cycle).
• Division managers, country heads, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration between 1.7 million euros (1.8 million in fourth cycle) and 2.6 million euros: 50% paid immediately and 50% deferred over 3 years (fourth cycle) or 5 years (fifth cycle)
• Other beneficiaries: 60% paid immediately and 40% deferred over 3 years.

Sixth cycle (2016):
• 60% of bonus will be paid immediately and 40% deferred over a three year period.

Seventh, eight and ninth cycle (2017, 2018 and 2019):
• Beneficiaries of these plans with target total variable remuneration higher or equal to 2.7 million euros: 40% paid immediately and 60% deferred over 5 years
• Beneficiaries of these plans with target total variable remuneration between 1.7 million euros and 2.7 million euros: 50% paid immediately and 50% paid over 5 years
• Other beneficiaries of these plans: 60% paid immediately and 40% deferred over 3 years.</td></tr>
<tr><td>(ii) Performance shares plans (2014 and 2015)</td><td>The purpose is to instrument a portion of the variable remuneration of the executive directors and other members of the Identified Staff, consisting of a long-term incentive (ILP) in shares based on the Bank's performance over a multiannual period. In addition, the second cycle also applies to other Bank employees not included in the Identified Staff or Material Risk Takers, in respect of whom it is deemed appropriate that the potential delivery of Bank shares be included in their remuneration package in order to better align the employee's interests with those of the Bank.

Beneficiaries
i. Executive Directors and senior managers
ii. Other Material Risk Takers or Identified Staff
iii. Other beneficiaries in the case only of the second cycle (2015)</td><td>In addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the delivery of shares to be paid on the ILP payment date based on compliance with the related multiannual target is conditional upon none of the following circumstances existing, in the opinion of the board of directors, subject to a proposal of the remuneration committee, during the period prior to each delivery:
i. Poor financial performance of the Group;
ii. breach by the beneficiary of internal regulations, including, in particular, those relating to risks;
iii. material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards; or
iv. significant changes in the Group's economic capital or risk profile
For the second cycle (2015), based on the maximum benchmark value (20%), at the proposal of the remuneration committee, the Board of Directors will set the maximum number of shares, the value in euros of which is called the "Agreed-upon Amount of the ILP", taking into account (i) the Group's earnings per share (EPS) and (ii) the Group's return on tangible equity (RoTE) for 2015 with respect to those budgeted for the year.</td><td>The first cycle (2014) is subject to compliance of Relative Total Shareholder Return (TSR) metric measured against a group of 15 comparable institutions (the "peer group") in the periods 2014-2015; 2014-2016; and 2014-2017. At the end of of 2017, the 2014 Performance Share Plan was fully terminated.

For the second cycle (2015), the basis of calculation is the fulfilment of the following objectives:
• Relative performance of the earning per share growth (EPS) growth of the Santander Group for the 2015-2017 period compared to a peer group of 17 credit institutions.
• RoTE of the Santander Group for financial year 2017
• Employee satisfaction, measured by whether or not the corresponding Group company is included in the "Top 3" of the best banks to work for.
• number of principal markets in which Santander is in the Top 3 of the best banks on the customer satisfaction index in 2017
• Retail loyal clients
• SME and corporate loyal clients

As a result of the process described above the board of directors approved, further to a proposal from the remuneration committee, a 65.67% achievement for the plan. This plan terminated in 2019.</td></tr>
</table>

Deferred variable remuneration systems	Description and plan beneficiaries	Conditions	Calculation Base
(iii)Deferred Multiyear Objectives Variable Remuneration Plan (2016, 2017, 2018 and 2019)	The aim is simplifying the remuneration structure, improving the ex ante risk adjustment and increasing the impact of the long-term objectives on the Group's most relevant roles. The purpose of these cycles is to defer a portion of the variable remuneration of the beneficiaries over a period of three or five years, for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the variable remuneration is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below. The accrual of the last third of the deferral (in the case of 3 years deferral) of the last three fifths (in the case of 5 years deferral) is also subject to long-term objectives. **Beneficiaries** Executive directors, senior managers and certain executives of the Group's first lines of responsibility.	In 2016 the accrual is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations that none of The following circumstances during the period prior to each of the deliveries in the terms set forth in each case in the plan's regulations: i. Poor performance of the Group; ii. breach by the beneficiary of the internal regulations, including in particular that relating to risks; iii. material restatement of the Group's consolidated financial statements, except when appropriate under a change in accounting regulations; Or iv. Significant changes in the Group's economic capital or risk profile. In 2017, 2018 and 2019 the accrual is conditioned, in addition to the beneficiary permanence in the Group, with the exceptions contained in the plan's regulations, to the non-occurrence of instances of poor financial performance from the entity as a whole or of a specific division or area thereof or of the exposures generated by the personnel, at least the following factors must be considered: i. Significant failures in risk management committed by the entity, or by a business unit or risk control unit; ii. the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures; iii. Regulatory sanctions or court rulings for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity; and iv. Irregular behaviours, whether individual or collective, considering in particular negative effects derived from the marketing of inappropriate products and responsibilities of persons or bodies that made those decisions. Paid half in cash and half in shares. The maximum number of shares to be delivered is calculated by taking into account the weighted average daily volume of weighted average prices for the fifteen trading sessions prior to the previous Friday (excluding) on the date on which the board decides the bonus for the Executive directors of the Bank.	First cycle (2016): • Executive directors and members of the Identified Staff with total variable remuneration higher than or equal to 2.7 million euros: 40% paid immediately and 60% deferred over a 5 year period. • Senior managers, country heads of countries representing at least 1% of the Group´s capital and other members of the identified staff whose total variable remuneration is between 1.7 million and 2.7 million euros: 50% paid immediately and 50% deferred over a5 year period. • Other beneficiaries: 60% paid immediately and 40% deferred over a 3 year period. The second, third and fourth cycles (2017, 2018 and 2019, respectively) are under the aforementioned deferral rules, except that the variable remuneration considered is the target for each executive and not the actual award. In 2016 the metrics for the deferred portion subject to long-term objectives (last third or last three fifths, respectively, for the cases of three year and five year deferrals) are: • Earnings per share (EPS) growth in 2018 over 2015. • Relative Total Shareholder Return (TSR) in the 2016-2018 period measured against a group of credit institutions. • Compliance with the fully-loaded common equity tier 1 ("CET1") ratio target for financial year 2018. • Compliance with Santander Group's underlying return on risk-weighted assets ("RoRWA") growth target for financial year 2018 compared to financial year 2015. In the second, third and fourth cycle (2017, 2018 and 2019) the metrics for the deferred portion subject to long-term objectives (last third or last three fifths, respectively, for the cases of three year and five year deferrals) are: • EPS growth in 2019, 2020 and 2021 (over 2016, 2017 and 2018, for each respective cycle) • Relative Total Shareholder Return (TSR) measured against a group of 17 credit institutions (second and third cycles) in the periods 2017-2019 and 2018.-2019, respectively, and against a group of 9 entities (fourth cycle) for the 2019-2021 period. • Compliance with the fully-loaded common equity tier 1 ("CET1") ratio target for financial years 2019, 2020 and 2021, respectively.
(iv) Digital Transformation Award (2019)	The 2019 Digital Transformation Incentive (the "Digital Incentive") is a variable remuneration system that includes the delivery of Santander shares and share options. The aim of the Digital Incentive is to attract and retain the critical skill sets to support and accelerate the digital transformation of the Group. By means of this program, the Group offers a remuneration element which is competitive with the remuneration systems offered by other market operators who also compete for digital talent. The number of beneficiaries is limited to a maximum of 250 employees and the total amount of the incentive is limited to 30 million euros.	The funding of this incentive is subject to meeting important milestones that are aligned with the Group´s digital roadmap and have been approved by the board of directors, taking into account the digitalization strategy of the Group, with the aim of becoming the best open, responsible global financial services platform. Performance of incentive shall be measured based on achievement of the following milestones: 1. Launch of a Global Trade Services (GTS) platform. 2. Launch of a Global Merchant Services (GMS) platform 3. Migration of our fully digital bank, OpenBank, to a "next generation" platform and launch in 3 markets 4. Extension of SuperDigital in Brazil to at least one other country 5. Launch of our international payments app based on blockchain Pago FX to non-Santander customers. Any delivery of shares, either directly or via exercise of options overs shares, will be subject generally to the Group's general malus & clawback provisions as described in the Group's remuneration policy and to the continuity of the beneficiary within the Santander Group. In this regard, the board may define specific rules for non-Identified Staff	After a review at the beginning of 2020 of the achievement levels of the approved objectives and underlying progress against them, the board of directors approved 83% funding of the 2019 award. The Digital Incentive is structured 50% in Santander shares and 50% in options over Santander shares, taking into account the fair value of the option at the moment in which they are granted. For Material Risk Takers subject to five year deferrals, the Digital Incentive (shares and options over shares) shall be delivered in thirds, on the third, fourth and fifth anniversary from their granting. For Material Risk Takers subject to three year deferrals and employees not subject to deferrals, delivery shall be done on the third anniversary from their granting. Vested share options can be exercised until maturity, with all options lapsing after ten years from granting

ii. Santander UK plc

The long-term incentive plans on shares of the Bank granted by management of Santander UK plc to its employees are as follows:

	Number of shares (in thousand)	Exercise price in pounds sterling*	Year granted	Employee group	Number of persons**	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 1 January 2017	**24,762**						
Options granted (Sharesave)	17,296	4.91	2016	Employments	7,024	01/11/16	01/11/19
						01/11/16	01/11/21
Options exercised	(338)	3.67					
Options cancelled (net) or not exercised	(12,804)	3.51					
Plans outstanding at 31 December 2017	**28,916**						
Options granted (Sharesave)	3,916	4.02	2017	Employments	4,260	01/11/17	01/11/20
						01/11/17	01/11/22
Options exercised	(1,918)	3.77					
Options cancelled (net) or not exercised	(3,713)	3.4					
Plans outstanding at 31 December 2018	**27,201**						
Options granted (Sharesave)	6,210	3.46	2018	Employments	4,880	01/11/18	01/11/21
						01/11/18	01/11/23
Options exercised	(3,340)	3.16					
Options cancelled (net) or not exercised	(3,233)	3.76					
Plans outstanding at 31 December 2019	**26,838**						

* At 31 December, 2019, 2018, 2017 and 2016, the euro/pound sterling exchange rate was EUR 1.1754 GBP 1; EUR 1.1179 GBP 1, EUR 1.1271 GBP 1 and EUR 1.1680 GBP 1, respectively.

** Number of accounts/contracts. A single employee may have more than one account/contract.

In 2008 the Group launched a voluntary savings scheme for Santander UK employees (Sharesave Scheme) whereby employees who join the scheme in 2017, 2018 and 2019 see deducted between GBP 5 and GBP 500 from their net monthly pay over a period of three or five years. When this period has ended, the employees may use the amount saved to exercise options on shares of the Bank at an exercise price calculated by reducing by up to 20% the average purchase and sale prices of the Bank shares in the three trading sessions prior to the approval of the scheme by the UK tax authorities (HMRC). This approval must be received within 21 to 41 days following the publication of the Group's results for the first half of the year. This scheme was approved by the Board of Directors, at the proposal of the appointments and remuneration committee, and, since it involved the delivery of Bank shares, its application was authorized by the Annual General Meeting held on June 21, 2008. Also, the scheme was authorized by the UK tax authorities (HMRC) and commenced in September 2008. In subsequent years, at the Annual General Meetings held on June 19, 2009, June 11, 2010, June 17, 2011, March 30, 2012, March 22, 2013, March 28, 2014, March 27, 2015, March 18, 2016, April 7, 2017, March 23, 2018, and April 12, 2019, respectively, the shareholders approved the application of schemes previously approved by the board and with similar features to the scheme approved in 2008.

iii. Fair value

The fair value of the performance share plans was calculated as follows:

a) Deferred variable compensation plan linked to multi-year objectives 2017, 2018 and 2019:

The Group calculates at the grant date the fair value of the plan based on the valuation report of an independent expert, Willis Towers Watson. According to the design of the plan for 2017, 2018 and 2019 and the levels of achievement of similar plans in comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60% - 80%. It has been considered that the fair value is 70% of the maximum.

d) Santander UK Sharesave plans:

The fair value of each option at the date of grant is estimated using a partial differentiation equation model. This model uses assumptions on the share price, the EUR/GBP FX rate, the risk free interest rate, dividend yields, the expected volatility of the underlying shares and the expected lives of options granted. The weighted average grant-date fair value of options granted during the year was £0.49 (2018: £0.53, 2017: £1.02).

48. Other general administrative expenses

a) Breakdown

The detail of Other general administrative expenses is as follows:

Million euros

	2019	2018	2017
Property, fixtures and supplies (Note 2.k)	975	1,968	1,931
Technology and systems	2,161	1,550	1,257
Technical reports	677	707	759
Advertising	685	646	757
Taxes other than income tax	522	557	583
Communications	518	527	529
Surveillance and cash courier services	416	405	443
Per diems and travel expenses	226	225	217
Insurance premiums	86	76	78
Other administrative expenses	1,872	1,828	1,799
	8,138	**8,489**	**8,353**

The payments associated with short-term leases (leases less than or equal to 12 months) and leases of low-value assets, that the Group recognises as an expense in the income statement is not material.

b) Technical reports and other

Technical reports includes the fees paid by the various Group companies (detailed in the accompanying Appendices) for the services provided by their respective auditors, the detail being as follows:

Million euros

	2019	2018	2017
Audit fees	98.2	92.1	88.1
Audit-related fees	7.4	6.8	6.7
Tax fees	0.7	0.9	1.3
All other fees	2.3	3.4	3.1
Total	**108.6**	**103.2**	**99.2**

The Audit fees heading includes mainly, audit fees for the Banco Santander, S.A. individual and consolidated financial statements, as the case may be, of the companies forming part of the Group, the integrated audits prepared for the annual report filling in the Form 20-F required by the U.S. Securities and Exchange Commission (SEC) for those entities currently required to do so, the internal control audit (SOx) for those required entities, the audit of the consolidated financial statements as of 30 June and, the regulatory reports required by the auditor corresponding to the different locations of the Santander Group.

The main concepts included in Audit-related fees correspond to aspects such as the issuance of Comfort letters, or other reviews required by different regulations in relation to aspects such as, for example, Securitization.

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Audit Law, the US SEC rules and the Public Company Accounting Oversight Board (PCAOB), applicable to the Group, and they did not involve in any case the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than PwC amounting to EUR 227.6 million in 2019 (2018: EUR 173.9 million; 2017: EUR 115.6 million, respectively).

The "Audit Fees" caption includes the fees corresponding to the audit for the year, regardless of the date on which the audit was completed. In the event of subsequent adjustments, which are not significant in any case, and for purposes of comparison, they are presented in this note in the year to which the audit relates. The rest of the services are presented according to their approval by the Audit Committee.

c) Number of branches

The number of offices at 31 December 2019 and 2018 is as follow:

Number of branches

	Group	
	2019	2018
Spain	3,286	4,427
Group	8,666	8,790
	11,952	**13,217**

49. Gains or losses on non financial assets, net

The detail of Gains/ (losses) on disposal of assets not classified as non-current assets held for sale is as follow:

Million euros

	2019	2018	2017
Gains:			
Tangible and intangible assets	131	124	134
Investments	1,219	2	443
Of which:			
Custody Business (Note 3)	*989*	—	—
Prisma	*194*	—	—
Allfunds Bank, S.A. (Note 3)	—	—	*425*
	1,350	126	577
Losses:			
Tangible and intangible assets	(55)	(92)	(43)
Investments	(4)	(6)	(12)
	(59)	(98)	(55)
	1,291	**28**	**522**

50. Gains or losses on non-current assets held for sale not classified as discontinued operations

The detail of Gains/(losses) on non-current assets held for sale not classified as discontinued operations is as follows:

Million euros

Net balance	2019	2018	2017
Tangible assets	(232)	(123)	(195)
Impairment (Note 12)	*(146)*	*(259)*	*(306)*
Gain (loss) on sale (Note 12)	*(86)*	*136*	*111*
Other gains and other losses	—	—	(8)
	(232)	**(123)**	**(203)**

51. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the consolidated balance sheet is as follows:

	31 December 2019								
	Million euros								
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	Average interest rate
Assets:									
Cash, cash balances at Central Banks and other deposits on demand	101,067	—	—	—	—	—	—	101,067	0.70%
Financial assets at fair value through other comprehensive income	—	6,933	2,704	7,689	19,101	17,989	68,429	122,845	
Debt instruments	—	6,879	2,699	7,554	17,489	17,063	66,721	118,405	3.07%
Loans and advances	—	54	5	135	1,612	926	1,708	4,440	
Customers	—	54	5	135	1,612	926	1,708	4,440	1.84%
Financial assets at amortised cost	51,702	73,890	76,229	116,511	150,365	103,584	423,201	995,482	
Debt instruments	—	1,563	1,847	3,073	2,549	3,642	17,115	29,789	3.23%
Loans and advances	51,702	72,327	74,382	113,438	147,816	99,942	406,086	965,693	
Central banks	—	17,086	—	—	—	—	1,388	18,474	4.78%
Credits institutions	17,665	6,223	4,602	7,435	3,963	428	627	40,943	1.04%
Customers	34,037	49,018	69,780	106,003	143,853	99,514	404,071	906,276	4.85%
	152,769	**80,823**	**78,933**	**124,200**	**169,466**	**121,573**	**491,630**	**1,219,394**	**4.15%**
Liabilities:									
Financial liabilities at amortised cost	619,003	99,203	88,546	159,120	134,799	61,282	68,792	1,230,745	
Deposits	607,051	76,101	61,627	111,190	64,781	14,224	7,443	942,417	
Central banks	99	462	64	33,229	28,424	190	—	62,468	0.51%
Credit institutions	23,526	14,494	18,922	14,245	9,327	5,668	4,319	90,501	2.97%
Customer deposits	583,426	61,145	42,641	63,716	27,030	8,366	3,124	789,448	0.91%
Marketable debt securities* **	—	16,008	22,569	47,808	65,545	46,577	59,712	258,219	2.38%
Other financial liabilities	11,952	7,094	4,350	122	4,473	481	1,637	30,109	
	619,003	**99,203**	**88,546**	**159,120**	**134,799**	**61,282**	**68,792**	**1,230,745**	**1.33%**
Difference (assets less liabilities)	**(466,234)**	**(18,380)**	**(9,613)**	**(34,920)**	**34,667**	**60,291**	**422,838**	**(11,351)**	

* Includes promissory notes, certificates of deposit and other short-term debt issues.
** See breakdown by type of debt (subordinated debt, senior unsecured debt, senior secured debt, notes and other securities) (see note 22).

The Group's net borrowing position with the ECB was EUR 22,704 million at 31 December 2019, mainly because in last period the Group borrowed funds under the ECB's targeted longer-term refinancing operations (LTRO, TLTRO) programme. (see note 20).

The Group has accounted as "On demand", those financial liabilities assumed, in which the counterparty may require the payments.

In addition, when the Group is committed to have amounts available in different maturity periods, these amounts have been accounted for in the first year, in which they may be required.

Additionally, for issued financial guarantee contracts, the Group has recorded the maximum amount of the financial guarantee issued, in the first year in which the guarantee could be executed.

	31 December 2018*								
	Million euros								
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	Average interest rate
Assets:									
Cash, cash balances at Central Banks and other deposits on demand	113,663	—	—	—	—	—	—	113,663	0.61%
Financial assets at fair value through other comprehensive income	1,886	6,023	3,329	12,873	19,432	10,705	64,172	118,420	
Debt instruments	487	6,022	3,328	12,830	19,415	10,661	64,076	116,819	3.11%
Loans and advances	1,399	1	1	43	17	44	96	1,601	
Customers	1,399	1	1	43	17	44	96	1,601	1.41%
Financial assets at amortised cost	46,247	56,818	71,627	102,036	134,697	107,921	426,753	946,099	
Debt instruments	16	1,534	1,319	6,646	2,474	1,783	23,924	37,696	3.30%
Loans and advances	46,231	55,284	70,308	95,390	132,223	106,138	402,829	908,403	
Central banks	—	23	—	4	—	—	15,574	15,601	6.07%
Credit institutions	10,092	5,389	6,711	6,003	5,314	947	1,024	35,480	1.66%
Customers	36,139	49,872	63,597	89,383	126,909	105,191	386,231	857,322	4.96%
	161,796	**62,841**	**74,956**	**114,909**	**154,129**	**118,626**	**490,925**	**1,178,182**	**4.22%**
Liabilities:									
Financial liabilities at amortised cost	545,284	87,782	93,293	127,522	182,670	56,927	78,152	1,171,630	
Deposits	536,134	74,440	67,406	91,958	107,459	18,833	6,871	903,101	
Central banks	304	2,130	2,629	507	64,433	2,520	—	72,523	0.39%
Credit institutions	15,341	13,413	24,724	16,384	8,759	6,412	4,646	89,679	2.19%
Customer deposits	520,489	58,897	40,053	75,067	34,267	9,901	2,225	740,899	0.90%
Marketable debt securities	237	11,347	18,817	33,536	71,805	37,919	70,653	244,314	2.59%
Other financial liabilities	8,913	1,995	7,070	2,028	3,406	175	628	24,215	
	545,284	**87,782**	**93,293**	**127,522**	**182,670**	**56,927**	**78,152**	**1,171,630**	**1.30%**
Difference (assets less liabilities)	**(383,488)**	**(24,941)**	**(18,337)**	**(12,613)**	**(28,541)**	**61,699**	**412,773**	**6,552**	

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** Includes promissory notes, certificates of deposit and other short-term debt issues.

	31 December 2017								
	Million euros								
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total	Average interest rate
Assets:									
Cash, cash balances at central banks and other deposits on demand	110,995	—	—	—	—	—	—	110,995	0.53%
Financial assets available-for-sale	326	2,467	1,646	11,497	22,447	11,164	78,934	128,481	
Debt instruments	326	2,467	1,646	11,497	22,447	11,164	78,934	128,481	4.34%
Loans and receivables	57,000	58,686	53,218	96,689	119,541	112,786	405,093	903,013	
Debt instruments	249	1,381	997	2,073	2,317	1,656	8,870	17,543	3.06%
Loans and advances	56,751	57,305	52,221	94,616	117,224	111,130	396,223	885,470	
Central banks	—	3,948	1,446	4,811	—	—	16,073	26,278	5.10%
Credits institutions	18,242	4,198	3,445	5,708	5,694	939	1,341	39,567	1.26%
Customers	38,509	49,159	47,330	84,097	111,530	110,191	378,809	819,625	5.44%
Held-to-maturity investments	—	—	—	1,902	122	294	11,173	13,491	1.52%
	168,321	**61,153**	**54,864**	**110,088**	**142,110**	**124,244**	**495,200**	**1,155,980**	**4.61%**
Liabilities:									
Financial liabilities at amortised cost	537,604	75,161	87,939	130,672	136,487	83,542	74,664	1,126,069	
Deposits	527,499	59,325	66,667	100,658	81,169	39,719	8,283	883,320	
Central banks	450	2,015	681	2,715	42,988	22,565	—	71,414	0.24%
Credit institutions	20,870	15,263	13,350	25,406	6,501	5,247	4,663	91,300	2.40%
Customer deposits	506,179	42,047	52,636	72,537	31,680	11,907	3,620	720,606	2.00%
Marketable debt securities*	105	11,927	11,638	29,286	54,202	43,395	64,357	214,910	2.56%
Other financial liabilities	10,000	3,909	9,634	728	1,116	428	2,024	27,839	
	537,604	**75,161**	**87,939**	**130,672**	**136,487**	**83,542**	**74,664**	**1,126,069**	**1.98%**
Difference (assets less liabilities)	**(369,283)**	**(14,008)**	**(33,075)**	**(20,584)**	**5,623**	**40,702**	**420,536**	**29,911**	

* Includes promissory notes, certificates of deposit and other short-term debt issues.

The detail of the undiscounted contractual maturities of the existing financial liabilities at amortised cost at 31 December 2019 is as follows:

	31 December 2019							
	Million euros							
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Financial liabilities at amortised cost								
Deposits	603,126	75,899	61,107	109,747	63,013	14,027	7,228	934,147
Central banks	99	454	41	32,805	28,255	190	—	61,844
Credit institutions	23,348	14,491	18,810	14,134	8,519	5,478	4,113	88,893
Customer	579,679	60,954	42,256	62,808	26,239	8,359	3,115	783,410
Marketable debt securities	—	16,252	22,912	48,030	64,650	45,830	58,215	255,889
Other financial liabilities	11,952	7,094	4,350	122	4,473	481	1,637	30,109
	615,078	**99,245**	**88,369**	**157,899**	**132,136**	**60,338**	**67,080**	**1,220,145**

	31 December 2018*							
	Million euros							
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Financial liabilities at amortised cost								
Deposits	532,915	74,320	67,169	91,766	106,935	18,439	6,540	898,084
Central banks	304	2,126	2,624	896	64,424	2,520	—	72,894
Credit institutions	15,257	13,413	24,698	16,288	8,552	6,085	4,427	88,720
Customer	517,354	58,781	39,847	74,582	33,959	9,834	2,113	736,470
Marketable debt securities	296	11,243	17,359	33,443	71,431	37,409	69,352	240,533
Other financial liabilities	8,913	1,995	7,070	2,028	3,406	175	628	24,215
	542,124	**87,558**	**91,598**	**127,237**	**181,772**	**56,023**	**76,520**	**1,162,832**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

	31 December 2017							
	Million euros							
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Financial liabilities at amortised cost								
Deposits	526,059	57,490	89,249	99,780	64,977	32,365	8,157	878,077
Central banks	451	2,018	23,801	2,719	27,138	15,385	—	71,512
Credit institutions	20,378	14,903	13,035	24,807	6,348	5,123	4,553	89,147
Customer	505,230	40,569	52,413	72,254	31,491	11,857	3,604	717,418
Marketable debt securities	1,486	11,735	11,387	28,412	52,989	42,888	63,648	212,545
Other financial liabilities	10,001	3,908	9,634	728	1,116	428	2,024	27,839
	537,546	**73,133**	**110,270**	**128,920**	**119,082**	**75,681**	**73,829**	**1,118,461**

Below is a breakdown of contractual maturities for the rest of financial assets and liabilities as of 31 December 2019, 2018 and 2017:

	31 December 2019						
	Million euros						
	Within 1 months	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
FINANCIAL ASSETS							
Financial assets held for trading	**4,864**	**3,522**	**19,740**	**21,603**	**18,083**	**40,418**	**108,230**
Derivatives	3,329	2,233	6,552	15,855	14,925	20,503	63,397
Equity instruments	—	—	—	—	—	12,437	12,437
Debt instruments	1,531	1,289	13,188	5,748	3,141	7,144	32,041
Loans and advances	4	—	—	—	17	334	355
Credits institutions	—	—	—	—	—	—	—
Customers	4	—	—	—	17	334	355
Financial assets designated at fair value through profit or loss	**24,110**	**13,167**	**7,602**	**5,175**	**3,878**	**8,137**	**62,069**
Debt instruments	457	10	81	652	381	1,605	3,186
Loans and advances	23,653	13,157	7,521	4,523	3,497	6,532	58,883
Central banks	1,744	4,729	—	—	—	—	6,473
Credit institutions	13,186	4,946	1,534	1,015	9	959	21,649
Customers	8,723	3,482	5,987	3,508	3,488	5,573	30,761
Non-trading financial assets mandatorily at fair value through profit or loss	**272**	**—**	**4**	**11**	**117**	**4,507**	**4,911**
Equity instruments	—	—	—	—	—	3,350	3,350
Debt instruments	—	—	—	11	117	1,047	1,175
Loans and advances	272	—	4	—	—	110	386
Central banks	—	—	—	—	—	—	—
Credits institutions	—	—	—	—	—	—	—
Customers	272	—	4	—	—	110	386
Financial assets at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**2,863**	**2,863**
Equity instruments	—	—	—	—	—	2,863	2,863
Hedging derivatives	**807**	**86**	**601**	**1,646**	**904**	**3,172**	**7,216**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**267**	**1**	**24**	**112**	**265**	**1,033**	**1,702**
TOTAL FINANCIAL ASSETS	**30,320**	**16,776**	**27,971**	**28,547**	**23,247**	**60,130**	**186,991**

	31 December 2019						
	Million euros						
	Within 1 months	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES							
Financial liabilities held for trading	**10,851**	**3,427**	**7,130**	**17,244**	**16,905**	**21,582**	**77,139**
Derivatives	2,672	1,973	6,591	16,965	16,023	18,792	63,016
Shorts positions	8,179	1,454	539	279	882	2,790	14,123
Deposits	—	—	—	—	—	—	—
Central banks	—	—	—	—	—	—	—
Credits institutions	—	—	—	—	—	—	—
Customers	—	—	—	—	—	—	—
Marketable debt securities	—	—	—	—	—	—	—
Other financial liabilities	—	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	**21,929**	**2,259**	**5,307**	**3,565**	**1,450**	**26,485**	**60,995**
Deposits	21,904	2,225	4,909	2,429	780	24,864	57,111
Central banks	8,831	1,228	2,795	—	—	—	12,854
Credits institutions	4,133	521	1,857	2,132	11	686	9,340
Customers	8,940	476	257	297	769	24,178	34,917
Marketable debt securities*	14	34	398	1,021	670	1,621	3,758
Other financial liabilities	11	—	—	115	—	—	126
Hedging derivatives	**1,997**	**337**	**848**	**678**	**528**	**1,660**	**6,048**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	3	6	26	53	59	122	269
TOTAL FINANCIAL LIABILITIES	**34,780**	**6,029**	**13,311**	**21,540**	**18,942**	**49,849**	**144,451**

* Includes promissory notes, certificates of deposit and other short-term debt issues (see Note 22).

	31 December 2019						
	Million of euros						
	Within 1 months	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Memorandum items							
Loans commitment granted	98,630	16,529	30,370	37,097	48,072	10,481	241,179
Financial guarantees granted	2,176	1,791	5,626	1,933	1,364	760	13,650
Other commitments granted	44,950	3,052	9,957	4,606	4,132	2,198	68,895
MEMORANDUM ITEMS	**145,756**	**21,372**	**45,953**	**43,636**	**53,568**	**13,439**	**323,724**

In the Group's experience, no outflows of cash or other financial assets take place prior to the contractual maturity date that might affect the information broken down above.

	31 December 2018						
	Million euros						
	Within 1 months	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
FINANCIAL ASSETS							
Financial assets held for trading	**4,512**	**3,564**	**6,793**	**22,084**	**19,350**	**36,576**	**92,879**
Derivatives	2,691	3,165	899	15,189	14,098	19,897	55,939
Equity instruments	—	—	—	—	—	8,938	8,938
Debt instruments	1,821	399	5,894	6,895	5,252	7,539	27,800
Loans and advances	—	—	—	—	—	202	202
Credits institutions	—	—	—	—	—	—	—
Customers	—	—	—	—	—	202	202
Financial assets designated at fair value through profit or loss	**21,598**	**13,045**	**5,625**	**5,215**	**4,065**	**7,912**	**57,460**
Debt instruments	604	7	304	727	348	1,232	3,222
Loans and advances	20,994	13,038	5,321	4,488	3,717	6,680	54,238
Central banks	1,211	5,433	2,582	—	—	—	9,226
Credit institutions	14,587	4,131	778	1,327	579	1,695	23,097
Customers	5,196	3,474	1,961	3,161	3,138	4,985	21,915
Non-trading financial assets mandatorily at fair value through profit or loss	**3,215**	**346**	**17**	**125**	**2**	**7,025**	**10,730**
Equity instruments	—	—	—	—	—	3,260	3,260
Debt instruments	1,876	20	—	—	2	3,689	5,587
Loans and advances	1,339	326	17	125	—	76	1,883
Central banks	—	—	—	—	—	—	—
Credits institutions	2	—	—	—	—	—	2
Customers	1,337	326	17	125	—	76	1,881
Financial assets at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**2,671**	**2,671**
Equity instruments	—	—	—	—	—	2,671	2,671
Hedging derivatives	**609**	**166**	**474**	**2,167**	**957**	**4,234**	**8,607**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**106**	**7**	**20**	**28**	**59**	**868**	**1,088**
TOTAL FINANCIAL ASSETS	**30,040**	**17,128**	**12,929**	**29,619**	**24,433**	**59,286**	**173,435**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

	31 December 2018						
	Million euros						
	Within 1 months	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES							
Financial liabilities held for trading	**10,473**	**3,351**	**1,104**	**16,123**	**16,457**	**22,835**	**70,343**
Derivatives	2,897	2,874	822	14,323	14,956	19,469	55,341
Shorts positions	7,576	477	282	1,800	1,501	3,366	15,002
Deposits	—	—	—	—	—	—	—
Central banks	—	—	—	—	—	—	—
Credits institutions	—	—	—	—	—	—	—
Customers	—	—	—	—	—	—	—
Marketable debt securities	—	—	—	—	—	—	—
Other financial liabilities	—	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	**29,574**	**7,017**	**864**	**1,497**	**999**	**28,107**	**68,058**
Deposits	29,522	6,947	627	531	455	27,222	65,304
Central banks	9,804	4,940	72	—	—	—	14,816
Credits institutions	8,809	949	271	188	229	445	10,891
Customers	10,909	1,058	284	343	226	26,777	39,597
Marketable debt securities	13	70	237	556	544	885	2,305
Other financial liabilities	39	—	—	410	—	—	449
Hedging derivatives	**485**	**144**	**321**	**362**	**651**	**4,400**	**6,363**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	3	5	23	64	60	148	303
TOTAL FINANCIAL LIABILITIES	**40,535**	**10,517**	**2,312**	**18,046**	**18,167**	**55,490**	**145,067**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

	31 December 2018						
	Million euros						
	Within 1 months	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Memorandum items							
Loans commitment granted	71,860	12,436	22,749	35,632	43,205	32,201	218,083
Financial guarantees granted	2,100	1,737	4,437	1,728	1,029	692	11,723
Other commitments granted	58,431	1,486	6,174	2,650	3,503	2,145	74,389
MEMORANDUM ITEMS	**132,391**	**15,659**	**33,360**	**40,010**	**47,737**	**35,038**	**304,195**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

	31 December 2017						
	Million euros						
	Within 1 months	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
FINANCIAL ASSETS							
Financial assets held for trading	**11,147**	**5,887**	**21,896**	**24,178**	**19,563**	**42,787**	**125,458**
Derivatives	4,026	1,691	5,352	17,233	14,895	14,046	57,243
Equity instruments	—	—	—	—	—	21,353	21,353
Debt instruments	4,253	1,706	11,850	6,529	4,662	7,351	36,351
Loans and advances	2,868	2,490	4,694	416	6	37	10,511
Credits institutions	1,216	1	63	416	—	—	1,696
Customers	1,652	2,489	4,631	—	6	37	8,815
Financial assets designated at fair value through profit or loss	**9,998**	**4,485**	**5,032**	**3,402**	**3,922**	**7,943**	**34,782**
Equity instruments	—	—	—	—	—	933	933
Debt instruments	19	120	850	667	579	1,250	3,485
Loans and advances	9,979	4,365	4,182	2,735	3,343	5,760	30,364
Central banks	—	—	—	—	—	—	—
Credits institutions	7,341	2,020	183	32	77	236	9,889
Customers	2,638	2,345	3,999	2,703	3,266	5,524	20,475
Financial assets at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**4,790**	**4,790**
Equity instruments	—	—	—	—	—	4,790	4,790
Hedging derivatives	**255**	**162**	**519**	**1,113**	**1,583**	**4,905**	**8,537**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**57**	**6**	**33**	**151**	**59**	**981**	**1,287**
TOTAL FINANCIAL ASSETS	**21,457**	**10,540**	**27,480**	**28,844**	**25,127**	**61,406**	**174,854**

	31 December 2017						
	Million euros						
	Within 1 months	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
FINANCIAL LIABILITIES							
Financial liabilities held for trading	**38,976**	**4,073**	**7,177**	**17,913**	**16,989**	**22,496**	**107,624**
Derivatives	3,698	2,070	5,951	15,634	14,897	15,642	57,892
Shorts positions	8,060	468	1,226	2,279	2,092	6,854	20,979
Deposits	27,218	1,535	—	—	—	—	28,753
Central banks	282	—	—	—	—	—	282
Credits institutions	292	—	—	—	—	—	292
Customers	26,644	1,535	—	—	—	—	28,179
Marketable debt securities	—	—	—	—	—	—	—
Other financial liabilities	—	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	**30,152**	**5,166**	**1,635**	**1,251**	**1,120**	**20,292**	**59,616**
Deposits	30,083	4,730	1,065	191	425	19,477	55,971
Central banks	6,038	2,077	745	—	—	—	8,860
Credits institutions	16,521	1,485	63	—	97	—	18,166
Customers	7,524	1,168	257	191	328	19,477	28,945
Marketable debt securities	69	436	570	471	695	815	3,056
Other financial liabilities	—	—	—	589	—	—	589
Hedging derivatives	**40**	**79**	**180**	**493**	**677**	**6,575**	**8,044**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	—	—	2	1	31	302	330
TOTAL FINANCIAL LIABILITIES	**69,168**	**9,318**	**8,990**	**19,656**	**18,817**	**49,665**	**175,614**

	31 December 2017						
	Million euros						
	Within 1 months	1 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Memorandum items							
Loans commitment granted	87,280	14,165	54,069	32,664	34,011	15,781	237,970
Financial guarantees granted	17,065	5,059	12,599	10,502	2,326	1,566	49,117
MEMORANDUM ITEMS	**104,345**	**19,224**	**66,668**	**43,166**	**36,337**	**17,347**	**287,087**

b) Equivalent euro value of assets and liabilities

The detail of the main foreign currency balances in the consolidated balance sheet, based on the nature of the related items, is as follows:

Equivalent value in million euros

	2019		2018*		2017	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cash, cash balances at central banks and other deposits on demand	65,205	—	61,372	—	67,025	—
Financial assets/liabilities held for trading	60,526	45,262	56,217	40,989	82,004	76,459
Non-trading financial assets mandatorily at fair value through profit or loss	2,611	—	8,231	—		
Other financial assets/liabilities at fair value through profit or loss	25,938	29,593	32,244	35,997	7,322	21,766
Financial assets/liabilities available-for-sale					65,691	—
Financial assets at fair value through other comprehensive income	76,402	—	67,926	—		
Financial assets at amortised cost	656,564	—	598,629	—		
Loans and receivables					553,301	
Investments held-to-maturity					11,490	—
Investments	1,355	—	1,189	—	1,121	—
Tangible assets	24,662	—	19,903	—	15,971	—
Intangible assets	21,942	—	23,016	—	23,499	—
Financial liabilities at amortised cost	—	752,188	—	694,362	—	638,680
Liabilities under insurance contracts	—	13	—	29	—	58
Other	25,410	23,428	24,506	20,567	23,695	20,989
	960,615	**850,484**	**893,233**	**791,944**	**851,119**	**757,952**

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

c) Fair value of financial assets and liabilities not measured at fair value

The financial assets owned by the Group are measured at fair value in the accompanying consolidated balance sheet, except for cash, cash balances at central banks and other deposits on demand, loans and advances at amortised cost (IFRS 9) and the loans and receivables, held-to-maturity investments, equity instruments whose market value cannot be estimated reliably and derivatives that have these instruments as their underlyings and are settled by delivery thereof (IAS 39).

Similarly, the Group's financial liabilities -except for financial liabilities held for trading, those measured at fair value and derivatives other than those having as their underlying equity instruments whose market value cannot be estimated reliably- are measured at amortised cost in the accompanying consolidated balance sheet.

Following is a comparison of the carrying amounts of the Group's financial instruments measured at other than fair value and their respective fair values at year-end:

i) Financial assets measured at other than fair value

Million euros

	2019					2018					2017				
Assets	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Loans and advances	965,693	975,523	—	82,045	893,478	908,403	914,013	—	88,091	825,922	885,470	895,645	—	141,839	753,806
Debt instruments	29,789	30,031	10,907	9,971	9,153	37,696	38,095	20,898	11,246	5,951	31,034	31,094	10,994	13,688	6,412
	995,482	**1,005,554**	**10,907**	**92,016**	**902,631**	**946,099**	**952,108**	**20,898**	**99,337**	**831,873**	**916,504**	**926,739**	**10,994**	**155,527**	**760,218**

ii) Financial liabilities measured at other than fair value

Million euros

	2019					2018					2017				
Liabilities*	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Deposits	942,417	942,397	—	245,143	697,254	903,101	902,680	—	302,414	600,266	883,320	883,880	—	177,147	706,733
Debt instruments	258,219	266,784	84,793	149,516	32,475	244,314	247,029	72,945	143,153	30,931	214,910	221,276	52,896	139,301	29,079
	1,200,636	**1,209,181**	**84,793**	**394,659**	**729,729**	**1,147,415**	**1,149,709**	**72,945**	**445,567**	**631,197**	**1,098,230**	**1,105,156**	**52,896**	**316,448**	**735,812**

* At 31 December, 2019, the Group had other financial liabilities that amounted to EUR 30,109 million, EUR 24,215 million in 2018 and EUR 27,839 million in 2017.

The main valuation methods and inputs used in the estimates at 31 December 2019 of the fair values of the financial assets and liabilities in the foregoing table were as follows:

- Loans and receivables: the fair value was estimated using the present value method. The estimates were made considering factors such as the expected maturity of the portfolio, market interest rates, spreads on newly approved transactions or market spreads -when available-.
- Held-to-maturity investments: the fair value was calculated based on market prices for these instruments (only applicable as of 31 December 2017).
- Financial liabilities at amortised cost:

i) Deposits: the fair value of short term deposits was taken to be their carrying amount. Factors such as the expected maturity of the transactions and the Group's current cost of funding in similar transactions are consider for the estimation of long term deposits fair value. It had been used also current rates offered for de posits of similar remaining maturities.

ii) Marketable debt securities and subordinated liabilities: the fair value was calculated based on market prices for these instruments -when available- or by the present value method using market interest rates and spreads, as well as using any significant input which is not observable with market data if applicable.

iii) The fair value of cash, cash balances at central banks and other deposits on demand was taken to be their carrying amount since they are mainly short-term balances.

In addition, at 31 December 2017, equity instruments amounting to EUR 1,211 million, (See note 2.d) recognised as Financial assets available-for-sale (IAS 39) were measured at cost in the consolidated balance sheet because it was not possible to estimate their fair value reliably, since they related to investments in entities not listed on organised markets and, consequently, the non-observable inputs were significant.

d) Exposure of the Group to Europe's peripheral countries

The detail at 31 December 2019, 2018 and 2017, by type of financial instrument, of the Group's sovereign risk exposure to Europe's peripheral countries and of the short positions held with them, taking into consideration the criteria established by the European Banking Authority (EBA) (see Note 54) is as follows:

Sovereign risk by country of issuer/borrower at 31 December 2019*

	Million euros								
	Debt instruments							MtM Derivatives***	
	Financial assets held for trading and financial assets designated at fair value through profit or loss	Short positions	Financial assets at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Loans and advances to customers**	Total net direct exposure	Direct risk	Indirect risk (CDS)s
Spain	9,090	(3,886)	19,961	—	208	9,993	35,366	474	—
Portugal	31	(777)	5,450	—	577	3,408	8,689	—	—
Italy	1,095	(452)	1,631	—	442	19	2,735	5	(5)
Ireland	—	—	—	—	—	—	—	—	—

* Information prepared under EBA standards. Also, there are government debt instruments on insurance companies balance sheets amounting to EUR 14,517 million (of which EUR 12,756 million, EUR 1,306 million, EUR 453 million and EUR 2 million relate to Spain, Portugal, Italy and Ireland, respectively) and off-balance-sheet exposure other than derivatives – contingent liabilities and commitments– amounting to EUR 6,299 million (of which EUR 5,808 million, EUR 224 million and EUR 267 million to Spain, Portugal and Italy, respectively).

** Presented without taking into account the valuation adjustments recognised (EUR 17 million).

*** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2018**

	Million euros*								
	Debt instruments							MtM Derivatives****	
	Financial assets held for trading and financial assets designated at fair value through profit or loss	Short positions	Financial assets at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Loans and advances to customers***	Total net direct exposure	Direct risk	Indirect risk (CDS)s
Spain	3,601	(2,458)	27,078	—	7,804	13,615	49,640	407	—
Portugal	72	(115)	4,794	—	277	3,725	8,753	—	—
Italy	477	(681)	—	—	385	80	261	87	—
Ireland	—	—	—	—	—	—	—	2	—

* See reconciliation of IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018 (Note 1.d).

** Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 13,364 million (of which EUR 11,529 million, EUR 1,415 million, EUR 418 million and EUR 2 million relate to Spain, Portugal, Italy and Ireland, respectively) and off-balance-sheet exposure other than derivatives – contingent liabilities and commitments– amounting to EUR 5,622 million (of which EUR 4,870 million, EUR 366 million and EUR 386 million to Spain, Portugal and Italy, respectively).

*** Presented without taking into account the valuation adjustments recognised (EUR 34 million).

**** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Sovereign risk by country of issuer/borrower at 31 December 2017*

	Million euros								
	Debt instruments							MtM Derivatives***	
	Financial assets held for trading and financial assets designated at fair value through profit or loss	Short positions	Financial assets available-for-sale	Loans and receivables	Held-to-maturity investments	Loans and advances to customers**	Total net direct exposure****	Direct risk	Indirect risk (CDS)s
Spain	6,940	(2,012)	37,748	1,585	1,906	16,470	62,637	(21)	—
Portugal	208	(155)	5,220	232	3	3,309	8,817	—	—
Italy	1,962	(483)	4,613	—	—	16	6,108	(5)	5

* Information prepared under EBA standards. Also, there are government debt securities on insurance companies' balance sheets amounting to EUR 11,673 million (of which EUR 10,079 million, EUR 1,163 million and EUR 431 million relate to Spain, Portugal and Italy, respectively) and off-balance-sheet exposure other than derivatives – contingent liabilities and commitments– amounting to EUR 3,596 million (EUR 3,010 million, EUR 146 million and EUR 440 million to Spain, Portugal and Italy, respectively).

** Presented without taking into account the Other comprehensive income recognised (EUR 31 million).

*** Other than CDSs refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. CDSs refers to the exposure to CDSs based on the location of the underlying.

**** EUR 19,601 million were included within the direct exposures of the balance sheet mainly from debt securities of Grupo Banco Popular S.A.U.

The detail of the Group's other exposure to other counterparties (private sector, central banks and other public entities that are not considered to be sovereign risks) in the aforementioned countries at 31 December 2019, 2018 and 2017 is as follows:

Exposure to other counterparties by country of issuer/borrower at 31 December 2019***

	Million euros									
			Debt instruments						MtM Derivatives**	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Loans and advances to customers*	Total net direct exposure	Other than CDSs	CDSs
Spain	21,696	7,627	656	1,195	321	1,501	194,817	227,813	2,417	2
Portugal	2,814	409	190	32	—	2,956	33,403	39,804	931	—
Italy	182	6,243	625	606	—	153	12,284	20,093	512	—
Greece	—	—	—	—	—	—	12	12	—	—
Ireland	—	—	55	1,718	592	22	11,875	14,262	232	—

* Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 77,468 million, EUR 7,749 million, EUR 4,948 million, EUR 201 million and EUR 996 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

** Presented without taking into account valuation adjustments or impairment corrections (EUR 7,322 million).

*** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2018****

	Million euros*									
			Debt instruments						MtM Derivatives***	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and financial assets designated at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Loans and advances to customers**	Total net direct exposure	Other than CDSs	CDSs
Spain	42,655	8,117	412	1,760	320	2,662	202,149	258,075	3,880	(6)
Portugal	1,369	—	11	90	—	3,821	33,596	38,887	1,132	—
Italy	51	6,296	84	635	—	—	10,830	17,896	253	—
Greece	—	—	—	—	—	—	80	80	28	—
Ireland	—	—	21	1,093	16	25	10,633	11,788	127	—

* See reconciliation of IAS 39 as of 31 December, 2017 to IFRS 9 as of 1 January, 2018 (Note 1.d).

** Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 76,691 million, EUR 8,158 million, EUR 5,193 million, EUR 200 million and EUR 850 million to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

*** Presented without taking into account valuation adjustments or impairment corrections (EUR 9,385 million).

**** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

Exposure to other counterparties by country of issuer/borrower at 31 December 2017*

	Million euros									
			Debt instruments						Derivatives***	
	Balances with central banks	Reverse repurchase agreements	Financial assets held for trading and financial assets designated at fair value through profit or loss	Financial assets available-for-sale	Loans and receivables	Investments held-to-maturity	Loans and advances to customers**	Total net direct exposure* ***	Other than CDSs	CDSs
Spain	36,091	6,932	623	4,784	2,880	—	210,976	262,286	2,299	2
Portugal	761	178	160	764	4,007	106	35,650	41,626	1,416	—
Italy	17	2,416	438	1,010	—	—	10,015	13,896	211	5
Greece	—	—	—	—	—	—	56	56	30	—
Ireland	—	—	20	476	584	—	1,981	3,061	79	—

* Also, the Group has off-balance-sheet exposure other than derivatives -contingent liabilities and commitments- amounting to EUR 81,072 million, EUR 8,936 million, EUR 4,310 million, EUR 200 million and EUR 714 million, of which Grupo Banco Popular S.A.U. EUR 15,460 million, to counterparties in Spain, Portugal, Italy, Greece and Ireland, respectively.

** Presented excluding Other comprehensive income and impairment losses recognised (EUR 10,653 million of which around EUR 3,986 of Grupo Banco Popular S.A.U.).

*** "Other than CDSs" refers to the exposure to derivatives based on the location of the counterparty, irrespective of the location of the underlying. "CDSs" refers to the exposure to CDSs based on the location of the underlying.

**** EUR 83,625 million were included within the direct exposures of the balance sheet mainly from debt securities of Grupo Banco Popular S.A.U.

Following is certain information on the notional amount of the CDSs at 31 December 2019, 2018 and 2017 detailed in the foregoing tables:

31/12/2019

Million euros

		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	—	—	—	—	—	—
	Other	127	340	(213)	(2)	4	2
Portugal	Sovereign	27	27	—	—	—	—
	Other	—	—	—	—	—	—
Italy	Sovereign	314	9	305	(5)	—	(5)
	Other	60	60	—	(2)	2	—

31/12/2018

Million euros

		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	—	—	—	—	—	—
	Other	151	382	(231)	(2)	(4)	(6)
Portugal	Sovereign	26	26	—	—	—	—
	Other	—	—	—	—	—	—
Italy	Sovereign	—	265	(265)	—	—	—
	Other	205	75	130	(5)	5	—

31/12/2017

Million euros

		Notional amount			Fair value		
		Bought	Sold	Net	Bought	Sold	Net
Spain	Sovereign	—	—	—	—	—	—
	Other	324	499	(175)	(3)	5	2
Portugal	Sovereign	25	128	(103)	(1)	1	—
	Other	1	1	—	—	—	—
Italy	Sovereign	25	450	(425)	—	5	5
	Other	225	201	24	(3)	8	5

52. Primary and secondary segments reporting

The segment reporting is based on financial information presented to the chief operating decision maker, which excludes certain items included in the statutory results that distort year-on-year comparisons and are not considered for management reporting purposes. This financial information ("underlying basis") is computed by adjusting reported results for the effects of certain gains and losses (e.g.: capital gains, write-downs, etc.). These gains and losses are items that management and investors ordinarily identify and consider separately to understand better the underlying trends in the business.

The Group has aligned the information in this operating segment Note in a manner consistent with the underlying information used internally for management reporting purposes and with that presented throughout the Group's other public documents.

The Group executive committee has been determined to be the chief operating decision maker for the Group. The Group's operating segments reflect its organizational and management structures. The Group executive committee reviews the Group's internal reporting based around these segments in order to assess performance and allocate resources.

The segments are differentiated by the geographical area where profits are earned and by type of business. The financial information of each reportable segment is prepared by aggregating the figures for the Group's various geographic areas and business units.

Our results are affected by the change in our reported segments resulting from new criteria to measure our segments´ profits or loss and from the new composition of our segments starting with the financial information for the first half 2019 to reflect our current reporting structure. The main changes, which have been applied to all segment information for all periods included in the consolidated financial statements, are the following:

i. Primary segments

- Creation of the new geographic segment Europe that includes the existing units under the previous Continental Europe segment (Spain, Portugal, Poland and Santander Consumer Finance) plus the UK (that was previously a segment on its own.
- Creation of the new geographic segment North America that comprises the existing units under the previous US segment plus Mexico.
- Creation of the new geographic segment South America that comprises the existing units under the previous Latin America segment except for Mexico.
- Creation of a new reporting unit segment, Santander Global Platform, which includes our global digital services under a single unit:
  - Our fully digital native bank Openbank S.A. and Open Digital Services, S.L.
  - Global Payments Services: payments platform to better serve our customers with value propositions developed globally, including Global Merchant Services, Global Trade Services, Superdigital y Pago FX.
  - Digital Assets: common digital assets and Centres of Digital Expertise which help our banks in their digital transformation.

ii. Secondary segments

- The Real Estate Activity Spain unit, that was previously a segment reported on its own, is now included in Retail Banking.
- The insurance business, previously included in Retail Banking, is now included in the Wealth Management segment, which was renamed Wealth Management & Insurance.
- The new digital segment (Santander Global Platform) is also incorporated as a secondary segment.
- Finally, the change in reported segments also includes adjustments of the clients of the Global Customer Relationship Model between Retail Banking and Santander Corporate & Investment Banking and between Retail Banking and Wealth Management & Insurance.

After these changes, the operating business areas are structured in two levels:

a) Primary segments

This primary level of segmentation, which is based on the Group's management structure, comprises five reportable segments: four operating areas plus the Corporate Center. The operating areas, are: Europe, South America, North America and Santander Global Platform.

The Europe area encompasses all the business activities carried on in the region, including the business activities carried on by the various Group units and branches with a presence in the UK.

The North America area includes all the financial activities carried on by the Group through its banks and subsidiaries in Mexico and the United States; activities in the US include the holding company (SHUSA) and the businesses of Santander Bank, National Association, Santander Consumer USA Holdings Inc., Banco Santander Puerto Rico, Banco Santander International's specialised unit and the New York branch.

The South America area includes all the financial activities carried on by the Group through its banks and subsidiaries in the region.

The Santander Global Platform segment consolidates all global digital initiatives.

The Group has considered the aggregation criteria of IFRS8 for purposes of identifying these reportable segments.

The Corporate Centre segment includes the centralised management business relating to financial investments, financial management of the structural currency position, within the remit of the Group's corporate asset and liability management committee, and management of liquidity and equity through issues.

With regard to the balance sheet, due to the required segregation of the various business units (included in a single consolidated balance sheet), the amounts lent and borrowed between the units are shown as increases in the assets and liabilities of each business. These amounts relating to intra-Group liquidity are eliminated and are shown in the Intra-Group eliminations column in the table below in order to reconcile the amounts contributed by each business unit to the consolidated Group's balance sheet.

There are no customers located in any of the areas that generate income exceeding 10% of Total income.

The condensed balance sheets and income statements of the various primary segments are as follows:

Million euros

	2019						
(Condensed) balance sheet	Europe	North America	South America	Santander Global Platform	Corporate Centre	Intra-Group eliminations	Total
Total Assets	**1,057,038**	**223,857**	**253,804**	**10,234**	**168,352**	**(190,590)**	**1,522,695**
Loans and advances to customers	676,904	133,726	125,122	702	5,764	—	942,218
Cash, balances at central banks and credit institutions and other deposits on demand	180,389	22,885	51,360	9,063	32,803	(107,894)	188,606
Debt instruments	104,381	33,746	45,619	10	840	—	184,596
Other financial assets	53,893	10,759	14,802	187	2,406	—	82,047
Other asset accounts	41,471	22,741	16,901	272	126,539	(82,696)	125,228
Total Liabilities	**1,000,905**	**199,955**	**231,321**	**9,760**	**77,989**	**(107,894)**	**1,412,036**
Customer deposits	600,380	98,915	114,817	9,460	793	—	824,365
Central banks and credit institutions	189,791	38,942	41,989	82	12,253	(107,894)	175,163
Marketable debt securities	133,544	44,098	29,840	—	54,495	—	261,977
Other financial liabilities***	60,807	11,763	34,062	106	636	—	107,374
Other liabilities accounts****	16,383	6,237	10,613	112	9,812	—	43,157
Total Equity	**56,133**	**23,902**	**22,483**	**474**	**90,363**	**(82,696)**	**110,659**
Other customer funds under management	**86,558**	**14,319**	**76,023**	**—**	**11**	**—**	**176,911**
Investment funds	62,203	11,703	69,071	—	11	—	142,988
Pension funds	11,746	98	—	—	—	—	11,844
Assets under management	12,609	2,518	6,952	—	—	—	22,079
Other non-managed marketed customer funds	**33,107**	**15,872**	**60**	**450**	**—**	**—**	**49,489**

* Including Trading derivatives and Equity instruments.

** Including Hedging derivatives, Changes in the fair value of hedged items in portfolio hedges of interest risk, Non-current assets held for sale, Assets under insurance or reinsurance contracts, tangible assets, intangible assets, tax assets, other assets and non-current assets held for sale.

*** Including Trading derivatives, Short positions and Other financial liabilities.

**** Including Hedging derivatives, Changes in the fair value of hedged items in portfolio hedges of interest risk, Liabilities under insurance or reinsurance contracts, provisions, tax liabilities, other liabilities and liabilities associated with non-current assets held for sale.

Million euros

	2018						
(Condensed) balance sheet	Europe	North America	South America	Santander Global Platform	Corporate Centre	Intra-Group eliminations	Total
Total Assets	**1,020,737**	**200,919**	**237,480**	**8,781**	**170,614**	**(179,260)**	**1,459,271**
Loans and advances to customers	639,966	116,196	119,912	337	6,509	1	882,921
Cash, balances at central banks and credit institutions and other deposits on demand	172,298	28,845	48,318	8,168	39,840	(100,400)	197,069
Debt instruments	118,221	27,302	45,224	—	377	—	191,124
Other financial assets*	49,263	9,974	9,311	146	2,113	1	70,808
Other asset accounts**	40,989	18,602	14,715	130	121,775	(78,862)	117,349
Total Liabilities	**966,727**	**179,046**	**215,605**	**8,492**	**82,439**	**(100,399)**	**1,351,910**
Customer deposits	571,834	91,895	108,248	8,284	235	—	780,496
Central banks and credit institutions	192,685	26,048	38,584	111	30,879	(100,398)	187,909
Marketable debt securities	129,574	43,758	31,504	—	41,783	—	246,619
Other financial liabilities***	53,687	11,379	28,570	38	1,334	(1)	95,007
Other liabilities accounts****	18,947	5,966	8,699	59	8,208	—	41,879
Total Equity	**54,010**	**21,873**	**21,875**	**289**	**88,175**	**(78,861)**	**107,361**
Other customer funds under management	**76,524**	**12,785**	**68,172**	**367**	**7**	**—**	**157,855**
Investment funds	55,239	10,436	61,515	367	7	—	127,564
Pension funds	11,062	98	—	—	—	—	11,160
Assets under management	10,223	2,251	6,657	—	—	—	19,131
Other non-managed marketed customer funds	**28,555**	**13,528**	**128**	**—**	**—**	**—**	**42,211**

* Including Trading derivatives and Equity instruments.

** Including Hedging derivatives, Changes in the fair value of hedged items in portfolio hedges of interest risk, Non-current assets held for sale, Assets under insurance or reinsurance contracts, tangible assets, intangible assets, tax assets, other assets and non-current assets held for sale.

*** Including Trading derivatives, Short positions and Other financial liabilities.

**** Including Hedging derivatives, Changes in the fair value of hedged items in portfolio hedges of interest risk, Liabilities under insurance or reinsurance contracts, provisions, tax liabilities, other liabilities and liabilities associated with non-current assets held for sale.

Million euros

	2017						
(Condensed) balance sheet	Europe	North America	South America	Santander Global Platform	Corporate Centre	Intra-Group eliminations	Total
Total Assets	**1,023,053**	**172,591**	**235,144**	**7,372**	**157,126**	**(150,981)**	**1,444,305**
Loans and advances to customers	623,604	98,424	121,467	92	5,326	2	848,915
Cash, balances at central banks and credit institutions and other deposits on demand	155,203	23,256	46,131	7,128	25,897	(69,190)	188,425
Debt instruments	125,848	27,519	44,148	68	1,768	—	199,351
Other financial assets*	64,608	8,996	8,599	—	2,116	—	84,319
Other asset accounts**	53,790	14,396	14,799	84	122,019	(81,793)	123,295
Total Liabilities	**966,064**	**152,455**	**211,148**	**7,135**	**69,860**	**(69,190)**	**1,337,472**
Customer deposits	576,072	81,581	112,874	6,981	222	—	777,730
Central banks and credit institutions	179,057	24,131	31,366	63	24,887	(69,190)	190,314
Marketable debt securities	122,325	31,344	29,267	—	35,030	—	217,966
Other financial liabilities***	67,041	10,183	28,403	44	1,628	—	107,299
Other liabilities accounts****	21,569	5,216	9,238	47	8,093	—	44,163
Total Equity	**56,989**	**20,136**	**23,996**	**237**	**87,266**	**(81,791)**	**106,833**
Other customer funds under management	**82,287**	**12,790**	**70,811**	**686**	**—**	**—**	**166,574**
Investment funds	60,254	10,371	64,514	610	—	—	135,749
Pension funds	11,490	—	—	76	—	—	11,566
Assets under management	10,543	2,419	6,297	—	—	—	19,259
Other non-managed marketed customer funds	**27,790**	**13,561**	**47**	**—**	**—**	**—**	**41,398**

* Including Trading derivatives and Equity instruments.

** Including Hedging derivatives, Changes in the fair value of hedged items in portfolio hedges of interest risk, Non-current assets held for sale, Assets under insurance or reinsurance contracts, tangible assets, intangible assets, tax assets, other assets and non-current assets held for sale.

*** Including Trading derivatives, Short positions and Other financial liabilities.

**** Including Hedging derivatives, Changes in the fair value of hedged items in portfolio hedges of interest risk, Liabilities under insurance or reinsurance contracts, provisions, tax liabilities, other liabilities and liabilities associated with non-current assets held for sale.

The condensed income statements for the primary segments are as follows:

Million euros

	2019					
(Condesed) Underlying income statement	Europe	North America	South America	Santander Global Platform	Corporate centre	Total
Net interest income	**14,201**	**8,926**	**13,316**	**92**	**(1,252)**	**35,283**
Net fee income	5,260	1,776	4,787	6	(50)	11,779
Gains (losses) on financial transactions*	1,036	230	565	(3)	(297)	1,531
Other operating income**	504	672	(243)	(14)	(18)	901
Total income	**21,001**	**11,604**	**18,425**	**81**	**(1,617)**	**49,494**
Administrative expenses, depreciation and amortisation	(11,044)	(4,967)	(6,656)	(240)	(373)	(23,280)
Net operating income* **	**9,957**	**6,637**	**11,769**	**(159)**	**(1,990)**	**26,214**
Net loan-loss provisions****	(1,839)	(3,656)	(3,789)	(1)	(36)	(9,321)
Other gains (losses) and provisions*****	(768)	(205)	(748)	(6)	(237)	(1,964)
Operating profit/(loss) before tax	**7,350**	**2,776**	**7,232**	**(166)**	**(2,263)**	**14,929**
Tax on profit	(1,979)	(683)	(2,644)	46	157	(5,103)
Profit from continuing operations	**5,371**	**2,093**	**4,588**	**(120)**	**(2,106)**	**9,826**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**5,371**	**2,093**	**4,588**	**(120)**	**(2,106)**	**9,826**
Non-controlling interests	493	426	664	—	(9)	1,574
Attributable profit to the parent	**4,878**	**1,667**	**3,924**	**(120)**	**(2,097)**	**8,252**

* Gains (losses) on financial transactions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net, Gain or losses on financial assets and liabilities held for trading, net, Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss, net, Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net, Gain or losses from hedge accounting, net and Exchange differences, net.

** Other operating income includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Dividend income; Income from companies accounted for using the equity method, Other operating income, Other operating expenses, Income from assets under insurance or reinsurance contracts and Expenses from liabilities under insurance or reinsurance contracts.

*** Net Operating Income is used for the Group's internal reporting and management reporting purposes but is not a line item in the statutory consolidated income statement.

**** Net loan-loss provisions refers to Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes line item in the statutory income statement – reclassification of financial assets at amortized cost. Additionally, includes a release of EUR 31 million mainly corresponding to the results by commitments and contingent risks includes in the line of the statutory income statement of provisions or reversal of provisions.

***** Other gains (losses) and provisions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Provisions or reversal of provisions except a release EUR 31 million mainly corresponding to the results by commitments and contingent risks; Impairment of investments in joint ventures and associates, net; Impairment on non-financial assets, net; Gains or losses on non-financial assets, net; Negative goodwill recognised in results and Gains or losses on non-current assets held for sale not classified as discontinued operations.

Million euros

(Condensed) Underlying income statement	2018 Europe	North America	South America	Santander Global Platform	Corporate Centre	Total
Net interest income	**14,204**	**8,154**	**12,891**	**79**	**(987)**	**34,341**
Net fee income	5,434	1,615	4,497	7	(68)	11,485
Gains (losses) on financial transactions*	1,114	173	498	—	12	1,797
Other operating income**	505	534	(212)	(12)	(14)	801
Total income	**21,257**	**10,476**	**17,674**	**74**	**(1,057)**	**48,424**
Administrative expenses, depreciation and amortisation	(11,166)	(4,488)	(6,557)	(142)	(426)	(22,779)
Net operating income* **	**10,091**	**5,988**	**11,117**	**(68)**	**(1,483)**	**25,645**
Net loan-loss provisions****	(1,572)	(3,449)	(3,737)	—	(115)	(8,873)
Other gains (losses) and provisions*****	(1,027)	(202)	(663)	(2)	(101)	(1,995)
Operating profit/(loss) before tax	**7,492**	**2,337**	**6,717**	**(70)**	**(1,699)**	**14,777**
Tax on profit	(2,020)	(599)	(2,642)	17	14	(5,230)
Profit from continuing operations	**5,472**	**1,738**	**4,075**	**(53)**	**(1,685)**	**9,547**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**5,472**	**1,738**	**4,075**	**(53)**	**(1,685)**	**9,547**
Non-controlling interests	424	434	624	1	—	1,483
Attributable profit to the parent	**5,048**	**1,304**	**3,451**	**(54)**	**(1,685)**	**8,064**

* Gains (losses) on financial transactions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net, Gain or losses on financial assets and liabilities held for trading, net, Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss, net, Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net, Gain or losses from hedge accounting, net and Exchange differences, net.

** Other operating income includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Dividend income; Income from companies accounted for using the equity method, Other operating income, Other operating expenses, Income from assets under insurance or reinsurance contracts and Expenses from liabilities under insurance or reinsurance contracts.

*** Net Operating Income is used for the Group's internal reporting and management reporting purposes but is not a line item in the statutory consolidated income statement.

**** Net loan-loss provisions refers to Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes line item in the statutory income statement – reclassification of financial assets at amortized cost. Additionally, includes a release of EUR 113 million mainly corresponding to the results by commitments and contingent risks includes in the line of the statutory income statement of provisions or reversal of provisions.

***** Other gains (losses) and provisions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Provisions or reversal of provisions except a release of EUR 113 million mainly corresponding to the results by commitments and contingent risks; Impairment of investments in joint ventures and associates, net; Impairment on non-financial assets, net; Gains or losses on non-financial assets, net; Negative goodwill recognised in results and Gains or losses on non-current assets held for sale not classified as discontinued operations.

Million euros

(Condensed) Underlying income statement	2017 Europe	North America	South America	Santander Global Platform	Corporate Centre	Total
Net interest income	**13,529**	**8,170**	**13,383**	**63**	**(849)**	**34,296**
Net fee income	5,163	1,721	4,744	7	(38)	11,597
Gains (losses) on financial transactions*	907	159	863	—	(225)	1,704
Other operating income**	463	370	69	(11)	(94)	797
Total income	**20,062**	**10,420**	**19,059**	**59**	**(1,206)**	**48,394**
Administrative expenses, depreciation and amortisation	(10,454)	(4,580)	(7,339)	(67)	(477)	(22,917)
Net operating income* **	**9,608**	**5,840**	**11,720**	**(8)**	**(1,683)**	**25,477**
Net loan-loss provisions****	(1,313)	(3,685)	(4,067)	—	(46)	(9,111)
Other gains (losses) and provisions*****	(1,207)	(129)	(1,290)	(6)	(181)	(2,813)
Operating profit/(loss) before tax	**7,088**	**2,026**	**6,363**	**(14)**	**(1,910)**	**13,553**
Tax on profit	(1,980)	(486)	(2,156)	2	32	(4,588)
Profit from continuing operations	**5,108**	**1,540**	**4,207**	**(12)**	**(1,878)**	**8,965**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**5,108**	**1,540**	**4,207**	**(12)**	**(1,878)**	**8,965**
Non-controlling interests	408	422	620	—	(1)	1,449
Attributable profit to the parent	**4,700**	**1,118**	**3,587**	**(12)**	**(1,877)**	**7,516**

* Gains (losses) on financial transactions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net, Gain or losses on financial assets and liabilities held for trading, net, Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss, net, Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net, Gain or losses from hedge accounting, net and Exchange differences, net.

** Other operating income includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Dividend income; Income from companies accounted for using the equity method, Other operating income, Other operating expenses, Income from assets under insurance or reinsurance contracts and Expenses from liabilities under insurance or reinsurance contracts.

*** Net Operating Income is used for the Group's internal reporting and management reporting purposes but is not a line item in the statutory consolidated income statement.

**** Net loan-loss provisions refers to Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes line item in the statutory income statement – reclassification of financial assets at amortized cost. Additionally, includes a release of EUR 50 million mainly corresponding to the results by commitments and contingent risks includes in the line of the statutory income statement of provisions or reversal of provisions.

***** Other gains (losses) and provisions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Provisions or reversal of provisions except a release of EUR 50 million mainly corresponding to the results by commitments and contingent risks; Impairment of investments in joint ventures and associates, net; Impairment on non-financial assets, net; Gains or losses on non-financial assets, net; Negative goodwill recognised in results and Gains or losses on non-current assets held for sale not classified as discontinued operations.

b) Secondary segments

At this secondary level of segment reporting, the Group is structured into Retail Banking, Santander Corporate & Investment Banking (SCIB), Wealth Management & Insurance and Santander Global Platform; the sum of these segments is equal to that of the primary geographical reportable segments and total figures for the Group are obtained by adding the data for the Corporate Centre.

Considering the aforementioned information, the business segments are now conformed as follows:

- Retail Banking: this covers all customer banking businesses, including consumer finance, except those of corporate banking, which are managed through Santander Corporate & Investment Banking, and asset management, private banking and insurance, which are managed by Wealth Management & Insurance. The results of the hedging positions in each country are also included, conducted within the sphere of each one's assets and liabilities committee.
- Santander Corporate & Investment Banking (SCIB): This business reflects revenue from global corporate banking, investment banking and markets worldwide including treasuries managed globally (always after the appropriate distribution with Retail Banking customers), as well as equities business.
- Wealth Management & Insurance: Includes the asset management business (Santander Asset Management, S.A., S.G.I.I.C.), the insurance business, the corporate unit of Private Banking and International Private Banking in Miami and Switzerland.
- Finally, the Santander Global Platform segment includes in a single unit all global digital initiatives.

Although the Santander Global Platform and the Wealth Management & Insurance business segments do not meet the quantitative thresholds defined in IFRS 8, such segments are considered reportable by the Group and separately disclosed because the Group management believes that information about these segments is useful to users of the financial statements.

There are no customers in any of the business segments that generate income exceeding 10% of total income.

The condensed income statements are as follows:

Million euros

(Condensed) Underlying income statement	2019 Retail Banking	Santander Corporate & Investment Banking	Wealth Management & Insurance	Santander Global Platform	Corporate centre	Total
Net interest income	**33,157**	**2,721**	**565**	**92**	**(1,252)**	**35,283**
Net fee income	9,094	1,528	1,201	6	(50)	11,779
Gains (losses) on financial transactions*	975	740	116	(3)	(297)	1,531
Other operating income**	297	295	341	(14)	(18)	901
Total income	**43,523**	**5,284**	**2,223**	**81**	**(1,617)**	**49,494**
Administrative expenses, depreciation and amortisation	(19,481)	(2,275)	(911)	(240)	(373)	(23,280)
Net operating income* **	**24,042**	**3,009**	**1,312**	**(159)**	**(1,990)**	**26,214**
Net loan-loss provisions****	(9,154)	(155)	25	(1)	(36)	(9,321)
Other gains (losses) and provisions*****	(1,623)	(86)	(12)	(6)	(237)	(1,964)
Operating profit/(loss) before tax	**13,265**	**2,768**	**1,325**	**(166)**	**(2,263)**	**14,929**
Tax on profit	(4,156)	(838)	(312)	46	157	(5,103)
Profit from continuing operations	**9,109**	**1,930**	**1,013**	**(120)**	**(2,106)**	**9,826**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**9,109**	**1,930**	**1,013**	**(120)**	**(2,106)**	**9,826**
Non-controlling interests	1,361	169	53	—	(9)	1,574
Attributable profit to the parent	**7,748**	**1,761**	**960**	**(120)**	**(2,097)**	**8,252**

* Gains (losses) on financial transactions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net, Gain or losses on financial assets and liabilities held for trading, net, Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss, net, Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net, Gain or losses from hedge accounting, net and Exchange differences, net.

** Other operating income includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Dividend income; Income from companies accounted for using the equity method, Other operating income, Other operating expenses, Income from assets under insurance or reinsurance contracts and Expenses from liabilities under insurance or reinsurance contracts.

*** Net Operating Income is used for the Group's internal reporting and management reporting purposes but is not a line item in the statutory consolidated income statement.

**** Net loan-loss provisions refers to Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes line item in the statutory income statement. Additionally, includes a release of EUR 31 million mainly corresponding to the results by commitments and contingent risks included in the line provisions or reversal of provisions, net of the statutory income statement.

***** Other gains (losses) and provisions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Provisions or reversal of provisions except a release of EUR 31 million mainly corresponding to the results by commitments and contingent risks; Impairment of investments in joint ventures and associates, net; Impairment on non-financial assets, net; Gains or losses on non-financial assets, net; Negative goodwill recognized in results and Gains or losses on non-current assets held for sale not classified as discontinued operations.

Million euros

	2018					
(Condensed) Underlying income statement	Retail Banking	Santander Corporate & Investment Banking (SCIB)	Wealth Management & Insurance	Santander Global Platform	Corporate Centre	Total
Net interest income	**32,261**	**2,461**	**527**	**79**	**(987)**	**34,341**
Net fee income	8,870	1,534	1,142	7	(68)	11,485
Gains (losses) on financial transactions*	756	898	131	—	12	1,797
Other operating income**	344	184	299	(12)	(14)	801
Total income	**42,231**	**5,077**	**2,099**	**74**	**(1,057)**	**48,424**
Administrative expenses, depreciation and amortisation	(19,237)	(2,101)	(873)	(142)	(426)	(22,779)
Net operating income* **	**22,994**	**2,976**	**1,226**	**(68)**	**(1,483)**	**25,645**
Net loan-loss provisions****	(8,549)	(199)	(10)	—	(115)	(8,873)
Other gains (losses) and provisions*****	(1,791)	(97)	(4)	(2)	(101)	(1,995)
Operating profit/(loss) before tax	**12,654**	**2,680**	**1,212**	**(70)**	**(1,699)**	**14,777**
Tax on profit	(4,144)	(832)	(285)	17	14	(5,230)
Profit from continuing operations	**8,510**	**1,848**	**927**	**(53)**	**(1,685)**	**9,547**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**8,510**	**1,848**	**927**	**(53)**	**(1,685)**	**9,547**
Non-controlling interests	1,272	157	52	1	1	1,483
Attributable profit to the parent	**7,238**	**1,691**	**875**	**(54)**	**(1,686)**	**8,064**

* Gains (losses) on financial transactions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net, Gain or losses on financial assets and liabilities held for trading, net, Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss, net, Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net, Gain or losses from hedge accounting, net and Exchange differences, net.

** Other operating income includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Dividend income; Income from companies accounted for using the equity method, Other operating income, Other operating expenses, Income from assets under insurance or reinsurance contracts and Expenses from liabilities under insurance or reinsurance contracts.

*** Net Operating Income is used for the Group's internal reporting and management reporting purposes but is not a line item in the statutory consolidated income statement.

**** Net loan-loss provisions refers to Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes line item in the statutory income statement. Additionally, includes a release of EUR 113 million mainly corresponding to the results by commitments and contingent risks included in the line provisions or reversal of provisions, net of the statutory income statement.

***** Other gains (losses) and provisions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Provisions or reversal of provisions except a release of EUR 113 million mainly corresponding to the results by commitments and contingent risks; Impairment of investments in joint ventures and associates, net; Impairment on non-financial assets, net; Gains or losses on non-financial assets, net; Negative goodwill recognized in results and Gains or losses on non-current assets held for sale not classified as discontinued operations.

Million euros

(Condensed) Underlying income statement	2017 Retail Banking	Santander Corporate & Investment Banking (SCIB)	Wealth Management & Insurance	Santander Global Platform	Corporate Centre	Total
Net interest income	**32,169**	**2,442**	**471**	**63**	**(849)**	**34,296**
Net fee income	9,295	1,621	712	7	(38)	11,597
Gains (losses) on financial transactions*	685	1,207	37	—	(225)	1,704
Other operating income**	255	221	426	(11)	(94)	797
Total income	**42,404**	**5,491**	**1,646**	**59**	**(1,206)**	**48,394**
Administrative expenses, depreciation and amortisation	(19,752)	(2,028)	(593)	(67)	(477)	(22,917)
Net operating income* **	**22,652**	**3,463**	**1,053**	**(8)**	**(1,683)**	**25,477**
Net loan-loss provisions****	(8,374)	(682)	(9)	—	(46)	(9,111)
Other gains (losses) and provisions*****	(2,535)	(80)	(11)	(6)	(181)	(2,813)
Operating profit/(loss) before tax	**11,743**	**2,701**	**1,033**	**(14)**	**(1,910)**	**13,553**
Tax on profit	(3,688)	(747)	(187)	2	32	(4,588)
Profit from continuing operations	**8,055**	**1,954**	**846**	**(12)**	**(1,878)**	**8,965**
Net profit from discontinued operations	—	—	—	—	—	—
Consolidated profit	**8,055**	**1,954**	**846**	**(12)**	**(1,878)**	**8,965**
Non-controlling interests	1,218	182	50	—	(1)	1,449
Attributable profit to the parent	**6,837**	**1,772**	**796**	**(12)**	**(1,877)**	**7,516**

* Gains (losses) on financial transactions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net, Gain or losses on financial assets and liabilities held for trading, net, Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss, net, Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net, Gain or losses from hedge accounting, net and Exchange differences, net.

** Other operating income includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Dividend income; Income from companies accounted for using the equity method, Other operating income, Other operating expenses, Income from assets under insurance or reinsurance contracts and Expenses from liabilities under insurance or reinsurance contracts.

*** Net Operating Income is used for the Group's internal reporting and management reporting purposes but is not a line item in the statutory consolidated income statement.

**** Net loan-loss provisions refers to Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes line item in the statutory income statement. Additionally, includes a release of EUR 50 million mainly corresponding to the results by commitments and contingent risks included in the line provisions or reversal of provisions, net of the statutory income statement.

***** Other gains (losses) and provisions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Provisions or reversal of provisions except a release of EUR 50 million mainly corresponding to the results by commitments and contingent risks; Impairment of investments in joint ventures and associates, net; Impairment on non-financial assets, net; Gains or losses on non-financial assets, net; Negative goodwill recognized in results and Gains or losses on non-current assets held for sale not classified as discontinued operations.

c) Reconciliations of reportable segment results

The tables below reconcile the underlying basis results to the statutory results for each of the periods presented as required by IFRS 8. For the purposes of these reconciliations, all material reconciling items are separately identified and described.

The Group's assets and liabilities for management reporting purposes do not differ from the statutory reported figures and therefore are not reconciled.

Million euros

2019			
Reconciliation of underlying results to statutory results	Underlying results	Adjustments	Statutory results
Net interest income	**35,283**	**—**	**35,283**
Net fee income	11,779	—	11,779
Gains (losses) on financial transactions*	1,531	—	1,531
Other operating income**	901	(265)	636
Total income	**49,494**	**(265)**	**49,229**
Administrative expenses, depreciation and amortisation	(23,280)	—	(23,280)
Net operating income* **	**26,214**	**(265)**	**25,949**
Net loan-loss provisions****	(9,321)	—	(9,321)
Other gains (losses) and provisions*****	(1,964)	(2,121)	(4,085)
Operating profit/(loss) before tax	**14,929**	**(2,386)**	**12,543**
Tax on profit	(5,103)	676	(4,427)
Consolidated profit	**9,826**	**(1,710)**	**8,116**
Non-controlling interests	1,574	27	1,601
Attributable profit to the parent	**8,252**	**(1,737)**	**6,515**

* Gains (losses) on financial transactions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net, Gain or losses on financial assets and liabilities held for trading, net, Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss, net, Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net, Gain or losses from hedge accounting, net and Exchange differences, net.

** Other operating income includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Dividend income; Income from companies accounted for using the equity method, Other operating income, Other operating expenses, Income from assets under insurance or reinsurance contracts and Expenses from liabilities under insurance or reinsurance contracts.

*** Net Operating Income is used for the Group's internal reporting and management reporting purposes but is not a line item in the statutory consolidated income statement.

**** Net loan-loss provisions refers to Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes line item in the statutory income statement – reclassification of financial assets at amortized cost. Additionally, includes a release of EUR 31 million mainly corresponding to the results by commitments and contingent risks includes in the line of the statutory income statement of provisions or reversal of provisions.

***** Other gains (losses) and provisions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Provisions or reversal of provisions except for a release of 31 million euros mainly corresponding to results from commitments and contingent risks, Impairment of investments in joint ventures and associates, net; Impairment on non-financial assets, net; Gains or losses on non-financial assets, net; Negative goodwill recognized in results and Gains or losses on non-current assets held for sale not classified as discontinued operations.

Explanation of adjustments:

- Impairment of goodwill assigned to Santander UK and provisions for PPI in the UK, with a net impact of EUR -1,491 million and EUR -183 million, respectively, reflected in "Other gains (losses) and provisions".
- Restructuring costs with a net impact of EUR -864 million, which are included gross in "Other gains (losses) and provisions".
- Losses related to the real estate assets and stakes in Spain, with a net impact of EUR -405 million which are included in the headings "Other operating income" and "Other gains (losses) and provisions".
- Provisions related to intangible assets and others, amounting to -174 million euros, which are included for their gross amount in the line "Other gains (losses) and provisions".
- Capital gains on the sale of holdings in Prisma and on the integration of the custody business with a net impact of EUR 136 million and EUR 693 million, respectively, which are reflected grossly in "Other gains (losses) and provisions".
- Positive impact of the change in Brazilian tax regulations, net of EUR 551 million, included in "Tax on profit".

Million euros

2018			
Reconciliation of underlying results to statutory results	Underlying results	Adjustments	Statutory results
Net interest income	**34,341**	**—**	**34,341**
Net fee income	11,485	—	11,485
Gains (losses) on financial transactions*	1,797	—	1,797
Other operating income**	801	—	801
Total income	**48,424**	**—**	**48,424**
Administrative expenses, depreciation and amortisation	(22,779)	—	(22,779)
Net operating income* **	**25,645**	**—**	**25,645**
Net loan-loss provisions****	(8,873)	—	(8,873)
Other gains (losses) and provisions*****	(1,995)	(576)	(2,571)
Operating profit/(loss) before tax	**14,777**	**(576)**	**14,201**
Tax on profit	(5,230)	344	(4,886)
Consolidated profit	**9,547**	**(232)**	**9,315**
Non-controlling interests	1,483	22	1,505
Attributable profit to the parent	**8,064**	**(254)**	**7,810**

* Gains (losses) on financial transactions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net, Gain or losses on financial assets and liabilities held for trading, net, Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss, net, Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net, Gain or losses from hedge accounting, net and Exchange differences, net.

** Other operating income includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Dividend income; Income from companies accounted for using the equity method, Other operating income, Other operating expenses, Income from assets under insurance or reinsurance contracts and Expenses from liabilities under insurance or reinsurance contracts.

*** Net Operating Income is used for the Group's internal reporting and management reporting purposes but is not a line item in the statutory consolidated income statement.

**** Net loan-loss provisions refers to Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes line item in the statutory income statement – reclassification of financial assets at amortized cost. Additionally, includes a release of EUR 113 million mainly corresponding to the results by commitments and contingent risks includes in the line of the statutory income statement of provisions or reversal of provisions.

***** Other gains (losses) and provisions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Provisions or reversal of provisions except for a release of EUR 113 million mainly corresponding to results from commitments and contingent risks; Impairment of investments in joint ventures and associates, net; Impairment on non-financial assets, net; Gains or losses on non-financial assets, net; Negative goodwill recognized in results and Gains or losses on non-current assets held for sale not classified as discontinued operations

Explanation of adjustments

- Restructuring costs: The net impact of EUR -300 million on Profit attributable to the Parent, relates to restructuring costs in connection with the integration of Banco Popular, S.A.U., as follows EUR -280 million in Spain, EUR -40 million in corporate center and EUR 20 million in Portugal. The corresponding gross impacts are reflected on the "Other gains (losses) and provisions" line above.

- Negative goodwill in Poland: The negative goodwill of EUR 45 million, relates to the acquisition of the banking and private banking business of Deutsche Bank Polska, S.A.

Million euros

2017			
Reconciliation of underlying results to statutory results	Underlying results	Adjustments	Statutory results
Net interest income	**34,296**	**—**	**34,296**
Net fee income	11,597	—	11,597
Gains (losses) on financial transactions*	1,704	(39)	1,665
Other operating income**	797	—	797
Total income	**48,394**	**(39)**	**48,355**
Administrative expenses, depreciation and amortisation	(22,917)	(76)	(22,993)
Net operating income* **	**25,477**	**(115)**	**25,362**
Net loan-loss provisions****	(9,111)	(98)	(9,209)
Other gains (losses) and provisions*****	(2,813)	(1,249)	(4,062)
Operating profit/(loss) before tax	**13,553**	**(1,462)**	**12,091**
Tax on profit	(4,588)	704	(3,884)
Consolidated profit	**8,965**	**(758)**	**8,207**
Non-controlling interests	1,449	139	1,588
Attributable profit to the parent	**7,516**	**(897)**	**6,619**

* Gains (losses) on financial transactions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net, Gain or losses on financial assets and liabilities held for trading, net, Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss, net, Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net, Gain or losses from hedge accounting, net and Exchange differences, net.

** Other operating income includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Dividend income; Income from companies accounted for using the equity method, Other operating income, Other operating expenses, Income from assets under insurance or reinsurance contracts and Expenses from liabilities under insurance or reinsurance contracts.

*** Net Operating Income is used for the Group's internal reporting and management reporting purposes but is not a line item in the statutory consolidated income statement.

**** Net loan-loss provisions refers to Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes line item in the statutory income statement – reclassification of financial assets at amortized cost. Additionally, includes a release of EUR 50 million mainly corresponding to the results by commitments and contingent risks includes in the line of the statutory income statement of provisions or reversal of provisions.

***** Other gains (losses) and provisions includes the following line items in the statutory income statement, which are presented net for internal reporting and management reporting purposes: Provisions or reversal of provisions except a release of EUR 50 million mainly corresponding to results from commitments and contingent risks; Impairment of investments in joint ventures and associates, net; Impairment on non-financial assets, net; Gains or losses on non-financial assets, net; Negative goodwill recognized in results and Gains or losses on non-current assets held for sale not classified as discontinued operations.

Explanation of adjustments

- Allfunds Bank, S.A. sale: corresponds to the sale by the Bank and its partners of 100% of Allfunds Bank, S.A. capital, obtaining an amount of EUR 501 million from the sale of its 25% stake in Allfunds Bank, S.A., resulting in gains of EUR 425 million recognised in "Other gains (losses) and provisions" and of EUR 297 million net of tax.
- Restructuring Costs and equity impairments: relates to the charge of EUR -425 million on "Other gains (losses) and provisions" (EUR -300 million net of tax) for the integration of Banco Popular Español, S.A.U. into the group and an additional charge of EUR -125 million on "Other gains (losses) and provisions" (EUR -85 million after tax effect) mainly related to commercial networks in Germany. During 2017, an additional impairment on equity investment and intangible assets held by the Group has been accounted for a value of EUR -130 million on "Other gains (losses) and provisions", with no tax effect.
- Goodwill Impairment: impairment of goodwill associated with Santander Consumer USA Holdings, Inc. This impairment had a gross impact of EUR -899 million on "Other gains (losses) and provisions" line (EUR -603 million in Profit attributable to the parent).
- US Tax Reform and other impairments: the adjustment primarily corresponds to net impacts of the tax reform in the United States together with other expenses related to provisions for hurricanes and other provisions in the year 2017. The net impact of these adjustments in Profit attributable to the parent adds EUR -76 million.

53. Related parties

The parties related to the Group are deemed to include, in addition to its subsidiaries, associates and joint ventures, the Bank's key management personnel (the members of its board of directors and the executive vice presidents, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following below is the balance sheet balances and amounts of the Group's income statement corresponding to operations with the parties related to it, distinguishing between associates and joint ventures, members of the Bank's board of directors, the Bank's executive vice presidents, and other related parties. Related-party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognised.

Million euros

	2019				2018				2017			
	Associates and joint ventures	Members of the board of directors	Executive vicepresidents	Other related parties	Associates and joint ventures	Members of the board of directors	Executive vicepresidents	Other related parties	Associates and joint ventures	Members of the board of directors	Executive vicepresidents	Other related parties
Assets:	**9,659**	**—**	**26**	**104**	**7,202**	**—**	**30**	**256**	**6,048**	**—**	**21**	**300**
Cash, cash balances at central banks and other deposits on demand	740	—	—	—	—	—	—	—	—	—	—	—
Loans and advances: credit institutions	961	—	—	—	704	—	—	—	472	—	—	—
Loans and advances: customers	6,950	—	26	104	6,142	—	30	256	5,081	—	21	279
Debt instruments	848	—	—	—	295	—	—	—	473	—	—	21
Others	160	—	—	—	61	—	—	—	22	—	—	—
Liabilities:	**2,689**	**41**	**12**	**57**	**1,650**	**19**	**12**	**363**	**748**	**19**	**14**	**63**
Financial liabilities: credit institutions	563	—	—	—	8	—	—	—	309	—	—	—
Financial liabilities: customers	2,064	41	12	57	1,596	19	12	363	414	19	14	63
Marketable debt securities	—	—	—	—	8	—	—	—	4	—	—	—
Others	62	—	—	—	38	—	—	—	21	—	—	—
Income statement:	**1,386**	**—**	**—**	**2**	**993**	**—**	**—**	**31**	**1,020**	**—**	**—**	**14**
Interest income	111	—	—	1	73	—	—	14	57	—	—	8
Interest expense	15	—	—	—	3	—	—	1	3	—	—	—
Gains/losses on financial assets and liabilities and others	47	—	—	—	82	—	—	—	302	—	—	—
Commission income	1,269	—	—	1	853	—	—	18	735	—	—	6
Commission expense	26	—	—	—	12	—	—	—	71	—	—	—
Other:	**4,219**	**7**	**3**	**49**	**4,707**	**9**	**3**	**782**	**3,881**	**7**	**3**	**597**
Contingent liabilities and others	17	5	2	38	21	7	1	508	6	6	1	352
Contingent commitments	197	1	1	6	393	1	2	64	301	1	2	60
Derivative financial instruments	4,005	1	—	5	4,293	1	—	210	3,574	—	—	185

The remaining required information is detailed in Notes 5, 14 and 47.c.

54. Risk management

a) Cornerstones of the risk function

Our risk principles are mandatory and must be followed at all times. They take into account regulatory requirements and market best practices. They are the following:

1. **A strong risk culture (Risk Pro)**, as part of '*The Santander Way*', which is followed by all employees, covers all risks and promotes socially responsible management that contributes to Santander's long-term sustainability.
2. **All employees are responsible for managing risk.** They must be aware of, and understand, the risks generated in their day-to-day activities, avoiding risks where the impacts are unknown or exceed the Group's risk appetite limits.
3. **Engagement of senior management**, ensuring consistent management and control of risk through their conduct, actions and communication. They also promote our risk culture and assess its degree of implementation, overseeing that the risk profile is kept within the levels defined by the our risk appetite.
4. **Independence of the risk management and control functions**, consistent with the three lines of defence model.
5. **A forward-looking and comprehensive approach to risk management and control** across all businesses and risk types.
6. **Complete and timely information management**, enabling risks to be appropriately identified, assessed, managed and reported to the corresponding level.

These principles, combined with a series of tools and processes that are embedded in the Group's strategic planning, such as our risk appetite statement, risk profile assessment, scenario analysis, and our risk reporting structure, annual planning and budget process, provide a holistic control structure for the entire Group.

1. Main risks of the group's financial instruments

The main risk categories in which the Group has its most significant current and/or potential exposures, thus facilitating the identification thereof, includes the following:

- Credit risk: is the risk of financial loss arising from the default or credit quality deterioration of a customer or other third party, to which Santander has either directly provided credit or for which it has assumed a contractual obligation.
- Market risk: is the risk incurred as a result of changes in market factors that affect the value of positions in the trading book.
- Liquidity risk: is the risk that Santander does not have the liquid financial resources to meet its obligations when they fall due, or can only obtain them at high cost.
- Structural Risk: is the risk arising from the management of different balance sheet items, not only in the banking book but also in relation to insurance and pension activities. It includes the risk of Santander not having an adequate amount or quality of capital to meet its internal business objectives, regulatory requirements or market expectations.
- Operational risk: is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including conduct risk.
- Regulatory Compliance Risk: risk of non-compliance with legal and regulatory requirements as well as supervisors expectations, which may result in legal or regulatory sanctions, including fines or other financial implications.
- Model Risk: is the risk of loss arising from inaccurate predictions, causing a sub-optimal decision, or from a model being implemented or used inappropriately.
- Reputational Risk: the risk of current or potential negative economic impact to the Bank due to damage to its perception on the part of employees, customers, shareholders/investors and the wider community.
- Strategic Risk: is the risk of loss or damage arising from strategic decisions or their poor implementation that impact the medium and long term interests of our key stakeholders, or from an inability to adapt to external developments.

In addition, climate-change related risk drivers - whether physical or transition-led - have been identified as factors that could aggravate the existing risks in the medium and long term.

The classification of risks is critical to ensure an effective risk management and control. All identified risks should be therefore referenced to the aforementioned risk categories in order to organise their management, control and related information.

2. Risk governance

The Group has a robust risk governance structure, aimed at ensuring the effective control of its risk profile in accordance with the risk appetite defined by the board of directors.

The board of directors is responsible for approving the general framework for risk management and control, including tax risks.

This governance structure is underpinned by the distribution of roles among the three lines of defence, a robust structure of committees and a strong relationship between the Group and its subsidiaries. All supported by our Group-wide risk culture, *Risk Pro*.

2.1 Lines of defense

At Santander, we follow a three lines of defence model to ensure effective risk management and control:

- First line: Businesses and all other functions that originate risks make up the first line of defence. These functions must ensure that these risks are aligned with the approved risk appetite and associated limits. Any unit that originates risk has primary responsibility for the management of that risk.

- Second line: Risk and Compliance & Conduct functions. Their role is to provide independent oversight and challenge to the risk management activities performed by the first line of defence. These functions ensure that risks are managed in accordance with the risk appetite defined by the board and promote a strong risk culture throughout the organisation.
- Third line: The Internal Audit function, which regularly assesses policies, methodologies and procedures to ensure they are appropriate and effectively implemented for the management and control of all risks.

The Risk, Compliance and Conduct and Internal Audit functions are separate and independent and have direct access to the board of directors and its committees.

2.2 Risk committee structure

The **board of directors** is responsible for risk management and control and, in particular, for approving and periodically reviewing the risk appetite and the risk framework, as well as for promoting a strong risk culture across the whole organisation. In order to conduct these tasks, the board has the support of different committees, this is the case of the **risk supervision**, **regulation and compliance committee** and the **Group's executive committee**, which have specific risk related responsibilities.

The **Group Chief Risk Officer (Group CRO)** is responsible for the oversight of all risks and for challenging and advising the business lines on how they manage risks, with direct access and reporting to the board risk committee as well as to the board of directors.

Other bodies that make up the highest level of risk governance, with authority delegated by the board of directors, are the executive risk committee and the risk control committee, details of which are provided below:

- **Executive risk committee (ERC)**

  This committee is responsible for risk management, within the authorities delegated by the board. The committee makes risk taking decisions at the highest level, ensuring that they are within the established risk appetite limits for the Group.

  Chair: CEO.

  Composition: nominated executive directors and other Group senior management. Risk, Finance and Compliance & Conduct functions, among others, are represented. The Group CRO has the power of veto over the committee's decisions.

- **Risk control committee (RCC)**

  This committee is responsible for risk control, determining whether the risks originated by the business lines are managed within our risk appetite limits and providing a holistic view of all risks. This includes the identification and monitoring of both current and emerging risks, and evaluating their impact on the Group's risk profile.

  Chair: Group CRO.

  Composition: senior management members from the Risk, Compliance & Conduct, Finance, Accounting and Management Control functions are represented among others. Senior members of the Risk function (CROs) from the Group's subsidiaries regularly take part to report their own risk profiles.

Additionally, each risk factor has its own fora and/or regular meetings to manage and control the risks under their scope. Among others, they have the following responsibilities:

- Advise the Group CRO and the risk control committee that risks are being managed in accordance with the Group's risk appetite.
- Carry out regular monitoring of each risk factor.
- Oversee the measures adopted to comply with the expectations of the supervisors and internal and external auditors.

For certain matters, the Group may establish specific additional governance. For example:

- Following the UK's decision to leave the EU, the Group and Santander UK set up steering committees and separate working groups to: i) monitor the Brexit process; ii) develop contingency plans; and iii) escalate and take decisions to minimise potential impacts on our business and customers.
- In order to steer and supervise the review process of the interest rate benchmarks (which include among others EONIA, LIBOR and EURIBOR, with specific solutions for each of them: EONIA will be discontinued on January 2022, LIBOR is likely to cease in December 2021, while EURIBOR will remain as a compliant benchmark), the Group established the IBOR steering group. This group is responsible for driving the project's strategic direction and take the required decisions to ensure a correct transition across all Santander businesses and entities. The IBOR steering group operates in accordance with the methodology defined by the Group's Execution Project Office and is chaired by the project's global sponsor, the global head of SCIB, with the additional support of eight senior executives.

2.3 The Group's relationship with subsidiaries regarding risk management

In all our subsidiaries, the risk management and control model is aligned with the frameworks established by the Group's board of directors. The local units adhere to them through their respective boards and adapt them to their own market conditions and regulation.

In order to conduct the review of the aggregated oversight of all risks, the Group exercises a validation and challenge role with regard to the policies of the subsidiaries and transactions.

This creates a common risk management and control model across the Group.

The 'Group-subsidiary governance model and good governance practices for subsidiaries' sets up regular interaction and functional reporting by each local CRO to the Group CRO, as well as the latter's participation in the appointments process, target setting and local CRO's evaluation and remuneration, in order to ensure that risks are effectively controlled.

To strengthen the relationship between the Group and its subsidiaries, various initiatives have been implemented in order to develop an advanced risk management model across the Group:

- Promoting collaboration to accelerate the sharing of best practices, strengthen existing processes and accelerate innovation.
- Talent identification in the risk teams, developing international mobility through the global risk talent programme.
- Risk Subject Matter Experts: leveraging on our “best in class” experts across the Group.
- Peer review: constructive review of specific matters within the risk function, performed by experts from different subsidiaries.

3. Management processes and tools

To ensure that an effective risk management and control is carried out, the Group has defined several key processes that rely on a series of tools, which are described as follows:

3.1 Risk appetite and structure of limits

The Group defines the risk appetite as the amount and type of risks that are considered prudent to assume for implementing our business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances. When establishing the risk appetite, adverse scenarios that could have a negative impact on capital and liquidity levels, profitability and/or the share price are taken into account.

The risk appetite statement (RAS) is annually set by the board for the entire Group. Additionally, the boards of our subsidiaries also set their own risk appetite on an annual basis, aligned and embedded within the Group’s consolidated statement. Each subsidiary's statement is then further cascaded down in the form of management limits and policies by risk type, portfolio and activity segment.

Santander risk appetite principles

The following principles govern the Group’s risk appetite in all its subsidiaries:

- **Responsibility of the board and of senior management.** The board is responsible for setting the risk appetite and for monitoring compliance with its requirements.
- **Holistic risk view (enterprise wide risk), risk profile backtesting and challenge.** The risk appetite must consider all significant risks and facilitate an aggregate view of the risk profile through the use of quantitative metrics and qualitative indicators.
- **Forward-looking view**. The risk appetite must consider the desirable risk profile for the short and medium term, taking into account both the most plausible circumstances and adverse/ stress scenarios.
- **Embedding and alignment with strategic and business plans.** The risk appetite is an integral part of the strategic and business planning, which is embedded in the daily management by cascading down the aggregated limits to those set at portfolio level, subsidiary or business line, as well as through the key risk appetite processes.
- **Coherence across the various subsidiaries and a common risk language throughout the Group**. Each subsidiary's risk appetite must be coherent with that of the Group.
- **Periodic review, backtesting and adoption of best practices and regulatory requirements**. Monitoring and control mechanisms are established to ensure the risk profile is maintained, and the necessary corrective and mitigating actions are taken in the event of non-compliance.

Limits structure, monitoring and control

Risk appetite is expressed through qualitative statements and quantitative limits structured around 5 main axes:

- **Results volatility:**
  - Maximum loss that the Group is willing to accept under a scenario of acute stress.
- **Solvency**
  - Minimum capital position that the Group is willing to accept under a scenario of acute stress.
  - Maximum leverage the Group is willing to accept under a scenario of acute stress.
- **Liquidity**
  - Minimum structural liquidity position.
  - Minimum liquidity horizon position that the Group is willing to accept under a scenario of acute stress.
  - Minimum liquidity coverage position.
- **Concentration:**
  - Concentration in single names, sectors and portfolios.
  - Concentration in non-investment grade counterparties.
  - Concentration in large exposures.
- **Non-financial risks**
  - Qualitative non-financial risk indicators:
    - Fraud.
    - Technological.
    - Security and cyber-risk.
    - Reputational.
    - Others.
  - Maximum operational risk losses.
  - Maximum risk profile.

Compliance with risk appetite limits is regularly monitored. Specialised control functions report the appropriateness of the risk profile to the board and its committees on a monthly basis.

Linkage between the risk appetite limits and those of the business units and portfolios is a key element for making the risk appetite an effective risk management tool. The management policies and structure of limits used to manage the different categories and types of risk are directly related to the principles and limits defined in the the risk appetite statement.

3.2. Risk profile assessment (RPA)

The Group carries out identification and assessment tests on the different risks that it is exposed to, involving the different lines of defence, establishing management standards that not only meet regulatory requirements but also reflect best practices in the market and reinforce our risk culture.

The results of these risk identification and assessment (RIA) exercises are integrated to evaluate the Group risk profile through the risk profile assessment (RPA). This exercise analyses the development of risks and identifies areas for improvement:

- **Risk performance,** enabling the understanding of residual risk by risk type through a set of metrics and indicators calibrated using international standards.
- **Control environment assessment,** measuring the degree of implementation of the target operating model, as part of our advanced risk management.
- **Forward-looking analysis,** based on stress metrics and identification and/or assessment of the main threats to the strategic plan (Top risks), enabling specific action plans to be put in place to mitigate potential impacts and their monitoring.

Based on this periodic identification and assessment exercises for the different risks, as of December 2019 the Group maintains a solid medium-low risk profile.

In 2019, improvements were centred on three main areas: i) reviewing the control environment standards ii) risk performance indicators and their alignment with risk appetite metrics, and iii) enhancing the perimeter by integrating reputational risk as a cross layer in the risk profile assessment and strengthening the business performance area by enriching capital metrics.

3.3. Scenario analysis

Another fundamental tool that is used by the Group to ensure an effective risk management and control is the analysis of potential impacts triggered by different scenarios related to the environment in which the Group operates. These scenarios are expressed both in terms of macroeconomic variables, as well as other variables that may affect our risk profile.

This is usually known as “scenario analysis”, which is a robust and useful tool for risk management at all levels. It enables the Group to assess its resilience under stressed conditions and the identification of possible mitigating actions to be implemented in case the projected scenarios start to materialise. Its ultimate objective is to reinforce the stability of income, capital and liquidity.

In this respect, the role of our Research and Public Policy team in terms of the generation of the different scenarios as well as the strict governance and control processes that these exercises are subject to, including their analysis and review by the senior management as well as the different divisions involved, including Internal Audit, are fundamental to ensure their quality.

The robustness and consistency of the scenario analysis exercises are therefore based on the following pillars:

- Development and integration of models that estimate the future performance of metrics, such as credit losses, based on historic information that can be internal to the Group and/or external from the market, as well as on simulation techniques.
- Challenge and backtesting of model results to ensure their quality.
- Inclusion of expert judgement and deep knowledge of our different portfolios.
- Robust governance of the whole process, covering models, scenarios, assumptions and results rationale, as well as their impact in terms of management actions to be taken.

The application of these pillars in the European Banking Authority (EBA) stress test exercise that is executed and reported biennially, has enabled Santander to satisfactorily meet the defined quantitative and qualitative requirements, contributing to the excellent results obtained by the Group.

Applications of scenario analysis

The EBA guidelines establish that scenario analysis should be integrated in the Group’s risk management framework and management processes. This requires a forward looking view in terms of risk management and capital and liquidity strategic planning.

Scenario analysis is included in the Group’s risk framework, ensuring that any impact affecting its solvency or liquidity can be rapidly identified and addressed. With this objective in mind, a systematic review of the exposure to different types of risks is included, not only under the baseline scenario but also under various simulated adverse scenarios.

The Group has a map of uses in place to strengthen their alignment across the different risk types, and to facilitate the continuous improvement of such uses. An additional fundamental goal is to reinforce the integration and synergies between the different regulatory and internal exercises.

Scenario analysis forms an integral part of several key Group processes:

- **Regulatory uses:** exercises conducted under the European regulatory guidelines or those of each local supervisor in those geographies where the Group operates.
- **Internal capital adequacy assessment** (ICAAP) and **liquidity assessment** (ILAAP) in which, while the regulators define certain requirements, the Group develops its own methodology to assess its capital and liquidity levels under different stress scenarios to support planning and the effective management of these two critical aspects.
- **Risk appetite**. This includes stressed metrics for which the Group defines maximum levels of losses (or minimum liquidity levels) that should not be exceeded. These exercises are related to those conducted for capital and liquidity, although they have different frequencies and present different granularity levels.

- **Climate change scenario analysis**: the objective is to provide a scenario-based assessment of those risks and opportunities related to climate change. It is currently focused on the wholesale portfolio as a pilot.
- **Recurrent risk management** in different processes/ exercises:
  - **Budget and strategic planning process**, in the development of commercial risk approval policies, in the global risk assessment for senior management or in specific analysis regarding activity profiles or portfolios.
  - Identification of **Top risks** on the basis of a systematic process to identify and assess all risks which the Group is exposed to. These Top risks are selected and a macroeconomic or idiosyncratic scenario is associated with each one, to assess their potential impact on the Group.
  - **Recovery plan**, which is drawn up annually to establish the tools available to the Group to survive in the event of an extremely severe financial crisis. The plan sets out a series of financial and macroeconomic stress scenarios, with differing degrees of severity that include idiosyncratic and/or systemic events.
  - **IFRS 9,** since 1 January 2018, the processes, models and scenario analysis methodologies have been included in the regulatory provision requirements.

3.4. Risk Reporting Structure (RRS)

The reporting model of the Group continues to be enhanced after the simplification and optimisation of processes, the quality controls implemented and the strengthening of our effective communication to senior management. Furthermore, the overall view of all risks has been consolidated, based on complete, precise and recurring information allowing the Group's senior management to assess the risk profile and decide accordingly.

The risk reporting of the Group taxonomy contains three types of reports that are released on a monthly basis: the Group risk report (which is distributed to senior management), the subsidiaries risk reports, and the reports on each of the risk factors identified in the Group's risk framework.

This taxonomy is characterised by the following:

- All risk factors included in the Group's risk framework are covered.
- Balance between data, analysis and qualitative comments is maintained throughout the reports, including forward-looking measures, risk appetite information, limits and emerging risks.
- The holistic view is combined with a deeper analysis of each risk factor and geographic area and region.
- A homogenous structure and criteria, as each subsidiary may define its own reports following local standards. Therefore, a consolidated view is provided to enable the analysis of all risks based on common definitions
- All the metrics reported follow RDA criteria, ensuring the quality and consistency of the data included in all risk reports.

b) Credit risk

1. Introduction to the credit risk treatment

In Santander, credit risk is defined as the risk that a financial loss will be incurred arising from the default or credit quality deterioration of a customer or other third party, with whom the Group has assumed a contractual obligation, including providing credit, that may therefore not be fulfilled.

2. Main aggregates and variations

Following are the main aggregates relating to credit risk from our activities with customers:

Main credit risk aggregates from customer business

Main credit risk performance metrics from activity with customers

December 2019 data

	Credit risk with customers* (EUR million)			Non-performing loans (EUR million)			NPL ratio (%)		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Europe	**722,661**	**688,810**	**671,776**	**23,519**	**25,287**	**27,964**	**3.25**	**3.67**	**4.16**
Spain	213,668	227,401	237,327	14,824	16,651	18,270	6.94	7.32	7.70
UK	275,941	252,919	242,993	2,786	2,739	3,210	1.01	1.08	1.32
S. Consumer Finance	105,048	97,922	92,589	2,416	2,244	2,319	2.30	2.29	2.50
Portugal	37,978	38,340	39,394	1,834	2,279	2,959	4.83	5.94	7.51
Poland	33,566	30,783	24,391	1,447	1,317	1,114	4.31	4.28	4.57
North America	**143,839**	**125,916**	**106,129**	**3,165**	**3,510**	**2,935**	**2.20**	**2.79**	**2.77**
US	105,792	92,152	77,190	2,331	2,688	2,156	2.20	2.92	2.79
SBNA	56,640	51,049	44,237	389	450	536	0.69	0.88	1.21
SC USA	29,021	26,424	24,079	1,787	2,043	1,410	6.16	7.73	5.86
Mexico	38,047	33,764	28,939	834	822	779	2.19	2.43	2.69
South America	**143,428**	**138,134**	**138,577**	**6,972**	**6,639**	**6,685**	**4.86**	**4.81**	**4.82**
Brazil	88,893	84,212	83,076	4,727	4,418	4,391	5.32	5.25	5.29
Chile	42,000	41,268	40,406	1,947	1,925	2,004	4.64	4.66	4.96
Argentina	5,044	5,631	8,085	171	179	202	3.39	3.17	2.50
Santander Global Platform	**706**	**340**	**96**	**4**	**4**	**4**	**0.63**	**1.21**	**4.56**
Corporte Centre	**5,872**	**4,953**	**5,369**	**138**	**252**	**8**	**2.34**	**5.09**	**0.15**
Total Group	**1,016,507**	**958,153**	**920,968**	**33,799**	**35,692**	**37,596**	**3.32**	**3.73**	**4.08**

* Includes gross lending to customers, guarantees and documentary credits.

Key figures by geographic region are described below:

- **Europe:** NPL ratio decreases to 3.25% (-42 bp compared to 2018), due to the significant decrease of non-performing loans in Spain and Portugal; and the slight increase in the UK and SCF, offset by a proportionally higher increase in total loans.
- **North America:** NPL ratio down to 2.20% (-59 bp vs 2018) due to the good performance of the region, especially in the US which fell by 72 bp, compared to 2018.
- **South America:** NPL ratio stands at 4.86%, increasing in Brazil and Argentina (+7 bp and +22 bp compared to 2018, respectively); and decreasing in Chile (-2 bp vs to 2018).

Information on the estimation of impairment losses

The Group estimates the impairment losses by calculating the expected loss at 12 months or for the entire life of the transaction, based on the stage in which each financial asset is classified in accordance with IFRS 9.

Then, considering the most relevant units of the Group, which represent approximately 97% of the total Group's provisions. The table below shows the impairment losses associated with each stage as of 31 December 2019 and 2018.

In addition, depending on the transactions credit quality, the exposure is divided into three grades (investment, speculation and default):

Exposure and impairment losses by stage

EUR million

	2019			
Credit Quality*	Stage 1	Stage 2	Stage 3	Total
Investment grade	552,763	5,532	—	558,295
Speculation grade	306,880	47,365	—	354,245
Default	—	—	31,363	31,363
Total Risk **	**859,643**	**52,897**	**31,363**	**943,903**
Impairment losses***	**3,980**	**4,311**	**13,276**	**21,567**

* Detail of credit quality ratings calculated for Group management purposes.
** Credit to Customers (Amortized Cost and FV through OCI) + Off Balance Sheet with Customers (Financial Guarantees, Technical Guarantees and Letters of Credit), (including temporary asset acquisitions).
*** Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses by stage

EUR million

	2018			
Credit Quality*	Stage 1	Stage 2	Stage 3	Total
Investment grade	685,507	7,176	—	692,683
Speculation grade	222,495	47,439	—	269,935
Default	—	—	30,795	30,795
Total Risk **	**908,002**	**54,616**	**30,795**	**993,412**
Impairment losses	**3,823**	**4,644**	**12,504**	**20,970**

* Detail of credit quality ratings calculated for Group management purposes.
** Amortised cost assets + Loans and advances + loan commitments granted.

The remaining units that form the totality of the Group exposure, contributed EUR 38,174 million in stage 1, EUR 442 million in stage 2, and EUR 1,743 million in stage 3 (In 2018 EUR 151,906 million in stage 1, EUR 700 million in stage 2, and EUR 1,743 million in stage 3), and impairment losses of EUR 264 million in stage 1, EUR 306 million for stage 2, and EUR 91 million in stage 3 (In 2018 EUR 152 million, EUR 163 million and EUR 1,145 million in stage 1, stage 2 and stage 3, respectively).

The rest of the exposure, including all financial instruments not included before, amounts to EUR 507.479 million, as this includes all undrawn authorized lines (loan commitments). In 2018, the rest of the exposure amounted to EUR 242.867 million, due to the fact that the undrawn authorized lines were included in the "Total Risk" reported in the previous tables. The reporting criterion has been updated in 2019 with regards to the undrawn authorized lines in order to align the exposure figures reported in this section to the rest of the report.

In addition, at 31 December 2019, the Group had EUR 706 million (31 December, 2018: EUR 757 million) of purchased credit-impaired assets, which relate mainly to the business combinations carried out by the Group.

Regarding the evolution of credit risk provisions, the Group, in collaboration with the main geographical areas, monitors them by carrying out sensitivity analyses considering changes in macroeconomic scenarios and main variables that have an impact on the financial assets distribution in the different stages and calculating credit risk provisions.

Additionally, based on similar macroeconomic scenarios, the Group also performs stress tests and sensitivity analysis in a regular basis, such as ICAAP, strategic plans, budgets and recovery and resolution plans. In this sense, a prospective view of the sensitivity of each of the Group's loan portfolio is created in relation to the possible deviation from the base scenario, considering both the macroeconomic developments in different scenarios and the three year evolution of the business. These tests include potentially adverse and favourable scenarios.

The transactions classification into the different IFRS 9 stages is carried out in accordance with the regulation through the risk management policies of our subsidiaries, which are consistent with the risk management policies defined by the Group. In order to determine the classification in stage 2, the Group assesses whether there has been a significant increase in credit risk (SICR) since the initial recognition of the transactions, considering a series of common principles throughout the Group that guarantee that all financial instruments are subject to this assessment, which considers the particularities of each portfolio and type of product on the basis of various quantitative and qualitative indicators. Furthermore, transactions are subject to the expert judgement of the analysts, who set the thresholds under an effective integration in management. All is implemented according to the approved governance.

The establishment of judgements and criteria thresholds used by the Group are based on a series of principles, and develop a set of techniques. The principles are as follows:

- Universality: all financial instruments subject to a credit rating must be assessed for their possible Significant Increment Credit Risk (SICR).
- Proportionality: the definition of the SICR must take into account the particularities of each portfolio
- Materiality: its implementation must be also consistent with the relevance of each portfolio so as not to inclur in unnecessary costs or efforts.

- Holistic vision: the approach selected must be a combination of the most relevant credit risk aspects (e.g. quantitative and qualitative).
- Application of IFRS 9: the approach must take into consideration IFRS 9 characteristics, focusing on a comparison with credit risk at initial recognition, as well as considering forward-looking information.
- Risk management integration: the criteria must be consistent with those metrics considered in the day-to-day risk management.
- Documentation: Appropriate documentation must be prepared.

The techniques are summarised below:

- Stability of stage 2: in the absence of significant changes in the portfolios credit quality, the volume of assets in stage 2 should maintain a certain stability as a whole.
- Economic reasonableness: at transaction level, stage 2 is expected to be a transitional rating for exposures that could eventually move to a deteriorating credit status at some point or stage 3, as well as for exposures that have suffered credit deterioration and whose credit quality is improving. .
- Predictive power: it is expected that the SICR definition avoids, as fas as possible, direct migrations from stage 1 to stage 3 without having been previously classified in stage 2.
- Time in stage 2: it is expected that the exposures do not remain categorized as stage 2 for an excessive time.

The application of the aforementioned techniques, conclude in the setting of one or several thresholds for each portfolio in each geography. Likewise, these thresholds are subject to a regular review by means of calibration tests, which may entail updating the thresholds types or their values.

3.Detail of the main geographical areas

Following is the risk information related to the most relevant geographies in exposure and credit risk allowances.

This information includes sensitivity analysis, consisting on simulations of +/-100 bp in the main macroeconomic variables. A set of specific and complete scenarios is used in each geography, where different shocks that affect both the reference variable as well as the rest of the parameters is simulated. These shocks may be originated by productivity, tax, wages or exchange and interest rates factors. Sensitivity is measured as the average variation on expected loss corresponding to the aforementioned scenarios. Following a conservative approach, the negative movements take into account one additional standard deviation in order to reflect the potential higher variability of losses.

3.1. United Kingdom

Credit risk with customers in the UK, including Santander Consumer UK, amounted to 275,941 million euros as of December 2019, an increase of 9.1% compared to year-end 2018 (+3.8% in local currency), representing 27% of the Group's total loan portfolio.

The NPL ratio decreased to 1.01% as of December 2019 (-7 bp vs. year-end 2018), despite macroeconomic uncertainty and thanks to the application of prudent policies, within the risk appetite framework. The amount of non-performing loans increased by 1.7%, below the credit risk growth, supported by the continued strong performance of the mortgage portfolio.

Mortgage portfolio

Due to its size, not only for Santander UK, but also for the Group, the UK mortgage portfolio is closely monitored.

This portfolio, as at December 2019, amounted to 194,354 million euros growing, in local currency, by 4.7% in the year. It consists of residential mortgages granted to new and existing customers, all of which are first lien mortgages. No transactions entail second or successive liens on mortgaged properties.

The real estate market has shown strong resilience with over 4.0% price growth in the year and a stable number of transactions.

All properties are valued independently before each new transaction approval, in accordance with the Group's risk management principles.

The value of the property used as collateral for mortgages that have been granted is updated quarterly by an independent agency, using an automatic valuation system in accordance with market practices and applicable legislation.

Geographically, credit exposures are predominantly situated in the southeast of the UK and the London metropolitan area.

Information on the estimation of impairment losses

The detail of Santander's UK exposure and impairment losses associated with each of the stages at 31 December, 2019 and 2018, is shown below.

In addition, depending on the current operations credit quality, the exposure is divided into three grades (investment, speculation and default):

Exposure and impairment losses by stage

EUR million

	2019			
Credit Quality *	Stage 1	Stage 2	Stage 3	Total
Investment grade	238,985	2,032	—	241,017
Speculation grade	40,281	12,543	—	52,824
Default	—	—	2,821	2,821
Total Exposure **	**279,266**	**14,575**	**2,821**	**296,662**
Impairment losses***	**117**	**470**	**588**	**1,175**

* Detail of credit quality ratings calculated for Group management purposes.

** Credit to Customers (Amortized Cost and FV through OCI) + Off Balance Sheet with Customers (Financial Guarantees, Technical Guarantees and Letters of Credit), (including temporary asset acquisitions).

*** Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses by stage

EUR million

	2018			
Credit Quality *	Stage 1	Stage 2	Stage 3	Total
Investment grade	225,929	1,900	—	227,829
Speculation grade	34,655	11,514	—	46,169
Default	—	—	2,795	2,795
Total Exposure **	**260,584**	**13,415**	**2,795**	**276,793**
Impairment losses	**224**	**335**	**335**	**894**

* Detail of credit quality ratings calculated for Group management purposes.

** Amortised cost assets + Loans and advances + loan commitments granted.

For the estimation of expected losses, prospective information is taken into account. Specifically, Santander UK considers five macroeconomic scenarios, which are updated periodically over a 5-year time horizon. The evolution forecasted for the next five years of the main macroeconomic indicators used by Santander UK to estimate expected losses is presented below:

	2020 - 2024				
Magnitudes	Pessimistic scenario 2	Pessimistic scenario 1	Base scenario	Optimistic scenario 1	Optimistic scenario 2
Interest rate	2.6 %	1.8 %	0.9%	1.8%	1.9%
Unemployment rate	7.3 %	5.1 %	4.0%	3.1%	2.6%
Housing price change	(0.1)%	(0.01)%	0.02%	0.04%	0.06%
GDP growth	0.01 %	0.01 %	0.02%	0.02%	0.03%

	2019-2023				
Magnitudes	Pessimistic scenario 2	Pessimistic scenario 1	Base scenario	Optimistic scenario 1	Optimistic scenario 2
Interest rate	2.3 %	2.5 %	1.5%	1.3%	1.0%
Unemployment rate	8.6 %	6.9 %	4.3%	3.8%	2.8%
Housing price change	(9.5)%	(2.0)%	2.0%	2.3%	3.4%
GDP growth	0.3 %	0.7 %	1.6%	2.1%	2.5%

Each of the macroeconomic scenarios is associated with a given probability of occurrence. In terms of allocation, Santander UK associates the highest weighting to the base scenario, while it associates the lowest weightings to the most extreme or severe scenarios. In addition, at December 31, 2019, the weights used by Santander UK reflect the future prospects of the British economy in relation to its current political and economic position so that higher weights are assigned for negative scenarios:

	2019	2018
Pessimistic scenario 2	15%	10%
Pessimistic scenario 1	30%	30%
Base scenario	40%	40%
Optimistic scenario 1	10%	15%
Optimistic scenario 2	5%	5%

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 b.p. for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision
	Mortgages
GDP Growth	
-100 b.p.	13.11 %
100 b.p.	(5.01)%
Housing price change	
-100 b.p.	7.16 %
100 b.p.	(2.95)%
Unemployment rate	
-100 b.p.	(8.01)%
100 b.p.	16.86 %

With regards to the determination of classification in stage 2, the quantitative criteria applied by Santander UK are based on identifying whether any increase in PD for the expected life of the transaction is greater than both an absolute and a relative threshold (the PDs used in that assessment are adjusted to the transaction's remaining term and also annualised in order to facilitate that the thresholds defined cover the whole range of the transactions maturity dates). The relative threshold established is common to all portfolios and a transaction is considered to exceed this threshold when the PD for the entire life of the transaction increases by 100% with respect to the PD at the time of initial recognition. The absolute threshold, on the other hand, is different for each portfolio depending on the characteristics of the transactions, ranging between 400 b.p. and 30 b.p.

In addition, for each portfolio, a series of specific qualitative criteria is defined to indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. Santander UK, among other criteria, considers that an operation presents a significant increase in risk when it presents irregular positions for more than 30 days. These criteria depend on the risk management practices of each portfolio.

3.2. Spain

Portfolio overview

Total credit risk at Santander Spain, including the real estate unit, amounted to 213,668 million euros, 21% of the Group total, with an appropriate level of diversification by both product and customer segment.

In a context of lower economic and credit growth, new business continues to increase in the segments of consumer loans, SMEs and Corporates. Total credit risk decreased by 6.0% compared to December 2018, mainly due to lower financing extended to public administrations, wholesale banking which also amortises faster than the growth of new business in the individuals segment.

The NPL ratio for the total portfolio was 6.94% (6.58% excluding the real estate unit), -38 bp less than in 2018. This is the result of lower NPLs, which reduced the ratio by -80 bp due to overall better performance, the cure of several restructured positions and portfolio sales. However, this positive effect was partially offset by the decrease observed in the loan portfolio, which had an increasing effect on the ratio of +47 bp.

This credit quality improvement, together with proactive portfolio management, has resulted in a slight decrease in the coverage ratio, standing at 41% at year-end 2019 (-3 pp vs. 2018) as the NPL reduction is focused on those loans with higher expected loss.

The evolution of cost of credit follows the reduction in total loans and a slight increase in provisions.

Information on the estimation of impairment losses

The detail of Santander Spain exposure and impairment losses associated with each of the stages at 31 December, 2019 and, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment losses per stage

EUR million

	2019			
Credit Quality *	Stage 1	Stage 2	Stage 3	TOTAL
Investment grade	139,673	1,315	—	140,988
Speculation grade	42,603	9,115	—	51,718
Default	—	—	14,587	14,587
Total Exposure **	**182,276**	**10,430**	**14,587**	**207,293**
Impairment losses***	**296**	**503**	**5,195**	**5,994**

* Detail of credit quality ratings calculated for Group management purposes.
** Credit to Customers (Amortized Cost and FV through OCI) + Off Balance Sheet with Customers (Financial Guarantees, Technical Guarantees and Letters of Credit), (including temporary asset acquisitions).
*** Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses per stage

EUR million

	2018			
Credit Quality *	Stage 1	Stage 2	Stage 3	Total
Investment grade	171,266	289	—	171,555
Speculation grade	25,108	12,603	—	37,711
Default	—	—	14,941	14,941
Total Exposure **	**196,374**	**12,892**	**14,941**	**224,207**
Impairment losses	**366**	**768**	**5,565**	**6,699**

* Detail of credit quality calculated for the purposes of Grupo Santander's management
** Amortised cost assets + Loans and advances + loan commitments granted.

The remaining legal entities to reach the entire portfolio in Spain contribute another EUR 5.693 million, EUR 445 million and EUR 237 million of exposure (in 2018, EUR 125,544, EUR 66 and EUR 1,657 million) in stage 1, stage 2 and stage 3 respectively, and impairment losses in the amount of EUR 55 million, EUR 41 million and EUR 8 million (EUR 132, EUR 48 and EUR 957 million in 2018) , in stage 1, stage 2 and stage 3, respectively.

For the estimation of the expected losses, the prospective information is taken into account. Specifically, Santander Spain considers three macroeconomic scenarios, which are updated periodically, over a time horizon of five years. The projected evolution for the next five years of the main macroeconomic indicators used by Santander Spain for estimating expected losses is presented below:

	2020 - 2024		
Magnitudes	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	0.0 %	0.0%	0.8%
Unemployment rate	13.7 %	11.7%	9.6%
Housing price change	(0.3)%	1.6%	3.2%
GDP growth	0.8 %	1.6%	2.3%

	2019 - 2023		
Magnitudes	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	0.3%	0.7%	1.2%
Unemployment rate	15.3%	12.3%	10.8%
Housing price change	0.5%	2.2%	3.8%
GDP growth	1.1%	1.8%	2.6%

Each macroeconomic scenarios is associated with a given probability of occurrence. As for its allocation, Santander Spain associates the Base scenario with the highest weight, while associating the lower weights to the most extreme scenarios:

	2019	2018
Pessimistic scenario	30%	30%
Base scenario	40%	40%
Optimistic scenario	30%	30%

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 b.p. for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision	
	Mortgages	Corporate
GDP Growth		
-100 b.p.	13.57 %	4.23 %
100 b.p.	(2.55)%	(0.23)%
Housing price change		
-100 b.p.	2.62 %	2.19 %
100 b.p.	(1.02)%	(0.76)%

With regards to the stage 2 classification determination, the quantitative criteria applied in Santander Spain are based on identifying whether any increase in the PD for the expected lifetime of the transaction is greater than an absolute threshold. The threshold established is different for each portfolio based on the transactions characteristics, considering that a transaction is above this threshold when the PD for the life of the transaction increases by a certain quantity over the initial recognized PD. The values of these thresholds depend on their calibration, carried out periodically as indicated in the preceding paragraphs, which currently ranges from 25% to 1%, depending on the type of product and estimated sensitivity.

In the case of non-retail portfolios, Santander Spain uses the transaction's rating as a reference for its PD, taking into account its rating at the time of origination and its current rating, setting absolute thresholds for the different rating bands that depend on each portfolio characteristics. A SICR implies changes in the rating value between 4 and 0.4, depending on the portfolio and the estimated sensitivity (from lower to higher credit quality, the rating range goes from 1 to 9.3).

In addition, for each portfolio, a series of specific qualitative criteria are defined indicating that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. Santander Spain, among other criteria, considers that an operation presents a significant increase in risk when positions have been past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

Residential mortgage portfolio

Residential mortgages in Spain, including Santander Consumer Finance business, amounted to EUR 62,236 million million (EUR 63,290 million in 2018), 99.51%of which have a mortgage guarantee (99.14% in 2018).

	2019	
EUR million	Gross amount	*Of which: non - performing*
Home purchase loans to families	62,236	2,649
Without mortgage guarantee	*306*	*14*
With mortgage guarantee	*61,930*	*2,635*

	2018	
EUR million	Gross amount	*Of which: non - performing*
Home purchase loans to families	63,290	2,493
Without mortgage guarantee	*545*	*54*
With mortgage guarantee	*62,745*	*2,439*

The mortgage portfolio for the acquisition of homes in Spain is characterised by its medium-low risk profile, which limits expectations of any potential additional impairment:

- Principal is repaid on all mortgages from the start.
- Early repayment is common so the average life of the transaction is well below that of the contract.
- High quality of collateral, concentrated almost exclusively in financing for first homes.
- The average affordability rate stood at 26% (28% in 2018).
- The 85% of the portfolio has a LTV below 80% calculated as total risk/latest available house appraisal.

Breakdown of the credit with mortgage guarantee to households for house acquisition, according to the percentage that the total risk represents on the amount of the latest available valuation (loan to value):

	2019					
	Loan to value ratio					
Million euros	Less than or equal to 40%	More than 40% and less than 60%	More than 60% and less than 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Gross amount	16,211	18,652	17,947	5,398	3,722	61,930
Of which: watchlist /non-performing	*228*	*297*	*422*	*435*	*1,253*	*2,635*

Businesses portfolio

Credit risk assumed directly with SMEs and Corporates amounts to 134,508 million euros, representing the main lending segment at Santander Spain with 63% of the total. Most of the portfolio corresponds to customers who have been assigned a credit analyst to monitor them continuously throughout the risk cycle.

The portfolio is highly diversified, with no significant concentrations by sector of activity.

The NPL ratio for this portfolio stood at 7.31% in December 2019. Despite the reduction in total risk, the NPL ratio fell by 21 bp compared to December 2018, due to a better performance, the normalisation of several restructured positions in corporates and portfolio sales.

Real estate activity

The real estate unit in Spain has been consolidated within Santander Spain. We should differentiate between the part of the portfolio resulting from the past financial crisis and the new business that is identified as viable. In both cases, Santander has specialized teams that are not only part of the Risk function but that supplement the management of this exposure and cover the whole life-cycle of these transactions: commercial management, legal treatment and eventually, collections and recoveries.

In recent years the Group's strategy has been geared towards reducing these assets. The changes in gross property development loans to customers were as follows:

EUR million	2019	2018	2017
Balance at beginning of year	4,812	6,472	5,515
Foreclosed assets	(29)	(100)	(27)
Banco Popular S.A.U. (perimeter)	—	—	2,934
Reductions*	(1,685)	(1,267)	(1,620)
Written-off assets	(159)	(293)	(330)
Balance at end of year	**2,939**	**4,812**	**6,472**

* Includes portfolio sales, cash recoveries and third-party subrogations and new production.

The NPL ratio of this portfolio ended the year at 9.73% (compared with 27.58% at December 2018) due to the decrease of non-performing assets in the troubled loan portfolio and, in particular, to the sharp reduction in lending in this segment. The table below shows the distribution of the portfolio. The coverage ratio of the real estate doubtful exposure in Spain stands at 35.31% (35.27% in 2018).

	2019		
Million euros	Gross amount	Excess of gross exposure over maximum recoverable amount of effective collateral	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (including land) (business in Spain)	2,939	435	115
Of which: watchlist/ non-performing	*286*	*87*	*101*
Memorandum items: Written-off assets	963		

Memorandum items: Data from the public consolidated balance sheet

EUR million	2019
	Carrying amount
Total loans and advances to customers excluding the Public sector (business in Spain) (Book value)	232,027
Total consolidated assets (Total business) (Book value)	1,522,695
Impairment losses and credit risk allowances. Coverage for unimpaired assets (business in Spain)	1,349

At year-end, the concentration of this portfolio was as follows:

	Loans: gross amount
EUR million	2019
1. Without mortgage guarantee	146
2. With mortgage guarantee	2,793
2.1 Completed buildings	1,552
2.1.1 Residential	914
2.1.2 Other	638
2.2 Buildings and other constructions under construction	1,081
2.2.1 Residential	1,036
2.2.2 Other	45
2.3 Land	160
2.3.1 Developed consolidated land	109
2.3.2 Other land	51
Total	**2,939**

Policies and strategies in place for the management of these risks

The policies in force for the management of this portfolio, which are reviewed and approved on a regular basis by senior management, are currently geared towards reducing and securing the outstanding exposure, albeit without neglecting any viable new business that may be identified.

As has already been disclosed in this section, the Group's anticipatory management of these risks enabled it to significantly reduce its exposure, and it has a granular, geographically diversified portfolio in which the financing of second residences accounts for a very small proportion of the total.

Mortgage lending on non-urban land represents a low percentage of mortgage exposure to land, while the remainder relates to land already classified as urban or approved for development.

The significant reduction of exposure in the case of residential financing projects in which the construction work has already been completed was based on various actions. As well as the specialised marketing channels already in existence, campaigns were carried out with the support of specific teams of managers for this function who, in the case of the Santander network, were directly supervised by the recoveries business area. These campaigns, which involved the direct management of the projects with property developers and purchasers, reducing sale prices and adapting the lending conditions to the buyers' needs, enabled loans already in force to be subrogated. These subrogations enable the Group to diversify its risk in a business segment that displays a clearly lower non-performing loans ratio.

In the case of construction-phase projects that are experiencing difficulties of any kind, the policy adopted is to ensure completion of the construction work so as to obtain completed buildings that can be sold in the market. To achieve this aim, the projects are analysed on a case-by-case basis in order to adopt the most effective series of measures for each case (structured payments to suppliers to ensure completion of the work, specific schedules for drawing down amounts, etc.).

For the new post-crisis real estate business production, the admission processes are managed by specialized teams that work in direct coordination with the commercial teams, with clearly defined policies and criteria:

The loan approval processes are managed by specialist teams which, working in direct coordination with the sales teams, have a set of clearly defined policies and criteria:

- Property developers with a robust solvency profile and a proven track record in the market.
- Medium-high level projects, conducting to contracted demand and significant cities.
- Strict criteria regarding the specific parameters of the transactions: exclusive financing for the construction cost, high percentages of accredited sales, principal residence financing, etc.
- Support of financing of government-subsidised housing, with accredited sales percentages.
- Restricted financing of land purchases dealt with exceptional nature.

In addition to the permanent control performed by its risk monitoring teams, the Group has a specialist technical unit that monitors and controls this portfolio with regard to the stage of completion of construction work, planning compliance and sales control, and validates and controls progress billing payments. The Group has created a set of specific tools for this function. All mortgage distributions, amounts drawn down of any kind, changes made to the grace periods, etc. are authorised on a centralised basis.

Foreclosed properties

At 31 December, 2019, the net balance of these assets amounted to EUR 4,190 million (gross amount: EUR 8,226 million; recognised allowance: EUR 4,036 million, of which EUR 2,812 million related to impairment after the foreclosure date).

The following table shows the detail of the assets foreclosed by the businesses in Spain at the end of 2019:

EUR million	2019 Gross carrying amount	Valuation adjustments	Of which: impairment losses on assets since time of foreclosure	Carrying amount
Property assets arising from financing provided to construction and property development companies	7,044	3,645	2,570	3,399
Of which:				
Completed buildings	*2,306*	*873*	*616*	*1,433*
Residential	*575*	*166*	*108*	*409*
Other	*1,731*	*707*	*508*	*1,024*
Buildings under construction	*219*	*90*	*47*	*129*
Residential	*219*	*90*	*47*	*129*
Other	*—*	*—*	*—*	*—*
Land	*4,519*	*2,682*	*1,907*	*1,837*
Developed land	*1,991*	*1,222*	*934*	*769*
Other land	*2,528*	*1,460*	*973*	*1,068*
Property assets from home purchase mortgage loans to households	932	305	191	627
Other foreclosed property assets	250	86	51	164
Total property assets	**8,226**	**4,036**	**2,812**	**4,190**

In addition, the Group has shareholdings in entities holding foreclosed assets amounting to EUR 1,415 million (mainly Project Quasar Investment 2017, S.L.), and equity instruments foreclosed or received in payment of debts amounting to EUR 69 million.

In recent years, the Group has considered foreclosure to be a more efficient method for resolving cases of default than legal proceedings. The Group initially recognises foreclosed assets at the lower of the carrying amount of the debt (net of provisions) and the fair value of the foreclosed asset (less estimated costs to sell).Subsequent to initial recognition, the assets are measured at the lower of fair value (less costs to sell) and the amount initially recognised.

The fair value of this type of assets is determined by the Group's directors based on evidence obtained from qualified valuers or evidence of recent transactions.

The management of real estate assets on the balance sheet is carried out through companies specializing in the sale of real estate that is complemented by the structure of the commercial network. The sale is realised with levels of price reduction in line with the market situation.

The gross movement in foreclosed properties were as follows (in thousand of million of euros):

	2019	2018	2017*
Gross additions	0.7	0.8	1.4
Disposals	(2.7)	(1.8)	(1.9)
Difference	(2.0)	(1.0)	(0.5)

* Without considering the Blackstone transaction (see Note 3).

3.3. United States

Credit risk at Santander US increased to 105,792 million euros at the end of December representing 10% of the Group total. It comprises the following business units:

Santander Bank N.A.

Santander Bank N.A. business is focused on retail and commercial banking, representing 82% of total Santander US), of which 41% is with individuals and approximately 59% with corporates. One of the main strategic goals is to continue to encourage the further development of the wholesale banking business, which represents 17% of the business.

The NPL ratio decreased, standing at 0.69% (-22 bp in the year) in December. This reduction can be explained by the proactive management of certain exposures and the favourable macro trends reflected in the improvement of customer credit risk profiles in the Corporates and Individuals portfolios. The cost of credit increased to 0.35% due to the normalisation of provisions in the Corporates segment and the increase in auto loans.

Information on the estimation of impairment losses

The detail of Santander Bank, National Association exposure and impairment losses associated with each of the stages at 31 December, 2019 and 2018, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment losses by stage

EUR million

	2019			
Credit Quality *	Stage 1	Stage 2	Stage 3	Total
Investment grade	27,078	763	—	27,841
Speculation grade	32,273	3,964	—	36,237
Default	—	—	419	419
Total Exposure**	**59,351**	**4,727**	**419**	**64,497**
Impairment losses***	**265**	**208**	**71**	**544**

* Detail of credit quality ratings calculated for Group management purposes.
** Credit to Customers (Amortized Cost and FV through OCI) + Off Balance Sheet with Customers (Financial Guarantees, Technical Guarantees and Letters of Credit), (including temporary asset acquisitions).
*** Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses by stage

EUR million

	2018			
Credit Quality *	Stage 1	Stage 2	Stage 3	Total
Investment grade	5,149	—	—	5,149
Speculation grade	60,391	3,784	—	64,175
Default	—	—	448	448
Total Exposure**	**65,540**	**3,784**	**448**	**69,772**
Impairment losses	**233**	**204**	**105**	**542**

* Detail of credit quality ratings calculated for Group management purposes.
** Amortised cost assets + Loans and advances + loan commitments granted.

For the estimation of expected losses, prospective information is taken into account. Specifically, Santander Bank, National Association considers three macroeconomic scenarios, which are updated periodically over a 5-year time horizon. The evolution projected for the next five years of the main macroeconomic indicators used Santander Bank, National Association to estimate expected losses is presented below:

	2020 - 2024			
Magnitudes	Unfavourable scenario 2	Unfavourable scenario 1	Base scenario	Favourable scenario
Interest rate (annual averaged)	1.1%	2.2%	2.3 %	2.7 %
Unemployment rate	7.7%	2.7%	(0.9)%	(2.1)%
House price change	2.6%	3.7%	4.5 %	4.7 %
GDP growth	1.6%	2.1%	2.1 %	2.8 %

	2019-2023		
Magnitudes	Unfavourable scenario	Base scenario	Favourable scenario
Interest rate (annual averaged)	1.3%	2.8%	3.6%
Unemployment rate	6.9%	4.2%	3.8%
House price change	2.2%	3.9%	3.9%
GDP growth	1.5%	2.1%	2.8%

Each of the macroeconomic scenarios is associated with a given probability of occurrence. As for its allocation, Santander Bank, National Association associates the highest weighting to the Base scenario, while associates the lowest weightings to the most extreme scenarios:

	2019	2018
Pessimistic scenario 2	17.5%	20%
Pessimistic scenario 1*	20%	n.a.
Base scenario	32.5%	60%
Optimistic scenario	30%	20%

* The exercise carried out in 2019 includes two adverse scenarios compared to one in 2018, due to the evolution of the local methodology.

In relation to the Stage 2 classification determination, the quantitative criteria applied at SBNA for retail portfolios uses the FICO (Fair Isaac Corporation) score at the time of origination and its current value, establishing different absolute threshold for each portfolio according to their characteristics. A SICR implies changes in that score ranging from 120 b.p. to 20 b.p. In the case of some portfolios, the behaviour score supplements this criterion.

Also, for some retail portfolios a threshold based on the probability of default (PD) is used. A transaction is considered to exceed this threshold when the PD increases by 100% with respect to the PD that it had at the time of origination.

In the case of non-retail portfolios, SBNA uses the transaction's rating as a reference for its PD, taking into account its rating at the time of origination and its current rating, setting absolute thresholds for the different rating bands that depend on each portfolio characteristics. A SICR implies changes in the rating value between 2 and 0.1, depending on the portfolio and the estimated sensitivity (from lower to higher credit quality, the rating range goes from 1 to 9.3).

Additionally, for each portfolio, a series of specific qualitative criteria are defined, which indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the initial recognition. Santander Bank, National Association, among other criteria, considers that a transaction presents a significant increase in risk when it has arrears positions for more than 30 days. These criteria depend on the risk management practices of each portfolio.

Santander Consumer USA

Risk indicators for SC USA are higher than those of the other United States units and of the Group, due to the nature of its business, which focuses on auto financing through loans and leases (97%), seeking to optimise the returns associated with the risk assumed. SC USA´s lending also has a smaller personal lending portfolio (3%).

The NPL ratio dropped to 6.16% (-158 bp in the year), mainly due to the positive performance of the business and higher used vehicle prices. Cost of credit, at the end of December, stood at 9.42% (-59 bp in the year). An increase that was partially mitigated by efficiency in recoveries and the aforementioned positive performance in vehicle prices.

The coverage ratio surged to 175% (+20 pp in the year) on the back of the reduction in NPLs.

Information on the estimation of impairment losses

The detail of Santander Consumer USA Holding Inc. exposure and impairment losses associated with each of the stages at 31 December 2019 and 2018, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment losses by stage

EUR million

	2019			
Credit Quality *	Stage 1	Stage 2	Stage 3	Total
Investment grade	1,029	14	—	1,043
Speculation grade	20,083	6,277	—	26,360
Default	—	—	1,600	1,600
Total Exposure **	**21,112**	**6,291**	**1,600**	**29,003**
Impairment losses***	**859**	**1,503**	**731**	**3,093**

* Detail of credit quality ratings calculated for Group management purposes.
** Credit to Customers (Amortized Cost and FV through OCI) + Off Balance Sheet with Customers (Financial Guarantees, Technical Guarantees and Letters of Credit), (including temporary asset acquisitions).
*** Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses by stage

EUR million

	2018			
Credit Quality *	Stage 1	Stage 2	Stage 3	Total
Investment grade	224	—	—	224
Speculation grade	20,313	6,600	—	26,913
Default	—	—	2,218	2,218
Total Exposure **	**20,537**	**6,600**	**2,218**	**29,355**
Impairment losses	**824**	**1,720**	**667**	**3,211**

* Detail of credit quality ratings calculated for Group management purposes.
** Amortised cost assets + Loans and advances + loan commitments granted.

In relation to the methodology used to calculate impairment losses, Santander Consumer USA uses a method for calculating expected losses based on the use of risk parameters: EAD (Exposure at Default), PD (Probability of Default) and LGD (Loss Given Default). The expected loss is calculated by adding the estimated monthly expected losses for the entire life of the operation, unless the operation is classified in Stage 1 (on those used for the Santander Corporate Investment Banking portfolios see section 3.5) which will correspond to the sum of the estimated monthly expected losses during the following 12 months.

In general, there is an inverse relationship between the transactions credit quality and the impairment losses projections so that transactions with better credit quality require a lower expected loss. Transactions credit quality, which is reflected in the internal rating associated to each transaction or client, is shown in the probability of default odf the transactions.

For the expected losses estimation, prospective information should be taken into account. Specifically, Santander Consumer USA Holdings Inc. considers three macroeconomic scenarios, periodically updated over a 5-year time horizon. The evolution forecasted for the next five years of the main macroeconomic indicators used by in Santander Consumer USA Holdings Inc in the estimation of expected losses is shown below:

	2020 - 2024			
Magnitudes	Unfavourable scenario 1	Unfavourable scenario 2	Base scenario	Favourable scenario
Interest rate (year averaged)	1.1 %	2.2%	2.3 %	2.7 %
Unemployment rate	7.7 %	2.7%	(0.9)%	(2.1)%
Housing price growth	2.6 %	3.7%	4.5 %	4.7 %
GDP Growth	1.6 %	2.1%	2.1 %	2.8 %
Manheim index[A]	*(1.2)%*	*0.5%*	*1.6 %*	*3.1 %*

A. US used vehicle price car index

	2019 - 2023		
Magnitudes	Unfavourable scenario	Base scenario	Favourable scenario
Interest rate (year averaged)	1.3%	2.8%	3.6%
Unemployment rate	6.9%	4.2%	3.8%
Housing price growth	2.2%	3.9%	3.9%
GDP Growth	1.5%	2.1%	2.8%

Each of the macroeconomic scenarios is associated with a given probability of occurrence. Santander Consumer USA Inc. associates the highest weighting to the Base scenario, whereas it associates the lowest weightings to the most extreme or acid scenarios:

	2019	2018
Pessimistic scenario 2	17.5%	20%
Pessimistic scenario 1*	20%	n.a.
Base scenario	32.5%	60%
Optimistic scenario	30%	20%

* The exercise carried out in 2019 includes two adverse scenarios compared to one in 2018, due to the evolution of the local methodology.

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 b.p. for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision
	SC Auto
GDP Growth	
-100 b.p.	5.73 %
100 b.p.	(0.74)%
Manheim index	
-100 b.p.	1.02 %
100 b.p.	(1.88)%
Unemployment rate	
-100 b.p.	(0.55)%
100 b.p.	0.15 %

In relation to the Stage 2 classification determination, the quantitative criteria applied at SC USA uses the FICO (Fair Isaac Corporation) score at the time of origination and its current value, establishing different absolute threshold for each portfolio according to their characteristics. A SICR implies changes in that score ranging from 100 b.p. to 60 b.p.

Additionally, for each portfolio, a series of specific qualitative criteria are defined, which indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the initial recognition. Santander Consumer USA Holdings Inc. among other criteria, considers that a transaction presents a significant increase in risk when it has irregular positions for more than 30 days. These criteria depend on the risk management practices of each portfolio.

3.4. Brazil

Credit risk in Brazil amounts to 88,893 million euros, representing an increase of 5.6% compared to 2018. Excluding the exchange rate effect, growth was 7%. Santander Brazil accounts for 9% of the Group's lending.

Its loan portfolio is properly diversified and has an increasingly marked retail profile, with 75% of loans extended to individuals, consumer financing and companies.

Information on the estimation of impairment losses

The detail of Santander Brazil exposure and impairment losses associated with each of the stages at 31December, 2019 and 2018, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment losses as of 31 December 2019

EUR million

Credit Quality *	Stage 1	Stage 2	Stage 3	Total
Investment grade	45,764	308	—	46,072
Speculation grade	32,699	5,393	—	38,092
Default	—	—	4,727	4,727
Total Exposure **	**78,463**	**5,701**	**4,727**	**88,891**
Impairment losses***	**1,054**	**732**	**2,931**	**4,717**

* Detail of credit quality ratings calculated for Group management purposes.
** Credit to Customers (Amortized Cost and FV through OCI) + Off Balance Sheet with Customers (Financial Guarantees, Technical Guarantees and Letters of Credit), (including temporary asset acquisitions).
*** Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses as of 31 December 2018

EUR million

Credit Quality *	Stage 1	Stage 2	Stage 3	Total
Investment grade	51,150	472	—	51,622
Speculation grade	56,884	5,334	—	62,218
Default	—	—	4,223	4,223
Total Exposure **	**108,034**	**5,806**	**4,223**	**118,063**
Impairment losses	**997**	**768**	**2,889**	**4,654**

* Detail of credit quality ratings calculated for Group management purposes.
** Amortised cost assets + Loans and advances + loan commitments granted.

For the expected losses estimation, prospective information is taken into account. Particularly, Santander Brazil considers three macroeconomic scenarios, periodically updated, over a time horizon of 5 years. The evolution forecasted for the next five years of the main macroeconomic indicators used to estimate the expected losses in Santander Brazil is as follows:

	2020 - 2024		
Magnitudes	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	8.7 %	5.6%	4.5%
Unemployment rate	16.5 %	9.6%	8.0%
Housing price change	(1.2)%	2.7%	6.4%
GDP Growth	(1.4)%	2.4%	4.4%
Burden income	21.7 %	20.4%	19.0%

	2019 - 2023		
Magnitudes	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	11.0 %	7.7%	6.0%
Unemployment rate	16.3 %	9.9%	8.6%
Housing price change	(1.4)%	4.3%	5.9%
GDP Growth	(1.2)%	2.4%	3.5%

Each macroeconomic scenario is associated with a determined likelihood of occurrence. Regarding its assignation, Brazil links the highest weight to the base scenario whilst links the lowest weights to the most extreme scenarios:

	2019	2018
Pessimistic scenario	10%	10%
Base scenario	80%	80%
Optimistic scenario	10%	10%

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 b.p. for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision	
	Consumer	Corporate
GDP Growth		
-100 b.p.	0.73 %	0.54 %
100 b.p.	(0.20)%	(0.23)%
Burden income		
-100 b.p.	(1.00)%	0.07 %
100 b.p.	2.17 %	0.45 %

Regarding the Stage 2 classification determination, Santander Brazil uses the transaction's rating as a reference for its PD, taking into account its rating at the time of origination and its current rating, setting different thresholds that depend on each portfolio characteristics. SICR is determined by observing the rating's evolution, considering that a significant reduction has occurred when this decrease reaches values between 3.1 and 1, depending on the rating's value at the time of origination.

In addition, for every portfolio, a set of specific qualitative criteria are defined to indicate that the exposure to credit risk has significantly risen, regardless of the evolution of its PD since the initial recognition. Santander Brazil, among other criteria, considers that an operations involves a significant increase in risk when it presents irregular positions for more than 30 days, but in Real State, Consigned and Financial portfolios, where, due to their particular attributes, they use a 60 days threshold. Such criteria depend upon each portfolio's risk management practices.

3.5. Santander Corporate & Investment Banking

The exposure detail and impairment losses presented for the main geographies includes the Santander Corporate & Investment Banking portfolios. In this sense, due to the type of customers managed in these portfolios, large multinational companies, the Group uses its own credit risk models. These models are common to different geographies using their own macroeconomic scenarios.

The average evolution forecasted for the next years of the GDP projected for the next few years is presented, which has been used for the estimation of the expected losses, together with the weighting of each scenario:

	2020 - 2024		
Magnitudes	Pessimistic scenario	Base scenario	Optimistic scenario
Global GDP Growth	3.0%	3.6%	3.8%

	2019 - 2023		
Magnitudes	Pessimistic scenario	Base scenario	Optimistic scenario
Global GDP Growth	2.7%	3.6%	4.2%

Each macroeconomic scenarios is associated with a determined likelihood of occurrence. As for its allocation, Santander Corporate & Investment Banking associates the highest weight with the Base Scenario, while associating the lower weights with the more extreme scenarios.

	2019	2018
Pessimistic scenario	30%	20%
Base scenario	40%	60%
Optimistic scenario	30%	20%

With regards to the stage 2 classification determination, SCIB uses the customer's rating as a reference for its PD, taking into account its rating at the time of origination and its current rating for each transaction, setting absolute thresholds for the different rating bands. A SICR implies changes in the rating value between 3.6 and 0.1, depending on the estimated sensitivity of each rating band (from lower to higher credit quality, the rating range goes from 1 to 9.3).

4. Other credit risk aspects

4.1. Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with customers, mainly with credit institutions. Transactions are undertaken through money market financial products with different financial institutions and through counterparty risk products, which serve the Group's customer needs.

According to regulation (EU) 575/2013, counterparty credit risk is the risk that a client in a transaction could default before the definitive settlement of the cash flows of the transaction. It includes the following types of transactions: derivative instruments, transactions with repurchase commitment, stock and commodities lending, transactions with deferred settlement and financing of guarantees.

There are two methodologies for measuring this exposure: (i) mark-to-market (MtM) methodology (replacement value of derivatives) plus potential future exposure (add-on) and (ii) the calculation of exposure using Montecarlo simulation for some countries and products. The capital at risk or unexpected loss is also calculated, i.e. the loss which, once the expected loss has been subtracted, constitutes the economic capital, net of guarantees and recoveries.

After the markets close, exposures are re-calculated by adjusting all transactions to their new time frame, adapting the potential future exposure and applying mitigation measures (netting, collateral, etc.), so that the exposures can be controlled directly against the limits approved by senior management. Risk control is performed through an integrated system and in real time, enabling the exposure limit available with any counterparty, product and maturity and in any of Santander's subsidiaries to be known at any time.

4.2. Concentration risk

Concentration risk control is a vital part of our management. The Group continuously monitors the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors and groups of customers.

The board, via the risk appetite framework, determines the maximum levels of concentration.

In line with these maximum levels and limits, the executive risk committee establishes the risk policies and reviews the appropriate exposure levels for the effective management of the degree of concentration in Santander's credit risk portfolios.

The Group must adhere to the regulation on large risks contained in the CRR, according to which the exposure contracted by an entity with a customer or group of associated customers will be considered a large exposure when its value is equal to or greater than 10% of eligible capital. In addition, in order to limit large exposures, no entity may assume exposures exceeding 25% of its eligible capital with a single customer or group of associated customers, having factored in the credit risk reduction effect contained in the regulation.

At the end of December, after applying risk mitigation techniques, no group reaches the above-mentioned thresholds.

Regulatory credit exposure with the 20 largest groups within the scope of large risks represented 4.65% of the outstanding credit risk with customers (lending to customers plus off-balance sheet risks) as of December 2019.

The detail, by activity and geographical area of the Group's risk concentration at 31 December, 2019 is as follows:

EUR million

	31 December 2019				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	238,849	36,163	109,303	82,754	10,629
Public sector	173,706	52,635	40,285	76,061	4,725
Of which:					
Central government	*153,830*	*42,752*	*36,409*	*69,980*	*4,689*
Other central government	*19,876*	*9,883*	*3,876*	*6,081*	*36*
Other financial institutions (financial business activity)	120,962	17,073	69,336	32,558	1,995
Non-financial companies and individual entrepeneurs (non-financial business activity) (broken down by purpose)	400,371	117,943	127,494	139,236	15,698
Of which:					
Construction and property development	*21,050*	*4,028*	*9,893*	*7,062*	*67*
Civil engineering construction	*6,270*	*3,195*	*1,979*	*959*	*137*
Large companies	*237,994*	*59,223*	*74,743*	*90,022*	*14,006*
SMEs and individual entrepreneurs	*135,057*	*51,497*	*40,879*	*41,193*	*1,488*
Households – other (broken down by purpose)	523,072	88,980	300,261	125,268	8,563
Of which:					
Residential	*333,043*	*62,349*	*228,677*	*41,099*	*918*
Consumer loans	*169,464*	*18,551*	*69,358*	*76,757*	*4,798*
Other purposes	*20,565*	*8,080*	*2,226*	*7,412*	*2,847*
Total	**1,456,960**	**312,794**	**646,679**	**455,877**	**41,610**

* For the purposes of this table, the defnition of risk includes the following items in the public balance sheet: Loans and advances to credit institutions, Loans and advances to Central Banks, Loans and advances to Customers, Debt Instruments, Equity Instruments, trading Derivatives, Hedging derivatives, Investments and financial guarantees given.

4.3. Sovereign risk and exposure to other public sector entities

Sovereign risk is the risk contracted in transactions with a central bank, including the regulatory cash reserve requirement, issuer risk with the Treasury (public debt portfolio) and the risk arising from transactions with public institutions with the following features: their funds only come from the state's budget income and activities are of a non-commercial nature.

These historic Group criteria, differ in some respects from those applied by the European Banking Authority (EBA) in its regular stress test exercises. The main differences are that the EBA's criterion does not include deposits with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, the EBA does include public administrations in general, including regional and local bodies, not only the central state sector.

According to the management Group's criteria, local sovereign exposure in currencies other than the official currency of the country of issuance is not significant (12,187 million euros, 5.3% of total sovereign risk), and exposure to non-local sovereign issuers involving cross-border risk[2] is even less significant (4,269 million euros, 1.8% of total sovereign risk). f

Sovereign exposure in Latin America is mostly in local currency, and is recognised in the local accounts and concentrated in short- term maturities.

Over the past few years, total exposure to sovereign risk has remained aligned with the regulatory requirements and strategic reasons that support the management of this portfolio.

The movements observed in the different countries exposure is therefore explained by the Group's liquidity management strategy and the hedging of interest and exchange rates risks. Santander has a diversified international exposure among different countries with diverse macroeconomic perspectives and thus, dissimilar growth, interest and exchange rates scenarios.

Regarding the deterioration measurement of these exposures, the Group has evaluated methodologies and criteria in accordance with the IFRS 9 general criteria, integrating common processes, systems, tools and data that are used both for accounting purposes and for capital adequacy.

When estimating the expected losses, the Group applies its own credit risk models for the valuation of financial instruments belonging to Santander Corporate & Investment Banking portfolios.

Regarding the methodology and parameters development for this segment, it should be noted that the PD model incorporates forward-looking information as well as the current credit quality indicator (rating). As for the LGD, two approaches are given depending on the existence of guarantees. The LGD secured approach (severity based on guarantees) is based on the estimate made by analysts and aligned with the general framework proposed for individualised analysis by discounting cash flows. In the case of unsecured LGD (estimated severity without guarantee base), due to the low number of observations collected in recent decades, it is not possible to reflect a forward-looking vision or PiT (Point in Time) and therefore a prudent value is estimated in line with industry practices.

In case of sovereign risk issued in the official currency of the issuing country or in which the issuer has the 100% guarantee of the issuing country of the currency, the few default cases existing over the last decades only reflect the possibility if a potential unexpected loss that is still not modelable due to its scarcity. Consequently, for this type of sovereign risk, the expected loss is considered irrelevant in consistency with unexpected loss.

The exposure in the table below is disclosed following the latest amendments of the regulatory reporting framework carried out by the EBA, which entered into force in 2019:

	2019					2018
	Portfolio					
	Financial assets held for trading and Financial assets designated as FV with changes in results	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Non-trading financial assets mandatorily at fair value through profit or loss	Total net direct exposure	Total net direct exposure
Spain	5,204	19,961	10,201	—	35,366	49,640
Portugal	(746)	5,450	3,985	—	8,689	8,753
Italy	643	1,631	461	—	2,735	261
Greece	—	—	—	—	—	—
Ireland	—	—	—	—	—	—
Rest Eurozone	(313)	1,679	443	—	1,809	2,778
UK	740	1,402	8,221	—	10,363	10,869
Poland	22	8,313	31	—	8,366	11,229
Rest of Europe	(2)	120	659	—	777	329
US	794	10,463	5,042	—	16,299	8,682
Brazil	3,483	21,250	4,265	—	28,998	27,054
Mexico	4,366	8,350	957	—	13,673	10,415
Chile	320	2,759	381	—	3,460	1,776
Rest of America	9	249	771	—	1,029	893
Rest of the World	0	3,832	981	—	4,813	6,222
Total	**14,520**	**85,459**	**36,398**	**—**	**136,377**	**138,901**

[2] Countries that are not considered low risk by Banco de España.

5. Credit risk management

Our credit risk management process consists of identifying, analysing, controlling and deciding on the credit risk incurred by the Group. It considers a holistic view of the credit risk cycle including the transaction, customer and portfolio views. Both business and risk areas, together with the senior management participate in the management and control process.

Credit risk identification is a key component for the active management and effective control of our portfolios. The identification and classification of external and internal risks in each business allows corrective and mitigating measures to be adopted in the event they are needed. This is achieved through the following processes:

5.1. Planning

Planning allows business targets to be set and specific action plans defined, within the risk appetite framework established by the Group.

Strategic commercial plans (SCPs) are one of our management and control tools for the Group's credit portfolios. SCPs are prepared jointly by the business and risk areas, and define the commercial strategies, risk policies, measures and infrastructure required. These factors are considered as a whole, ensuring a holistic view of the portfolios.

The integration of SCPs at management level provides an updated view of the credit portfolio quality, enabling credit risk to be measured, and internal controls executed alongside the periodic monitoring of strategy, the early detection of deviations and significant changes in the risk and potential impact, as well as defining corrective actions where necessary.

SCPs are approved and monitored by senior management in each entity before review and validation at Group level.

The SCPs are aligned with the Group´s risk appetite and the capital objectives of the subsidiaries.

5.2. Risk assessment and credit rating process

In order to analyse a customer's capacity to meet their contractual commitments with the Bank, the Group uses valuation and parameter estimation models in each of the segments where it operates.

The credit quality valuation models applied are based on credit rating drivers, which are monitored and controlled to calibrate and adjust the decisions and ratings they assign. Depending on the segment, drivers may be:

- Rating: resulting from the application of mathematical algorithms incorporating a quantitative model based on balance sheet ratios or macroeconomic variables, and a qualitative module supplemented by the credit analyst's expert judgement. Used for the SCIB, commercial banking, institutions and SMEs (those who are treated on an individual basis) segments.
- Scoring: an automatic assessment system for credit applications. It automatically assigns an individual score to the customer for subsequent decision-making, generally in the retail and smaller SMEs segments.

Parameter estimation models are obtained through internal econometric models based on the portfolios' historical defaults and losses for which they are developed. They are also used to calculate economic and regulatory capital and the portfolio's IFRS 9 provision.

Periodic model monitoring and evaluation is carried out, assessing among other factors, the appropriateness of usage, predictive capacity, performance and granularity. In addition, policy compliance is also monitored.

The resulting ratings are regularly reviewed, incorporating the latest available financial information as well as other relevant data. The depth and frequency of the reviews are increased in the case of customers who require a more detailed monitoring or have automatic warnings in the risk management systems.

5.3. Credit risk mitigation techniques

Generally, from a risk acceptance standpoint, the criteria are linked to the borrower's payment capacity for the financial obligations - although this does not inhibit imply an impediment to requiring collateral or personal guarantees in addition.

Payment capacity is assessed based on the funds or net cash flows from the customer´s businesses or income, excluding guarantors or assets pledged as collateral. These guarantors or assets are always to be considered, when evaluating the approval of the transaction, as a secondary method of recovery in the event the first channel fails.

In general, a guarantee is defined as a reinforcement measure added to a credit transaction with the purpose of mitigating the loss due to a breach of the payment obligation.

At Santander, we apply several credit risk mitigation techniques on the basis, among other factors, of the type of customer and product. Some are inherent to specific transactions (e.g. real estate guarantees) while others apply to a series of transactions (e.g. derivatives netting and collateral). The different mitigation techniques can be grouped into personal guarantees, guarantees in the form of credit derivatives or collateral.

5.4. Definition of limits, pre-classifications and pre-approvals

The connection between the Group's credit risk appetite and credit portfolios management and control is implemented through the SCPs, which define the portfolio and origination limits to predict the portfolio's risk profile. The cascading down of the Group's risk appetite, strengthens the controls over our credit portfolios.

We have processes that determine the risk that the Group is able to assume with each customer. These limits are jointly set by the business and risk areas and have to be approved by the executive risk committee (or delegated committees) and reflect the expected results of the business in terms of risk-return.

There are different limit models depending on the segment:

- **Large corporate groups**: we use a pre-classification model based on a system for measuring and monitoring economic capital. The result is the level of risk that the Group is willing to assume with a customer/group, in terms of capital at risk, nominal cap, and maximum tenors according to the type of transaction, in the case of financial entities, limits are managed through credit equivalent risk (CER). It includes the actual and expected risk with a customer within the limits defined in the risk appetite statement and credit policies.

- **Corporates and institutions** that meet certain requirements (strong relationships, rating, etc.): a more simplified pre-classification model is used, with an internal limit that establishes a reference point in the level of risk to be assumed with the customer. The criteria will include, among others, repayment capacity, overall indebtedness, and the distribution of the banking pool.

  In both cases, transactions over certain thresholds or with specific characteristics might require the approval of a senior credit analyst or committee.

  For **individual customers and SMEs** with low turnover, large volumes of credit transactions are managed with the use of automatic decision models to classify the customer/transaction.

5.5. Scenario analysis

Scenario analysis is used in credit portfolio management as an evolution of the portfolio analysis. It enriches the understanding of the portfolio performance under different macroeconomic conditions, and allows management strategies to be anticipated and defined in order to avoid future deviations from the established plans and targets.

The approach taken with regard to scenario analysis consists of simulating the impact of alternative scenarios in the portfolio credit parameters (PD, LGD) and the associated expected credit losses. The results of this analysis are compared with the portfolio's credit profile indicators to identify the most appropriate measures that could be developed to guide the required management actions.

Scenario analysis is integrated into credit management portfolio activities and in the SCPs.

5.6. Monitoring

Business performance is monitored on a regular basis by comparing performance with established plans. This is a key risk management activity.

All customers are monitored on an ongoing, holistic manner that enables the early detection of events that may have an impact on the customer's credit rating. Monitoring is carried out through an ongoing review of all customers, assigning a monitoring classification, establishing pre-defined actions associated to each classification and executing specific measures (pre-defined or ad-hoc) to correct any deviations that could have a negative effect for the Group.

This monitoring process takes into consideration the transaction forecasts and characteristics throughout its entire life. It also takes into consideration any variations that may have occurred in the classification and suitability since the time of the review.

Monitoring is carried out by local and global Risk teams, backed up by Internal audit. It is based on customer segmentation:

- In the SCIB segment, monitoring, in the first instance, is a direct function of both the business manager and the risk analyst, who maintain direct relationship with the customer and manage the portfolio. This guarantees an up-to- date view of the customer's credit quality is always available and allows us to anticipate situations of concern and take the necessary actions.
- For commercial banking, institutions and SMEs with a credit analyst assigned, the function consists of identifying and tracking customers that require closer monitoring, reviewing ratings and continuously analysing relevant indicators.
- For individual customers, businesses and smaller SMEs monitoring is carried out through automatic alerts, in order to detect shifts in the performance of the portfolio.

The Group performs the monitoring process through the Santander Customer Assessment Note (SCAN), which was implemented in the Group's subsidiaries in 2019.

The Group's SCAN system aims to establish the level of monitoring, policies and specific actions for all individual customers, based on their credit quality and particular circumstances. Each customer is assigned a level of monitoring, and specific risk management actions, on a dynamic basis, with a specific manager appointed and agreed monitoring frequency.

In addition to customer credit quality monitoring, Santander establishes the control procedures needed to analyse portfolios and performance, as well as any possible deviations regarding planning or approved alert levels.

Portfolio analysis systematically controls the evolution of credit risk with regard to budgets, limits and benchmarks, assessing the impacts of future situations, both exogenous and resulting from strategic decisions, to establish actions to keep the risk portfolio profile and volumes within the parameters set by the Group within its risk appetite.

5.7. Recovery and collections management

Recovery activity is a significant component in the Group's risk management and control. This function is carried out by the Recoveries area, which defines a global strategy and an enterprise-wide focus for recovery management.

The Group has a recovery management operating model that sets the guidelines and general policies of action to be applied, taking into account the local environment.

The Recoveries area directly manages customers, where value creation is based on effective and efficient collection management. New digital channels are becoming increasingly important in recovery management.

The diverse features of Santander´s customers make segmentation necessary in order to manage recoveries effectively. Mass management of large groups of customers with similar profiles and products is conducted through processes with a high technological and digital component, while personalised management focuses on customers who, because of their profile, require a specific manager and more customised management.

Recovery management is divided into four phases: in arrears, non-performing loans recoveries, write-offs recoveries and management of foreclosed assets.

The management scope for the Recovery function includes non-productive assets (NPAs), corresponding to the forborne portfolios, NPLs, written-off loans and foreclosed assets, where the Group may use mechanisms to rapidly reduce the volume of these assets, such as the sale of portfolios or foreclosed assets.

In the written-off loans category, debt instruments are included (past due or otherwise) the recovery of which, after an individualised analysis, is considered remote, due to the severe and unrecoverable impairment of the solvency of the transaction or the customer. Classification in this category involves the full or partial cancellation of the gross carrying amount of the loan and its derecognition. This does not mean that the Group will suspend negotiations or legal proceedings to recover the amounts.

In those geographies with a significant exposure to real estate risk, the Group has efficient sales management instruments to maximise recovery and optimise the existing stock in the balance sheet.

5.8. Forborne loan portfolio

The Group has an internal forbearance policy, which acts as a reference for the different transpositions in all local subsidiaries and shares the principles established by the regulation and the applicable supervisory expectations. This year, the policy was updated to include the EBA Guidelines on the management of non-performing and forborne exposures

This policy defines forbearance as the modification of the payment conditions of a transaction to allow a customer who is experiencing financial difficulties (current or foreseeable), to fulfil their payment obligations.

In addition, this policy sets rigorous criteria for the evaluation, classification and monitoring of such transactions, ensuring the strictest possible care and diligence in their approval and monitoring. Therefore, the forborne transaction must be focused on recovery of the amounts due and the payment obligations adapted to the customer's current position and, in addition, losses must be recognised as soon as possible if any amounts are deemed irrecoverable.

Forbearance may never be used to delay the immediate recognition of losses or to hinder the appropriate recognition of risk of default.

Further, the policy defines the classification criteria for forborne transactions in order to ensure that any risks are suitably recognised, bearing in mind that they must remain classified as non-performing or watchlist for an appropriate period to ensure reasonable certainty that repayment capacity can be recovered.

The forborne portfolio stood at EUR 32,475 million euros at the end of December 2019. In terms of credit quality, 53% of the loans are classified as non-performing loans, with average coverage of 52% (28% of the total portfolio).

The Group's forborne portfolio decreased by 21% in 2019, in line with the trend observed in previous years.

The following terms are used in Bank of Spain Circular 4/2017 of Bank of Spain with the meanings specified:

- Refinancing transaction: transaction that is granted or used, for reasons relating to current or foreseeable financial difficulties of the borrower, to repay one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of the cancelled or refinanced transactions to repay their debt (principal and interest) because they are unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.
- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

CURRENT REFINANCING AND RESTRUCTURING BALANCES

Amounts in million euros, except number of transactions that are in units

	Total						
	Without real guarantee		With real guarantee				
					Maximum amount of the actual collateral that can be considered		Impairment of accumulated value or accumulated losses in fair value due to credit risk
	Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees	
Credit entities	—	—	—	—	—	—	—
Public sector	43	31	15	10	7	—	2
Other financial institutions and: individual shareholder	630	200	350	90	13	19	35
Non-financial institutions and individual shareholder	161,353	5,413	45,474	11,438	6,339	2,271	5,029
Of which: financing for constructions and property development	*6,427*	*190*	*1,293*	*847*	*554*	*21*	*392*
Other warehouses	1,791,788	3,542	680,475	11,753	6,354	1,958	3,980
Total	**1,953,814**	**9,185**	**726,314**	**23,290**	**12,714**	**4,248**	**9,045**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	—	—	—	—	—	—	—

In 2019, the amortised cost of financial assets whose contractual cash flows were modified during the year when the corresponding loss adjustment was valued at an amount equal to the expected credit losses over the life of the asset amounted to EUR 1,566 million, without these modifications having a material impact on the income statement. Also, during 2019, the total of financial assets that have been modified since the initial recognition, and whose correction for expected loss has gone from being valued during the entire life of the asset to the following twelve months, amounts to 1,601 million euros.

The transactions presented in the foregoing tables were classified at 31 December 2019 by nature, as follows:

- Non-performing: Operations that rest on an inadequate payment scheme will be classified within the non-performing category, regardless they include contract clauses that delay the repayment of the operation throughout regular payments or present amounts written off the balance sheet for being considered irrecoverable.
- Performing: Operations not classifiable as non-performing will be classified within this category. Operations will also will be classified as normal if they have been reclassified from the non-performing category for complying with the specific criteria detailed below:
  a) A period of a year must have expired from the refinancing or restructuring date.
  b) The owner must have paid for the accrued amounts of the capital and interests, thus reducing the rearranged capital amount, from the date when the restructuring of refinancing operation was formalised.
  c) The owner must not have any other operation with amounts past due by more than 90 days on the date of the reclassification to the normal risk category.

47% of the forborne loan transactions are classified as other than non-performing. Particularly noteworthy are the level of existing guarantees (52% of transactions are secured by collateral) and the coverage provided by specific allowances (representing 28% of the total forborne loan portfolio and 42% of the non-performing portfolio)

The table below shows the changes in 2019 in the forborne loan portfolio:

Million euros

	2019
Beginning balance	**30,527**
Refinancing and restructuring of the period	6,174
Memorandum item: impact recorded in the income statement for the period	*2,684*
Debt repayment	(6,032)
Foreclosure	(564)
Derecognised from the consolidated balance sheet	(1,403)
Others variations	(5,272)
Balance at end of year	**23,430**

2019

Of which: Non-performing/Doubtful						
Without real guarantee		With real guarantee				
				Maximum amount of the actual collateral that can be considered		
Number of transactions	Gross amount	Number of transactions	Gross amount	Real estate guarantee	Rest of real guarantees	Impairment of accumulated value or accumulated losses in fair value due to credit risk
—	—	—	—	—	—	—
13	3	9	4	3	—	1
315	179	240	43	9	3	33
93,803	3,406	32,199	7,189	3,586	867	4,590
4,077	*144*	*938*	*629*	*350*	*9*	*378*
1,062,900	1,823	155,288	4,630	2,643	357	2,558
1,157,031	**5,411**	**187,736**	**11,865**	**6,241**	**1,227**	**7,181**
—	—	—	—	—	—	—

c) Trading market risk, structural and liquidity risk

1. Activities subject to market risk and types of market risk

The perimeter of activities subject to market risk involves transactions where patrimonial risk is assumed as a consequence of variations in market factors. Thus they include trading risks and also structural risks, which are also affected by market shifts. This risk arises from changes in risk factors - interest rates, inflation rates, exchange rates, stock prices, credit spreads, commodity prices and the volatility of each of these elements - as well as liquidity risk of the various products and markets in which the Group operates, and balance sheet liquidity risk:

- **Interest rate risk** arises from the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects loans, deposits, debt securities, most assets and liabilities in the trading books and derivatives, among others.
- **Inflation rate risk** originates from potential changes in inflation rates that could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects instruments such as loans, debt securities and derivatives, where the return is linked to future inflation values or to a change in the current rate.
- **Exchange rate risk** is defined as the sensitivity to potential movements in exchange rates of a position's value that is denominated in a different currency than the base currency. Hence, a long or open position in a foreign currency may produce a loss if that currency depreciates against the base currency. Among the exposures affected by this risk are the Group's investments in subsidiaries in non-euro currencies, as well as any transactions in foreign currency.
- **Equity risk** is the sensitivity of the value of open positions in equities to adverse movements in their market prices or future dividend expectations. Among others, this affects positions in shares, stock market indices, convertible bonds and derivatives with shares as the underlying asset (put, call, equity swaps, among others).
- **Credit spread risk** is the risk or sensitivity of the value of open positions in fixed income securities or in credit derivatives to movements in credit spread curves or recovery rates associated with specific issuers and types of debt. The spread is the difference between financial instruments with a quoted margin over other benchmark instruments, mainly the internal rate of return (IRR) of government bonds and interbank interest rates.

- **Commodities price risk** is the risk derived from the effect of potential changes in commodities prices. The Group's exposure to this risk is not significant and mainly comes from our customers' derivative transactions on commodities.
- **Volatility risk** is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: interest rates, exchange rates, shares and credit spreads. This risk is incurred by all financial instruments where volatility is a variable in the valuation model. The most significant case is the financial options portfolio.

All these market risks can be partly or fully mitigated by using derivatives such as options, futures, forwards and swaps.

In addition, there are other types of market risk that require more complex hedging. For example:

- **Correlation risk.** Sensitivity of the portfolio to changes in the relationship between risk factors (correlation), either of the same type (for example, two exchange rates) or different types (for example, an interest rate and the price of a commodity).
- **Market liquidity risk**. This risk arises when a Group subsidiary or the Group as a whole cannot reverse or close a position in time without having an impact on the market price or the transaction cost. Market liquidity risk can be caused by a reduction in the number of market makers or institutional investors, the execution of a large volume of transactions, or market instability. Additionally, this risk could increase depending on how the different exposures are distributed among certain products and currencies.
- **Pre-payment or cancellation risk**. Some on-balance-sheet instruments (such as mortgages or deposits) may have associated options that allow the holder to buy, sell it or otherwise alter its future cash flows. This may result in mismatches arising in the balance sheet, which may pose a risk since cash flows may have to be reinvested at an interest rate that is potentially lower (assets) or higher (liabilities).
- **Underwriting risk**. This is the consequence of an entity's involvement in the underwriting or placement of securities or other types of debt, when the entity assumes the risk of having to partially acquire the issued securities when the placement has not been taken up in full by potential buyers.

In addition to the above market risks, balance sheet liquidity risk must also be considered. Unlike market liquidity risk, balance sheet liquidity risk is defined as the possibility of not meeting payment obligations on time, or doing so at an excessive cost. Among the losses caused by this risk are losses due to forced sales of assets or margin impacts due to the mismatch between expected cash inflows and outflows.

Pension and actuarial risks also depend on potential shifts in market factors. Further details are provided at the end of this section.

1. Trading market risk management

The Group's trading risk profile remained moderately low in 2019, in line with previous years, due to the fact that the Group's activity has traditionally focused on providing services to its customers, with only limited exposure to complex structured assets, as well as geographic diversification and risk factors.

The standard methodology Santander Group applies to trading activities is Value at Risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame.

The standard for historic simulation is a confidence level of 99% and a time frame of one day. Statistical adjustments are applied enabling the most recent developments affecting the levels of risk assumed to be incorporated efficiently and on a timely manner. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used. Two figures are calculated every day: one applying an exponential decay factor that accords less weight to the observations furthest away in time and another with the same weight for all observations. The higher of the two is reported as the VaR.

The balance sheet items in the Group's consolidated position that are subject to market risk are shown below, distinguishing those positions for which the main risk metric is VaR from those for which risk monitoring is carried out using other metrics:

	Balance sheet amount	Main market risk metrics		Main risk factors for 'Other' balance
		VaR	Other	
Assets subject to market risk				
Cash, cash balances at central banks and other deposits on demand	101,067		101,067	Interest rate
Financial assets held for trading	108,230	107,522	708	Interest rate, spread
Non-trading financial assets mandatorily at fair value through profit or loss	4,911	3,310	1,601	Interest rate, Equity market
Financial assets designated at fair value through profit or loss	62,069	61,405	664	Interest rate
Financial assets at fair value through other comprehensive income	125,708		125,708	Interest rate, spread
Financial assets measured at amortised cost	995,482		995,482	Interest rate
Hedging derivatives	7,216	7,216	—	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,702		1,702	Interest rate
Other assets	116,310			
Total assets	**1,522,695**			
Liabilities subject to market risk				
Financial liabilities held for trading	77,139	76,849	290	Interest rate, spread
Financial liabilities designated at fair value through profit or loss	60,995	60,211	784	Interest rate
Financial liabilities at amortised cost	1,230,745		1,230,745	Interest rate, spread
Hedging derivatives	6,048	6,048	—	Interest rate, exchange
Changes in the fair value hedged items in portfolio hedges of interest rate risk	269		269	Interest rate
Other liabilities	36,840			
Total liabilities	**1,412,036**			
Total equity	**110,659**			

The following table displays the latest and average VaR values at 99% by risk factor over the last three years, the lowest and highest values in 2019 and the ES at 97.5% as of the end of December 2019:

VaR statistics and Expected Shortfall by risk factor[A]

EUR million. VaR at 99% and ES at 97.5% with one day time horizon

	2019					2018		2017	
	VaR (99%)				ES (97.5%)	VaR		VaR	
	Min	Average	Max	Latest	Latest	Average	Latest	Average	Latest
Total Trading	**7.1**	**12.1**	**21.6**	**10.3**	**9.5**	**9.7**	**11.3**	**21.5**	**10.2**
Diversification effect	(4.3)	(8.2)	(24.6)	(9.9)	(8.8)	(9.3)	(11.5)	(8.0)	(7.6)
Interest rate	6.6	10.0	17.6	9.2	7.6	9.4	9.7	16.2	7.9
Equities	1.0	2.9	15.3	4.8	4.6	2.4	2.8	3.0	1.9
Exchange rate	1.8	3.9	8.4	2.6	2.8	3.9	6.2	6.6	3.3
Credit spread	2.1	3.4	4.8	3.5	3.2	3.4	4.1	3.6	4.6
Commodities	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total Europe	**4.2**	**6.3**	**11.6**	**10.1**	**6.8**	**5.0**	**5.5**	**6.8**	**6.3**
Diversification effect	(2.9)	(6.9)	(15.2)	(8.3)	(8.8)	(6.7)	(8.2)	(6.1)	(6.1)
Interest rate	3.6	6.0	12.8	8.2	6.5	5.0	5.8	6.1	5.7
Equities	0.4	1.9	5.1	4.9	4.4	1.1	1.2	1.1	0.5
Exchange rate	1.0	1.9	3.8	1.9	1.4	1.7	2.1	2.0	1.4
Credit spread	2.1	3.4	5.1	3.5	3.2	3.9	4.6	3.7	4.7
Commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total North America	**1.5**	**3.5**	**5.1**	**3.8**	**4.0**	**7.2**	**8.3**	**7.6**	**4.3**
Diversification effect	(0.4)	(1.3)	(3.6)	(2.1)	(1.2)	(4.8)	(2.7)	(4.7)	(3.5)
Interest rate	1.5	2.6	4.0	3.4	2.6	6.4	7.7	7.6	4.6
Equities	0.1	0.2	0.6	0.1	0.1	0.1	0.0	0.4	0.0
Exchange rate	0.4	2.0	4.1	2.4	2.4	5.5	3.3	4.2	3.3
Total South America	**5.5**	**9.5**	**20.7**	**6.0**	**6.1**	**7.2**	**10.0**	**18.7**	**7.8**
Diversification effect	(0.4)	(2.9)	(13.4)	(3.8)	(2.6)	(3.5)	(2.3)	(2.9)	(3.4)
Interest rate	4.9	7.8	19.6	5.9	5.4	6.4	6.6	14.8	7.4
Equities	0.4	2.0	7.0	1.7	1.6	2.5	2.9	3.2	1.9
Exchange rate	0.6	2.6	7.6	2.1	1.7	1.9	2.9	3.5	2.0

A. In South America and North America, VaR levels of credit spreads and commodities are not shown separately due to their low or null materiality.

In 2019, VaR fluctuated between 21.6 million euros and 7.1 million euros. The most significant changes were related to variations in exchange and interest rate exposures and also market volatility.

The average VaR in 2019 was 12.1 million euros, slightly above 2018 but lower than in 2017 (9.7 million euros in 2018 and 21.5 million euros in 2017).

The Group continues to have very limited exposure to complex structured instruments or assets. This is a reflection of our risk culture with prudence in risk management as one of its hallmarks.

At the end of December 2019, the Group had the following exposures in this area:

- Hedge funds: exposure was EUR 90 million, all indirect, acting as counterparty in derivatives transactions. The risk related to this type of counterparty is analysed on a case by case basis, establishing percentages of collateralisation on the basis of the features and assets of each fund.
- Monolines: no exposure at the end of December 2019.

The Group's policy for approving new transactions related to these products is still extremely prudent and conservative. It is subject to strict supervision by the Group's senior management.

Backtesting

Actual losses can differ from those forecast by VaR for various reasons related to the limitations of this metric. The Group regularly analyses and contrasts the accuracy of the VaR calculation model in order to confirm its reliability. The most important tests consist of backtesting exercises:

For hypothetical P&L backtesting and for the total portfolio, there were two overshootings in VaR at 99%, on August 5th and on September 2nd, due to the increase in market volatility caused by US/China trade disputes and political uncertainty in Argentina.

There were no overshootings in Value at Earnings (VaE) at 99% in 2019. The number of observed overshootings in 2019 is consistent with the assumptions specified in the VaR calculation model.

2. Structural balance sheet risks

2.1. Main aggregates and variations

The market risk profile inherent to the Group's balance sheet, in relation to its asset volumes and shareholders' equity, as well as the budgeted net interest income margin, remained moderate in 2019, in line with previous years.

Structural VaR

A standardised metric such as VaR can be used for monitoring total market risk for the banking book, excluding the trading activity of SCIB considering both interest rates and credit spreads on ALCO portfolios), exchange rates and equities.

In general the structural VaR is not significant according to the assets amounts or capital of the Group:

Structural VaR

EUR million. Structural VaR 99% with a temporary horizon of one day.

	2019				2018		2017	
	Min	Average	Max	Latest	Average	Latest	Average	Latest
Structural VaR	**438.2**	**511.4**	**729.1**	**729.1**	**568.5**	**556.8**	**878.0**	**815.7**
Diversification effect	(225.5)	(304.2)	(404.3)	(402.0)	(325.0)	(267.7)	(337.3)	(376.8)
VaR interest rate*	224.7	345.6	629.7	629.7	337.1	319.5	373.9	459.6
VaR exchange rate	283.5	308.1	332.1	331.7	338.9	324.9	546.9	471.2
VaR equities	155.5	161.9	171.7	169.8	217.6	180.1	294.5	261.6

* Includes credit spread VaR on ALCO portfolios.

Structural interest rate risk

- Europe

The main balance sheets, those of the Parent and Santander UK, in mature markets and in a low interest rate environment, usually show positive sensitivities to interest rates in economic value of equity and net interest income.

Exposure levels in all countries were moderate in relation to the annual budget and capital levels in 2019.

At the end of December 2019, risk on net interest income over a one year horizon, measured as the sensitivity to parallel changes in the worst-case scenario of ±100 basis points, was concentrated in the Euro, at 479 million euros, the British pound yield curve at EUR 69 million, the Polish zloty, at 60 million euros, and the US dollar, at 13 million euros, all related to risks of rate cuts.

- North America

North American balance sheets usually show positive sensitivities to interest rates in economic value of equity and net interest income, except for economic value of equity in Mexico.

Exposure levels in all countries were moderate in relation to the annual budget and capital levels in 2019.

As of the end of December, risk on net interest income over a one year horizon, measured as the sensitivity to parallel changes in the worst case scenario of ±100 basis points, was mainly located in the USA (EUR 65 million) as shown in the chart below.

- South America

South American balance sheets are usually positioned for interest rate cuts in terms of both economic value and net interest income.

In 2019, exposure levels in all countries were moderate in relation to the annual budget and capital levels.

As of the end of December, risk on net interest income over a one year horizon, measured as the sensitivity to parallel changes in the worst case scenario of ±100 basis points, was mainly found in two countries, Brazil (74 million euros) as shown in the chart below.

Structural foreign currency risk/hedges of results

Structural exchange rate risk arises from Group transactions in foreign currencies, mainly related to permanent financial investments, results and the hedging of both.

This management is dynamic and seeks to limit the impact on the core capital ratio from exchange rates movements. In 2019, hedging levels of the core capital ratio for foreign exchange rate risk were maintained near 100%.

At the end of 2019, the largest exposures of permanent investments (with their potential impact on equity) were, in the following order, in Brazilian real, US dollars, UK pounds sterling, Chilean pesos, Mexican pesos and Polish zlotys. The Group hedges some of these positions of a permanent nature with foreign exchange-rate derivatives.

In addition, the financial area is responsible for managing foreign exchange rate risk for the Group's expected results and dividends in units where the base currency is not the euro.

Structural equity risk

The Group maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as equity instruments or as investments, depending on the percentage or control.

The equity portfolio available for the banking book at the end of December 2019 was diversified in securities in various countries, mainly Spain, China, Morocco, Netherlands and Poland. Most of the portfolio is invested in financial activities and insurance sectors. Among other sectors, to a lesser extent, are for e.g. real estate activities or public administration.

Structural equity positions are exposed to market risk. VaR is calculated for these positions using market price data series or proxies. As of the end of December 2019, the VaR at 99% with a one day time frame was EUR 170 million (EUR 180.1 and EUR 261.6 million at the end of 2018 and 2017, respectively).

2.2. Methodologies

Structural interest rate risk

The Group analyses the sensitivity of its equity value and net interest income to changes in interest rates as well as its different sources and sub-types of risk. These sensitivities measure the impact of changes in interest rates on the value of a financial instrument, a portfolio or the Group as a whole, as well as the impact on the profitability structure over the given time horizon for which NII is calculated.

Taking into consideration the balance-sheet interest rate position and the market situation and outlook, the necessary financial actions are adopted to align this position with that defined by the Group. These measures can range from opening positions in markets to the definition of the interest rate characteristics of our commercialized products.

The metrics used by the Group to control interest rate risk in these activities are the repricing gap, sensitivity of net interest margin and market value of equity to changes in interest rates, the duration of capital and value at risk (VaR) for economic capital calculation purposes.

Structural exchange-rate risk/hedging of results

These activities are monitored via position measurements, VaR and results, on a daily basis.

Structural equity risk

These activities are monitored via position measurements, VaR and results, on a monthly basis.

3. Liquidity risk

Structural **liquidity management** aims to fund the Group's recurring activity optimising maturities and costs, while avoiding taking on undesired liquidity risks.

Santander's liquidity management is based on the following principles:

- Decentralised liquidity model.
- Medium- and long-term (M/LT) funding needs must be covered by medium- and long-term instruments.
- High contribution from customer deposits due to the retail nature of the balance sheet.
- Diversification of wholesale funding sources by instruments/ investors, markets/currencies and maturities.
- Limited recourse to short-term funding.
- Availability of sufficient liquidity reserves, including standing facilities/discount windows at central banks to be used in adverse situations.
- Compliance with regulatory liquidity requirements both at Group and subsidiary level, as a new factor conditioning management.

The effective application of these principles by all institutions comprising the Group required the development of a unique **management framework** built upon three fundamental pillars:

- A **solid organisational and governance model** that ensures the involvement of the subsidiaries' senior management in decision-taking and its integration into the Group's global strategy. The decision-making process for all structural risks, including liquidity and funding risk, is carried out by

  local Asset and Liability Committees (ALCOs) in coordination with the global ALCO, which is the body empowered by the Bank's board in accordance with the corporate Asset and Liability Management (ALM) framework.

  This governance model has been reinforced as it has been included within Santander's Risk Appetite Framework. This framework meets demands from regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

- In-depth **balance sheet analysis and measurement of liquidity risk**, supporting decision-taking and its control. The objective is to ensure the Group maintains adequate liquidity levels necessary to cover its short- and long-term needs with stable funding sources, optimising the impact of their costs on the income statement.

  The Group's liquidity risk management processes are contained within a conservative risk appetite framework established in each geographic area in accordance with its commercial strategy. This risk appetite establishes the limits within which the subsidiaries can operate in order to achieve their strategic objectives.

- **Management adapted** in practice to the **liquidity needs of each business**. Every year, based on business needs, a liquidity plan is developed which seeks to achieve:
  - a solid balance sheet structure, with a diversified presence in the wholesale markets;
  - the use of liquidity buffers and limited encumbrance of assets;

- compliance with both regulatory metrics and other metrics included in each entity's risk appetite statement.

Over the course of the year, all dimensions of the plan are monitored.

The Group continues to develop the **ILAAP** (Internal Liquidity Adequacy Assessment Process), an internal self-assessment of liquidity adequacy which must be integrated into the Group's other risk management and strategic processes. It focuses on both quantitative and qualitative matters and is used as an input to the SREP (Supervisory Review and Evaluation Process). The ILAAP evaluates the liquidity position both in ordinary and stressed scenarios.

iii. Asset encumbrance

In accordance with the guidelines established by the European Banking Authority (EBA) in 2014 on committed

and uncommitted assets, the concept of assets committed in financing transactions (asset encumbrance) includes both

on-balance sheet assets provided as collateral in transactions to obtain liquidity and off-balance sheet assets that have been received and reused for similar purposes, as well as other assets associated with liabilities for reasons other than financing.

The residual maturities of the liabilities associated with the assets and guarantees received and committed are presented below, as of 31 of December of 2019 (thousand of million of euros):

Residual maturities of the liabilities	unmatured	<=1month	>1month <=3months	>3months <=12months	>1year <=2years	>2years <=3years	3years <=5years	5years <=10years	>10years	TOTAL
Committed assets	31.9	43.0	7.8	80.3	65.2	28.8	24.1	20.2	20.2	321.5
Guarantees received	27.1	23.9	3.9	19.9	1.1	0.2	0.9	—	—	76.9

The reported Group information as required by the EBA at 2019 year-end is as follows:

On-balance-sheet encumbered assets

Thousand of million of euros

	Carrying amount of encumbered assets	Fair Value of encumbered assets	Fair Value of non-encumbered assets	Carrying amount of non-encumbered assets
Loans and advances	215.9		906.2	
Equity instruments	6.5	6.5	12.1	12.1
Debt securities	64.7	64.8	119.9	119.6
Other assets	34.4		163.0	
Total assets	**321.5**		**1,201.2**	

Encumbrance of collateral received

Thousand of million of euros

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	**77.0**	**55.8**
Loans and advances	0.8	—
Equity instruments	5.6	8.2
Debt securities	70.6	47.6
Other collateral received	—	—
Own debt securities issued other than own covered bonds or ABSs	**—**	**1.2**

Encumbered assets and collateral received and matching liabilities

Thousand of million of euros

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encumbrance (carrying amount)	**302.5**	**398.6**

On-balance-sheet encumbered assets amounted to EUR 321,500 million, of which 67% are loans (mortgage loans, corporate loans, etc.). Off-balance-sheet encumbered assets amounted to EUR 77,000 million, relating mostly to debt securities received as security in asset purchase transactions and re-used. Taken together, these two categories represent a total of EUR 398,600 million of encumbered assets, which give rise to EUR 302,500 million matching liabilities.

As of December 2019, total asset encumbrance in funding operations represented 24.1% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,655,600 as of December 2019). This percentage has been decreased from 24.8% that presented the Group as of December 2018. This reduction is due, among other reasons, to the fact that the Group has begun to repay part of the financing received from the European Central Bank under the TLTRO-II programme.

d) Capital risk

Capital risk, the second line of defence, independently challenges the business or first line activities mainly through the following processes:

- Supervision of capital planning and adequacy exercises through a review of the main components affecting the capital ratios.
- Ongoing supervision of the Group's regulatory capital measurement by identifying key metrics for its calculation, setting tolerance levels and reviewing capital consumption and the consistency of the calculations, including single transactions with an impact on capital.
- Review and challenge of the execution of those capital actions proposed in line with capital planning and risk appetite.

The Group commands a sound solvency position, above the levels required by regulators and by the European Central bank.

At 1 January 2020, at a consolidated level, the Group must maintain a minimum capital ratio of 9.69% of CET1 fully loaded (4.5% being the requirement for Pillar I, 1.5% being the requirement for Pillar 2R (requirement), 2.5% being the requirement for capital conservation buffer, 1% being the requirement for G-SIB and 0.19% being the requirement for anti-cyclical capital buffer). Santander Group must also maintain a minimum capital ratio of 1.5% of Tier 1 fully loaded and a minimum total ratio of 13.19% fully loaded.

Regulatory capital

In 2019, the solvency target set was achieved. Santander's CET1 fully loaded ratio stood at 11.65% at the close of the year, demonstrating its organic capacity to generate capital. The key regulatory capital figures are indicated below:

Reconciliation of accounting capital with regulatory capital

Million of euros

	2019	2018	2017
Subscribed capital	8,309	8,118	8,068
Share premium account	52,446	50,993	51,053
Reserves	56,526	53,988	52,577
Treasury shares	(31)	(59)	(22)
Attributable profit	6,515	7,810	6,619
Approved dividend	(1,662)	(2,237)	(2,029)
Shareholders' equity on public balance sheet	**122,103**	**118,613**	**116,265**
Valuation adjustments	(22,032)	(22,141)	(21,777)
Non-controlling interests	10,588	10,889	12,344
Total Equity on public balance sheet	**110,659**	**107,361**	**106,832**
Goodwill and intangible assets	(28,478)	(28,644)	(28,537)
Eligible preference shares and participating securities	9,039	9,754	7,635
Accrued dividend	(1,761)	(1,055)	(968)
Other adjustments*	(9,923)	(9,700)	(7,679)
Tier 1 (Phase-in)	**79,536**	**77,716**	**77,283**

* Fundamentally for non-computable non-controlling interests and deductions and reasonable filters in compliance with CRR.

The following table shows the Phase-in capital coefficients and a detail of the eligible internal resources of the Group:

	2019	2018	2017
Capital coefficients			
Level 1 ordinary eligible capital (million of euros)	70,497	67,962	74,173
Level 1 additional eligible capital (million of euros)	9,039	9,754	3,110
Level 2 eligible capital (million of euros)	11,531	11,009	13,422
Risk-weighted assets (million of euros)	605,244	592,319	605,064
Level 1 ordinary capital coefficient (CET 1)	11.65%	11.47%	12.26%
Level 1 additional capital coefficient (AT1)	1.49%	1.65%	0.51%
Level 1 capital coefficient (TIER1)	13.14%	13.12%	12.77%
Level 2 capital coefficient (TIER 2)	1.91%	1.86%	2.22%
Total capital coefficient	**15.05%**	**14.98%**	**14.99%**

Eligible capital

Million of euros

	2019	2018	2017
Eligible capital			
Common Equity Tier I	**70,497**	**67,962**	**74,173**
Capital	8,309	8,118	8,068
(-) Treasure shares and own shares financed	(63)	(64)	(22)
Share Premium	52,446	50,993	51,053
Reserves	57,368	55,036	52,241
Other retained earnings	(22,933)	(23,022)	(22,363)
Minority interests	6,441	6,981	7,991
Profit net of dividends	3,092	4,518	3,621
Deductions	(34,163)	(34,598)	(26,416)
Goodwill and intangible assets	*(28,478)*	*(28,644)*	*(22,829)*
Others	*(5,685)*	*(5,954)*	*(3,586)*
Additional Tier I	**9,039**	**9,754**	**3,110**
Eligible instruments AT1	9,209	9,666	8,498
T1-excesses-subsidiaries	(170)	88	347
Residual value of dividends	—	—	(5,707)
Others	—	—	(27)
Tier II	**11,531**	**11,009**	**13,422**
Eligible instruments T2	12,360	11,306	9,901
Gen. funds and surplus loans loss prov. IRB	—	—	3,823
T2-excesses - subsidiaries	(829)	(297)	(275)
Others	—	—	(27)
Total eligible capital	**91,067**	**88,725**	**90,706**

Note: Santander Bank and its affiliates had not taken part in any State aid programmes.

Leverage ratio

The leverage ratio has been defined within the regulatory framework of Basel III as a measure of the capital required by financial institutions not sensitive to risk. The Group performs the calculation as stipulated in CRD IV and its subsequent amendment in EU Regulation no. 573/2013 of 17 January 2015, which was aimed at harmonising calculation criteria with those specified in the BCBS "Basel III leverage ratio framework" and "Disclosure requirements" documents.

This ratio is calculated as Tier 1 capital divided by leverage exposure. Exposure is calculated as the sum of the following items:

- Accounting assets, excluding derivatives and items treated as deductions from Tier 1 capital (for example, the balance of loans is included, but not that of goodwill).
- Off-balance-sheet items (mainly guarantees, unused credit limits granted and documentary credits) weighted using credit conversion factors.
- Inclusion of net value of derivatives (gains and losses are netted with the same counterparty, minus collaterals if they comply with certain criteria) plus a charge for the future potential exposure.

- A charge for the potential risk of security funding transactions.
- Lastly, it includes a charge for the risk of credit derivative swaps (CDS).

The European Commission's proposals to modify CRR and CRD IV on 23 November 2016, foresee a mandatory requirement of a 3% leverage ratio for Tier 1 capital, which would be added to the own funds requirements in the article 92 of the CRR. The proposals for the Commission's modification also point to the possibility of introducing a buffer of leverage ratio for global systemic entities in the future.

With the publication of Regulation (EU) 2019/876 of 20 May, 2019, amending Regulation (EU) No. 575/2013 as regards the leverage ratio, the final calibration of the ratio is set at 3% for all entities and, for systemic entities G-SIBs, an additional surcharge is also established which will be 50% of the cushion ratio applicable to the EISM. In addition, modifications are included in its calculation, including the exclusion of certain exposures from the total exposure measure: public loans, transfer loans and officially guaranteed export credits.

Banks will have to implement the final definition of the leverage ratio by June 2021 and comply with the new calibration of the ratio (the surcharge for G-SIBs) from January 2022.

Million of euros

	2019	2018	2017
Leverage			
Level 1 Capital	79,536	77,716	77,283
Exposure	1,544,614	1,489,094	1,463,090
Leverage Ratio	**5.15%**	**5.22%**	**5.28%**

Global systemically important banks

The Group is one of 30 banks designated as global systemically important banks (G-SIBs).

The designation as a systemically important entity is based on the measurement set by regulators (the FSB and BCBS), based on 5 criteria (size, cross-jurisdictional activity, interconnectedness with other financial institutions, substitutability and complexity).

This definition means it has to fulfil certain additional requirements, which consist mainly of a capital buffer (1)%, in TLAC requirements (total loss absorbing capacity), that we have to publish relevant information more frequently than other banks, greater regulatory requirements for internal control bodies, special supervision and drawing up of special reports to be submitted to supervisors.

The fact that Grupo Santander has to comply with these requirements makes it a more solid bank than its domestic rivals.

55. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 1.b).

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Appendix

Appendix I

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank: Direct	% of ownership held by the Bank: Indirect	% of voting power (k): Year 2019	% of voting power (k): Year 2018	Activity	Million euros (a): Capital + reserves	Million euros (a): Net results	Million euros (a): Carrying amount
2 & 3 Triton Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	63	7	12
A & L CF (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	Leasing	0	1	0
A & L CF June (2) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
A & L CF June (3) Limited (e)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	8	(1)	0
A & L CF March (5) Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
A & L CF September (4) Limited (f)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	23	0	0
Abbey Business Services (India) Private Limited (d)	India	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Abbey Covered Bonds (Holdings) Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Abbey Covered Bonds (LM) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	0	0	0
Abbey Covered Bonds LLP	United Kingdom	-	(b)	-	-	Securitisation	(269)	277	0
Abbey National Beta Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Abbey National Business Office Equipment Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
Abbey National International Limited	Jersey	0.00%	100.00%	100.00%	100.00%	Banking	5	0	7
Abbey National Nominees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securities company	0	0	0
Abbey National PLP (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Abbey National Property Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	554	6	163
Abbey National Treasury Services Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Abbey National Treasury Services Overseas Holdings	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	1	0	0
Abbey National UK Investments	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Abbey Stockbrokers (Nominees) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securities company	0	0	0
Abbey Stockbrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securities company	0	0	0
Ablasa Participaciones, S.L.	Spain	18.94%	81.06%	100.00%	100.00%	Holding company	445	(109)	697
Administración de Bancos Latinoamericanos Santander, S.L.	Spain	24.11%	75.89%	100.00%	100.00%	Holding company	2,532	(11)	1,863
Aevis Europa, S.L.	Spain	96.34%	0.00%	96.34%	96.34%	Cards	1	0	1
AFB SAM Holdings, S.L.	Spain	1.00%	99.00%	100.00%	100.00%	Holding company	0	0	0
Afisa S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Fund management company	4	0	4
ALIL Services Limited	Isle of man	0.00%	100.00%	100.00%	100.00%	Services	4	0	4
Aliseda Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	30	(48)	4
Aljardi SGPS, Lda.	Portugal	0.00%	100.00%	100.00%	100.00%	Holding company	1,204	(2)	1,148

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank Direct	Indirect	% of voting power (k) Year 2019	Year 2018	Activity	Million euros (a) Capital + reserves	Net results	Carrying amount
Alliance & Leicester Cash Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Commercial Bank Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Investments (Derivatives) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Investments (No.2) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Alliance & Leicester Personal Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	(239)	0	0
Altamira Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	(61)	(55)	0
Amazonia Trade Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Holding company	0	0	0
AN (123) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Andaluza de Inversiones, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	92	0	27
ANITCO Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Aquanima Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	E-commerce	3	0	0
Aquanima Chile S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Services	3	0	0
Aquanima México S. de R.L. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	E-commerce	2	0	2
Aquanima S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Arcaz - Sociedade Imobiliária Portuguesa, Lda. (r)	Portugal	0.00%	99.91%	100.00%	100.00%	Inactive	3	0	0
Argenline S.A. (j) (p)	Uruguay	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Asto Digital Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	45	(16)	30
Athena Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services	(1)	(2)	1
Atlantes Azor No. 1	Portugal	-	(b)	-	-	Securitisation	0	0	0
Atlantes Azor No. 2	Portugal	-	(b)	-	-	Securitisation	0	0	0
Atlantes Mortgage No. 2	Portugal	-	(b)	-	-	Securitisation	0	0	0
Atlantes Mortgage No. 3	Portugal	-	(b)	-	-	Securitisation	0	0	0
Atlantes Mortgage No. 4	Portugal	-	(b)	-	-	Securitisation	0	0	0
Atlantes Mortgage No. 5	Portugal	-	(b)	-	-	Securitisation	0	0	0
Atlantes Mortgage No. 7	Portugal	-	(b)	-	-	Securitisation	0	0	0
Atual Serviços de Recuperação de Créditos e Meios Digitais S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Financial services	291	6	263
Auto ABS Belgium Loans 2019, SA/NV	Belgium	-	(b)	-	-	Securitisation	4	0	0
Auto ABS DFP Master Compartment France 2013	France	-	(b)	-	-	Securitisation	0	0	0
Auto ABS French Lease Master Compartiment 2016	France	-	(b)	-	-	Securitisation	0	0	0
Auto ABS French Leases 2018	France	-	(b)	-	-	Securitisation	0	0	0
Auto ABS French Loans Master	France	-	(b)	-	-	Securitisation	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank		% of voting power (k)		Activity	Million euros (a)		
		Direct	Indirect	Year 2019	Year 2018		Capital + reserves	Net results	Carrying amount
Auto ABS French LT Leases Master	France	-	(b)	-	-	Securitisation	0	0	0
Auto ABS Italian Balloon 2019-1 S.R.L.	Italy	-	(b)	-	-	Securitisation	0	0	0
Auto ABS Italian Loans 2018-1 S.R.L.	Italy	-	(b)	-	-	Securitisation	0	0	0
Auto ABS Spanish Loans 2016, Fondo de Titulización	Spain	-	(b)	-	-	Securitisation	0	0	0
Auto ABS Spanish Loans 2018-1, Fondo de Titulización	Spain	-	(b)	-	-	Securitisation	0	0	0
Auto ABS Swiss Leases 2013 Gmbh	Switzerland	-	(b)	-	-	Securitisation	0	0	0
Auto ABS UK Loans 2017 Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Auto ABS UK Loans 2017 Plc	United Kingdom	-	(b)	-	-	Securitisation	0	(1)	0
Auto ABS UK Loans 2019 Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Auto ABS UK Loans 2019 Plc	United Kingdom	-	(b)	-	-	Securitisation	0	(1)	0
Auto ABS UK Loans Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Auto ABS UK Loans PLC	United Kingdom	-	(b)	-	-	Securitisation	(5)	(7)	0
Autodescuento, S.L.	Spain	0.00%	93.89%	93.89%	-	Vehicle purchase and sale	1	0	18
Auttar HUT Processamento de Dados Ltda.	Brazil	0.00%	89.93%	100.00%	100.00%	Technology services	4	1	4
Aviación Antares, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	49	6	28
Aviación Británica, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	15	4	6
Aviación Centaurus, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	39	3	25
Aviación Comillas, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Renting	8	0	8
Aviación Intercontinental, A.I.E.	Spain	99.97%	0.03%	100.00%	100.00%	Renting	82	(1)	63
Aviación Laredo, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Air transport	4	0	3
Aviación Oyambre, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Renting	1	0	1
Aviación Real, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	11	2	11
Aviación Santillana, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Renting	3	0	2
Aviación Suances, S.L.	Spain	99.00%	1.00%	100.00%	100.00%	Air transport	5	0	3
Aviación Tritón, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	29	3	19
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Finance company	72	135	42
Banca PSA Italia S.p.A.	Italy	0.00%	50.00%	50.00%	50.00%	Banking	387	55	153
Banco Bandepe S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Banking	1,115	54	1,051
Banco de Albacete, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	14	0	9
Banco de Asunción, S.A. en liquidación voluntaria (j)	Paraguay	0.00%	99.33%	99.33%	99.33%	Banking	0	0	0
Banco Hyundai Capital Brasil S.A.	Brazil	0.00%	44.97%	50.00%	50.00%	Banking	67	(1)	30
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Banking	1,085	(2)	1,083
Banco Olé Bonsucesso Consignado S.A.	Brazil	0.00%	53.96%	60.00%	60.00%	Banking	229	113	197

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
Banco PSA Finance Brasil S.A.	Brazil	0.00%	44.97%	50.00%	50.00%	Banking	51	7	26
Banco Santander - Chile	Chile	0.00%	67.12%	67.18%	67.18%	Banking	3,553	653	3,168
Banco Santander (Brasil) S.A.	Brazil	13.95%	75.99%	90.52%	90.44%	Banking	12,313	3,120	10,170
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 100740	Mexico	0.00%	91.76%	100.00%	100.00%	Finance company	101	17	109
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 2002114	Mexico	0.00%	92.65%	100.00%	100.00%	Holding company	8	0	8
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso GFSSLPT	Mexico	0.00%	92.66%	100.00%	100.00%	Finance company	11	1	11
Banco Santander Consumer Portugal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Banking	172	13	128
Banco Santander de Negocios Colombia S.A.	Colombia	0.00%	100.00%	100.00%	100.00%	Banking	120	2	117
Banco Santander International	United States	0.00%	100.00%	100.00%	100.00%	Banking	969	109	1,078
Banco Santander International SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Banking	1,034	26	791
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	16.68%	75.08%	91.77%	75.17%	Banking	5,519	1,002	6,586
Banco Santander Perú S.A.	Peru	99.00%	1.00%	100.00%	100.00%	Banking	189	29	121
Banco Santander Puerto Rico	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Banking	864	59	923
Banco Santander Río S.A.	Argentina	0.00%	99.30%	99.25%	99.25%	Banking	619	337	418
Banco Santander S.A.	Uruguay	97.75%	2.25%	100.00%	100.00%	Banking	339	98	191
Banco Santander Totta, S.A.	Portugal	0.00%	99.86%	99.96%	99.96%	Banking	2,998	500	3,415
Bansa Santander S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Real estate	24	(1)	23
BEN Benefícios e Serviços S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Payment services	20	(4)	14
Bilkreditt 4 Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitisation	0	0	0
Bilkreditt 5 Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitisation	0	0	0
Bilkreditt 6 Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitisation	0	0	0
Bilkreditt 7 Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	0	0	0
BPE Financiaciones, S.A.	Spain	90.00%	10.00%	100.00%	100.00%	Finance company	1	0	1
BRS Investments S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Finance company	25	2	41
Caja de Emisiones con Garantía de Anualidades Debidas por el Estado, S.A.	Spain	62.87%	0.00%	62.87%	62.87%	Finance company	0	0	0
Cántabra de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	42	15	31
Cántabro Catalana de Inversiones, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	315	0	267
Canyon Multifamily Impact Fund IV LLC (o)	United States	0.00%	98.00%	98.00%	-	Real estate	-	-	-

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank: Direct	Indirect	% of voting power (k): Year 2019	Year 2018	Activity	Million euros (a): Capital + reserves	Net results	Carrying amount
Capital Street Delaware LP	United States	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Capital Street Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Holding company	14	0	14
Capital Street REIT Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Holding company	1,194	25	1,219
Capital Street S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Carfax (Guernsey) Limited (n)	Guernsey	0.00%	100.00%	100.00%	100.00%	Insurance brokerage	0	0	0
Carfinco Financial Group Inc.	Canada	96.42%	0.00%	96.42%	96.42%	Holding company	62	0	68
Carfinco Inc.	Canada	0.00%	96.42%	100.00%	100.00%	Finance company	51	5	45
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Mexico	0.00%	99.97%	99.97%	99.97%	Securities company	56	3	59
Cater Allen Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Cater Allen International Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securities company	0	0	0
Cater Allen Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	581	61	262
Cater Allen Lloyd's Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Cater Allen Syndicate Management Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Advisory services	0	0	0
CCAP Auto Lease Ltd.	United States	0.00%	72.40%	100.00%	100.00%	Leasing	1	(59)	0
Centro de Capacitación Santander, A.C.	Mexico	0.00%	91.76%	100.00%	100.00%	Non profit institute	1	0	1
Certidesa, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Aircraft rental	(60)	(7)	0
Chrysler Capital Auto Funding I LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	15	7	0
Chrysler Capital Auto Funding II LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	7	(2)	0
Chrysler Capital Auto Receivables LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	0	0	0
Chrysler Capital Auto Receivables Trust 2016-A	United States	-	(b)	-	-	Securitisation	(25)	14	0
Chrysler Capital Master Auto Receivables Funding 2 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	(66)	(106)	0
Chrysler Capital Master Auto Receivables Funding 4 LLC	United States	0.00%	72.40%	100.00%	-	Finance company	0	35	0
Chrysler Capital Master Auto Receivables Funding LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	(44)	0	0
Cobranza Amigable, S.A.P.I. de C.V.	Mexico	0.00%	85.00%	100.00%	39.74%	Collection services	4	0	4
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	France	0.00%	50.00%	100.00%	100.00%	Banking	363	87	428
Compagnie Pour la Location de Vehicules - CLV	France	0.00%	50.00%	100.00%	100.00%	Finance company	20	5	26
Comunidad Laboral Trabajando Argentina S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Comunidad Laboral Trabajando Iberica, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Consulteam Consultores de Gestão, Lda.	Portugal	86.28%	13.72%	100.00%	100.00%	Real estate	0	0	0
Consumer Lending Receivables LLC	United States	0.00%	72.40%	100.00%	100.00%	Securitisation	0	0	0
Crawfall S.A. (g) (j)	Uruguay	100.00%	0.00%	100.00%	100.00%	Services	0	0	0
Crediperto Promotora de Vendas e Cobrança Ltda.	Brazil	0.00%	53.96%	100.00%	100.00%	Finance company	2	0	1

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
Darep Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	Reinsurances	9	0	7
Decarome, S.A.P.I. de C.V.	Mexico	0.00%	100.00%	100.00%	-	Finance company	0	0	0
Deva Capital Advisory Company, S.L.	Spain	0.00%	100.00%	100.00%	-	Advisory services	1	0	1
Deva Capital Holding Company, S.L.	Spain	100.00%	0.00%	100.00%	-	Holding company	55	0	55
Deva Capital Investment Company, S.L.	Spain	0.00%	100.00%	100.00%	-	Holding company	0	0	0
Deva Capital Management Company, S.L.	Spain	0.00%	100.00%	100.00%	-	Advisory services	9	(1)	9
Deva Capital Servicer Company, S.L.	Spain	0.00%	100.00%	100.00%	-	Holding company	46	5	46
Digital Procurement Holdings N.V.	Netherlands	0.00%	100.00%	100.00%	100.00%	Holding company	5	0	1
Diners Club Spain, S.A.	Spain	75.00%	0.00%	75.00%	75.00%	Cards	10	2	9
Dirección Estratega, S.C.	Mexico	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Dirgenfin, S.L., en liquidación (j)	Spain	0.00%	100.00%	100.00%	100.00%	Real estate development	(10)	0	0
Drive Auto Receivables Trust 2015-D	United States	-	(b)	-	-	Securitisation	(5)	11	0
Drive Auto Receivables Trust 2016-A	United States	-	(b)	-	-	Securitisation	(16)	9	0
Drive Auto Receivables Trust 2016-B	United States	-	(b)	-	-	Securitisation	(23)	19	0
Drive Auto Receivables Trust 2016-C	United States	-	(b)	-	-	Securitisation	(14)	28	0
Drive Auto Receivables Trust 2017-1	United States	-	(b)	-	-	Securitisation	(28)	34	0
Drive Auto Receivables Trust 2017-2	United States	-	(b)	-	-	Securitisation	(19)	32	0
Drive Auto Receivables Trust 2017-3	United States	-	(b)	-	-	Securitisation	(32)	52	0
Drive Auto Receivables Trust 2017-A	United States	-	(b)	-	-	Securitisation	(25)	26	0
Drive Auto Receivables Trust 2017-B	United States	-	(b)	-	-	Securitisation	(18)	29	0
Drive Auto Receivables Trust 2018-1	United States	-	(b)	-	-	Securitisation	(35)	48	0
Drive Auto Receivables Trust 2018-2	United States	-	(b)	-	-	Securitisation	(83)	66	0
Drive Auto Receivables Trust 2018-3	United States	-	(b)	-	-	Securitisation	(98)	59	0
Drive Auto Receivables Trust 2018-4	United States	-	(b)	-	-	Securitisation	(118)	74	0
Drive Auto Receivables Trust 2018-5	United States	-	(b)	-	-	Securitisation	(108)	(59)	0
Drive Auto Receivables Trust 2019-1	United States	-	(b)	-	-	Securitisation	0	(31)	0
Drive Auto Receivables Trust 2019-2	United States	-	(b)	-	-	Securitisation	0	(45)	0
Drive Auto Receivables Trust 2019-3	United States	-	(b)	-	-	Securitisation	0	(67)	0
Drive Auto Receivables Trust 2019-4	United States	-	(b)	-	-	Securitisation	0	(87)	0
Drive Auto Receivables Trust 2020-1	United States	-	(b)	-	-	Inactive	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank		% of voting power (k)		Activity	Million euros (a)		
		Direct	Indirect	Year 2019	Year 2018		Capital + reserves	Net results	Carrying amount
EDT FTPYME Pastor 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	0	0	0
Electrolyser, S.A. de C.V.	Mexico	0.00%	91.76%	100.00%	100.00%	Services	0	0	0
Entidad de Desarrollo a la Pequeña y Micro Empresa Santander Consumo Perú S.A.	Peru	100.00%	0.00%	100.00%	55.00%	Finance company	24	4	27
Erestone S.A.S.	France	0.00%	90.00%	90.00%	90.00%	Real estate	1	0	1
Esfera Fidelidade S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Services	2	21	21
Evidence Previdência S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Insurance	153	27	162
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal	0.00%	51.00%	100.00%	100.00%	Finance company	9	1	4
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0.00%	51.00%	51.00%	51.00%	Finance company	214	76	140
Finsantusa, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	3,776	(7)	1,020
First National Motor Business Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
First National Motor Contracts Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
First National Motor Facilities Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
First National Motor Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Advisory services	0	0	0
First National Motor Leasing Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
First National Motor plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
First National Tricity Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	6	0	6
Fondation Holding Auto ABS Belgium Loans	Belgium	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización de Activos RMBS Santander 1	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización de Activos RMBS Santander 2	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización de Activos RMBS Santander 3	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 7	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 8	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización de Activos Santander Hipotecario 9	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización PYMES Santander 13	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización PYMES Santander 14	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización PYMES Santander 15	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización RMBS Santander 4	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización RMBS Santander 5	Spain	-	(b)	-	-	Securitisation	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
Fondo de Titulización Santander Consumer Spain Auto 2016-1	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización Santander Consumer Spain Auto 2016-2	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización Santander Consumo 2	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondo de Titulización Santander Financiación 1	Spain	-	(b)	-	-	Securitisation	0	0	0
Fondos Santander, S.A. Administradora de Fondos de Inversión (en liquidación) (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	Fund management company	0	0	0
Fortensky Trading, Ltd.	Ireland	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Fosse (Master Issuer) Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Fosse Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	(6)	(125)	0
Fosse Master Issuer PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	2	3	0
Fosse PECOH Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Fosse Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	0	0	0
FTPYME Banesto 2, Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	0	0	0
Fundo de Investimento em Direitos Creditórios Atacado- Não Padronizado	Brazil	-	(b)	-	-	Investment fund	204	(5)	0
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema V – Não padronizado (s)	Brazil	-	(b)	-	-	Investment fund	0	0	0
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema VI – Não padronizado (s)	Brazil	-	(b)	-	-	Investment fund	45	1	0
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Securitisation	7	0	8
GC FTPYME Pastor 4 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	0	0	0
Gesban México Servicios Administrativos Globales, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Services	1	0	0
Gesban Santander Servicios Profesionales Contables Limitada	Chile	0.00%	100.00%	100.00%	100.00%	Accounting services	1	0	0
Gesban Servicios Administrativos Globales, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	Services	4	0	1
Gesban UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Payments and collections services	1	0	0
Gestión de Instalaciones Fotovoltaicas, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Electricity production	1	0	0
Gestión de Inversiones JILT, S.A.	Spain	35.00%	65.00%	100.00%	100.00%	Real estate	4	0	5

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank		% of voting power (k)		Activity	Million euros (a)		
		Direct	Indirect	Year 2019	Year 2018		Capital + reserves	Net results	Carrying amount
Gestora de Procesos S.A. en liquidación (j)	Peru	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Getnet Adquirência e Serviços para Meios de Pagamento S.A.	Brazil	0.00%	89.93%	100.00%	88.50%	Payment services	449	130	520
Global Diomedes, S.L. Sociedad Unipersonal	Spain	0.00%	100.00%	100.00%	-	Holding company	0	0	0
Golden Bar (Securitisation) S.r.l.	Italy	-	(b)	-	-	Securitisation	0	0	0
Golden Bar Stand Alone 2015-1	Italy	-	(b)	-	-	Securitisation	0	0	0
Golden Bar Stand Alone 2016-1	Italy	-	(b)	-	-	Securitisation	0	0	0
Golden Bar Stand Alone 2018-1	Italy	-	(b)	-	-	Securitisation	0	0	0
Golden Bar Stand Alone 2019-1	Italy	-	(b)	-	-	Securitisation	0	0	0
Grupo Empresarial Santander, S.L.	Spain	99.11%	0.89%	100.00%	100.00%	Holding company	2,938	546	2,934
Grupo Financiero Santander México, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Holding company	4,387	561	4,363
GTS El Centro Equity Holdings, LLC (c)	United States	0.00%	57.40%	57.40%	56.88%	Holding company	31	(1)	29
GTS El Centro Project Holdings, LLC (c)	United States	0.00%	57.40%	100.00%	100.00%	Holding company	31	(1)	17
Guaranty Car, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Automotive	2	1	2
Hipototta No. 4 FTC	Portugal	-	(b)	-	-	Securitisation	(50)	(1)	0
Hipototta No. 4 plc	Ireland	-	(b)	-	-	Securitisation	(4)	(1)	0
Hipototta No. 5 FTC	Portugal	-	(b)	-	-	Securitisation	(42)	(1)	0
Hipototta No. 5 plc	Ireland	-	(b)	-	-	Securitisation	(7)	4	0
Hipototta No.13	Portugal	-	(b)	-	-	Securitisation	0	0	0
Hispamer Renting, S.A. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Renting	1	0	1
Holbah II Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	Holding company	102	302	530
Holbah Santander, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	60	12	747
Holmes Funding Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	(39)	28	0
Holmes Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Holmes Master Issuer plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	(5)	(2)	0
Holmes Trustees Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	0	0	0
Holneth B.V.	Netherlands	0.00%	100.00%	100.00%	100.00%	Holding company	9	1,841	9
HQ Mobile Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Internet technology	1	0	10
Hyundai Capital Bank Europe GmbH	Germany	0.00%	51.00%	51.00%	-	Banking	219	(17)	134
Ibérica de Compras Corporativas, S.L.	Spain	97.17%	2.83%	100.00%	100.00%	E-commerce	6	0	6
Independence Community Bank Corp.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	3,853	41	3,894
Inmo Francia 2, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	53	0	53

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank: Direct	% of ownership held by the Bank: Indirect	% of voting power (k): Year 2019	% of voting power (k): Year 2018	Activity	Million euros (a): Capital + reserves	Million euros (a): Net results	Million euros (a): Carrying amount
Inmobiliaria Viagracia, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	92	2	93
Insurance Funding Solutions Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Interfinance Holanda B.V.	Netherlands	100.00%	0.00%	100.00%	100.00%	Holding company	0	0	0
Intermediacion y Servicios Tecnológicos, S.A.	Spain	99.50%	0.50%	100.00%	100.00%	Services	2	0	2
Inversiones Capital Global, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	147	(1)	159
Inversiones Marítimas del Mediterráneo, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Inactive	29	(26)	0
Investigaciones Pedreña, A.I.E. (i)	Spain	0.00%	0.00%	0.00%	100.00%	Research and development	-	-	-
Isla de los Buques, S.A.	Spain	99.98%	0.02%	100.00%	100.00%	Finance company	1	0	1
Klare Corredora de Seguros S.A.	Chile	0.00%	33.63%	50.10%	-	Insurance brokerage	10	(1)	3
Landmark Iberia, S.L.	Spain	16.20%	83.80%	100.00%	-	Real estate management	1,677	(12)	1,664
Langton Funding (No.1) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	(66)	39	0
Langton Mortgages Trustee (UK) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	0	0	0
Langton PECOH Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Langton Securities (2008-1) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	1	0	0
Langton Securities (2010-1) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	1	0	0
Langton Securities (2010-2) PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	0	0	0
Langton Securities Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Laparanza, S.A.	Spain	61.59%	0.00%	61.59%	61.59%	Agricultural holding	28	0	16
Liquidity Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Factoring	0	0	0
Luri 1, S.A. (m)	Spain	46.00%	0.00%	46.00%	36.00%	Real estate	(2)	2	0
Luri 6, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Real estate investment	1,305	77	1,418
MAC No. 1 Limited	United Kingdom	-	(b)	-	-	Mortgage credit company	0	0	0
Master Red Europa, S.L.	Spain	96.34%	0.00%	96.34%	96.34%	Cards	1	0	1
Mata Alta, S.L.	Spain	0.00%	61.59%	100.00%	100.00%	Real estate	0	0	0
Merciver, S.L.	Spain	99.90%	0.10%	100.00%	100.00%	Financial advisory	1	0	1
Merlion Aviation One Designated Activity Company	Ireland	-	(b)	-	-	Renting	19	4	0
Moneybit, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Services	2	0	2
Mortgage Engine Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services	(1)	(2)	0
Motor 2015-1 Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Motor 2015-1 PLC (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	0	0	0
Motor 2016-1 Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank		% of voting power (k)		Activity	Million euros (a)		
		Direct	Indirect	Year 2019	Year 2018		Capital + reserves	Net results	Carrying amount
Motor 2016-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	0	0	0
Motor 2017-1 Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	0
Motor 2017-1 PLC	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	(2)	(4)	0
Motor Securities 2018-1 Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	0	0	0
Multiplica SpA	Chile	0.00%	100.00%	100.00%	-	Payment services	5	0	5
Naviera Mirambel, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	0
Naviera Trans Gas, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	17	4	52
Naviera Trans Iron, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	23	1	21
Naviera Trans Ore, A.I.E.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	22	2	17
Naviera Trans Wind, S.L.	Spain	99.99%	0.01%	100.00%	100.00%	Renting	3	0	3
Naviera Transcantábrica, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	4	1	4
Naviera Transchem, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	1	0	1
Newcomar, S.L., en liquidación (j)	Spain	40.00%	40.00%	80.00%	80.00%	Real estate	1	0	0
Norbest AS	Norway	7.94%	92.06%	100.00%	100.00%	Securities investment	93	(1)	93
Novimovest – Fundo de Investimento Imobiliário	Portugal	0.00%	78.63%	78.74%	79.76%	Investment fund	298	6	238
NW Services CO.	United States	0.00%	100.00%	100.00%	100.00%	E-commerce	5	1	2
Olé Tecnologia Ltda.	Brazil	0.00%	53.96%	100.00%	100.00%	IT services	1	0	1
Open Bank, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	216	1	221
Open Digital Market, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Open Digital Services, S.L.	Spain	99.97%	0.03%	100.00%	100.00%	Services	122	(98)	34
Operadora de Carteras Gamma, S.A.P.I. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Holding company	7	1	0
Optimal Investment Services SA	Switzerland	100.00%	0.00%	100.00%	100.00%	Fund management company	24	1	25
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland Euro Fund (c)	Ireland	0.00%	57.20%	54.10%	51.25%	Fund management company	4	0	0
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland US Dollar Fund (c)	Ireland	0.00%	44.08%	51.57%	51.57%	Fund management company	5	0	0
Optimal Multiadvisors Ltd / Optimal Strategic US Equity Series (consolidado) (c)	Bahamas	0.00%	56.18%	56.78%	56.34%	Fund management company	46	0	0
PagoFX Europe S.A.	Belgium	0.00%	100.00%	100.00%	-	Payment services	1	0	1
PagoFX HoldCo, S.L.	Spain	100.00%	0.00%	100.00%	-	Payment services	16	(4)	16
PagoFX UK Ltd	United Kingdom	0.00%	100.00%	100.00%	-	Payment services	2	0	2
Parasant SA	Switzerland	100.00%	0.00%	100.00%	100.00%	Holding company	1,047	(1)	917
PBD Germany Auto 2018 UG (Haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
PBD Germany Auto Lease Master 2019	Luxembourg	-	(b)	-	-	Securitisation	0	5	0

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
PBE Companies, LLC	United States	0.00%	100.00%	100.00%	100.00%	Real estate	112	(1)	111
PECOH Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Securitisation	0	0	0
Pereda Gestión, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Holding company	42	2	4
Phoenix C1 Aviation Designated Activity Company	Ireland	-	(b)	-	-	Renting	5	3	0
PI Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Leasing	80	(8)	65
Pingham International, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Popular Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	Management of funds and portfolios	1	0	2
Popular Seguros - Companhia de Seguros S.A.	Portugal	0.00%	99.91%	100.00%	100.00%	Insurance	9	1	7
Portal Universia Argentina S.A.	Argentina	0.00%	75.75%	75.75%	75.75%	Internet	0	0	0
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Internet	0	0	0
Prime 16 – Fundo de Investimentos Imobiliário	Brazil	0.00%	89.93%	100.00%	100.00%	Investment fund	72	(13)	50
PSA Bank Deutschland GmbH	Germany	0.00%	50.00%	50.00%	50.00%	Banking	471	46	229
PSA Banque France	France	0.00%	50.00%	50.00%	50.00%	Banking	1,093	140	463
PSA Consumer Finance Polska Sp. z o.o.	Poland	0.00%	40.24%	100.00%	100.00%	Finance company	1	1	0
PSA Finance Belux S.A.	Belgium	0.00%	50.00%	50.00%	50.00%	Finance company	109	15	42
PSA Finance Polska Sp. z o.o.	Poland	0.00%	40.24%	50.00%	50.00%	Finance company	34	4	11
PSA Finance Suisse, S.A.	Switzerland	0.00%	50.00%	100.00%	100.00%	Leasing	38	20	15
PSA Finance UK Limited	United Kingdom	0.00%	50.00%	50.00%	50.00%	Finance company	338	55	129
PSA Financial Services Nederland B.V.	Netherlands	0.00%	50.00%	50.00%	50.00%	Finance company	73	15	20
PSA Financial Services Spain, E.F.C., S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Finance company	416	72	174
PSA Renting Italia S.p.A.	Italy	0.00%	50.00%	100.00%	100.00%	Renting	6	4	3
PSRT 2018-A	United States	-	(b)	-	-	Securitisation	59	24	0
PSRT 2019-A	United States	-	(b)	-	-	Securitisation	0	43	0
Punta Lima Wind Farm, LLC	United States	0.00%	100.00%	100.00%	-	Electricity production	0	0	0
Punta Lima, LLC	United States	0.00%	100.00%	100.00%	100.00%	Leasing	60	(11)	49
Recovery Team, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Finance company	14	(1)	16
Retop S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	Finance company	10	19	63
Return Capital Serviços de Recuperação de Créditos S.A.	Brazil	0.00%	89.93%	100.00%	70.00%	Collection services	(2)	2	0
Return Gestão de Recursos S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Fund management company	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank		% of voting power (k)		Activity	Million euros (a)		
		Direct	Indirect	Year 2019	Year 2018		Capital + reserves	Net results	Carrying amount
Riobank International (Uruguay) SAIFE (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	Banking	0	0	0
Roc Aviation One Designated Activity Company	Ireland	-	(b)	-	-	Renting	(2)	0	0
Roc Shipping One Designated Activity Company	Ireland	-	(b)	-	-	Renting	(3)	(1)	0
Rojo Entretenimento S.A.	Brazil	0.00%	85.08%	94.60%	94.60%	Services	29	1	25
RV Partners S.A.	Panama	0.00%	100.00%	100.00%	100.00%	Financial services	0	0	0
SAM Asset Management, S.A. de C.V., Sociedad Operadora de Fondos de Inversión	Mexico	0.00%	100.00%	100.00%	100.00%	Fund management company	4	20	161
SAM Brasil Participações S.A.	Brazil	1.00%	99.00%	100.00%	100.00%	Holding company	35	2	37
SAM Investment Holdings Limited (l)	Jersey	92.37%	7.62%	100.00%	100.00%	Holding company	1,087	224	1,306
SAM UK Investment Holdings Limited	United Kingdom	92.37%	7.63%	100.00%	100.00%	Holding company	(114)	121	6
Sancap Investimentos e Participações S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Holding company	200	60	207
Santander (CF Trustee Property Nominee) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Santander (CF Trustee) Limited (d)	United Kingdom	-	(b)	-	100.00%	Asset management	0	0	0
Santander (UK) Group Pension Schemes Trustees Limited (d)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Asset management	0	0	0
Santander Ahorro Inmobiliario 1, S.A.	Spain	98.53%	0.00%	98.53%	98.53%	Real estate rental	1	0	1
Santander Ahorro Inmobiliario 2, S.A.	Spain	99.91%	0.00%	99.91%	99.91%	Real estate rental	1	0	1
Santander Asesorías Financieras Limitada	Chile	0.00%	67.44%	100.00%	100.00%	Securities company	60	1	41
Santander Asset Finance (December) Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	66	2	0
Santander Asset Finance plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	247	24	171
Santander Asset Management - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	Fund management company	2	1	3
Santander Asset Management Chile S.A.	Chile	0.01%	99.94%	100.00%	100.00%	Securities investment	(6)	0	0
Santander Asset Management Luxembourg, S.A.	Luxembourg	0.00%	100.00%	100.00%	100.00%	Fund management company	5	1	0
Santander Asset Management S.A. Administradora General de Fondos	Chile	0.00%	100.00%	100.00%	100.00%	Fund management company	14	11	132
Santander Asset Management UK Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	193	18	186
Santander Asset Management UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Management of funds and portfolios	39	16	201

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
Santander Asset Management, LLC	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Management	5	3	9
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0.00%	100.00%	100.00%	100.00%	Fund management company	32	61	167
Santander Back-Offices Globales Mayoristas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Services	4	2	1
Santander Banca de Inversión Colombia, S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	Financial services	1	1	1
Santander BanCorp	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Holding company	1,014	66	1,078
Santander Bank & Trust Ltd.	Bahamas	0.00%	100.00%	100.00%	100.00%	Banking	109	2	22
Santander Bank Polska S.A.	Poland	67.47%	0.00%	67.47%	67.47%	Banking	5,183	497	4,386
Santander Bank, National Association	United States	0.00%	100.00%	100.00%	100.00%	Banking	11,960	218	12,176
Santander Brasil Administradora de Consórcio Ltda.	Brazil	0.00%	89.93%	100.00%	100.00%	Services	49	45	85
Santander Brasil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	Securities investment	34	2	36
Santander Brasil Gestão de Recursos Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	Real estate investment	455	80	576
Santander Brasil Tecnologia S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	IT services	28	3	27
Santander Brasil, EFC, S.A.	Spain	0.00%	89.93%	100.00%	100.00%	Finance company	775	7	706
Santander Capital Desarrollo, SGEIC, S.A. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Venture capital	10	(1)	8
Santander Capital Structuring, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Trade	11	1	0
Santander Capitalização S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Insurance	42	34	68
Santander Cards Ireland Limited	Ireland	0.00%	100.00%	100.00%	100.00%	Cards	(8)	0	0
Santander Cards Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Cards	98	1	99
Santander Cards UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	155	4	113
Santander Chile Holding S.A.	Chile	22.11%	77.72%	99.84%	99.84%	Holding company	1,399	232	1,366
Santander Consulting (Beijing) Co., Ltd.	China	0.00%	100.00%	100.00%	100.00%	Advisory	8	0	4
Santander Consumer (UK) plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	620	100	306
Santander Consumer Auto Receivables Funding 2013-B2 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	37	(177)	0
Santander Consumer Auto Receivables Funding 2013-B3 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	(13)	54	0
Santander Consumer Auto Receivables Funding 2015-L4 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	81	18	0
Santander Consumer Auto Receivables Funding 2016-B4 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	(5)	8	0

Subsidiaries of Banco Santander, S.A. [1]

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Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
Santander Consumer Auto Receivables Funding 2018-L1 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	72	27	0
Santander Consumer Auto Receivables Funding 2018-L2 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	20	10	0
Santander Consumer Auto Receivables Funding 2018-L3 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	29	11	0
Santander Consumer Auto Receivables Funding 2018-L4 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	24	12	0
Santander Consumer Auto Receivables Funding 2018-L5 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	19	9	0
Santander Consumer Auto Receivables Funding 2019-B1 LLC	United States	0.00%	72.40%	100.00%	-	Finance company	0	(103)	0
Santander Consumer Auto Receivables Funding 2019-L2 LLC	United States	0.00%	72.40%	100.00%	-	Finance company	0	38	0
Santander Consumer Auto Receivables Funding 2019-L3 LLC	United States	0.00%	72.40%	100.00%	-	Finance company	0	28	0
Santander Consumer Bank AG	Germany	0.00%	100.00%	100.00%	100.00%	Banking	3,063	454	4,820
Santander Consumer Bank AS	Norway	0.00%	100.00%	100.00%	100.00%	Banking	2,077	300	2,021
Santander Consumer Bank GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Banking	355	51	363
Santander Consumer Bank S.A.	Poland	0.00%	80.48%	100.00%	100.00%	Banking	641	120	509
Santander Consumer Bank S.A.	Belgium	0.00%	100.00%	100.00%	100.00%	Banking	1,167	16	1,170
Santander Consumer Bank S.p.A.	Italy	0.00%	100.00%	100.00%	100.00%	Banking	816	81	603
Santander Consumer Banque S.A.	France	0.00%	100.00%	100.00%	100.00%	Banking	495	37	492
Santander Consumer Chile S.A.	Chile	49.00%	34.23%	100.00%	51.00%	Finance company	47	15	33
Santander Consumer Credit Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	(37)	(1)	0
Santander Consumer Finance Benelux B.V.	Netherlands	0.00%	100.00%	100.00%	100.00%	Finance company	132	14	190
Santander Consumer Finance Global Services, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	IT services	5	1	5
Santander Consumer Finance Oy	Finland	0.00%	100.00%	100.00%	100.00%	Finance company	211	42	130
Santander Consumer Finance S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	Financial advisory	1	0	1
Santander Consumer Finance, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	9,869	508	8,825
Santander Consumer Finanse Sp. z o.o.	Poland	0.00%	80.48%	100.00%	100.00%	Services	15	0	12
Santander Consumer Holding Austria GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Holding company	364	25	518
Santander Consumer Holding GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Holding company	4,926	278	5,827

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
Santander Consumer International Puerto Rico LLC	Puerto Rico	0.00%	72.40%	100.00%	100.00%	Services	8	1	6
Santander Consumer Leasing GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Leasing	20	54	101
Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.	Spain	0.00%	94.61%	100.00%	100.00%	Insurance intermediary	1	0	0
Santander Consumer Multirent Sp. z o.o.	Poland	0.00%	80.48%	100.00%	100.00%	Leasing	25	1	5
Santander Consumer Operations Services GmbH	Germany	0.00%	100.00%	100.00%	100.00%	Services	9	1	18
Santander Consumer Receivables 10 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	753	8	0
Santander Consumer Receivables 11 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	236	108	0
Santander Consumer Receivables 3 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	279	(22)	0
Santander Consumer Receivables 7 LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	375	64	0
Santander Consumer Receivables Funding LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	0	0	0
Santander Consumer Renting, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Leasing	37	1	39
Santander Consumer Services GmbH	Austria	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Santander Consumer Services, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Finance company	8	2	5
Santander Consumer Spain Auto 2019-1, Fondo de Titulación	Spain	-	(b)	-	-	Securitisation	0	0	0
Santander Consumer Technology Services GmbH	Germany	0.00%	100.00%	100.00%	100.00%	IT services	14	1	22
Santander Consumer USA Holdings Inc.	United States	0.00%	72.40%	72.40%	69.71%	Holding company	5,630	885	5,318
Santander Consumer USA Inc.	United States	0.00%	72.40%	100.00%	100.00%	Finance company	4,861	198	3,663
Santander Consumer, EFC, S.A.	Spain	0.00%	100.00%	100.00%	100.00%	Finance company	522	102	505
Santander Consumo, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	91.76%	100.00%	100.00%	Cards	798	205	921
Santander Corredora de Seguros Limitada	Chile	0.00%	67.20%	100.00%	100.00%	Insurance brokerage	81	3	56
Santander Corredores de Bolsa Limitada	Chile	0.00%	83.23%	100.00%	100.00%	Securities company	52	1	45
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Securities company	121	22	129
Santander Corretora de Seguros, Investimentos e Serviços S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Holding company	570	100	599
Santander de Titulización S.G.F.T., S.A.	Spain	81.00%	19.00%	100.00%	100.00%	Fund management company	5	2	2
Santander Digital Assets, S.L.	Spain	0.00%	100.00%	100.00%	-	IT services	21	(6)	14

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank		% of voting power (k)		Activity	Million euros (a)		
		Direct	Indirect	Year 2019	Year 2018		Capital + reserves	Net results	Carrying amount
Santander Digital Businesses, S.L.	Spain	99.97%	0.03%	100.00%	100.00%	Holding company	96	(15)	96
Santander Drive Auto Receivables LLC	United States	0.00%	72.40%	100.00%	100.00%	Finance company	0	0	0
Santander Drive Auto Receivables Trust 2015-4	United States	-	(b)	-	-	Securitisation	53	17	0
Santander Drive Auto Receivables Trust 2015-5	United States	-	(b)	-	-	Securitisation	52	15	0
Santander Drive Auto Receivables Trust 2016-1	United States	-	(b)	-	-	Securitisation	30	18	0
Santander Drive Auto Receivables Trust 2016-2	United States	-	(b)	-	-	Securitisation	35	24	0
Santander Drive Auto Receivables Trust 2016-3	United States	-	(b)	-	-	Securitisation	32	35	0
Santander Drive Auto Receivables Trust 2017-1	United States	-	(b)	-	-	Securitisation	5	32	0
Santander Drive Auto Receivables Trust 2017-2	United States	-	(b)	-	-	Securitisation	(4)	42	0
Santander Drive Auto Receivables Trust 2017-3	United States	-	(b)	-	-	Securitisation	(14)	42	0
Santander Drive Auto Receivables Trust 2018-1	United States	-	(b)	-	-	Securitisation	(41)	55	0
Santander Drive Auto Receivables Trust 2018-2	United States	-	(b)	-	-	Securitisation	(59)	52	0
Santander Drive Auto Receivables Trust 2018-3	United States	-	(b)	-	-	Securitisation	(71)	50	0
Santander Drive Auto Receivables Trust 2018-4	United States	-	(b)	-	-	Securitisation	(67)	54	0
Santander Drive Auto Receivables Trust 2018-5	United States	-	(b)	-	-	Securitisation	(90)	69	0
Santander Drive Auto Receivables Trust 2019-1	United States	-	(b)	-	-	Securitisation	0	(33)	0
Santander Drive Auto Receivables Trust 2019-2	United States	-	(b)	-	-	Securitisation	0	(45)	0
Santander Drive Auto Receivables Trust 2019-3	United States	-	(b)	-	-	Securitisation	0	(73)	0
Santander Drive Auto Receivables Trust 2019-4	United States	-	(b)	-	-	Inactive	0	0	0
Santander Energías Renovables I, S.C.R., S.A.	Spain	59.66%	0.00%	59.66%	59.66%	Venture capital	16	0	9
Santander Equity Investments Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	54	(3)	47
Santander España Merchant Services, Entidad de Pago, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Payment services	213	5	185
Santander España Servicios Legales y de Cumplimiento, S.L.	Spain	99.97%	0.03%	100.00%	-	Services	8	0	8
Santander Estates Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	4	(1)	0
Santander F24 S.A.	Poland	0.00%	67.47%	100.00%	100.00%	Finance company	0	0	0
Santander Facility Management España, S.L.	Spain	94.33%	5.67%	100.00%	100.00%	Real estate	414	0	393
Santander Factoring S.A.	Chile	0.00%	99.84%	100.00%	100.00%	Factoring	41	1	42
Santander Factoring Sp. z o.o.	Poland	0.00%	67.47%	100.00%	100.00%	Financial services	18	5	1

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	Factoring	155	59	126
Santander FI Hedge Strategies	Ireland	0.00%	89.93%	100.00%	100.00%	Investment company	216	(106)	99
Santander Finance 2012-1 LLC	United States	0.00%	100.00%	100.00%	100.00%	Financial services	2	0	3
Santander Financial Exchanges Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance company	0	0	0
Santander Financial Services plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	383	(8)	396
Santander Financial Services, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Finance company	259	(3)	256
Santander Finanse Sp. z o.o.	Poland	0.00%	67.47%	100.00%	100.00%	Financial services	53	6	21
Santander Fintech Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance company	187	14	117
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado (h)	Brazil	0.00%	87.83%	100.00%	100.00%	Investment fund	1,094	59	1,051
Santander Gestión de Recaudación y Cobranzas Ltda.	Chile	0.00%	99.84%	100.00%	100.00%	Financial services	5	1	6
Santander Global Consumer Finance Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Finance company	7	0	7
Santander Global Facilities, S.A. de C.V.	Mexico	100.00%	0.00%	100.00%	100.00%	Management of funds and portfolios	103	22	124
Santander Global Facilities, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	244	(8)	250
Santander Global Operations, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Services	34	18	24
Santander Global Property, S.L.	Spain	97.34%	2.66%	100.00%	100.00%	Securities investment	253	0	253
Santander Global Services S.A. (j)	Uruguay	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Santander Global Sport, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Sports activity	29	(6)	23
Santander Global Technology Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	Technology services	3	0	1
Santander Global Technology Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	IT services	25	1	20
Santander Global Technology, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT services	399	38	346
Santander Global Trade Platform Solutions, S.L.	Spain	0.00%	100.00%	100.00%	-	Technology services	26	(2)	24
Santander Guarantee Company	United Kingdom	0.00%	100.00%	100.00%	100.00%	Leasing	5	0	3
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	0	0	0
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	0	0	0
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	0	0	0
Santander Holding Imobiliária S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Real estate	62	0	56

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank - Direct	% of ownership held by the Bank - Indirect	% of voting power (k) - Year 2019	% of voting power (k) - Year 2018	Activity	Million euros (a) - Capital + reserves	Million euros (a) - Net results	Million euros (a) - Carrying amount
Santander Holding Internacional, S.A.	Spain	99.95%	0.05%	100.00%	100.00%	Holding company	2,551	2,075	2,399
Santander Holdings USA, Inc.	United States	100.00%	0.00%	100.00%	100.00%	Holding company	18,806	670	12,532
Santander Inclusión Financiera, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	91.76%	100.00%	100.00%	Finance company	18	(9)	9
Santander Insurance Agency, Inc.	Puerto Rico	0.00%	100.00%	100.00%	100.00%	Insurance brokerage	8	1	8
Santander Insurance Agency, U.S., LLC	United States	0.00%	100.00%	100.00%	100.00%	Insurance	1	0	1
Santander Insurance Services UK Limited	United Kingdom	100.00%	0.00%	100.00%	100.00%	Asset management	42	1	43
Santander Intermediación Correduría de Seguros, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance brokerage	21	1	18
Santander International Products, Plc. (l)	Ireland	99.99%	0.01%	100.00%	100.00%	Finance company	1	0	0
Santander Inversiones S.A.	Chile	0.00%	100.00%	100.00%	100.00%	Holding company	1,546	184	1,032
Santander Investment Bank Limited	Bahamas	0.00%	100.00%	100.00%	100.00%	Banking	579	(3)	529
Santander Investment Chile Limitada	Chile	0.00%	100.00%	100.00%	100.00%	Finance company	522	14	321
Santander Investment I, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	219	(1)	27
Santander Investment Securities Inc.	United States	0.00%	100.00%	100.00%	100.00%	Securities company	424	25	449
Santander Investment, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Banking	251	1,184	256
Santander Inwestycje Sp. z o.o.	Poland	0.00%	67.47%	100.00%	100.00%	Securities company	10	0	7
Santander ISA Managers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Management of funds and portfolios	23	7	6
Santander Lease, S.A., E.F.C.	Spain	100.00%	0.00%	100.00%	100.00%	Leasing	43	12	51
Santander Leasing Poland Securitization 01 Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	0	0	0
Santander Leasing S.A.	Poland	0.00%	67.47%	100.00%	100.00%	Leasing	135	5	30
Santander Leasing S.A. Arrendamento Mercantil	Brazil	0.00%	89.93%	99.99%	99.99%	Leasing	1,266	10	1,148
Santander Leasing, LLC	United States	0.00%	100.00%	100.00%	100.00%	Leasing	7	(6)	0
Santander Lending Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Mortgage credit company	238	5	242
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance intermediary	4	0	3
Santander Merchant Platform Solutions Brasil Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	Technology services	1	0	1
Santander Merchant Platform Solutions, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	25	(7)	25
Santander Merchant S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Finance company	0	0	2
Santander Mortgage Holdings Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Financial services	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank		% of voting power (k)		Activity	Million euros (a)		
		Direct	Indirect	Year 2019	Year 2018		Capital + reserves	Net results	Carrying amount
Santander Operaciones España, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Services	32	(17)	11
Santander Paraty Qif PLC	Ireland	0.00%	89.93%	100.00%	100.00%	Investment fund	216	(106)	99
Santander Pensiones, S.A., E.G.F.P.	Spain	0.00%	100.00%	100.00%	100.00%	Pension fund management company	19	20	118
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	100.00%	0.00%	100.00%	100.00%	Pension fund management company	3	0	3
Santander Prime Auto Issuance Notes 2018-A Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(29)	7	0
Santander Prime Auto Issuance Notes 2018-B Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(17)	5	0
Santander Prime Auto Issuance Notes 2018-C Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(4)	2	0
Santander Prime Auto Issuance Notes 2018-D Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(7)	(10)	0
Santander Prime Auto Issuance Notes 2018-E Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(2)	0	0
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	100.00%	0.00%	100.00%	100.00%	Fund management company	31	11	35
Santander Private Banking s.p.a. in Liquidazione (j)	Italy	100.00%	0.00%	100.00%	100.00%	Finance company	33	(1)	32
Santander Private Banking UK Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	300	0	409
Santander Private Real Estate Advisory & Management, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Real estate	5	0	4
Santander Private Real Estate Advisory, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	12	1	13
Santander Real Estate, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Real estate	1	0	1
Santander Retail Auto Lease Funding LLC	United States	0.00%	72.40%	100.00%	100.00%	Securitisation	0	0	0
Santander Retail Auto Lease Trust 2017-A	United States	-	(b)	-	-	Securitisation	73	45	0
Santander Retail Auto Lease Trust 2018-A	United States	-	(b)	-	-	Securitisation	60	29	0
Santander Retail Auto Lease Trust 2019-A	United States	-	(b)	-	-	Securitisation	0	41	0
Santander Retail Auto Lease Trust 2019-B	United States	-	(b)	-	-	Securitisation	0	28	0
Santander Retail Auto Lease Trust 2019-C	United States	-	(b)	-	-	Securitisation	0	30	0
Santander Revolving Auto Loan Trust 2019-A	United States	-	(b)	-	-	Securitisation	0	(87)	0
Santander Río Asset Management Gerente de Fondos Comunes de Inversión S.A.	Argentina	0.00%	100.00%	100.00%	100.00%	Fund management company	3	3	3
Santander Río Servicios S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	Advisory services	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank Direct	% of ownership held by the Bank Indirect	% of voting power (k) Year 2019	% of voting power (k) Year 2018	Activity	Million euros (a) Capital + reserves	Million euros (a) Net results	Million euros (a) Carrying amount
Santander Río Trust S.A.	Argentina	0.00%	99.97%	100.00%	100.00%	Services	0	0	0
Santander Río Valores S.A.	Argentina	0.00%	99.34%	100.00%	100.00%	Securities company	3	0	3
Santander S.A. Sociedad Securitizadora	Chile	0.00%	67.24%	100.00%	100.00%	Fund management company	1	0	0
Santander Secretariat Services Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Holding company	0	0	0
Santander Securities LLC	United States	0.00%	100.00%	100.00%	100.00%	Securities company	125	(77)	48
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Insurance	1,139	146	1,188
Santander Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	91.77%	100.00%	100.00%	Services	6	1	6
Santander Servicios Especializados, S.A. de C.V.	Mexico	0.00%	91.77%	100.00%	100.00%	Financial services	2	0	2
Santander Technology USA, LLC	United States	0.00%	100.00%	100.00%	100.00%	IT services	111	(18)	93
Santander Tecnología Argentina S.A.	Argentina	0.00%	99.34%	100.00%	100.00%	IT services	2	2	2
Santander Tecnología España, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	IT services	35	(2)	35
Santander Tecnología México, S.A. de C.V.	Mexico	0.00%	91.76%	100.00%	100.00%	IT services	41	3	40
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0.00%	99.91%	100.00%	100.00%	Insurance	115	26	47
Santander Totta, SGPS, S.A.	Portugal	0.00%	99.91%	99.91%	99.90%	Holding company	3,430	436	3,923
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	50.00%	33.74%	100.00%	100.00%	Fund management company	4	41	39
Santander Trade Services Limited	Hong-Kong	0.00%	100.00%	100.00%	100.00%	Inactive	18	0	16
Santander UK Foundation Limited	United Kingdom	-	(b)	-	-	Charitable services	0	0	0
Santander UK Group Holdings plc	United Kingdom	77.67%	22.33%	100.00%	100.00%	Finance company	15,413	528	19,948
Santander UK Investments	United Kingdom	100.00%	0.00%	100.00%	100.00%	Finance company	52	0	47
Santander UK Operations Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services	21	3	17
Santander UK plc	United Kingdom	0.00%	100.00%	100.00%	100.00%	Banking	16,821	395	15,542
Santander UK Technology Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	IT services	17	11	7
Santander Vivienda, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0.00%	91.76%	100.00%	100.00%	Finance company	373	31	371
Santander Vivienda, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México como Fiduciaria del Fideicomiso Bursa	Mexico	-	(b)	-	-	Securitisation	10	(2)	0
Santander Wealth Management International SA	Switzerland	0.00%	100.00%	100.00%	-	Asset management	0	0	0
Santusa Holding, S.L.	Spain	69.76%	30.24%	100.00%	100.00%	Holding company	7,650	(118)	6,503

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
SC Austria Finance 2013-1 S.A.	Luxembourg	-	(b)	-	-	Securitisation	0	0	0
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Auto 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Auto 2016-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Auto 2017-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Auto 2018-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Auto 2019-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Consumer 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Consumer 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Consumer 2017-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Consumer 2018-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Mobility 2019-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	0	0	0
SC Poland Consumer 15-1 Sp. z.o.o.	Poland	-	(b)	-	-	Securitisation	0	0	0
SC Poland Consumer 16-1 Sp. z o.o.	Poland	-	(b)	-	-	Securitisation	0	0	0
SCF Ajoneuvohallinto I Limited (j)	Ireland	-	(b)	-	-	Securitisation	0	0	0
SCF Ajoneuvohallinto II Limited	Ireland	-	(b)	-	-	Securitisation	0	0	0
SCF Ajoneuvohallinto KIMI VI Limited	Ireland	-	(b)	-	-	Securitisation	0	0	0
SCF Ajoneuvohallinto VII Limited	Ireland	-	(b)	-	-	Securitisation	0	0	0
SCF Ajoneuvohallinto VIII Limited	Ireland	-	(b)	-	-	Securitisation	0	0	0
SCF Eastside Locks GP Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate management	0	0	0
SCF Rahoituspalvelut I Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitisation	0	0	0
SCF Rahoituspalvelut II Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

Company	Location	% of ownership held by the Bank		% of voting power (k)		Activity	Million euros (a)		
		Direct	Indirect	Year 2019	Year 2018		Capital + reserves	Net results	Carrying amount
SCF Rahoituspalvelut KIMI VI Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	0	0	0
SCF Rahoituspalvelut VII Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(1)	0	0
SCF Rahoituspalvelut VIII Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	2	0	0
SCFI Ajoneuvohallinto Limited (j)	Ireland	-	(b)	-	-	Securitisation	0	0	0
SCFI Rahoituspalvelut Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitisation	0	0	0
Secucor Finance 2013-I Designated Activity Company (q)	Ireland	-	(b)	-	-	Securitisation	0	0	0
Services and Promotions Delaware Corp.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	63	2	66
Services and Promotions Miami LLC	United States	0.00%	100.00%	100.00%	100.00%	Real estate	54	3	58
Servicio de Alarmas Controladas por Ordenador, S.A.	Spain	99.99%	0.01%	100.00%	100.00%	Security	1	0	1
Servicios Corporativos Seguros Serfin, S.A. de C.V. (j)	Mexico	0.00%	85.30%	100.00%	100.00%	Services	0	0	0
Servicios de Cobranza, Recuperación y Seguimiento, S.A. de C.V.	Mexico	0.00%	85.00%	85.00%	85.00%	Finance company	33	3	7
Sheppards Moneybrokers Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Advisory services	0	0	0
Shiloh III Wind Project, LLC	United States	0.00%	100.00%	100.00%	100.00%	Electricity production	313	8	321
Silk Finance No. 4	Portugal	-	(b)	-	-	Securitisation	(6)	1	0
Sociedad Integral de Valoraciones Automatizadas, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Appraisals	1	1	1
Socur S.A. (f)	Uruguay	100.00%	0.00%	100.00%	100.00%	Finance company	34	23	59
Sol Orchard Imperial 1 LLC (c)	United States	0.00%	57.40%	100.00%	100.00%	Electricity production	31	(1)	33
Solarlaser Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	0	0	0
Sovereign Community Development Company	United States	0.00%	100.00%	100.00%	100.00%	Holding company	38	1	39
Sovereign Delaware Investment Corporation	United States	0.00%	100.00%	100.00%	100.00%	Holding company	130	3	133
Sovereign Lease Holdings, LLC	United States	0.00%	100.00%	100.00%	100.00%	Financial services	210	7	217
Sovereign REIT Holdings, Inc.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	7,298	167	7,465
Sovereign Spirit Limited (n)	Bermudas	0.00%	100.00%	100.00%	100.00%	Leasing	0	0	0
Sterrebeeck B.V.	Netherlands	100.00%	0.00%	100.00%	100.00%	Holding company	4,124	1,090	11,291
Suleyado 2003, S.L. Unipersonal	Spain	0.00%	100.00%	100.00%	100.00%	Securities investment	23	6	28
Super Pagamentos e Administração de Meios Eletrônicos S.A.	Brazil	0.00%	89.93%	100.00%	100.00%	Payment services	8	1	11

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
Superdigital Holding Company, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	14	(2)	12
Suzuki Servicios Financieros, S.L.	Spain	0.00%	51.00%	51.00%	51.00%	Intermediation	6	1	0
Svensk Autofinans WH 1 Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	0	0	0
Swesant SA	Switzerland	0.00%	100.00%	100.00%	100.00%	Holding company	2	8	0
Taxagest Sociedade Gestora de Participações Sociais, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Holding company	56	0	0
Teatinos Siglo XXI Inversiones S.A.	Chile	50.00%	50.00%	100.00%	100.00%	Holding company	3,026	258	2,484
The Alliance & Leicester Corporation Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Real estate	14	0	14
The Best Specialty Coffee, S.L. Unipersonal	Spain	100.00%	0.00%	100.00%	100.00%	Restaurant services	1	0	0
Tikgi Aviation One Designated Activity Company	Ireland	-	(b)	-	-	Renting	(1)	(1)	0
Time Retail Finance Limited (j)	United Kingdom	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Tonopah Solar I, LLC	United States	0.00%	100.00%	100.00%	100.00%	Holding company	5	0	5
TOPSAM, S.A de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Fund management company	2	0	1
Toque Fale Serviços de Telemarketing Ltda.	Brazil	0.00%	89.93%	100.00%	100.00%	Telemarketing	1	(1)	0
Tornquist Asesores de Seguros S.A. (j)	Argentina	0.00%	99.99%	99.99%	99.99%	Advisory services	0	0	0
Totta (Ireland), PLC (h)	Ireland	0.00%	99.86%	100.00%	100.00%	Finance company	455	11	450
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0.00%	99.86%	100.00%	100.00%	Real estate	125	6	100
Trabajando.com Colombia Consultoría S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Trabajando.com México, S.A. de C.V.	Mexico	0.00%	99.87%	99.87%	100.00%	Services	0	0	0
Trabajando.com Perú S.A.C.	Peru	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Trabalhando.com Brasil Consultoria Ltda.	Brazil	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Trabalhandopontocom Portugal, Sociedade Unipessoal, Lda - Em Liquidação (j)	Portugal	0.00%	100.00%	100.00%	100.00%	Services	0	0	0
Trade Maps 3 Hong Kong Limited	Hong-Kong	-	(b)	-	-	Securitisation	0	0	0
Trade Maps 3 Ireland Limited (j)	Ireland	-	(b)	-	-	Securitisation	0	0	0
Trans Rotor Limited (j)	United Kingdom	100.00%	0.00%	100.00%	100.00%	Renting	8	(1)	5
Transolver Finance EFC, S.A.	Spain	0.00%	51.00%	51.00%	51.00%	Leasing	53	7	17
Tuttle and Son Limited	United Kingdom	0.00%	100.00%	100.00%	100.00%	Payments and collections services	0	0	0
Universia Brasil S.A.	Brazil	0.00%	100.00%	100.00%	100.00%	Internet	0	0	0

Subsidiaries of Banco Santander, S.A. [1]

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + reserves	Net results	Carrying amount
Universia Chile S.A.	Chile	0.00%	86.84%	86.84%	86.84%	Internet	0	0	1
Universia Colombia S.A.S.	Colombia	0.00%	100.00%	100.00%	100.00%	Internet	0	0	0
Universia España Red de Universidades, S.A.	Spain	0.00%	89.45%	89.45%	89.45%	Internet	2	0	2
Universia Holding, S.L.	Spain	100.00%	0.00%	100.00%	100.00%	Holding company	19	(5)	18
Universia México, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Internet	0	0	0
Universia Perú, S.A.	Peru	0.00%	99.73%	99.73%	96.51%	Internet	0	0	0
Universia Uruguay, S.A.	Uruguay	0.00%	100.00%	100.00%	100.00%	Internet	0	0	0
W.N.P.H. Gestão e Investimentos Sociedade Unipessoal, S.A.	Portugal	0.00%	100.00%	100.00%	100.00%	Portfolio management	0	0	0
Wallcesa, S.A.	Spain	100.00%	0.00%	100.00%	100.00%	Financial services	(941)	6	0
Wave Holdco, S.L.	Spain	0.00%	100.00%	100.00%	100.00%	Holding company	45	(14)	31
Waypoint Insurance Group, Inc.	United States	0.00%	100.00%	100.00%	100.00%	Holding company	9	0	9
Whitewick Limited (j)	Jersey	0.00%	100.00%	100.00%	100.00%	Inactive	0	0	0
WIM Servicios Corporativos, S.A. de C.V.	Mexico	0.00%	100.00%	100.00%	100.00%	Advisory	0	0	0
WTW Shipping Designated Activity Company	Ireland	100.00%	0.00%	100.00%	100.00%	Leasing	12	1	9

a. Amount per provisional books of each company as of the date of publication of these annexes, generally referred to 31 December 2019 without considering, where appropriate, the interest dividends that has been made in the year. In the carrying amount (net cost of provision), the Group´s ownership percentage has been applied to the number of each of the holders, without considering the impairment of goodwill incurred in the consolidation process. The Data from foreign companies are converted in to euros at the exchange rate at the end of the period.
b. Companies over which effective control is exercised.
c. Data from the latest available financial statement as at 31 December 2018.
d. Data from the latest available financial statement as at 31 March 2019.
e. Data from the latest available statement as at 30 June 2019.
f. Data from the latest available financial statement as at 30 September 2019.
g. Data from the latest available financial statement as at 31 July 2019.
h. Data from the latest available financial statement as at 30 November 2019.
i. Company in process of merger or liquidation. Pending of being registered.
j. Company in liquidation at 31 December 2019.
k. Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
l. Company resident in Spain for tax purposes.
m. See note 2.b.i
n. Company resident in the UK for tax purposes.
o. Company recently incorporated in the Group, without financial statements available.
p. Data from the latest available financial statement as at 31 May 2019.
q. Data from the latest available financial statement as at 31 January 2019.
r. Data from the latest available financial statement as at 31 December 2004.
s. Data from the latest available financial statement as at 31 October 2019.

1. Companies issuing shares and preference shares are listed in annex III, together with other relevant information.

Appendix II

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by the Bank		% of voting power (k)				Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Type of company	Assets	Capital + reserves	Net results
Abra 1 Limited (k)	Cayman Island	-	(h)	-	-	Leasing	Joint venture	-	-	-
Administrador Financiero de Transantiago S.A.	Chile	0.00%	13.42%	20.00%	20.00%	Payments and collections services	Associated	74	21	2
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Joint venture	44	17	5
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Joint venture	115	20	12
Aeroplan - Sociedade Construtora de Aeroportos, Lda. (e)	Portugal	0.00%	19.97%	20.00%	20.00%	Inactive	-	0	0	0
Aguas de Fuensanta, S.A. (e)	Spain	36.78%	0.00%	36.78%	36.78%	Food	Associated	24	(7)	0
Alcuter 2, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	-	-	-	-
Allianz Popular, S.L. (consolidado)	Spain	40.00%	0.00%	40.00%	40.00%	Insurance	Associated	2,749	80	76
Altamira Asset Management, S.A. (b)	Spain	0.00%	15.00%	15.00%	-	Real estate	-	580	110	24
Apolo Fundo de Investimento em Direitos Creditórios	Brazil	0.00%	29.98%	33.33%	-	Investment fund	Joint venture	1,778	1,744	34
Arena Communications Network, S.L. (consolidado) (b)	Spain	20.00%	0.00%	20.00%	20.00%	Advertising	Associated	289	96	3
Attijariwafa Bank Société Anonyme (consolidado) (b)	Morocco	0.00%	5.11%	5.11%	5.11%	Banking	-	47,488	4,073	627
Autopistas del Sol S.A. (b)	Argentina	0.00%	14.17%	14.17%	14.17%	Motorway concession	-	244	19	115
Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A. (b)	Poland	0.00%	6.75%	10.00%	10.00%	Pension fund management company	-	118	109	29
Aviva Towarzystwo Ubezpieczeń na ?ycie S.A. (b)	Poland	0.00%	6.75%	10.00%	10.00%	Insurance	-	3,508	316	138
Banco RCI Brasil S.A.	Brazil	0.00%	35.88%	39.89%	39.89%	Banking	Joint venture	2,988	234	57
Banco S3 México, S.A., Institución de Banca Múltiple	Mexico	0.00%	50.00%	50.00%	100.00%	Banking	Joint venture	139	62	6
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	Finance company	Associated	875	99	4
Bank of Shanghai Co., Ltd. (consolidado) (b)	China	6.54%	0.00%	6.54%	6.50%	Banking	-	259,289	18,375	2,310
CACEIS (consolidado)	France	0.00%	30.50%	30.50%	-	Custody services	Associated	88,015	3,811	159

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by the Bank		% of voting power (k)				Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Type of company	Assets	Capital + reserves	Net results
Câmara Interbancária de Pagamentos - CIP (b)	Brazil	0.00%	15.84%	17.61%	17.61%	Payments and collections services	-	120	53	22
Cantabria Capital, SGEIC, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	Management of venture capital	Associated	0	0	0
CCPT - ComprarCasa, Rede Serviços Imobiliários, S.A.	Portugal	0.00%	49.98%	49.98%	49.98%	Real estate services	Joint venture	0	0	0
Centro de Compensación Automatizado S.A.	Chile	0.00%	22.37%	33.33%	33.33%	Payments and collections services	Associated	10	7	1
Centro para el Desarrollo, Investigación y Aplicación de Nuevas Tecnologías, S.A. (b)	Spain	0.00%	49.00%	49.00%	49.00%	Technology	Associated	3	2	0
CNP Santander Insurance Europe Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	Insurance brokerage	Associated	940	132	33
CNP Santander Insurance Life Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	Insurance brokerage	Associated	1,425	181	50
CNP Santander Insurance Services Ireland Limited	Ireland	49.00%	0.00%	49.00%	49.00%	Services	Associated	29	3	1
Comder Contraparte Central S.A	Chile	0.00%	8.36%	12.45%	11.23%	Financial services	Associated	101	13	1
Companhia Promotora UCI	Brazil	0.00%	25.00%	25.00%	25.00%	Financial services	Joint venture	1	(1)	0
Compañia Española de Financiación de Desarrollo, Cofides, S.A., SME (b)	Spain	20.18%	0.00%	20.18%	20.18%	Finance company	-	137	124	9
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (consolidado) (b)	Spain	23.33%	0.55%	23.88%	23.88%	Credit insurance	-	865	356	35
Compañía Española de Viviendas en Alquiler, S.A.	Spain	24.07%	0.00%	24.07%	24.07%	Real estate	Associated	493	299	28
Compañía para los Desarrollos Inmobiliarios de la Ciudad de Hispalis, S.L., en liquidación (l) (e)	Spain	21.98%	0.00%	21.98%	21.98%	Real estate development	-	38	(324)	0
Condesa Tubos, S.L. (b)	Spain	36.21%	0.00%	36.21%	36.21%	Services	-	96	26	(1)
Corkfoc Cortiças, S.A. (b)	Portugal	0.00%	27.55%	27.58%	27.58%	Cork industry	-	3	20	0
Corridor Texas Holdings LLC (consolidado) (b)	United States	0.00%	33.60%	33.60%	29.47%	Holding company	-	207	194	(5)
Ebury Partners Limited (consolidado) (m)	United Kingdom	6.39%	0.00%	6.39%	-	Payment services	-	294	39	(22)

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

Company	Location	% of ownership held by the Bank Direct	% of ownership held by the Bank Indirect	% of voting power (k) Year 2019	% of voting power (k) Year 2018	Activity	Type of company	Million euros (a) Assets	Million euros (a) Capital + reserves	Million euros (a) Net results
Eko Energy Sp. z o.o (b) (e)	Poland	0.00%	13.12%	21.99%	22.00%	Electricity production	-	0	21	(21)
Euro Automatic Cash Entidad de Pago, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	Payment services	Associated	72	57	0
FAFER-Empreendimentos Urbanísticos e de Construção, S.A. (c) (e)	Portugal	0.00%	36.57%	36.62%	36.62%	Real estate	-	0	1	0
Federal Home Loan Bank of Pittsburgh (b)	United States	0.00%	9.38%	9.38%	6.33%	Banking	-	95,680	4,477	309
Federal Reserve Bank of Boston (b)	United States	0.00%	23.56%	23.56%	30.09%	Banking	-	94,001	1,581	(80)
FIDC RN Brasil – Financiamento de Veículos	Brazil	-	(h)	-	-	Securitisation	Joint venture	0	(7)	7
Fondo de Titulización de Activos UCI 11	Spain	-	(h)	-	-	Securitisation	Joint venture	164	0	0
Fondo de Titulización de Activos UCI 14	Spain	-	(h)	-	-	Securitisation	Joint venture	439	0	0
Fondo de Titulización de Activos UCI 15	Spain	-	(h)	-	-	Securitisation	Joint venture	526	0	0
Fondo de Titulización de Activos UCI 16	Spain	-	(h)	-	-	Securitisation	Joint venture	744	0	0
Fondo de Titulización de Activos UCI 17	Spain	-	(h)	-	-	Securitisation	Joint venture	629	0	0
Fondo de Titulización de Activos, RMBS Prado I	Spain	-	(h)	-	-	Securitisation	Joint venture	343	0	0
Fondo de Titulización Hipotecaria UCI 10	Spain	-	(h)	-	-	Securitisation	Joint venture	95	0	0
Fondo de Titulización Hipotecaria UCI 12	Spain	-	(h)	-	-	Securitisation	Joint venture	236	0	0
Fondo de Titulización Structured Covered Bonds UCI	Spain	-	(h)	-	-	Securitisation	Joint venture	501	0	0
Fondo de Titulización, RMBS Prado II	Spain	-	(h)	-	-	Securitisation	Joint venture	419	0	0
Fondo de Titulización, RMBS Prado III	Spain	-	(h)	-	-	Securitisation	Joint venture	347	0	0
Fondo de Titulización, RMBS Prado IV	Spain	-	(h)	-	-	Securitisation	Joint venture	344	0	0
Fondo de Titulización, RMBS Prado V	Spain	-	(h)	-	-	Securitisation	Joint venture	370	0	0
Fondo de Titulización, RMBS Prado VI	Spain	-	(h)	-	-	Securitisation	Joint venture	401	0	0

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

Company	Location	% of ownership held by the Bank Direct	Indirect	% of voting power (k) Year 2019	Year 2018	Activity	Type of company	Million euros (a) Assets	Capital + reserves	Net results
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	Finance company	Joint venture	2,441	270	41
Friedrichstrasse, S.L.	Spain	35.00%	0.00%	35.00%	35.00%	Real estate	Associated	0	0	0
Gestora de Inteligência de Crédito S.A.	Brazil	0.00%	17.99%	20.00%	20.00%	Collection services	Joint venture	117	69	(16)
Gire S.A.	Argentina	0.00%	57.92%	58.33%	58.33%	Payments and collections services	Associated	126	24	16
HCUK Auto Funding 2017-1 Ltd	United Kingdom	-	(h)	-	-	Securitisation	Joint venture	0	0	0
HCUK Auto Funding 2017-2 Ltd	United Kingdom	-	(h)	-	-	Securitisation	Joint venture	823	0	0
Healthy Neighborhoods Equity Fund I LP (b)	United States	0.00%	22.37%	22.37%	22.37%	Real estate	-	16	17	(1)
Hyundai Capital UK Limited	United Kingdom	0.00%	50.01%	50.01%	50.01%	Finance company	Joint venture	3,920	201	70
Hyundai Corretora de Seguros Ltda.	Brazil	0.00%	44.97%	50.00%	-	Insurance brokerage	Joint venture	0	0	0
Imperial Holding S.C.A. (e) (i)	Luxembourg	0.00%	36.36%	36.36%	36.36%	Securities investment	-	0	(112)	0
Imperial Management S.à r.l. (b) (e)	Luxembourg	0.00%	40.20%	40.20%	40.20%	Holding company	-	0	0	0
Indice Iberoamericano de Investigación y Conocimiento, A.I.E.	Spain	0.00%	51.00%	51.00%	51.00%	Information system	Joint venture	2	(4)	(1)
Inmoalemania Gestión de Activos Inmobiliarios, S.A.	Spain	0.00%	20.00%	20.00%	20.00%	Holding company	-	1	2	0
Innohub S.A.P.I. de C.V.	Mexico	0.00%	20.00%	20.00%	-	IT services	Associated	5	5	0
Inverlur Aguilas I, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Real estate	Joint venture	0	0	0
Inverlur Aguilas II, S.L.	Spain	0.00%	50.00%	50.00%	50.00%	Real estate	Joint venture	1	1	(1)
Inversiones en Resorts Mediterráneos, S.L. (e)	Spain	0.00%	43.28%	43.28%	43.28%	Real estate	Associated	0	(3)	0
Inversiones Ibersuizas, S.A. (b)	Spain	25.42%	0.00%	25.42%	25.42%	Venture capital	-	23	21	2
Inversiones ZS América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	Securities and real estate investment	Associated	306	306	51
Inversiones ZS América SpA	Chile	0.00%	49.00%	49.00%	49.00%	Securities and real estate investment	Associated	390	383	48
J.C. Flowers I L.P. (b)	United States	0.00%	10.60%	0.00%	4.99%	Holding company	-	2	3	(1)
J.C. Flowers II-A L.P. (b)	Canada	0.00%	69.40%	4.43%	4.43%	Holding company	-	31	41	(10)
JCF AIV P L.P. (b)	Canada	0.00%	7.67%	4.99%	4.99%	Holding company	-	83	69	14
JCF BIN II-A (d)	Mauritania	0.00%	69.52%	4.43%	4.43%	Holding company	-	0	1	(1)
Jupiter III L.P. (b)	Canada	0.00%	96.45%	4.99%	4.99%	Holding company	-	89	133	(43)
Loop Gestão de Pátios S.A.	Brazil	0.00%	32.11%	35.70%	35.70%	Business services	Joint venture	9	5	(1)
Luri 3, S.A.	Spain	10.00%	0.00%	10.00%	10.00%	Real estate	Joint venture	0	0	0

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

Company	Location	% of ownership held by the Bank: Direct	% of ownership held by the Bank: Indirect	% of voting power (k): Year 2019	% of voting power (k): Year 2018	Activity	Type of company	Million euros (a): Assets	Million euros (a): Capital + reserves	Million euros (a): Net results
Lusimovest Fundo de Investimento Imobiliário	Portugal	0.00%	25.73%	25.77%	25.77%	Investment fund	Associated	106	100	0
Massachusetts Business Development Corp. (consolidado) (b)	United States	0.00%	21.60%	21.60%	21.60%	Finance company	-	67	8	1
MB Capital Fund IV, LLC (b)	United States	0.00%	21.51%	21.51%	23.94%	Finance company	-	18	17	1
Merlin Properties, SOCIMI, S.A. (consolidado) (b)	Spain	16.99%	5.80%	22.78%	22.48%	Real estate	Associated	12,573	5,547	855
Metrovacesa, S.A. (consolidado) (b)	Spain	31.94%	17.52%	49.46%	49.40%	Real estate development	Associated	2,594	2,393	(9)
New PEL S.à r.l. (b) (e)	Luxembourg	0.00%	7.67%	0.00%	0.00%	Holding company	-	68	45	0
NIB Special Investors IV-A LP (b)	Canada	0.00%	99.49%	4.99%	4.99%	Holding company	-	23	28	(6)
NIB Special Investors IV-B LP (b)	Canada	0.00%	91.89%	4.99%	4.99%	Holding company	-	6	8	(2)
Niuco 15, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	-	-	-	-
Norchem Holdings e Negócios S.A.	Brazil	0.00%	19.56%	29.00%	29.00%	Holding company	Associated	28	21	1
Norchem Participações e Consultoria S.A.	Brazil	0.00%	44.97%	50.00%	50.00%	Securities company	Joint venture	15	9	0
Nowotna Farma Wiatrowa Sp. z o.o (b)	Poland	0.00%	12.96%	21.73%	21.73%	Electricity production	-	99	11	5
Odc Ambievo Tecnologia e Inovacao Ambiental, Industria e Comercio de Insumos Naturais S.A. (b)	Brazil	0.00%	18.16%	20.19%	20.19%	Technology	-	4	4	0
Operadora de Activos Beta, S.A. de C.V.	Mexico	0.00%	49.99%	49.99%	49.99%	Finance company	Associated	0	0	0
Parque Eólico Tico, S.L. (b)	Spain	33.33%	0.00%	33.33%	-	Electricity production	Joint venture	0	0	0
Parque Solar Páramo, S.L.	Spain	92.00%	0.00%	25.00%	25.00%	Electricity production	Joint venture	26	1	0
Payever GmbH	Germany	0.00%	10.00%	10.00%	10.00%	Software	Associated	2	1	0
POLFUND - Fundusz Poręczeń Kredytowych S.A.	Poland	0.00%	33.74%	50.00%	50.00%	Management	Associated	27	21	0
Procapital - Investimentos Imobiliários, S.A. (c) (e)	Portugal	0.00%	39.96%	40.00%	40.00%	Real estate	-	4	13	0
Project Quasar Investments 2017, S.L. (consolidado)	Spain	49.00%	0.00%	49.00%	49.00%	Holding company	Associated	9,928	3,930	(714)
Promontoria Manzana, S.A.	Spain	20.00%	0.00%	20.00%	-	Holding company	Associated	1,126	353	(34)
PSA Corretora de Seguros e Serviços Ltda.	Brazil	0.00%	44.97%	50.00%	50.00%	Insurance	Joint venture	1	0	0
PSA Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	Insurance	Joint venture	194	71	15

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by the Bank		% of voting power (k)				Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Type of company	Assets	Capital + reserves	Net results
PSA Life Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	Insurance	Joint venture	93	10	11
PSA UK Number 1 plc	United Kingdom	0.00%	50.00%	50.00%	50.00%	Leasing	Associated	5	5	0
Redbanc S.A.	Chile	0.00%	22.44%	33.43%	33.43%	Services	Associated	28	10	0
Redsys Servicios de Procesamiento, S.L. (consolidado)	Spain	20.00%	0.08%	20.08%	20.08%	Cards	Associated	124	60	9
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Services	Joint venture	41	(41)	(2)
Rías Redbanc S.A.	Uruguay	0.00%	25.00%	25.00%	25.00%	Services	-	3	1	0
Santander Auto S.A.	Brazil	0.00%	44.97%	50.00%	50.00%	Insurance	Associated	8	6	(1)
Santander Aviva Towarzystwo Ubezpieczeń na ?ycie S.A.	Poland	0.00%	33.06%	49.00%	49.00%	Insurance	Associated	296	15	16
Santander Aviva Towarzystwo Ubezpieczeń S.A.	Poland	0.00%	33.06%	49.00%	49.00%	Insurance	Associated	120	37	16
Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Joint venture	405	63	17
Santander Mapfre Seguros y Reaseguros, S.A.	Spain	0.00%	49.99%	49.99%	100.00%	Inactive	Associated	24	21	(2)
Santander Securities Services Brasil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	50.00%	50.00%	100.00%	Securities investment	Joint venture	222	172	23
Santander Securities Services Brasil Participações S.A.	Brazil	0.00%	50.00%	50.00%	100.00%	Holding company	Joint venture	198	175	22
Santander Securities Services Colombia S.A. Sociedad Fiduciaria	Colombia	0.00%	50.00%	50.00%	100.00%	Finance company	Joint venture	8	9	(1)
Santander Securities Services Latam Holding , S.L.	Spain	0.00%	50.00%	50.00%	-	Holding company	Joint venture	715	706	9
Santander Securities Services Latam Holding 2, S.L.	Spain	0.00%	50.00%	50.00%	-	Holding company	Joint venture	2	2	0
Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Joint venture	412	89	48
Saturn Japan II Sub C.V. (b)	Netherlands	0.00%	69.30%	0.00%	0.00%	Holding company	-	25	37	(11)
Saturn Japan III Sub C.V. (b)	Netherlands	0.00%	72.72%	0.00%	0.00%	Holding company	-	119	176	(57)
Sepacon 31, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	-	-	-	-
Servicios de Infraestructura de Mercado OTC S.A	Chile	0.00%	8.37%	12.48%	11.25%	Services	Associated	18	14	1
SIBS-SGPS, S.A. (b)	Portugal	0.00%	16.54%	16.56%	16.56%	Portfolio management	-	135	63	13
Siguler Guff SBIC Fund LP (k)	United States	0.00%	20.00%	20.00%	-	Investment fund	-	-	-	-

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by the Bank		% of voting power (k)				Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Type of company	Assets	Capital + reserves	Net results
Sistema de Tarjetas y Medios de Pago, S.A.	Spain	18.11%	0.00%	18.11%	18.11%	Payment services	Associated	352	4	0
Sistemas Técnicos de Encofrados, S.A. (consolidado) (b)	Spain	27.15%	0.00%	27.15%	27.15%	Building materials	-	78	2	6
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago, E.F.C., S.A.	Spain	42.50%	0.00%	42.50%	42.50%	Payment services	Joint venture	117	31	2
Sociedad de Garantía Recíproca de Santander, S.G.R. (b)	Spain	25.50%	0.23%	25.73%	25.73%	Financial services	-	17	11	0
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (b)	Spain	22.21%	0.00%	22.21%	22.21%	Financial services	-	35,324	2,055	(878)
Sociedad Española de Sistemas de Pago, S.A. (b)	Spain	21.32%	0.00%	21.32%	22.24%	Payment services	-	10	7	1
Sociedad Interbancaria de Depósitos de Valores S.A.	Chile	0.00%	19.66%	29.29%	29.29%	Custody	Associated	6	5	1
Solar Maritime Designated Activity Company	Ireland	-	(h)	-	-	Leasing	Joint venture	27	0	0
Stephens Ranch Wind Energy Holdco LLC (consolidado) (b)	United States	0.00%	21.30%	21.30%	28.80%	Electricity production	-	241	241	(6)
Syntheo Limited (e)	United Kingdom	0.00%	50.00%	50.00%	50.00%	Payment services	Joint venture	1	0	0
Tbforte Segurança e Transporte de Valores Ltda.	Brazil	0.00%	17.82%	19.81%	19.81%	Security	Associated	110	73	(5)
Tbnet Comércio, Locação e Administração Ltda.	Brazil	0.00%	17.82%	19.81%	19.81%	Telecommunications	Associated	73	76	(5)
Tecnologia Bancária S.A.	Brazil	0.00%	17.82%	19.81%	19.81%	ATM	Associated	458	101	10
Teka Industrial, S.A. (consolidado) (b)	Spain	0.00%	9.42%	9.42%	9.42%	Household appliances	-	579	163	5
Tonopah Solar Energy Holdings I, LLC (consolidado)	United States	0.00%	26.80%	26.80%	26.80%	Holding company	Joint venture	504	153	(71)
Trabajando.com Chile S.A.	Chile	0.00%	33.33%	33.33%	33.33%	Services	Associated	1	(2)	1
Transbank S.A.	Chile	0.00%	16.78%	25.00%	25.00%	Cards	Associated	1,440	83	7
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	Holding company	Joint venture	370	68	(2)
UCI Hellas Credit and Loan Receivables Servicing Company S.A.	Greece	0.00%	50.00%	50.00%	50.00%	Financial services	Joint venture	1	0	0
UCI Holding Brasil Ltda	Brazil	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture	2	(1)	0
UCI Mediação de Seguros Unipessoal, Lda.	Portugal	0.00%	50.00%	50.00%	50.00%	Insurance brokerage	Joint venture	0	0	0

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by the Bank		% of voting power (k)				Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Type of company	Assets	Capital + reserves	Net results
UCI Servicios para Profesionales Inmobiliarios, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Real estate services	Joint venture	1	0	0
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.83%	21.86%	21.86%	Finance company	Associated	398	80	16
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	Mortgage credit company	Joint venture	12,742	441	15
Uro Property Holdings SOCIMI, S.A. (b)	Spain	14.95%	7.82%	22.77%	14.95%	Real estate	-	1,572	245	12
VCFS Germany GmbH	Germany	0.00%	50.00%	50.00%	50.00%	Marketing	Joint venture	0	0	0
Venda de Veículos Fundo de Investimento em Direitos Creditórios	Brazil	-	(h)	-	-	Securitisation	Joint venture	140	129	11
Webmotors S.A.	Brazil	0.00%	62.95%	70.00%	70.00%	Services	Joint venture	54	26	14
Zurich Santander Brasil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associated	14,567	680	236
Zurich Santander Brasil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associated	190	(1)	40
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associated	940	936	175
Zurich Santander Holding Dos (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associated	385	384	108
Zurich Santander Insurance América, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	Holding company	Associated	1,493	1,510	298
Zurich Santander Seguros Argentina S.A. (j)	Argentina	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	27	3	8
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	253	34	44
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	209	35	13
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	660	43	121
Zurich Santander Seguros Uruguay S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	25	10	6

a. Amount per provisional books of each company as of the date of publication of these annexes, generally referred to 31 December 2019, unless stated otherwise because the Annual Accounts are pending to be formulated. The data from foreign companies are converted into euros at the exchange rate at the end of the period.
b. Data from the latest available financial statements as at 31 December 2018.
c. Data from the latest available financial statements as at 31 December 2017 .
d. Data from the latest available financial statements as at 30 September 2018.
e. Company in liquidation to 31 December 2019.
f. Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent, For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
g. Excluding the Group companies listed in Appendix I and those of negligible interest with respect to the fair presentation that the consolidated financial statements must express (pursuant to Article 48 of the Spanish Commercial Code and Article 260 of the Spanish Limited Liability Companies Law).
h. Companies over which the Group holds joint control.
i. Data from the latest available financial statements as at 31 October 2019.
j. Data from the latest available financial statements as at 30 June 2019.
k. Company recently incorporated in the Group, without financial statements available.
l. Data from the latest available financial statements as at 30 November 2017.
m. Data from the latest available financial statements as at 30 April 2018.

Appendix III

Issuing subsidiaries of shares and preference shares

		% of ownership held by the Bank			Million euros (a)			
Company	Location	Direct	Indirect	Activity	Capital	Reserves	Cost of preferred	Net results
Emisora Santander España, S.A. Unipersonal	Spain	100,00%	0,00%	Finance company	2	0	0	0
Santander UK (Structured Solutions) Limited	United Kingdom	0,00%	100,00%	Finance company	0	0	0	0
Sovereign Real Estate Investment Trust	United States	0,00%	100,00%	Finance company	5,084	(3,215)	80	31

a. Amount per provisional books of each company as at 31 December 2019, converted into euros (in the case of foreign companies) at the year-end exchange rates.

Appendix IV

Notifications of acquisitions and disposals of investments in 2019

(Article 155 of the Spanish Limited Liability Companies Law and Article 125 of the Spanish Securities Market Law)

Below are the notifications of acquisitions and sales of participations for 2019 in accordance with Article 155 of the Securities Market Law.

On 30 April 2019, the communication made by Banco Santander, BANCO BILBAO VIZCAYA ARGENTARIA, S.A., BANKIA, S.A., CAIXABANK, S.A., KUTXABANK, S.A., LIBERBANK, S.A. and BANCO DE SABADELL, S.A. was registered with the CNMV ("the Concerted Action") in which it was reported that the participation of the Concerted Action in GENERAL DE ALQUILER DE MAQUINARIA, S.A. ("GAM") had fallen below the 10% threshold on 24 April 2019, being Banco Santander stake in this company 8.482%.

This announcement was made as a result of the reduction of the Concerted Action's stake in GAM from 10% to 8.482%. All the financial institutions participating in the Concerted Action sold all their shares in GAM, with the exception of Banco Santander, which sold part of its shares but kept 2,823,944 shares of GAM, representing 8.482% of its capital.

On May 10, 2019, the communication made by Banco Santander was registered with the CNMV stating that its stake in ABENGOA, S.A. had fallen from the 3% threshold on February 2, 2019 to 2.836%.

On 19 June 2019, the communication made by Banco Santander as a result of the dissolution of the Concerted Action between the aforementioned shareholders of GAM on 17 June 2019 was registered with the CNMV.

On 19 June 2019, the communication made by Banco Santander as a result of the dissolution of the Concerted Action between the aforementioned shareholders of GAM was registered with the CNMV, informing of the position held by Banco Santander after the said dissolution (8.482%) on 17 June 2019.

On 3 December 2019, the communication made by Banco Santander as a result of the change in the number of voting rights of the issuer GAM on 2 December 2019 was registered with the CNMV.

This notification was made as a result of a change in the issuer's total number of voting rights, which caused Banco Santander's stake in GAM to fall below the 5% threshold to 4.477%.

In accordance with Article 155 of the Spanish Limited Liability Companies Law, no acquisitions of more than 5% of the capital were made in 2019 in companies in which the Group holds more than 10%.

Appendix V

Other information on the Group's banks

A) Following is certain information on the share capital of the Group's main banks based on their total assets.

1. Santander UK plc

a) Number of financial equity instruments held by the Group.

At 31 December 2019, the Company was a subsidiary of Banco Santander, S.A. and Santusa Holding, S.L.

On 12 November 2004 Banco Santander, S.A. acquired the then entire issued ordinary share capital of 1,485,893,636 Ordinary shares of 10p. each. On 12 October 2008 a further 10 billion Ordinary shares of 10p. each were issued to Banco Santander, S.A. and an additional 12,631,375,230 Ordinary shares of 10p. each were issued to Banco Santander, S.A. on 9 January on 2009. On 3 August 2010, 6,934,500,000 Ordinary shares of 10p. each were issued to Santusa Holding, S.L. With effect from 10 January 2014, Santander UK Group Holdings Limited, a subsidiary of Banco Santander, S.A. and Santusa Holding S.L., became the beneficial owner of 31,051,768,866 Ordinary shares of 10p. each, being the entire issued ordinary share capital of the Company, by virtue of a share exchange agreement between Santander UK Group Holdings Limited, Banco Santander, S.A. and Santusa Holding, S.L. Santander UK Group Holdings Limited became the legal owner of the entire issued Ordinary share capital of the Company on 1 April 2014 and on 25 March 2015 became a public limited company and changed its name from Santander UK Group Holdings Limited to Santander UK Group Holdings plc. In addition to this, there are 325,000,000 Non-Cumulative Non-Redeemable 10.375% and 8.625% Sterling Preference Shares of GBP 1.00 each. In addition to this there were 13,780 Series A Fixed (6.222%)/Floating Rate Non-Cumulative Callable Preference Shares of GBP 1.00 each which were redeemed and cancelled in their entirety on 24 May 2019. The legal and beneficial title to the entire issued Preference share capital is held by third parties and is not held by Banco Santander, S.A.

b) Capital increases in progress

At 31 December 2019, there were no approved capital increases.

c) Share capital authorised by the shareholders at the general meeting

The shareholders at the Annual General Meeting held on 2 May 2019 resolved to authorise unconditionally the company to carry out the following repurchases of share capital:

(1) To buy back its own 8.625% Sterling Preference shares on the following terms:

(a) The Company may buy back up to 125,000,000 8.625% Sterling Preference shares;

(b) The lowest price which the Company can pay for 8.625% Sterling Preference shares is 75% of the average of the market values of the preference shares for five business days before the purchase is made; and

(c) The highest price (not including expenses) which the Company can pay for each 8.625% Sterling Preference share is 125% of the average of the market values of the preference shares for five business days before the purchase is made.

This authority shall begin on the date of the passing of this resolution and end on the conclusion of the next Annual General Meeting of the Company. The Company may agree, before this authorisation ends, to buy back its own 8.625% preference shares even though the purchase may be completed after this authorisation ends.

(2) To buy back its own 10.375% Sterling Preference shares on the following terms:

(a) The Company may buy up to 200,000,000 10.375% Sterling Preference shares;

(b) The lowest price which the Company can pay for 10.375% Sterling Preference shares is 75% of the average of the market values of the preference shares for five business days before the purchase is made; and

(c) The highest price (not including expenses) which the Company can pay for each 10.375% Sterling Preference share is 125% of the average of the market values of the preference shares for five business days before the purchase is made.

This authority shall begin on the date of the passing of this resolution and end on the conclusion of the next Annual General Meeting of the Company. The Company may agree, before this authorisation ends, to buy back its own 10.375% preference shares even though the purchase may be completed after this authorisation ends.

(3) To buy back its own Series A Fixed / Floating Rate Non-Cumulative Callable Preference Shares on the following terms:

(a) The Company may buy up to 13,780 Series A Fixed/ Floating Rate Non-Cumulative Callable Preference Shares;

(b) The lowest price which the Company can pay for Series A Fixed/Floating Rate Non-Cumulative Callable Preference Shares is 75% of the average of the market values of the preference shares for five business days before the purchase is made; and

(c) The highest price (not including expenses) which the Company can pay for each Series A Fixed /Floating Rate Non- Cumulative Callable Preference Shares is 125% of the average of the market values of the preference shares for five business days before the purchase is made.

This authority shall begin on the date of the passing of this resolution and end on the conclusion of the next Annual General Meeting of the Company. The Company may agree, before this authorisation ends, to buy back its own Series A Fixed/Floating Rate Non-Cumulative Callable Preference Shares even though the purchase may be completed after this authorisation ends.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

The preference share capital of Santander UK plc is traded on the London Stock Exchange under the following details:

- 10.375% Sterling Preference - ISIN: GB0000064393
- 8.625% Sterling Preference - ISIN: GB0000044221

2. Santander Financial Services plc (Formerly Abbey National Treasury Services plc)

a) Number of financial equity instruments held by the Group

The Group holds ordinary shares amounting to GBP 249,998,000 through Santander UK Group Holdings plc (249,998,000 ordinary shares with a par value of GBP 1 each).

The Group also holds 1,000 tracker shares (shares without voting rights but with preferential dividend rights) amounting to GBP 1,000 and 1,000 B tracker shares amounting to GBP 1,000 through Santander UK Group Holdings plc, both with a par value of GBP 1 each.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the general meeting

Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

3. Banco Santander (Brasil) S.A.

a) Number of financial equity instruments held by the Group

The Group holds 3,440,170,512 ordinary shares and 3,273,507,089 preference shares through Banco Santander, S.A. and its subsidiaries Sterrebeeck B.V., Grupo Empresarial Santander, S.L., Banco Santander, S.A. and Banco Madesant - Sociedade Unipessoal, S.A.

The shares composing the share capital of Banco Santander (Brasil) S.A. have no par value and there are no pending payments. At 2019 year-end, the bank's treasury shares consisted of 16,701,787 ordinary shares and 16,701,787 preferred shares, with a total of 33,403,574 shares.

In accordance with current Bylaws (Article 5.7), the preference shares do not confer voting rights on their holders, except under the following circumstances:

a) In the event of transformation, merger, consolidation or spin-off of the company.

b) In the event of approval of agreements between the company and the shareholders, either directly, through third parties or other companies in which the shareholders hold a stake, provided that, due to legal or bylaw provisions, they are submitted to a general meeting.

c) In the event of an assessment of the assets used to increase the company's share capital.

The General Assembly may, at any moment decide to convert the preference shares into ordinary shares, establishing a reason for the conversion.

However, the preference shares do have the following advantages (Article 5.6):

a) Their dividends are 10% higher than those distributed to ordinary shares.

b) Priority in the dividends distribution.

c) Participation, on the same terms as ordinary shares, in capital increases resulting from the reserves and profits capitalization and in the distribution of bonus shares arising from the capitalization of retained earnings, reserves or any other funds.

d) Priority in the reimbursement of capital in the event company's dissolution.

e) In the event of a public offering due to a change in control of the company, the holders of preferred shares are guaranteed the right to sell the shares at the same price paid for the block of shares transferred as part of the change of control, i.e. they are treated the same as shareholders with voting rights.

b) Capital increases in progress

No approved capital increases are in progress.

c) Capital authorised by the shareholders at the general meeting

The company is authorised to increase share capital, subject to approval by the Board of Directors, up to a limit of 9,090,909,090 ordinary shares or preferred shares, and without need to maintain any ratio between any of the different classes of shares, provided they remain within the limits of the maximum number of preferred shares provided in Law.

As of 31 December 2019, the share capital consists of 7,498,531,051 shares (3,818,695,031 ordinary shares and 3,679,836,020 preferred shares).

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

At the general meeting held on 21 December 2016 the shareholders approved the rules relating to the deferred remuneration plans for the directors, management and other employees of the company and of companies under its control. Shares delivery is linked to achievement of certain targets.

e) Specific circumstances that restrict reserves availability

The only restriction on the availability of Banco Santander (Brasil) S.A.'s reserves is connected to the requirement for the legal reserve formation (restricted reserves), which can only be used to offset losses or to increase capital.

The legal reserve requirement is set-forth in Article 193 of the Brazilian Corporations Law, which establishes that before allocating profits to any other purpose, 5% of profits must be transferred to the legal reserve, which must not exceed 20% of the company's share capital.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Listed capital instruments

All the shares are listed on the São Paulo Stock Exchange (B3 - Brasil, Bolsa, Balcão) and the shares deposit certificates (American Depositary Receipts - ADR) are listed on the New York Stock Exchange (NYSE).

4. Santander Bank, National Association

a) Number of financial equity instruments held by the Group

At 31 December 2019, the Group held 530,391,043 ordinary shares that carry the same voting and dividend acquisition rights over Santander Holdings USA, Inc. (SHUSA). This holding company and Independence Community Bank Corp. (ICBC) hold 1,237 ordinary shares with a par value of USD 1 each, which carry the same voting rights. These shares constitute all the share capital of Santander Bank, National Association (SBNA). SHUSA holds an 80.84% ownership interest in SBNA, and the remaining 19.16% belongs to ICBC. ICBC is wholly owned by SHUSA. There is no shareholders' meeting for the ordinary shares of SBNA.

b) Capital increases in progress

At 31 December 2019 there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

5. Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México

a) Number of financial instruments of capital held by the group.

On September 6 of 2019 was finalized the period for the exchange offers for up to 1,693,521,302 shares of Banco Santander México that were not held directly or indirectly by Banco Santander, S.A., which represented the 24.95% of the capital stock of Banco Santander México in exchange for up to 570,716,682 shares of Banco Santander, S.A. as a result of the exchange offer Banco Santander, S.A. increased its position in Banco Santander México from 74.96% to 91.64%, with the remaining 8.35% held by minority shareholders or in a portfolio and 0.01% to Santander Global Facilities, S.A. de C.V.. As a result Grupo Financiero Santander México, S.A. de C.V. ('Grupo Financiero') and Santander Global Facilities, S.A. de C.V. (México), hold 5.087.801.602 shares which represent the 74.97% of the capital stock of Banco Santander México and Banco Santander, S.A. holds 1,132’168,074 shares which represent the 16.68% of such capital stock.

b) Ongoing capital stock increases.

To this date there are not ongoing capital stock increases.

c) Authorized Capital by the Shareholders Meeting.

The capital stock of the Bank is 28,117,661,554.00 Mexican pesos (twenty eight thousand one hundred seventeen million six hundred sixty one thousand five hundred and fifty four Mexican pesos) represented by a total of 7,436,994,357 (seven thousand four hundred thirty six million nine hundred ninety four thousand three hundred and fifty seven) shares with a nominal value of 3.780782962 Mexican pesos (three Mexican pesos 780782962/1000000000) each one; divided in 3,796,120,213 (three thousand seven hundred ninety six million one hundred and twenty thousand two hundred and thirteen) stocks “F” Series and 3,640,874,144 (three thousand six hundred and forty million eight hundred seventy four thousand one hundred and forty four) shares “B” Series. The capital stock is constituted as follows:

- Paid-in and subscribed capital of the Bank is 25,660,152,629.00 Mexican pesos (twenty five thousand six hundred sixty million one hundred fifty two thousand six hundred and twenty nine Mexican pesos) represented by a total of 6,786,994,357 (six thousand seven hundred eighty six million nine hundred ninety four thousand three hundred and fifty seven) shares with a nominal value of 3.780782962 Mexican pesos (three Mexican pesos 780782962/1000000000) each one; divided in 3,464,309,145 (three thousand four hundred sixty four million three hundred and nine thousand one hundred and forty five) shares “F” Series and 3,322,685,212 (three thousand three hundred twenty two million six hundred eighty five thousand two hundred and twelve) shares Series.
- The authorized capital stock of the Bank is 2,457,508,925.00 Mexican pesos.(Two thousand four hundred fifty seven million five hundred and eight thousand nine hundred and twenty five Mexican pesos), represented by a total of 650,000,000 (six hundred and fifty million) shares with a nominal value of 3.780782962 Mexican pesos (three Mexican pesos 780782962/1000000000) each one; divided in 331,811,068 (three hundred thirty one million eight hundred eleven thousand and sixty eight) shares “F” series and 318,188,932 (three hundred eighteen million one hundred eighty eight thousand nine hundred and thirty two) shares “B” Series which are kept in the treasury of the Bank.

d) Rights incorporated into parts of founder, bonds or debt, convertible obligations and securities or similar rights.

(i) The Board of Directors on its meeting held on October 22, 2015, was updated regarding the situation of the debt issuance of Banco Santander Mexico, S.A. , which had been previously ratified in the meeting held on October 17, 2013, in order to issue debt for the amount of 6,500 million dollars in local or international markets, for a maximum period of 15 years, senior or subordinated debt including debt instruments qualifying for purposes of capital in accordance with the legislation in force, which can be implemented individually or through several issuance programs.

The approved debt issuance of Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México is currently composed as follows:

Instrument	Type	Term	Amount	Available
Issuance Program of unsecured bonds and unsecured certificates of deposit	*Revolving*	19-Feb-21	55,000 million Mexican pesos, or its equivalent in UDIs, dollars or any other foreign currency	$25,621 million Mexican pesos Con t.c. fix according to Banxico 31/Dec/ 2019
Private banking structured bonds Act	*Not Revolving**	16-Ago-34	20,000 million Mexican pesos	$14,565 million Mexican pesos
Structured bonds without public offering		16-Feb-32	10,000 million Mexican pesos	$10,000 million Mexican pesos
Senior Bonds	*Not Revolving*	09-Nov-22	1,000 million American dollars	N/A
Capital Notes AT1	*Not Revolving*	perpetual	500 million American dollars	N/A
Capital Notes	*Not Revolving*	1-Oct-2028	1,300 millon American dollars	N/A

* The issuance of the structured private banking bonds isn't revolving. Once placed the amount laid down in the corresponding brochure a new certificate wll be issued on the authorized amount.

(ii) The Board of Directors on its meeting held on January 27, 2011 approved the general conditions for the senior debt issue among international markets. On October 18, 2012 such issuance was approved on the amount of 500 and 1000 million American dollars, for a term of 5 to 10 years. The issuance was approved with the purpose of obtaining resources to finance the increase in business assets and the liquidity of the Bank. Under these agreements adopted by the Board of Directors, the debt was issued for an amount of 1,000 million American dollars on November 9, 2012.

(iii) On December 27, 2013 Banco Santander México, S.A., issued subordinated notes (subordinated notes 2013) for a total amount of 1,300,000,000 American dollars, in accordance with the capital requirements established in the Basilea III criteria for complementary capital/ Tier 2 at a rate of 5.95% with redemption date of January, 30, 2024. The controlling shareholder, Banco Santander, S.A., agreed to buy 975,000,000 American dollars of such notes equivalent to the 75% of the latter.

Such notes were offered through a private offering only to qualified institutional buyers, in accordance with Rule 144A of the U.S. Securities Act of 1933 and it´s modifications, and outside the U.S. under the Regulation S of the Market Law.

The issuance was approved with the purpose of increasing the efficiency of the capital of the Bank, to adequate its capital profile to its main competitors, as well as to increase the cost effectiveness of resources with the same capital strength and capacity for growth in risk-weighted assets.

(iv) The Board of Director on its meeting held on October 27, 2016 approved the issuance in Mexico of debt up to 500 million American dollars or its equivalent in Mexican pesos. The Ordinary and Extraordinary Shareholder´s meeting held on December 5, 2016, approved to issuance of a financial instrument complying with the requirements of regulatory capital established in Basilea III, which was considered as not fundamental basic capital, for up to 500 million American dollars.

On December 29, 2016, Banco Santander México made an overseas private offering of subordinated, non preferred, perpetual and convertible obligations (“2016 Obligations”) representing the share capital by a total amount of 500,000,000 American dollars, which had the character of a ‘mirror issuance‘(back-to-back), as a guarantee of liquidity of the subordinated non preferred perpetual and convertible obligations, issued by Grupo Financiero Santander Mexico.

It is worth mentioning that in September, 2019, it was requested before the Registro Nacional de Valores of the National Banking and Securities Commission (Comision Nacional Bancaria y de Valores) ("CNBV"), the registry cancellation of the above mentioned 2016 Obligations, as well as the list cancellation of such notes in the Bolsa Mexicana de Valores, S.A.B. de C.V. ("BMV"). By means of official note No. 153/12251/2019 dated November 4, 2019, CNBV authorized such cancellation.

(v) As a result of the corporate restructure which included, among others, the merger of Banco Santander México, as the merging entity with Grupo Financiero Santander Mexico as the merged entity, the subordinated obligations referred to in paragraph (iv), were acquired entirely by Banco Santander México; therefore the subordinate obligations of Banco Santander Mexico became extinct by confusion of rights and obligations, since the Bank as a merging party met the quality of debtor and creditor in these instruments at the moment that the merger was finalized.

Based on the above, the subordinate obligations issued by Grupo Financiero Santander Mexico, acquired by several investors, will continue to be in force on behalf of its owners and managed by Banco Santander Mexico, preserving substantially the terms and conditions in which they were issued.

(vi) On September 20, 2018, Banco Santander México, issued and placed equity instruments, subordinated, preferential, and not convertible into shares, governed by foreign law, representative of the complementary part of the net capital of Banco Santander Mexico (Tier 2 subordinated preferred capital notes), for the amount of 1,300,000,000.00 American dollars (the "Instruments"), whose resources were used mainly for the acquisition of the 94.07% of the Subordinated Notes 2013.

The amount issued of 1,300,000,000.00 American dollars covers in full the sum of the repurchase of the Subordinated Notes 2013, for 1,222,907,000.00 American dollars.

Regarding the acquisition of the Subordinated Notes 2013: (a) the acquired total amount was 1,222,907,000.00 American dollars (nominal value), at a price of 1,010.50 American dollars and (b) the amount acquired by Banco Santander, S.A. (Spain), was a nominal 1,078,094,000.00 American dollars.

In connection with the issuance of the Instruments, the total amount distributed with Banco Santander, S.A. (Spain), was 75% of such issuance; that is, the placed amount was 975,000,000.00.

Therefore, the Bank's General Extraordinary Shareholder´s Meeting held on September 10, 2018, among other subjects, approved to ratify the issuance limit for up to 6,500 million and a term of 15 years, senior or subordinate, in local and/or international markets, instrumented individually or through issuance programs, which was previously authorized by the Board of Directors on its meeting held on April 26, 2018.

On January 30, 2019, Banco Santander México paid off the total remaining due amount of the Subordinated Notes 2013.

e) Specific circumstances restricting the availability of reserves.

According to the Law of Financial Institutions, general dispositions applicable to financial institutions, General Corporations law and the bylaws, the Bank has to constitute or increase its capital reserves to ensure the solvency to protect the payments system and the public savings.

The Bank increases its legal reserve annually accordingly to the results obtained in the fiscal year (benefits).

The Bank must constitute the different reserves established in the legal provisions applicable to financial institutions, which are determined accordingly to the qualification granted to credits and they are released when the credit rating improves, or when it is settled.

f) Entities outside the Group which own, directly or through subsidiaries, a stake equal to or greater than 10% of the equity.

Not applicable.

g) Equity instruments admitted to trading.

Not applicable.

6. Banco Santander Totta, S.A

a) Number of equity instruments held by the Group

The Group holds 1,256,190,411 ordinary shares through its subsidiaries: Santander Totta, SGPS, S.A. with 1,241,179,513 shares, Taxagest Sociedade Gestora de Participações Sociais, S.A. with 14,593,315 shares, and Banco Santander Totta, S.A. with 417,583 treasury shares, all of which have a par value of EUR 1 each and identical voting and dividend rights and are subscribed and paid in full.

b) Capital increases in progress

At 31 December 2019, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Under Article 296 of the Portuguese Companies' Code, the legal and merger reserves can only be used to offset losses or to increase capital.

Non-current asset revaluation reserves are regulated by Decree- Law 31/98, under which losses can be offset or capital increased by the amounts for which the underlying asset is depreciated, amortised or sold.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) equity instruments

Not applicable.

7. Santander Consumer Bank AG

a) Number of financial equity instruments held by the Group

At 31 December 2019, through Santander Consumer Holding GmbH, the Group held 30,002 ordinary shares with a par value of EUR 1,000 each, all of which carry the same voting rights.

b) Capital increases in progress

Not applicable.

c) Capital authorised by the shareholders at the general meeting

Not applicable.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

Not applicable.

8. Banco Santander - Chile

a) Number of equity instruments held by the Group

The Group holds a 67.18% ownership interest in its subsidiary in Chile corresponding to 126,593,017,845 ordinary shares of Banco Santander - Chile through its subsidiaries: Santander Chile Holding S.A. with 66,822,519,695 ordinary shares, Teatinos Siglo XXI Inversiones S.A., with 59,770,481,573 ordinary shares and Santander Inversiones S.A. with 16,577 fully subscribed and paid ordinary shares that carry the same voting and dividend rights.

b) Capital increases in progress

At 31 December 2019, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

Share capital at 31 December 2019 amounted to CLP 891,302,881,691.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

Not applicable.

e) Specific circumstances that restrict the availability of reserves

Remittances to foreign investors in relation to investments made under the Statute of Foreign Investment (Decree-Law 600/1974) and the amendments thereto require the prior authorisation of the foreign investment committee.

f) Non-Group entities which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

All the shares are listed on the Chilean stock exchanges and, through American Depositary Receipts (ADRs), on the New York Stock Exchange (NYSE).

9. Santander Bank Polska S.A.

a) Number of financial equity instruments held by the Group

At 31 December, 2019, Banco Santander, S.A. held 68,880,774 ordinary shares with a par value of PLN 10 each, all of which carry the same voting rights.

b) Capital increases in progress

At 31 December, 2019, there were no approved capital increases.

c) Capital authorised by the shareholders at the general meeting

There wasn´t any share capital increase approved by general meeting in 2019.

d) Rights on founder's shares, "rights" bonds, convertible debentures and similar securities or rights

At the general meeting held on 17 May 2017, the shareholders resolved to approve the "Incentive Scheme VI" as an initiative to attract, motivate and retain the bank's employees. Delivery of the shares is tied to the achievement of certain targets in the years from 2017 to 2019. The bank considers that the exercise of these rights might give rise to the issuance of no more than 250,000 shares.

e) Specific circumstances that restrict the availability of reserves

Not applicable.

f) Non-Group entities, which hold, directly or through subsidiaries, 10% or more of equity

Not applicable.

g) Quoted equity instruments

All the shares of Santander Bank Polska S.A. are listed on the Warsaw Stock Exchange.

B) The restrictions on the ability to access or use the assets and settle the liabilities of the Group, as required under paragraph 13 of IFRS12, are described below.

In certain jurisdictions, restrictions have been established on the distribution of dividends on the basis of the new, much more stringent capital adequacy regulations. However, there is currently no evidence of any practical or legal impediment to the transfer of funds by Group subsidiaries to the Parent in the form of dividends, loans or advances, repatriation of capital or any other means.

Appendix VI

Annual banking report

The Group's total tax contribution in 2019 (taxes incurred directly by the Group and the collection of taxes incurred by third parties generated in the course of its economic activities) exceeded EUR 16,000 million, of which more than EUR 6,700 million correspond to taxes borne by the Group (Corporate income tax, non-recoverable VAT and other indirect taxes, payments to the Social Security on behalf of the employer and other taxes on payroll and other taxes and levies).

This annual banking report was prepared in compliance with Article 89 of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and its transposition into Spanish law pursuant to Article 87 of Law 10/2014, of 26 June on the regulation, supervision and capital adequacy of credit institutions.

Following is a detail of the criteria used to prepare the annual banking report for 2019:

a) Name(s), nature of activities and geographical location

The aforementioned information is available in Appendices I and III to the Group's consolidated financial statements, which contain details of the companies operating in each jurisdiction, including, among other information, their name(s), geographical location and the nature of their activities.

As can be seen in the aforementioned Appendices, the main activity carried on by the Group in the various jurisdictions in which it operates is commercial banking. The Group operates mainly in ten markets through a model of subsidiaries that are autonomous in capital and liquidity terms, which has clear strategic and regulatory advantages, since it limits the risk of contagion between Group units, imposes a double layer of global and local oversight and facilitates crisis management and resolution. The number of Group offices totals 11,952 -the largest commercial network of any international bank-, and these offices provide our customers with all their basic financial needs.

b) Turnover and income before tax

For the purposes of this report, turnover is considered to be gross income, and income before tax, gross profit or loss before tax, both as defined and presented in the consolidated income statement that forms part of the Group's consolidated financial statements.

c) Number of employees on a full time equivalent basis

The data on employees on a full time equivalent basis were obtained from the average headcount of each jurisdiction.

d) Tax on profit or loss

In the absence of specific criteria, the amount of taxes actually paid in respect of those taxes whose effect is recognised under “Income Tax” in the consolidated income statement (EUR 2,951 million in 2019, with an effective tax rate of 23.5%) has been included.

Taxes effectively paid in the year by each of the companies in each jurisdiction include:

- Supplementary payments relating to income tax returns, normally for prior years.
- Advances, prepayments, withholdings made or borne in respect of tax on profit or loss for the year. Given their scantly representative amount, it was decided that taxes borne abroad would be included in the jurisdiction of the company that bore them.
- Refunds collected in the year with respect to returns for prior years that resulted in a refund.
- Where appropriate, the tax payable arising from tax assessments and litigation relating to these taxes.

The foregoing amounts form part of the cash flow statement and therefore differ from the income tax expense recognised in the consolidated income statement (EUR 4,427 million in 2019, representing an effective rate of 35.3%, or, if extraordinary results are discounted, EUR 5,103 million, which represents an effective rate of 34.2% (see note 52.c)). This is so because the tax regulations of each country establish:

- The time at which taxes must be paid. Normally, there is a timing mismatch between the dates of payment and the date of generation of the income bearing the tax.
- Its own criteria for calculating the tax, defining temporary or permanent restrictions on expense deduction, exemptions, relief or deferrals of certain income, thereby generating the related differences between the accounting profit (or loss) and taxable profit (or tax loss) which is ultimately taxed; tax loss carry forwards from prior years, tax credits and/or relief, etc. must also be added to this. Also, in certain cases special regimes are established, such as the tax consolidation of companies in the same jurisdiction, etc.

e) Public subsidies received

In the context of the disclosures required by current legislation, this term was interpreted to mean any aid or subsidy in line with the European Commission's State Aid Guide and, in such context, the Group companies did not receive public subsidies in 2019.

The detail of the information for 2019 is as follows :

	2019			
Jurisdiction	Turnover (million of euros)	Employees	Gross profit or loss before tax (million of euros)	Tax on profit or loss (million euros)
Germany	1,416	4,397	534	98
Argentina	1,304	8,868	420	107
Austria	176	355	86	17
Bahamas	26	39	16	—
Belgium	85	202	37	17
Brazil [1]	13,742	45,089	5,273	1,321
Canada	55	202	8	1
Chile	2,576	11,522	1,184	186
China	35	69	19	—
Colombia	35	207	(2)	3
Spain [2]	6,635	37,097	(1,684)	(271)
United States	7,352	15,858	1,220	39
Denmark	188	245	94	40
Finland	108	178	53	9
France	648	954	355	76
Hong Kong	69	153	3	—
Ireland	87	3	52	—
Isle of Man	13	58	9	1
Italy	447	851	207	81
Jersey	24	72	10	3
Luxemburg	106	18	99	6
Malta	13	—	13	—
Mexico	4,081	20,140	1,421	396
Norway	318	516	169	20
The Netherlands	92	289	34	106
Peru	86	181	50	12
Poland	2,108	14,667	746	210
Portugal	1,417	6,995	746	37
Puerto Rico	259	941	24	11
United Kingdom	5,007	24,485	1,053	369
Singapore	5	11	1	—
Sweden	154	304	60	21
Switzerland	116	243	42	3
Uruguay	446	1,588	191	32
Consolidated Group total	**49,229**	**196,797**	**12,543**	**2,951**

1. Including the information relating to a branch in the Cayman Islands the profits of which are taxed in full in Brazil. The contribution of this branch profit before tax from continuing operations 2019 is EUR 691 million.
2. Includes the corporate center. In Tax on profit or loss, it includes EUR 358 million of monetizable deferred taxes converted from Banco Popular Español, S.A.U.

At 31 December 2019, the Group's return on assets (ROA) was 0.54%.

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IN THE SPANISH VERSION PAGES 795 TO 798 CONTAIN THE SIGNATURE PAGES TO THE BANCO SANTANDER, S.A. 2019 CONSOLIDATED DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS IN THE FORM REQUIRED UNDER SPANISH LAW.

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General information

Corporate information

Banco Santander, S.A. is a Spanish bank, incorporated as sociedad anónima in Spain and is the parent company of Grupo Santander. Banco Santander, S.A. operates under the commercial name Santander.

The Bank's Legal Entity Identifier (LEI) is 5493006QMFDDMYWIAM13 and its Spanish tax identification number is A-390000013. The Bank is registered with the Companies Registry of Cantabria, and its Bylaws have been adapted to the Spanish Companies Act by means of the notarial deed instrument executed in Santander on 29 July 2011 before the notary Juan de Dios Valenzuela García, under number 1209 of his book and filed with the Companies Registry of Cantabria in volume 1006 of the archive, folio 28, page number S-1960, entry 2038.

The Bank is also registered in the Official registry of entities of Bank of Spain with code number 0049.

The Bank's registered office is at:

Paseo de Pereda, 9-12
39004 Santander
Spain

The Bank's principal executive offices are located at:

Santander Group City
Avda. de Cantabria s/n
28660 Boadilla del Monte
Madrid
Spain
Telephone: (+34) 91 259 65 20

Corporate history

The Bank was established in the city of Santander by public deed before the notary José Dou Martínez on 3 March 1856, which was later ratified and amended in part by a second public deed dated 21 March 1857 executed before the notary José María Olarán. The Bank commenced operations upon incorporation on 20 August 1857 and, according to article 4 of the Bylaws, its duration shall be for an indefinite period. It was transformed into a credit corporation (sociedad anónima de crédito) by public deed, executed before notary Ignacio Pérez, on 14 January 1875 and registered in the Companies Registry Book of the Government's Trade Promotion Section in the province of Santander. The Bank amended its Bylaws to conform to the Spanish public companies act of 1989 by means of a public deed executed in Santander on 8 June 1992 before the notary José María de Prada Díez and recorded in his notarial record book under number 1316.

On 15 January 1999, the boards of directors of Santander and Banco Central Hispanoamericano, S.A. agreed to merge Banco Central Hispanoamericano, S.A. into Santander, and to change Banco Santander's name to Banco Santander Central Hispano, S.A. The shareholders of Santander and Banco Central Hispanoamericano, S.A. approved the merger on 6 March 1999, at their respective general meetings and the merger became effective in April 1999.

The Bank's general shareholders' meeting held on 23 June 2007 approved the proposal to change back the name of the Bank to Banco Santander, S.A.

As indicated above, the Bank brought its Bylaws into line with the Spanish Companies Act by means of a public deed executed in Santander on 29 July 2011.

The Bank's general shareholders' meeting held on 22 March 2013 approved the merger by absorption of Banco Español de Crédito, S.A.

On 7 June 2017, Santander acquired the entire share capital of Banco Popular Español, S.A. in an auction in connection with a resolution plan adopted by the European Single Resolution Board (the European banking resolution authority) and executed by the FROB (the Spanish banking resolution authority) following a determination by the European Central Bank that Banco Popular was failing or likely to fail, in accordance with Regulation (EU) 806/2014 establishing a framework for the recovery and resolution of credit institutions and investment firms. On 24 April 2018, the Bank announced that the boards of directors of Banco Santander, S.A. and Banco Popular Español, S.A.U. had agreed to an absorption of Banco Popular by Banco Santander. The legal absorption was effective on 28 September 2018.

Shareholder and investor relations

Santander Group City

Pereda, 2ª planta

Avda. de Cantabria, s/n

28660 Boadilla del Monte

Madrid

Spain

Telephone: (+34) 91 259 65 14

investor@gruposantander.com

Hard copies of the Bank's annual report can be requested by shareholders free of charge at the address and phone number indicated above.

Media enquiries

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Madrid

Spain

Telephone: (+34) 91 289 52 11

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Customer service department

Calle Princesa, 25

Edificio Hexágono, 2ª planta

28008 Madrid

Spain

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atenclie@gruposantander.com

Banking Ombudsman in Spain (Defensor del cliente en España)

Mr José Luis Gómez-Dégano

Apartado de Correos 14019

28080 Madrid

Spain

Banco Santander, S.A.

Auditor’s report
on the annual accounts
and the Directors’ report
December 31, 2019

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation

Independent auditor´s report on the annual accounts

To the shareholders of Banco Santander, S.A.,

Report on the annual accounts

Opinion

We have audited the annual accounts of Banco Santander, S.A. (the Bank), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of recognised income and expense, statement of changes in total equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of Banco Santander, S.A., as at December 31, 2019, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 1 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual accounts section of our report.

We are independent of the Bank in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España
Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400, www.pwc.es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matter	How our audit addressed the key audit matter
Estimation of impairment of financial assets at amortised cost - loans and advances to customers – for credit risk The estimate of the impairment of financial assets at amortised cost – loans and advances to customers - for credit risk is one of the estimates that requires greater judgment in the preparation of the annual accounts as of December 31, 2019. The models used to estimate the expected credit losses required by Bank of Spain Circular 4/2017, require a high level of judgement, and consider the following factors: • The identification and determination of quantitative and qualitative indicators used to determine a significant increase in credit risk utilized for the staging criteria. • The identification and determination of forward-looking information which includes macroeconomic scenarios and corresponding weightings. • The estimation of the probability of default (PD) and loss given default (LGD) parameters. In this context, the Bank has developed internal models to estimate provisions for credit impairment both collectively and individually. Please refer to Notes 2, 6 and 10 of the annual accounts as of December 31, 2019.	The work performed, with the collaboration of our experts, over the estimate of the impairment of financial assets at amortised cost – loans and advances to costumers - for credit risk has focused on the analysis, evaluation and testing of internal controls, as well as the performance of tests of details over the estimation of impairment of financial assets assessed collectively and individually. With respect to internal control, we have focused on testing the design and operating effectiveness of controls for the following processes: • Calculation methodologies, calibrations, and monitoring and back-testing performed by Management. • Compliance with internal policies and functionality of the internal models approved by Management. • Reliability of the data sources used in the calculations and the suitability of the models taking into account the circumstances. • Periodic review process of borrower to determine proper staging criteria. • Review process of the model calculation and principal portfolios. In addition, we performed the following tests of details: • Tests of principal models with respect to: i) calculation and segmentation methods; ii) methodology utilized for the estimation of the expected loss parameters; iii) methodology used for the generation of the macroeconomic scenarios; iv) information used in the calculation and its generation; and v) the quantitative and qualitative indicators for the significant increase in credit risk staging criteria. • Verification of the impairment calculation for the principal credit portfolios. • On a sample basis, evaluating individual credit files to determine the adequacy of their accounting and classification, discounted cash flows and, where appropriate, corresponding impairment. We have not identified exceptions outside of a reasonable range in the tests outlined above.

Key audit matter	How our audit addressed the key audit matter
Recoverability of deferred tax assets	
Assessing the recoverability of deferred tax assets is an exercise that requires a high degree of judgement and estimation. In line with the recoverability model defined by the Bank, on an annual basis, Management of each business unit estimates the underlying hypothesis of business plans that are projected over the period of time established for that business. This process implies specific considerations that Management takes into account in order to assess recognition of deferred tax assets. The most significant considerations made by the Bank in this respect are: • Assuring that the tax regulations are applied correctly and the temporary differences that qualify as deductibles are duly recognised. • Reviewing the projections that are part of the defined model which is in turn used to estimate the tax profits used to infer the amount of deferred tax assets that will be recoverable in future periods in relation to deductible temporary differences and unused tax losses are indeed achievable. • Establishing the models and validating the calculations deriving therefrom to ensure that the tax assets are properly recognised and measured, and that the conclusions drawn regarding their recoverability are appropriate. Refer to Notes 2 and 24 of the annual accounts as of December 31, 2019.	In collaboration with our tax experts, we have obtained an understanding of the estimation process undertaken by Management. With respect to internal controls, we have focused on testing the design and operating effectiveness of controls in the following processes: • Projection process followed in the estimation of the recoverability of deferred tax assets. • Calculation of temporary tax assets, including the adequate use of the applicable tax regulations. We also performed the following tests of details: • Evaluate the accuracy of the calculations and estimations made by Management for their deductible temporary differences. • Evaluate the completeness and appropriateness of the assumptions used by Management in their calculation of the deductible temporary differences. • Analyze key data used by Management in their estimation and monitoring of the recoverability of deferred tax assets, including: - Obtaining and analysing the earnings projections carried out by Management and the assumptions used, including the detail of the economic forecasts and indicators used in the analysis. - Analyzing of the tax strategy planned by Management for the recoverability of the deferred tax assets. In the procedures described above, no relevant exceptions were identified related to this matter.
Litigation provisions and contingencies	
The Bank is party to a range of tax and legal procedures - administrative and judicial - which primarily arose, in the ordinary course of its operations. There are also situations not yet subject to any judicial proceedings that have nevertheless required the Bank to recognise provisions; these include customer compensation related to conduct matters. These procedures generally take a long period of time to run their course, giving rise to complex processes dictated by the applicable legislation.	In collaboration with our legal experts, we have obtained an understanding of the estimation process undertaken by Management. With respect to internal controls, we have focused on testing the design and operating effectiveness of controls in the following process: • Updates to the databases that contain the ongoing litigations.

Key audit matter	How our audit addressed the key audit matter
The Bank's Management decides when to recognise a provision for these procedures based on an estimate calculated using certain procedures consistent with the nature of the uncertainty of the obligations. Among these provisions, the most significant are those for customer compensation for the sale of certain products; these estimates are based on the number of claims expected to be received, the number expected to be accepted, and the estimated average pay out per case. Refer to Notes 2 and 23 of the annual accounts as of December 31, 2019.	• Evaluation of the adjustments to the provisions for regulatory, legal or tax procedures and their recognition. • Reconciliation between the minutes of the inspections and the amounts accounted for. In addition, we performed the following tests of details: • Evaluation of the litigation classification policy and the allocation of provisions by the nature of the lawsuit. • Analysis of the reasonableness of the expected outcomes of the most significant tax and legal proceedings. • Assessment of possible contingencies relating to compliance with the Bank's tax obligations for all the years open to inspection. • Obtaining confirmation letters from external and internal lawyers and external tax advisors who work with the Bank to compare their assessment of the outcome of the litigations, all of the information used, the correct recognition of the various provisions and the identification of potentially omitted liabilities. • Evaluation of the communications with the regulatory bodies, analysis of the ongoing regulatory inspections and assessment of the impact of any regulatory findings. • Analysis of the recognition and reasonableness of the provisions recorded for accounting purposes and the movements therein. In the procedures described above, no exceptions were identified outside of a reasonable range.
Information systems	
The Bank's financial information is highly dependent on information technology (IT) systems and therefore an adequate control of these systems is crucial to ensuring correct data processing. In this context, it is vital to evaluate aspects such as the organisation of the Bank's Technology and Operations department, controls over software maintenance and development, physical and logical security controls, and controls over computer operations.	We have evaluated, in collaboration with our IT system specialists, the internal controls over the IT systems, databases and applications that support the core business activity and have a material impact on the Bank's financial reporting. For this purpose, we performed procedures over internal control and test of details related to: • The function of the IT governance framework. • Access and logical security controls over the applications, operating systems and databases that support the relevant financial information.

Key audit matter	How our audit addressed the key audit matter
In this respect, Management has developed a plan to strengthen the internal controls over IT systems. This plan contains aspects such as improvement access control and the internal governance that manage the IT processes that support the Bank, which includes the Cybersecurity model.	• Application development and change management. • Computer operations. In addition, considering the plan developed by the Bank to strengthen the internal controls over IT systems, our approach and audit plan focused on the following aspects: • Testing, on a sample basis, the changes made as part of this plan and of the new strategic access control solutions implemented by the Bank in 2019. • On a sample basis, testing of the design and operating effectiveness of the new controls implemented by the Bank. In the procedures described above, no relevant exceptions were identified related to this matter.
Impairment of investment in Company´s subsidiaries, joint ventures and affiliates As indicated in Note 13 of the annual accounts, Banco Santander, S.A. is the parent company of a group of entities, whose fundamental activities are in the financial services sector. The accounting value of the investments Company´s subsidiaries, joint ventures and affiliates as of December 31, 2019 is € 87,3 billion, as indicated in Note 13 of the annual accounts. Management performs an analysis of the potential losses in investments in Group entities that it has registered in its accounting records. This analysis is performed using different parameters such as the market price and the recoverable value, which is obtained from the estimation of the expected cash flows or the net equity adjusted for the unrealized gains existing at the valuation date, including goodwill net of its corresponding amortization. The valuation or analysis of the impairment of some of these investments requires the use of significant judgments, principally for those investments measured using the net equity adjusted for the unrealized gains existing at the valuation date including its goodwill, including those measured using the net book value. Refer to Note 13 of the annual accounts as of December 31, 2019.	We have obtained an understanding of the valuation process of the investments Company´s subsidiaries, joint ventures and affiliates. In addition, where the valuation of investments requires the use of significant judgment, we have relied on the assistance of our valuation experts. With respect to internal control, we have focused on the design and operating effectiveness of the controls in the valuation process and over the methodology, inputs and relevant assumptions used by Management for the year-end estimates, including the controls in place to supervise the process and the related approvals. Additionally, we have performed test of details consisting of the following: • Verify the valuation performed by the Bank, using as a reference the recoverable balance of the investments in Group entities. • Verify that Management's valuation methodology is in line with applicable accounting standards, market practices and the specific expectations of the sector. • For investments whose valuation is calculated including goodwill, we evaluated the reasonability of the discounted cash flow projections, including the validation of the key inputs with external data and performing a sensitivity analysis on them. We have not identified exceptions, outside a reasonable range, in the tests described above.

Other information: Management report

Other information comprises only the management report for the 2019 financial year, the formulation of which is the responsibility of the Bank´s directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the Directors' report. Our responsibility regarding the Directors' report, in accordance with legislation governing the audit practice which establishes two distinct levels in this regards:

a) A specific level applicable to the consolidated statement of non-financial information and certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the Directors' report or, if appropriate, that the management report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the management report that consists of evaluating and reporting on the consistency between that information and the annual accounts as a result of our knowledge of the Bank obtained during the audit of the aforementioned annual accounts and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the management report and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the annual accounts

The Bank´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of Banco Santander, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Bank´s directors are responsible for assessing the Bank´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank´s directors.

- Conclude on the appropriateness of the directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Bank´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Bank´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Bank´s audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Bank's audit committee dated February 28, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on April 12, 2019 appointed us as auditors for a period of one year, for the year ended December 31, 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of 3 years and we have audited the accounts continuously since the year ended December 31, 2016.

Services provided

Services, different to the audit, provided to the Bank are described in Note 43 of the annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Alejandro Esnal (19930)

February 28, 2020

Banco Santander, S.A.

Annual accounts and Director´s report for
the year ended 31 December 2019

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2018

(Millions of euros)

ASSETS	Note	2019	2018 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHERS DEPOSITS ON DEMAND		32,471	51,931
FINANCIAL ASSETS HELD FOR TRADING		86,583	70,825
Derivatives	9	55,694	51,637
Equity instruments	8	11,697	8,644
Debt instruments	7	19,094	10,525
Loans and advances	10	98	19
Central banks	*6*	-	-
Credit institutions	*6*	-	-
Customers	*10*	*98*	*19*
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*21,192*	*13,819*
NON_TRADING FINANCIAL ASSETS MANDATORILY AT FAUR VALUE THROUGH PROFIT OR LOSS		2,619	3,751
Equity instruments	8	231	224
Debt instruments	7	1,099	1,976
Loans and advances	10	1,289	1,551
Central banks	*6*	-	-
Credit institutions	*6*	-	*2*
Customers	*10*	*1,289*	*1,549*
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*224*	-
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		49,859	41,326
Debt instruments	7	-	-
Loans and advances	10	49,859	41,326
Central banks	*6*	*138*	*103*
Credit institutions	*6*	*18,543*	*17,536*
Customers	*10*	*31,178*	*23,687*
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*4,783*	*5,332*
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME		32,027	35,915
Equity instruments	8 & 25	1,856	1,751
Debt instruments	7 & 25	26,306	32,741
Loans and advances	10	3,865	1,423
Central banks	*6*	-	-
Credit institutions	*6*	-	*185*
Customers	*10*	*3,865*	*1,238*
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*5,329*	*15,129*
FINANCIAL ASSETS AT AMORTISED COST		289,295	296,943
Debt instruments	7	14,528	24,372
Loans and advances	10	274,767	272,571
Central banks	*6*	*22*	*46*
Credit institutions	*6*	*34,747*	*35,856*
Customers	*10*	*239,998*	*236,669*
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*31*	*2,640*	*6,155*
HEDGING DERIVATIVES	32	2,226	2,108
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	32	248	268
INVESTMENTS		87,330	81,734
Group entities	13	82,223	76,324
Joint ventures entities		247	310
Associated companies	13	4,860	5,100
TANGIBLE ASSETS	15	7,131	2,410
Property, plant and equipment:		6,904	2,136
For own use		*6,253*	*1,641*
Leased out under an operating lease		*651*	*495*
Investment property:		227	274
Of which: Leased out under an operating lease		*227*	*274*
Memorandum items:in lease		*3,167*	*565*
INTANGIBLE ASSETS	16	685	778
Goodwill		521	583
Other intangible assets		164	195
TAX ASSETS	24	12,331	13,320
Current tax assets		2,215	2,993
Deferred tax assets		10,116	10,327
OTHER ASSETS	17	5,947	5,027
Insurance contracts linked to pensions	14, 17 & 23	511	1,654
Inventories	17	-	-
Other	17	5,436	3,373
NON-CURRENT ASSETS HELD FOR SALE	12	1,164	2,040
TOTAL ASSETS		**609,916**	**608,376**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2019.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.
BALANCE SHEETS AS AT 31 DECEMBER 2019 AND 2018
(Millions of euros)

LIABILITIES	Note	2019	2018 (*)
FINANCIAL LIABILITIES HELD FOR TRADING		64,356	58,021
Derivatives	9	56,068	51,698
Short positions	9	8,288	6,323
Deposits		-	-
Central banks	18	-	-
Credit institutions	*18*	-	-
Customers	*19*	-	-
Marketable debt securities	20	-	-
Other financial liabilities	*22*	-	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		24,264	35,079
Deposits		24,264	35,079
Central banks	*18*	*7,596*	*12,377*
Credit institutions	*18*	*6,152*	*8,772*
Customers	*19*	*10,516*	*13,930*
Marketable debt securities	20	-	-
Other financial liabilities	22	-	-
Memorandum ítems:subordinated liabilities		-	-
FINANCIAL LIABILITIES AT AMORTISED COST		437,018	430,675
Deposits		*338,597*	*345,095*
Central banks	*18*	*36,896*	*48,519*
Credit institutions	*18*	*51,180*	*55,883*
Customers	*19*	*250,521*	*240,693*
Marketable debt securities	20	*87,567*	*77,095*
Other financial liabilities	22	10,854	8,485
Memorandum ítems:subordinated liabilities	*20 & 21*	*15,352*	*17,984*
HEDGING DERIVATIVES	32	2,044	3,506
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK RATE		-	-
PROVISIONS	23	6,490	6,681
Provision for pensions and similar obligations		3,918	3,895
Other long term employee benefits		1,220	1,111
Provisions for taxes and other legal contingencies		501	498
Provisions for commitments and guarantees given		180	263
Other provisions		671	914
TAX LIABILITIES	24	1,591	1,303
Current tax liabilities		-	-
Deferred tax liabilities		1,591	1,303
OTHER LIABILITIES	17	3,931	4,344
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
TOTAL LIABILITIES		**539,694**	**539,609**
SHAREHOLDERS' EQUITY	26	70,562	69,226
CAPITAL		8,309	8,118
Called up paid capital	27	8,309	8,118
Unpaid capital which has been called up		-	-
Memorandum ítems: uncalled up capital		-	-
SHARE PREMIUM	28	52,446	50,993
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	30	598	565
Equity component of compound financial instruments		-	-
Other equity instruments		598	565
OTHER EQUITY INSTRUMENTS	30	144	170
ACCUMULATED RETAINED EARNINGS	29	7,814	7,805
REVALUATION RESERVES		-	-
OTHER RESERVES	29	(617)	511
(-) OWN SHARES		-	-
RESULTS FOR THE PERIOD	4	3,530	3,301
(-) DIVIDENDS	4	(1,662)	(2,237)
OTHER COMPREHENSIVE INCOME	25	(340)	(459)
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS	25	(1,024)	(722)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	25	684	263
TOTAL EQUITY		**70,222**	**68,767**
TOTAL LIABILITIES AND EQUITY		**609,916**	**608,376**
MEMORANDUM ITEMS			
Financial guarantees granted	31	9,474	6,508
Loans commitment granted	31	85,840	72,208
Other commitments granted	31	52,460	57,855

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the balance sheet as at 31 December 2019.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(Millions of euros)

		(Debit) / Credit	
	Note	2019	2018 (*)
Interest income	34	7,566	7,381
Financial assets at fair value through other comprehensive income		*384*	*702*
Financial assets at amortized cost		*5,800*	*5,506*
Other interest income		*1,382*	*1,173*
(Interest expense)	35	(4,107)	(3,860)
Net interest income		**3,459**	**3,521**
Dividend income	36	6,402	4,151
Commission income	37	2,780	2,853
(Commission expense)	38	(516)	(439)
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	39	891	516
Financial assets at amortized cost	*39*	*296*	*12*
Other financial assets and liabilities	*39*	*595*	*504*
Gains or losses on financial assets and liabilities held for trading, net	39	(12)	74
Reclassification of financial assets at fair value through other comprehensive income		-	-
Reclassification of financial assets at amortized cost		-	-
Other gains (losses)		*(12)*	*74*
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	39	35	(61)
Reclassification of financial assets at fair value through other comprehensive income		-	-
Reclassification of financial assets at amortized cost		-	-
Other gains (losses)	*39*	*35*	*(61)*
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	39	(54)	2
Gains or losses from hedge accounting, net	39	(50)	(28)
Exchange differences, net	40	(455)	(49)
Other operating income	41	374	458
(Other operating expenses)	41	(616)	(641)
Gross income		**12,238**	**10,357**
(Administrative expenses)		(5,023)	(5,472)
(Staff costs)	*42*	*(2,874)*	*(2,817)*
(Other general administrative expenses)	*43*	*(2,149)*	*(2,655)*
Depreciation and amortisation cost	15 & 16	(637)	(313)
Provisions or reversal of provision	23	(1,192)	(630)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes		(1,246)	(686)
Financial assets at fair value through other comprehensive income		*(5)*	-
Financial assets at amortized cost		*(1,241)*	*(686)*
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates, net	44	(434)	79
Impairment on non-financial assets, net		-	-
Tangible assets		-	-
Intangible assets		-	-
Others		-	-
Gains or losses on non-financial assets and investments, net	45	52	68
Negative goodwill recognised in results		-	-
Gains or losses on non-current assets held for sale classified as discontinued operations	12 & 46	(179)	(18)
Profit or loss before tax from continuing operations		**3,579**	**3,385**
Tax expense or income from continuing operations	24	(49)	(84)
Profit for the period from continuing operations		**3,530**	**3,301**
Profit or loss after tax from discontinued operations		-	-
Profit for the period		**3,530**	**3,301**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the income statement as at 31 December 2019.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF RECOGNISED INCOME AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(Millions of euros)

	Note	2019	2018 (*)
PROFIT FOR THE YEAR		**3,530**	**3,301**
OTHER RECOGNISED INCOME AND EXPENSES	23	**119**	**(410)**
Items that will not be reclassified to profit or loss		**(302)**	**(62)**
Actuarial gains/ (losses) on defined benefit pension plans		(327)	43
Other recognised income and expense of investments in subsidiaries, joint venture and associates		-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income, net		(135)	(78)
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other comprehensive income, net		-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)		*44*	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)		*(44)*	-
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk		2	-
Income tax relating to items that will not be reclassified to profit or loss	24	158	(27)
Items that may be reclassified to profit or loss		**421**	**(348)**
Hedges of net investments in foreign operations (Effective part)		-	-
Revaluation gains (losses)		-	-
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Exchanges differences		-	-
Revaluation gains (losses)		-	-
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Cash flow hedges (Effective part)		(117)	137
Revaluation gains or (losses)		*(205)*	*153*
Amounts transferred to income statement		*88*	*(16)*
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Hedging instruments (items not designated)		-	-
Revaluation gains (losses)		-	-
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Debt instruments at fair value with changes in other comprehensive income		723	*(634)*
Revaluation gains (losses)		*697*	*(135)*
Amounts transferred to income statement		*(592)*	*(499)*
Other reclassifications		*618*	-
Non-current assets held for sale		-	-
Revaluation gains (losses)		-	-
Amounts transferred to income statement		-	-
Other reclassifications		-	-
Income tax related to items that may be reclassified to profit or loss	24	(185)	149
Total recognised income and expenses for the year		**3,649**	**2,891**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statement of recognised income and expenses as at 31 December 2019.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CHANGES IN TOTAL EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(Millions of euros)

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Retained earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance as at 31/12/18 (*)	**8,118**	**50,993**	**565**	**170**	**7,805**	**-**	**511**	**-**	**3,301**	**(2,237)**	**(459)**	**68,767**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	(391)	-	-	-	-	(391)
Adjusted initial balance	**8,118**	**50,993**	**565**	**170**	**7,805**	**-**	**120**	**-**	**3,301**	**(2,237)**	**(459)**	**68,376**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,530**	**-**	**119**	**3,649**
Other changes in equity	**191**	**1,453**	**33**	**(26)**	**9**	**-**	**(737)**	**-**	**(3,301)**	**575**	**-**	**(1,803)**
Issuance of ordinary shares	191	1,453	-	-	-	-	28	-	-	-	-	1,672
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(1,055)	-	-	-	-	(1,662)	-	(2,717)
Purchase of equity instruments	-	-	-	-	-	-	-	(829)	-	-	-	(829)
Disposal of equity instruments	-	-	-	-	-	-	-	829	-	-	-	829
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	1,064	-	-	-	(3,301)	2,237	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	(88)	-	-	-	-	-	-	-	(88)
Others increases or (-) decreases of the equity	-	-	33	62	-	-	(765)	-	-	-	-	(670)
Balance at 31/12/19	**8,309**	**52,446**	**598**	**144**	**7,814**	**-**	**(617)**	**-**	**3,530**	**(1,662)**	**(340)**	**70,222**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statement of changes in total equity as at 31 December 2019.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017 (CONTINUED)

(Millions of euros)

	Capital	Share premium	Other instruments (Other than capital)	Other equity instruments	Retained earnings	Revaluation reserves	Other reserves	(-) Own Equity shares	Result for the period	(-) Dividends	Other comprehensive income accumulated	Total
Balance as at 31/12/17 (*)	**8,068**	**51,053**	**686**	**150**	**7,796**	**-**	**1,987**	**-**	**3,006**	**(2,029)**	**(150)**	**70,567**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	(518)	-	-	-	(12)	(530)
Adjusted initial balance	**8,068**	**51,053**	**686**	**150**	**7,796**	**-**	**1,469**	**-**	**3,006**	**(2,029)**	**(162)**	**70,037**
Total recognised income and expense	-	-	-	-	-	-	-	-	3,301	-	(410)	2,891
Other changes in equity	**50**	**(60)**	**(121)**	**20**	**9**		**(958)**	**-**	**(3,006)**	**(208)**	113	**(4,161)**
Issuance of ordinary shares	50	(60)	-	-	-	-	10	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(968)	-	-	-	-	(2,237)	-	(3,205)
Purchase of equity instruments	-	-	-	-	-	-	-	(816)	-	-	-	(816)
Disposal of equity instruments	-	-	-	-	-	-	-	816	-	-	-	816
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	977	-	-	-	(3,006)	2,029	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	(53)	-	-	-	-	-	-	-	(53)
Others increases or (-) decreases of the equity	-	-	(121)	73	-	-	(968)	-	-	-	113	(903)
Balance at 31/12/18	**8,118**	**50,993**	**565**	**170**	**7,805**	**-**	**511**	**-**	**3,301**	**(2,237)**	**(459)**	**68,767**

(*) Restated balances. Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statements of changes in total equity for the year ended 31 December 2019.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In the event of a discrepancy, the Spanish-language version prevails.

BANCO SANTANDER, S.A.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018
(Millions of euros)

	Note	Millions of euros	
		2019	2018 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES		**(6,846)**	**10,443**
Profit for the year	4	**3,530**	**3,301**
Adjustments made to obtain the cash flows from operating activities		**2,206**	**11,576**
Depreciation and amortisation charge	*15 & 16*	*637*	*313*
Other adjustments		*1,569*	*11,263*
Net increase/(decrease) in operating assets		**13,370**	**17,566**
Financial assets held-for-trading		*15,758*	*5,348*
Non-trading financial assets mandatorily at fair value through profit or loss		*(1,132)*	*767*
Financial assets designated at fair value through profit or loss		*8,533*	*12,600*
Financial assets at fair value through other comprehensive income		*(3,883)*	*(13,331)*
Financial assets at amortized cost		*(6,119)*	*9,298*
Other operating assets		*213*	*2,884*
Net increase/(decrease) in operating liabilities		**45**	**13,411**
Liabilities held-for-trading financial		*6,335*	*9,017*
Financial liabilities designated at fair value through profit or loss		*(10,815)*	*3,359*
Financial liabilities at amortised cost		*7,527*	*2,982*
Other operating liabilities		*(3,002)*	*(1,947)*
Income tax recovered/(paid)		**743**	**(279)**
B. CASH FLOWS FROM INVESTING ACTIVITIES		**(5,142)**	**8,725**
Payments		**7,094**	**1,472**
Tangible assets	15	*3,025*	*459*
Intangible assets	16	*73*	*96*
Investments	13	*3,996*	*917*
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities		-	-
Other payments related to investing activities		-	-
Proceeds		**1,952**	**10,197**
Tangible assets	*15*	*178*	*160*
Intangible assets	*16*	-	-
Investments	*13*	*645*	*1,671*
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities		*1,129*	*8,366*
Other proceeds related to investing activities		-	-
C. CASH FLOW FROM FINANCING ACTIVITIES		**(7,677)**	**(1,208)**
Payments		**9,562**	**4,763**
Dividends	4	*3,773*	*3,118*
Subordinated liabilities	21	*4,578*	*827*
Redemption of own equity instruments		-	-
Acquisition of own equity instruments		*829*	*816*
Other payments related to financing activities		*382*	*2*
Proceeds		**1,885**	**3,555**
Subordinated liabilities	21	*1,056*	*2,750*
Issuance of own equity instruments		-	-
Disposal of own equity instruments		*829*	*805*
Other proceeds related to financing activities		-	-
D. EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**205**	**237**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(19,460)**	**18,197**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**51,931**	**33,734**
G. CASH AND CASH EQUIVALENTS AT END OF PERIOD		**32,471**	**51,931**
MEMORANDUM ITEMS			
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash		*1,551*	*1,375*
Cash equivalents at central banks		*24,596*	*45,232*
Other financial assets		*6,324*	*5,324*
Less - Bank overdrafts refundable on demand		-	-
TOTAL OF CASH AND CASH EQUIVALENTS AT END OF PERIOD		**32,471**	**51,931**

(*) Presented for comparison purposes only. See Note 1.d.

The accompanying Notes 1 to 50 and Appendices are an integral part of the statement of cash flows as at 31 December 2019.

Translation of annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Bank in Spain (see Notes 1 and 50). In case of discrepancy, the Spanish version prevails.

Banco Santander, S.A.

Notes to the financial statements (annual accounts) for the year ended 31 December 2019

1. Introduction, basis of presentation of the financial statements (annual accounts) and other information

a) *Introduction*

Banco Santander, S.A. ("the Bank" or "Banco Santander") is a private-law entity subject to the rules and regulations applicable to banks operating in Spain. The Bylaws and other public information on the Bank can be consulted at its registered office at Paseo de Pereda 9-12, Santander.

In addition to the operations carried on directly by it, the Bank is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, Santander Group ("the Group"). Therefore, the Bank is obliged to prepare, in addition to its own separate financial statements, the Group's consolidated financial statements, which also include the interests in joint ventures and investments in associates.

The Bank´s financial statements for 2018 were approved by the shareholders at the Bank´s annual general meeting on 12 April 2019. The 2019 consolidated financial statements of the Group, the financial statements of the Bank and of substantially all the Group companies have not been approved yet by their shareholders at the respective annual general meetings. However, the Bank´s board of directors considers that the aforementioned financial statements will be approved without any significant changes.

In the Appendix IX, it is detailed the list of agents that assist the Bank on the performance of its business activities in Spain.

b) *Basis of presentation of the financial statements (annual accounts)*

The Bank's financial statements for 2019 were formally prepared by the Bank's directors (at the board meeting on 27 February 2020) in accordance with Bank of Spain Circular 4/2017**,** taking into account the subsequent amendments to and the Spanish corporate and commercial law applicable to the Bank, using the accounting policies and measurement criteria detailed in Note 2. Accordingly, the financial statements fairly presented the Bank's equity and financial position at 31 December 2019 and 2018 and the results of its operations, of the recognised income and expenses, of the changes in equity and of cash flows in 2019 and 2018. These financial statements were prepared using the Bank accounting record.

The notes to the financial statements contain additional information to that presented in the balance sheet, income statement, statement of recognised income and expense, statement of changes in total equity and statement of cash flows. The notes provide, in a clear, relevant, reliable and comparable manner, narrative descriptions and breakdowns of these statements.

Adoption of new standards and interpretations issues

The following is a summary of the main applicable Bank of Spain Circulars, issued and that came into force in the financial year 2019:

Bank of Spain Circular 1/2019, of January 30, with modifies Circular 8/2015, of December 18 to entities and branches adhered to the Deposit Guarantee Fund of Credit Institutions to determine on information to determine the calculation bases of the contribution to the Deposit Guarantee Fund of Credit Institutions. (BOE of February 9, 2018).

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Bank of Spain Circular 2/2019, of March 29, on the requirements of the Information Document of the Commissions and the State of Commissions, and the websites for comparing payment accounts, and amending Circular 5/2012, from June 27, to credit institutions and payment service providers, on transparency of banking services and responsibility in the granting of loans (BOE of April 4, 2019).

From the application of this circulars, no significant effects have been identified in the Bank's financial statements.

Likewise, the following regulations are operating at the moment of the formulation, which effective date is after December 31, 2019:

Circular 2/2018, of December 21, of the Bank of Spain, by which Circular 4/2017, of November 27, is modified to credit institutions, on rules of public and reserved financial information, and financial statement models, and Circular 1/2013 of May 24, about Risk Information Center.

On December 28, 2018, Bank of Spain Circular 2/2018 of December 21, was published in the Official State Gazette. This Circular entered into force on January 1, 2019 and the main objective is to adapt Circular 4/2017, of November 27, to credit institutions, on public and reserved financial information standards, and models of financial statements, in concerning the International Financial Reporting Standard (IFRS-EU) 16, on leases. The Bank has adopted the standard, using the modified retrospective approach from 1 January 2019, not restating the comparative financial statements for 2018, as permitted under the specific transitional provisions of the standard.

It should also be mentioned that this circular also modifies Circular 1/2013, of May 24, on the Risk Information Center (CIR), incorporating minor changes in order to introduce clarifications and improvements.

The main aspects contained in IFRS16, to which Circular 2/2028 Bank of Spain has adapted, has led to changes in the Bank’s accounting policies for the recognition, measurement, presentation and breakdown of lease contracts, are the following:

a) Lease accounting policy

Since 1 January 2019, when the Bank acts as lessee, recognises a right-of-use asset representing it´s right to use the underlying leased asset the corresponding lease liability on the date on which the leased asset is available for use by the bank. Each lease payment is allocated between the liability and the finance charge. The finance charge is allocated to the income statement during the term of the lease in such a way as to produce a constant periodic interest rate on the remaining balance of the liability for each year. The right-of-use asset is depreciated over the useful life of the asset or the lease term, whichever is shorter, on a straight-line basis. If the bank is reasonably certain to exercise a purchase option, the right-of-use asset is amortized over the useful life of the underlying asset.

Assets and liabilities arising from a lease are initially measured at present value. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including inflation-linked payments), less any lease incentive receivable,
- Variable lease payments that depend on an index or rate,
- The amounts expected to be paid by the lessee under residual value guarantees,
- The exercise price of a purchase option if the lessee is reasonably certain that it will exercise that option, and
- Lease termination penalty payments, if the term of the lease reflects the lessee's exercise of that option.

Lease payments are discounted using the interest rate implicit in the lease. Given in certain situations this interest rate cannot be obtained, the discount rate used in these cases, is the lessee's incremental borrowing rate at the related date. For this purpose, the entity has calculated this incremental borrowing rate taking as reference the listed debt instruments issued by the Bank; in this regard, the Bank has estimated different interest rate curves depending on the currency and economic environment in which the contracts are located.

In order to construct the incremental borrowing rate, a methodology has been developed at the corporate level. This methodology is based on the need for each Entity to consider its economic and financial situation, for which the following factors must be considered:

- Economic and political situation (country risk).
- Credit risk of the company, any initial direct costs, and
- Monetary policy.
- Volume and seniority of the company´s debt instrument issues.

The incremental borrowing interest rate is defined as the interest rate that a lessee would have to pay for borrowing, for a term similar to the duration of the lease and with similar security, the funds necessary to obtain an asset of similar value to the asset for right of use in a similar economic environment.

Right-of-use assets are valued at cost that includes the following:

- The amount of the initial valuation of the lease liability,
- Any lease payment made on or before the start date less any lease incentive received,
- Any initial direct costs, and
- Restoration costs.

Payments associated with short-term leases and leases of low value assets are recognized on a linear basis as an expense in income.

The Bank recognises the payments associated with short-term leases and leases of low-value assets on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term less than or equal to 12 months (a lease that contains a purchase option is not a short term lease).

b) Recognised effects on the adoption of the standard

With the adoption of IFRS16 and Circular 2/2018, the Bank recognised lease liabilities in relation to leases previously classified as "operating leases" under the principles valid strandards in force at 31 December 2018. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019. At the date of first application, the weighted average discount rate was 4.5%, mainly due to the contribution of rented properties in Spain.

For leases previously classified as finance leases, the Bank recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and lease liability on the initial effective date. The measurement principles in Circular 2/2018 apply only after that date.

The Bank has considered the practical expedients defined in paragraph C10 of the standard in the application of the modified retrospective method. Such application was be made on a contract-by-contract basis, and not on a generalised basis.

As a result of the adoption of IFRS16 and Circular 2/2018, the impact of the first application recorded by the Group corresponds, mainly, to the recognition of right-of-use for an amount of EUR 6,693 million, financial liabilities for an amount of EUR 7,084 million and a negative impact on the Group's equity of EUR 391 million (of which 4,236, 4,627 and 391 thousand millions correspond to Banco Santander S.A.). The impact of the first application of IFRS16 and Circular 2/2018 on the ordinary capital ratio (Common Equity Tier 1 - CET 1) was -20 b.p.

Also, at the date of preparation of these financial statements, the following amendments with an effective date subsequent to 31 December 2019 were in force:

Regulation (EU) 2018/1845 of the European Central Bank, of November 21, 2018; on the exercise of the power conferred in article 178, paragraph 2, letter d), of Regulation (EU) No. 575/2013, of defining the threshold of importance of delinquent credit obligations (ECB / 2018/26). This Regulation shall apply exclusively to credit institutions classified as significant in accordance with Article 6 (4) of Regulation (EU) No 1024/2013, and Part IV and Article 147 (1) of Regulation (EU) No 468/2014 (BCE / 2014/17), regardless of the method used to calculate the amounts of risk-weighted exposures.

Credit institutions shall apply the threshold of importance of non-performing credit obligations established in this Regulation from 31 December 2020.

The Bank is currently analysing the possible effects of these new standards and interpretations.

All accounting policies and measurement bases with a material effect on the financial statements for 2019 were applied in their preparation.

c) Use of critical estimates

The Banks' results and the determination of equity are sensitive to the accounting policies, measurement bases and estimates used by the directors of the Bank in preparing the financial statements. The main accounting policies and measurement bases are set forth in Note 2.

In the financial statements estimates were occasionally made by the senior management of the Bank in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

- The impairment losses on certain assets: it applies to financial assets at fair value through other comprehensive income, financial assets at amortised cost, non-current assets held for sale, investments, tangible assets and intangible assets (see Notes 6, 7, 8, 10, 12, 13, 15 and 16);
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other obligations (see Note 23);
- The useful life of the tangible and intangible assets (see Notes 15 and 16);
- The measurement of goodwill arising (see Note 16);
- The calculation of provisions and the consideration of contingent liabilities (see Note 23).
- The fair value of certain unquoted assets and liabilities (see Notes 6, 7, 8, 9, 10, 11, 18, 19 and 20).
- The recoverability of deferred tax assets (see Note 24).
- The fair value of the identifiable assets acquired and the liabilities assumed in business combinations (see Note 3).

Although these estimates were made on the basis of the best information available at 2019 year-end, and considering updated information at the date of preparation of these financial statements, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively, recognising the effects of the change in estimates in the related income statement.

d) Comparative information

As mentioned on Note 1.b), in order to adapt the accounting system of Spanish credit institutions to the changes related to IFRS16, on 28 December 2018, Circular 2/2018, of 21 December, of the Bank of Spain, was published, which modify Circular 4/2017, of November 27, for those years beginning as of 1 January 2019.

As indicated in that standard, the Bank opted not to restate the comparative financial statements, and the information relating to the years ended 31 December 2018 was not restated in accordance with those criteria, so that it is not comparative. However, Note 1.b includes the principal effects of the first application of the standard at 1 November, 2019.

Therefore, the information for the year 2018 contained in these notes to the financial statements is presented with the information relating to 2019 for comparative purposes only, except as mentioned above in relation to the application of the new requirements of Circular 2/2018 of Bank of Spain (see note 1.b).

Additionally, as detailed in section i) of this Note, with accounting effects, 1 January 2019, the merger by absorption of Manberor, S.A.U., Inversiones Inmobiliarias Gercebio, S.A.U., Inversiones Inmobiliarias Cedaceros, S.A.U, Popular Capital, S.A.U., Popular Bolsa, Sociedad de Valores, S.A.U. and Sorlinda Investments, S.L. Unipersonal. In section i) of this Note presents the balances contributed by these companies prior to the eliminations of internal transactions between said entities and the Bank.

In section i) of this Note, with accounting effects, 1 January 2018, the merger by absorption of Banco Popular Español, S.A.U. (previous merger by absorption of Banco Popular Español, S.A.U. with Banco Pastor, S.A.U. and Popular Banca Privada, S.A.U with accounting effects 1 January 2018), Santander Investment Bolsa, Sociedad de Valores, S.A.U. and Popular de Renting, S.A.U. In section i) of this Note presents the balances contributed by these companies prior to the eliminations of internal transactions between said entities and the Bank.

e) Capital management

i. Regulatory and economic capital

The Group's capital management is performed at regulatory and economic levels.

The aim is to secure the Group's solvency and guarantee its economic capital adequacy and its compliance with regulatory requirements, as well as an efficient use of capital.

To this end, the regulatory and economic capital figures and their associated metrics RORWA (Return on Risk-Weighted Assets), RORAC (Return on Risk-Adjusted Capital) and value creation of each business unit- are generated, analysed and reported to the relevant governing bodies on a regular basis.

Within the framework of the internal capital adequacy assessment process (Pillar II of the Basel Capital Accord), the Group uses an economic capital measurement model with the objective of ensuring that there is sufficient capital available to support all the risks of its activity in various economic scenarios, with the solvency levels agreed upon by the Group; at the same time the Group assesses, also in the various scenarios, whether it meets the regulatory capital ratio requirements.

In order to adequately manage the Group's capital, it is essential to estimate and analyse future needs, in anticipation of the various phases of the business cycle. Projections of regulatory and economic capital are made based on the budgetary information (balance sheet, income statement, etc.) and the macroeconomic scenarios defined by the Group's economic research service. These estimates are used by the Group as a reference when planning the management actions (issues, securitisations, etc.) required to achieve its capital targets.

In addition, certain stress scenarios are simulated in order to assess the availability of capital in adverse situations. These scenarios are based on sharp fluctuations in macroeconomic variables (GDP, interest rates, housing prices, etc.) that mirror historical crises that could happen again or plausible but unlikely stress situations.

Following is a brief description of the regulatory capital framework to which the Group is subject.

On 26 June 2013 the Basel III legal framework was included in European law through Directive 2013/36 (CRD IV), repealing Directives 2006/48 and 2006/49, and through Regulation 575/2013 on prudential requirements for credit institutions and investment firms (CRR).

The CRD IV was transposed into Spanish legislation through Law 10/2014 on the regulation, supervision and capital adequacy of credit institutions, and its subsequent implementing regulations contained in Royal Decree-Law 84/2015 and Bank of Spain Circular 2/2016, was completed the adaptation to the Spanish law.

The CRR came into force immediately, established a phase- in that has permitted a progressive adaptation to the new requirements in the European Union regarding AT1 and T2 capital instruments. These calendars have been incorporated into Spanish regulations through Bank of Spain Circular 2/2014, affecting both the new deductions and those issues and equity items that are no longer eligible as such under the new regulations.

On 27 December 2017, Regulation (EU) 2017/2395 was published, amending the CRR with regard to the transitional provisions to mitigate the impact of the introduction of IFRS 9, which took place on 1 January, 2018. The timetable provides for a gradual implementation period of 5 years, and for the current year (2020) the applicable factor will be 0.7.

In addition, on 28 December 2017 Regulations (EU) 2017/2401 and 2017/2402 were published, incorporating the new securitisation framework. The first regulation establishes a new methodology for calculating capital requirements for securitisations and a transitional period ending on 31 December 2019, while the second regulation defines a type of STS ('simple, transparent and standardised') securitisation which, due to its characteristics of simplicity, of financing the real economy, etc., receives preferential treatment in terms of lower capital requirements.

With regard to non performing exposures (NPEs), rules have been published with the aim of implementing the "Action plan for non performing exposures in Europe", published by the European Council in July 2017. The most relevant are the following:

- The European Central Bank (ECB)'s supervisory expectation to address the stock of NPEs through provisioning,

- ECB Guidance on non-performing loans to credit institutions, published in March 2017: The Appendix to this Guidance, published in March 2018, sets out timetables with quantitative supervisory expectations for provisioning of this type of exposure. Applicable to exposures that originate prior to 26 April 2019 and that have become NPE on or after 1 April 2018. A default could result in a higher charge for Pillar 2.

- Amendment of the CRR by Regulation (EU) 2019/630 regarding the minimum coverage of losses derived from doubtful exposures (prudential backstop), published in April 2019: this Regulation (EU) includes timetables of quantitative requirements for minimum provisioning of NPE's. It applies to NPE's originated after 26 April 2019 and failure to comply would result in a deduction from the institutions' CET1.

On 20 May 2019, the new regulatory package was approved through Regulation (EU) 2019/876 (hereinafter CRR II) and Directive (EU) 2019/878 (hereinafter CRD V).

As a general rule, CRR II will come into force on 28 June 2021, with some exceptions that will come into force during a period of time that began on 1 January 2019 and will end on 28 June 2023.

Among these exceptions, the entry into force on 27 June 2019 of the main changes regarding equity, capital deductions, standard and IRB credit risk, and authorisations is highlighted.

On 27 June CRD V entered into force but is not yet applicable as Member States have until 28 December 2020 to transpose it into national law. The CRD V includes significant changes such as the Pillar 2G regulation ('guidance').

In the regulatory package published in June 2019, the TLAC Term Sheet set at international level by the FSB (Financial Stability Board) has been incorporated into CRR II as a Pillar I of minimum equity and computable liability requirements for GSIBs.

This package of modifications also includes the modification of the Resolution Directive (BRRD), replacing it with BRRD II, which establishes MREL requirements with Pillar 2 for all resolution entities, whether systemic or not, in which the resolution authority will decide on the requirements on a case-by-case basis. For G-SIBs, CRR II introduces the minimum requirement established in the TLAC term sheet (16% / 18%), which must be made up of subordinated liabilities, with the exception of a percentage of senior debt (2.5% / 3.5%). For large banks (defined as those whose total assets exceed EUR 100 billion) or those which, without being large, the resolution authority considers may be systemic, BRRD II establishes a minimum subordination requirement of 13.5% of risk-weighted assets, or 5% of the leverage ratio exposure, whichever is higher. For the remaining entities the subordination requirement will be determined on a case-by-case basis by the resolution authority.

At 31 December 2019 the Group met the minimum capital requirements established by current legislation (see Note 49).

ii. Plan for the roll-out of advanced approaches and authorisation from the supervisory authorities

The Group continues adopting, over the next few years, the advanced internal ratings-based (AIRB) approach under Basel II for substantially all its banks, until the percentage of exposure of the loan portfolio covered by this approach exceeds 90%. The commitment assumed before the supervisor still implies the adoption of advanced models within the ten key markets where Santander Group operates.

Accordingly, the Group continued in 2019 with the project for the progressive implementation of the technology platforms and methodological improvements required for the roll-out of the AIRB approach for regulatory capital calculation purposes at the various Group units.

The Group has obtained authorisation from the supervisory authorities to use the AIRB approach for the calculation of regulatory capital requirements for credit risk for the Parent and the main subsidiaries in Spain, the United Kingdom and Portugal, as well as for certain portfolios in Germany, Mexico, Brazil, Chile, the Nordic countries (Norway, Sweden and Finland), France and the United States.

During 2018, approval was obtained for the sovereign portfolios, Institutions (FIRB method) and specialised financing (Slotting) in Chile, mortgages and most revolving portfolio of Santander Consumer Germany as well as the portfolios of dealers of PSA France and PSA UK (FIRB method).

As regards the other risks explicitly addressed under Basel Pillar I, the Group is authorised to use its internal model for market risk for its treasury trading activities in the UK, Spain, Chile, Portugal and Mexico.

For the purpose of calculating regulatory capital for operational risk, the Group uses the standardised approach provided for the CRR. On 2018 the European Central Bank authorised the use of the Alternative Standardised Approach to calculate the capital requirements at consolidated level in Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México, in addition to the approval obtained in 2016 in Brazil.

f) Environmental impact

In view of the business activities carried on by the Bank, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these financial statements.

g) Customer Care Service Annual Report

As required by the Article 17 of Ministry of Economy Order ECO/734/2004, of 11 March, on the services and departments of Customer Service and the Customer Ombudsmen of Financial Institutions, the annual report presented by the Head of the department to the board meeting held on March 2020 is summarised in the directors' report.

h) Deposit Guarantee Fund and Resolution Fund

a) Deposit Guarantee Fund

The Bank participates in the Deposit Guarantee Fund ("the DGF"). The annual contribution to be made by the entities to this fund, established by Royal Decree - Law 16/2011 of October 14, by which the DGF is created in accordance with the wording given by the Tenth Final Disposition of Law 11/2015 of June 18 on Recovery and Resolution of credit institutions and investment services companies (in force since June 20, 2015), is determined by the Management Committee of the DGF and is established based on the guaranteed deposits of each entity and its risk profile. The annual contribution to be made by the entities to this fund is determined by the Management Committee of the FGD, and consists of the contribution based on the guaranteed deposits of each entity corrected for its risk profile, which includes the phase of the economic cycle and the impact of pro-cyclical contributions, according to section 3 of article 6 of the Royal Decree-Law 16/2011.

The purpose of the FGD is to guarantee deposits with credit institutions up to the limit established in the mentioned Royal Decree-Law. The expense incurred by the contributions accrued to this organism in the year 2018 has amounted to 234 million euros (224 million euros in the year 2018), which are recorded under Other operating expenses in the profit and loss account attached (see Note 41).

b) National Resolution Fund.

In 2015 Royal Decree 1012/2015 of November 6 was published. It develops Law 11/2015 of June 18 on Recovery and Resolution of credit institutions and investment services companies, and it amended Royal Decree 2606/1996 of December 20 on Deposit Guarantee Funds of entities of credit. The above mentioned Law 11/2015 regulates the creation of the National Resolution Fund whose financial resources should reach, before December 31, 2024, at least 1% of the amount of deposits guaranteed through contributions from credit institutions and service companies established in Spain. The details of how to calculate the contributions to this Fund are regulated by Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 and it is calculated by the Ordinary Banking Order Fund ("FROB") on a basis to the information provided by each entity.

c) Single Resolution Fund

In this respect, on 1 January 2016, the FUR introduced by Regulation (EU) No 806/2014 of the European Parliament and of the Council entered into force. The rules governing the banking union establish that banks will pay contributions to the FUR over eight years.

The competence of the calculation of the contributions that must be made by credit institutions and investment firms to the FUR corresponds to the JUR. From 2016 these contributions are based on: (a) a flat-rate contribution (or annual base contribution) pro rata of the liabilities of each entity excluding own resources and deposits with coverage with respect to total liabilities and excluding the liabilities own funds and deposits covered by all entities authorized in the territory of the participating member states; and based on (b) a risk-adjusted contribution based on the criteria laid down in Article 103 (7) of Directive 2014/59 / EU, taking into account the principle of proportionality and without creating distortions between banking sector structures in the Member States. The amount of this contribution is accrued annually from 2016.

The expenses incurred by contributions to the National Resolution Fund and to the Single Resolution Fund in 2019 amounted to EUR 187 million (EUR 237 million euros in the year 2018) and they are recognised under Other operating expenses in the accompanying income statement (see Note 41).

i) Absorption Fusions

(a) Merger by absorption between Banco Santander, S.A. (absorbing company) and Manberor, S.A.U., Inversiones Inmobiliarias Gercebio, S.A.U., Inversiones Inmobiliarias Cedaceros, S.A.U, Popular Capital, S.A.U. and Popular Bolsa, Sociedad de Valores, S.A.U. (as absorbed companies)

On June 25, 2019 the directors of Banco Santander, S.A. and Popular Bolsa, Sociedad de Valores, S.A.U. and the sole administrators of each of the remaining absorbed companies approved the joint merger project and the merger operation between Banco Santander, S.A. (as absorbing company) and Manberor, S.A.U., Inversiones Inmobiliarias Gercebio, S.A.U., Inversiones Inmobiliarias Cedaceros, S.A.U, Popular Capital, S.A.U. and Popular Bolsa, Sociedad de Valores, S.A.U. (as absorbed companies).

Under Articles 49.1 and 51 of Law 3/2009, of April 3, on structural modifications of commercial companies ("LME"), it was not necessary to approve this merger by the sole partner of the absorbed companies, since it is fully owned by Banco Santander, or by the shareholders meeting of Banco Santander, as its shareholders do not require it in accordance with the provisions of Article 51 of the LME.

Likewise, the operation constitutes a merger of those regulated in article 76.1.c) of Law 27/2014, of November 27, on Corporation Tax ("LIS"). The information required in Article 86.1 of the Law regarding each of the two mergers is incorporated into this report (Annex VIII).

Once the mandatory authorization of the Ministry of Economy and Business was obtained (additional provision of the twelfth Law 10/2014, of June 26, on the organization, supervision and solvency of credit institutions) on December 12, 2019 the corresponding merger deed was granted and, registered in the Mercantile Registry of Cantabria, there was, with effect date December 23, 2019, the extinction without liquidation of Manberor, SAU, Inversiones Inmobiliarias Gercebio, SAU, Inversiones Inmobiliarias Cedaceros, SAU, Popular Capital, SAU and Popular Bolsa, Sociedad de Valores, S.A.U., respectively, and the block transfer of all of their respective assets to Banco Santander, that acquired them by universal succession and without continuity solution. It should be noted that the merger, for accounting purposes, has been registered by Banco Santander, S.A. in fiscal year 2019.

Given that the absorbed companies were fully owned by Banco Santander, in accordance with article 49.1, in relation to article 26 of the LME, the Bank did not increase capital. The merger acquired effective on December 23, 2019, all the shares of the absorbed companies were fully amortized, extinguished and canceled.

Those included in the annual accounts corresponding to the year ended December 31, 2018, formulated by the administrative bodies of each of the companies participating in the merger were considered as merger balances that were not subject to the obligation to audit their annual accounts. Fusion balances of Banco Santander and Popular Bolsa, Sociedad de Valores, S.A.U, they have been duly verified by their respective auditors. The merger balances of the remaining absorbed companies have not been subject to verification by the auditor, given that they had no obligation to audit their accounts.

In accordance with the provisions of the applicable accounting regulations, for accounting purposes, it was set for the merger on January 1, 2019 as the date from which the operations of the absorbed companies were to be considered carried out by Banco Santander, S.A.

Moreover, in accordance with article 89.1 of the LIS, the merger was subject to the tax regime established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB10 of the Royal Legislative Decree 1/1993, of September 24, which approves the Consolidated Text of the Tax on Patrimonial Transmissions and Documented Legal Acts.

Below are the balance sheets of the absorbed companies as of December 31, 2018:

MANBEROR, S.A. (SOCIEDAD UNIPERSONAL) BALANCE AT DECEMBER 31, 2018 (Thousand of euros)			
TOTAL ASSETS	**2018**	**TOTAL EQUITY AND LIABILITIES**	**2018**
NON-CURRENTS ASSSETS	**37,576**	**EQUITY**	**(90,057)**
Deferred tax assets	37,576	SHAREHOLDERS EQUITY	(90,057)
		Capital	60
		Reserves	1
		Profits for previous periods	(90,062)
		Profit for the period	(56)
		NON CURRENT LIABILITIES	**126,998**
		Long term debt	126,998
CURRENT ASSETS	**65**	**CURRENT LIABILITIES**	**700**
Cash and other assets liquid equivalents	65	Comercial creditor and other accounts payable	700
TOTAL ASSETS	**37,641**	**TOTAL EQUITY AND LIABILITIES**	**37,641**

INVERSIONES INMOBILIARIAS GERCEBIO (SOCIEDAD UNIPERSONAL) BALANCE AT DECEMBER 31, 2018 (Thousand of euros)			
TOTAL ASSETS	**2018**	**TOTAL EQUITY AND LIABILITIES**	**2018**
NON-CURRENTS ASSSETS	**-**	**EQUITY**	**(11,481)**
		SHAREHOLDERS EQUITY	**(11,481)**
		Capital	60
		Reserves	5
		Profits for previous periods	(11,521)
		Profit for the period	(25)
		NON CURRENT LIABILITIES	**24,496**
		Long term debt	24,496
CURRENT ASSETS	**13,015**	**CURRENT LIABILITIES**	**-**
Cash and other assets liquid equivalents	13,015	Comercial creditor and other accounts payable	-
TOTAL ASSETS	**13,015**	**TOTAL EQUITY AND LIABILITIES**	**13,015**

POPULAR CAPITAL, S.A. (SOCIEDAD UNIPERSONAL) BALANCE AT DECEMBER 31, 2018 (Thousand of euros)			
TOTAL ASSETS	**2018**	**TOTAL EQUITY AND LIABILITIES**	**2018**
NON-CURRENTS ASSSETS	**-**	**EQUITY**	**(1,833)**
		SHAREHOLDERS EQUITY	**(1,833)**
		Capital	90
		Reserves	452
		Profits for previous periods	(2,344)
		Profit for the period	(31)
		NON CURRENT LIABILITIES	**2,000**
		Long term debt	2,000
CURRENT ASSETS	**595**	**CURRENT LIABILITIES**	**428**
Cash and other assets liquid equivalents	595	Comercial creditor and other accounts payable	428
TOTAL ASSETS	**595**	**TOTAL EQUITY AND LIABILITIES**	**595**

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INVERSIONES INMOBILIARIAS CEDACEROS, S.A. (SOCIEDAD UNIPERSONAL)			
BALANCE AT DECEMBER 31, 2018			
(Thousand of euros)			
TOTAL ASSETS	**2018**	**TOTAL EQUITY AND LIABILITIES**	**2018**
NON-CURRENTS ASSSETS	**282**	**EQUITY**	**(29,435)**
	282	**SHAREHOLDERS EQUITY**	**(29,435)**
		Capital	38,000
		Reserves	(271)
		Profits for previous periods	(67,148)
		Profit for the period	(16)
		NON CURRENT LIABILITIES	**74,106**
		Long term debt	74,106
CURRENT ASSETS	**44,390**	**CURRENT LIABILITIES**	**1**
Existence	1	Comercial creditor and other accounts payable	1
Investments in group companies and associates	700		
Cash and other assets liquid equivalents	43,689		
TOTAL ASSETS	**44,672**	**TOTAL EQUITY AND LIABILITIES**	**44,672**

POPULAR BOLSA, SOCIEDAD DE VALORES, S.A. (SOCIEDAD UNIPERSONAL)			
BALANCE AL 31 DE DICIEMBRE DE 2018			
(Thousand de Euros)			
ASSETS	**2018**	**EQUITY AND LIABILITIES**	**2018**
Financial Assets available for sale	1	Provisios	67
Investment credit	7,358	Tax liabilities	408
Insurance contracts linked to pensions	67	Other equity	135
Material asset	2	**TOTAL LIABILITIES**	**610**
Intagible asset	18	**SHAREHOLDERS EQUITY**	**6,871**
Tax Assets	12	Capital	4,515
Other assests	23	Reserves	1,414
		Profit for the year	942
		TOTAL EQUITY	**6,871**
TOTAL ASSETS	**7,481**	**TOTAL EQUITY AND LIABILITIES**	**7,481**

In accordance with the provisions of the applicable regulations, as a result of the accounting record of this merger operation by absorption indicated above carried out by the Bank in the year 2019, an increase in the Bank's voluntary reserves in said period has been revealed 2 million euros, due to the decrease in the participation of the absorbed companies (See Note 29).

b) Merger by absorption between Banco Santander, S.A. (absorbing company) and Sorlinda Investments, S.L. Unipersonal (as absorbed company)

On 29 July 2019 the directors of Banco Santander, S.A. and the solidarity administrators of Sorlinda Investments, S.L.U. drafted, approved and signed the joint merger project between Banco Santander, S.A. (as absorbing company) and Sorlinda Investments, S.L.U. (as absorbed company), being this one the owner of the Financial city of Banco Santander situated in the municipaly of Boadilla del Monte (Madrid).

Under Articles 49.1 and 51 of Law 3/2009, of April 3, on structural modifications of commercial companies (“LME”), It was not necessary to approve this merger by the sole partner of the absorbed companie, since it is fully owned by Banco Santander, or by the shareholders meeting of Banco Santander, as its shareholders did not require it in accordance with the provisions of Article 51 of the LME.

Likewise, the aforementioned operation constitutes a merger of those regulated in article 76.1.c) of Law 27/2014, of November 27, on Corporation Tax (“LIS”). The information required in Article 86.1 of the aforementioned Law is presented in these annual accounts (Annex VIII).

Once the mandatory authorization of the Ministry of Economy and Business was obtained (additional provision of the twelfth Law 10/2014, of 26 June, on the organization, supervision and solvency of credit institutions) on 3 December 2019, the corresponding merger deed was granted and, registered in the Mercantile Registry of Cantabria, there was, with effect date 12 December 2019, the termination without liquidation of Sorlinda Investments, SLU and the block transfer of all of their respective assets to Banco Santander. It should be noted that the merger, for accounting purposes, has been registered by Banco Santander, S.A. in fiscal year 2019.

Given that the absorbed company was fully owned by Banco Santander, in accordance with article 49.1, in relation to article 26 of the LME, the Bank did not increase capital. The merger acquired effective on 12 December 2019, all the shares of the absorbed company were fully amortized, extinguished and canceled.

The merger balance was considered, for the purposes of the provisions of Spanish legislation, that corresponding to 30 June 2019, formulated by the management body of the absorbed company that was not subject to the obligation to audit its annual accounts.

In accordance with the provisions of the applicable accounting regulations, for accounting purposes, it was set for the merger on 27 June 2019 as the date from which the operations of the absorbed company were to be considered carried out by Banco Santander, S.A.

Moreover, in accordance with article 89.1 of the LIS, the merger was subject to the tax regime established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB10 of the Royal Legislative Decree 1/1993, of September 24, which approves the Consolidated Text of the Tax on Patrimonial Transmissions and Documented Legal Acts.

Following is the balance sheet of the absorbed company as of June 30, 2019:

SORLINDA INVESTMENTS, S.L. UNIPERSONAL BALANCE AT JUNE 30, 2019 (Thousand of Euros)			
ASSETS	**30/06/2019**	**TOTAL EQUITY AND LIABILITIES**	**30/06/2019**
NON-CURRENT ASSETS	**-**	**EQUITY**	**(617)**
		SHAREHOLDERS EQUITY	(617)
		Capital	3
		Profit for previous periods	(1)
		Profit for the period	(619)
CURRENT ASSETS	**20,133**	**NON CURRENT LIABILITIES**	**20,750**
Existence	1	Short- term debt	750
Commercial debtors	130	Debts with group companies and associates	20,000
Short- term financial investments	20,000		
Cash and other assets liquid equivalents	2		
TOTAL ASSETS	**20,133**	**TOTAL EQUITY AND LIABILITIES**	**20,133**

In accordance with the provisions of the applicable regulations, as a result of the accounting record of this merger operation by absorption indicated above carried out by the Bank in fiscal year 2019, no variation of the Bank's voluntary reserves in said fiscal year was revealed due to the decrease in participation in the absorbed company (See Note 29).

c) Merger by absorption between Banco Popular Español, S.A.U. (absorbing company) and Banco Pastor, S.A.U. y Popular Banca Privada, S.A.U. (as absorbed companies) and, subsequently, merger by absorption between Banco Santander, S.A. (absorbing company) and Banco Popular Español, S.A.U. (as absorbed company).

On April 23, 2018, the members of the Board of Directors of Banco Popular Español, S.A.U., Banco Pastor, S.A.U. and Popular Banca Privada S.A.U. ("Popular", "Pastor" and "Popular BP", respectively) drafted and approved the joint merger project between Popular (as an absorbing company) and Pastor and Popular BP (as absorbed companies) (the "Merger of Subsidiaries").

Also, on that same date, the approval of the joint merger project between Banco Santander, S.A. took place. (as absorbing company) and Popular (as absorbed company) by the Boards of Directors of both companies. This merger was conditioned, in addition to obtaining the usual regulatory authorizations in this type of operations, to the prior registration of the Merger of Subsidiaries.

Under articles 49.1 and 51 of Law 3/2009, of April 3, on structural modifications of commercial companies (“LME”), it was not necessary to approve any of the two merger operations described by the boards of shareholders or sole partners, as appropriate, of the companies participating in the corresponding merger, as the absorbed entities are fully owned by the respective absorbing companies and do not urge their shareholders to call the meeting in accordance with the provisions of article 51 of the LME.

Likewise, the aforementioned operations constitute mergers of those regulated in article 76.1.c) of Law 27/2014, of November 27, on Corporation Tax ("LIS"). The information required in Article 86.1 of the aforementioned Law regarding each of the two mergers is incorporated into this report (Annex VIII).

Once the mandatory authorization of the Ministry of Economy and Business has been obtained for each of the mergers (additional provision of the twelfth Law 10/2014, of June 26, on the organization, supervision and solvency of credit institutions), as well as the remaining regulatory authorizations to which each merger was conditioned:

I. On 20 September 2018, the corresponding merger deed was granted between Popular, Pastor and Popular BP, which was submitted for registration in the Mercantile Registry of Madrid on that same date and was registered on 24 September 2018. Consequently, on the occasion of the registration of the Merger of Subsidiaries, and with effect date on 20 September 2018, there was the extinction without liquidation of Pastor and Popular BP and the block transmission of all of their respective assets to Popular, which he acquired them by universal succession and without continuity solution.

II. Also on 20 September 2018, the merger deed was granted between Banco Santander and Popular, which was submitted for registration in the Mercantile Registry of Cantabria on 26 September 2018 and was registered on the 28th of that same month. Consequently, on the occasion of the registration of this merger, and with effect date on 26 September 2018, the termination without liquidation of Popular took place and the block transfer of all of its assets to Banco Santander, which acquired it by universal succession and without continuity solution.

Given that the companies absorbed in both operations were fully owned by the absorbing entities, in accordance with article 49.1, in relation to article 26 of the LME, capital increases were not necessary. Acquired effectiveness of these mergers on the respective dates indicated above, all the shares of the absorbed companies were fully amortized, extinguished and canceled.

For the purposes of the provisions of Spanish legislation, those included in the annual accounts corresponding to the year ended 31 December 2017, formulated by the administrative bodies of each of the participating companies were considered as merger balances in the corresponding merger and duly verified by their respective auditors.
In accordance with the provisions of the applicable accounting regulations, for accounting purposes, it was set for each of the mergers on 1 January 2018 as the date from which the operations of the absorbed companies were to be considered carried out by the absorbing societies.

Moreover, in accordance with article 89.1 of the LIS, both mergers were subject to the tax regime established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB10 of the Royal Legislative Decree 1/1993, of September 24, which approves the Consolidated Text of the Tax on Patrimonial Transmissions and Documented Legal Acts.

Below are the balance sheets of the absorbed companies as of 31 December 2017:

ASSETS (EUR million)	Banco Popular 31-12-2017 (Circular 4/2004)	Banco Pastor 31-12-2017 (Circular 4/2004)	Popular Banca Privada 31-12-2017 (Circular 4/2004)
Cash, cash balances at central banks and other deposits on demand	**8,784**	**1,320**	**345**
Financial assets held for trading	**1,142**	**32**	**-**
Derivatives	1,142	32	-
Equity instruments	-	-	-
Debt instruments	-	-	-
Loans and advances	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-
Equity instruments	-	-	-
Debt instruments	-	-	-
Loans and advances	-	-	-
Financial assets available-for-sale	**14,619**	**27**	**464**
Equity instruments	190	-	4
Debt instruments	14,429	27	460
Loans and receivables	**72,598**	**8,629**	**156**
Debt instruments	857	-	-
Loans and advances	71,741	8,629	156
Investments held to maturity	-	-	-
Investments	**1,819**	**2**	**4**
Other assets	**14,175**	**240**	**34**
TOTAL ASSETS	**113,137**	**10,250**	**1,003**

LIABILITIES (EUR million)	Banco Popular 31-12-2017 (Circular 4/2004)	Banco Pastor 31-12-2017 (Circular 4/2004)	Popular Banca Privada 31-12-2017 (Circular 4/2004)
Financial liabilities held for trading	**1,210**	**32**	-
Derivatives	1,210	32	-
Short positions	-	-	-
Deposits	-	-	-
Debt instruments issued	-	-	-
Other financial liabilities	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-
Deposits	-	-	-
Debt instruments issued	-	-	-
Other financial liabilities	-	-	-
Financial liabilities at amortized cost	**103,366**	**9,801**	**869**
Deposits	92,366	9,775	866
Debt instruments issued	10,121	-	-
Other financial liabilities	879	26	3
Hedging derivatives	724	-	**21**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-	-
Provisions	**1,112**	48	**13**
Commitments and guarantees given	102	8	-
Other provisions	1,010	40	13
Rest of liabilities	936	38	22
TOTAL LIABILITIES	**107,348**	**9,919**	**925**

EQUITY (EUR million)	Banco Popular 31-12-2017 (Circular 4/2004)	Banco Pastor 31-12-2017 (Circular 4/2004)	Popular Banca Privada 31-12-2017 (Circular 4/2004)
Shareholders' equity	**5,836**	**329**	**71**
Capital	**3,420**	**301**	**23**
Share premium	**4,144**	**205**	-
Equity instruments issued other than capital	-	-	-
Other equity	-	-	-
Accumulated retained earnings	**3,440**	**45**	**50**
Revaluation reserves	-	-	-
Other reserves	**8,427**	**(17)**	-
(-) Own shares	-	-	-
Profit attributable to shareholders' of the parent	**(13,595)**	**(205)**	**(2)**
(-) Interim dividends	-	-	-
Other comprehensive income	**(47)**	**2**	**7**
Items not reclassified to profit or loss	**(18)**	-	-
Actuarial gains or losses on defined benefit pension plans	-	-	-
Non-current assets and disposable groups of items that have been classified as held for sale	-	-	-
Share in other recognised income and expenses of investments in joint ventures and associates	-	-	-
Other valuation adjustments	(29)	2	7
Items that may be reclassified to profit or loss	-	-	-
Hedge of net investment in foreign operations (effective part)	-	-	-
Exchange differences	-	-	-
Hedging derivatives. Cash flow hedges (effective part)	(56)	-	-
Financial assets available for sale	27	2	7
Debt instruments	25	-	-
Equity instruments	2	-	-
Non-current assets	-	-	-
Share in other income and expenses recognised in investments in joint ventures and associates	-	-	-
Non controlling interests	-	-	-
Other comprehensive income	-	-	-
Other elements	-	-	-
PATRIMONIO NETO	**5,789**	**331**	**78**
TOTAL PASIVO Y PATRIMONIO NETO	**113,137**	**10,250**	**1,003**

In accordance with the provisions of the applicable regulations, as a result of the accounting record of these merger merger operations carried out by the Bank in fiscal year 2018, an increase in the Bank's voluntary reserves in said fiscal year 18 million euros (Note 29), corresponding to the difference between 6,880 million euros due to the decrease in participation in Banco Popular Español, SAU and 6,898 million of the consolidated net value of the assets and liabilities integrated in the Bank's balance sheet from the absorbed companies.

d) Merger by absorption between Banco Santander, S.A. (absorbing company) and Santander Investment Bolsa, Sociedad de Valores, S.A.U. (as absorbed company)

On April 23, 2018, the members of the Board of Directors of Banco Santander, S.A. and Santander Investment Bolsa, Sociedad de Valores, S.A.U. ("SIBSV") drafted and approved the joint merger project between Banco Santander (as the absorbing company) and SIBSV (as the absorbed company).

Under Articles 49.1 and 51 of the LME, it was not necessary to approve the aforementioned merger by the sole partner of SIBSV, since it is fully owned by Banco Santander, or by the shareholders' meeting of Banco Santander, when not required. its shareholders in accordance with the provisions of article 51 of the LME.

Likewise, the operation described here constitutes a merger of those regulated in article 76.1.c) of the LIS. The information required in Article 86.1 of the aforementioned Law regarding the merger between Banco Santander and SIBSV is incorporated into this report (Annex VIII).

Once the mandatory authorization of the Ministry of Economy and Business has been obtained (12th additional provision of Law 10/2014, of June 26, on supervision and solvency of credit institutions), as well as the National Securities Market Commission (Article 149, by reference of article 159, of the Consolidated Text of the Securities Market Law), on 23 November 2018, the corresponding merger deed was granted, which was submitted for registration and was registered in the Mercantile Registry of Cantabria on 3 December 2018. Consequently, on the occasion of the registration of this merger, and with effect date on 3 December 2018, there was the extinction without liquidation of SIBSV and the transmission in block of all of its assets Santander Bank, which acquired it by universal succession and without continuity solution. Since the absorbed society it was fully owned by Banco Santander, in accordance with Article 49.1, in relation to Article 26 of the LME, the Bank did not increase capital. The merger acquired with the aforementioned date of effect, all SIBSV shares were fully amortized, extinguished and canceled.

Those included in the annual accounts corresponding to the year ended 31 December 2017, formulated by the Board of Directors of Banco Santander and SIBSV and duly verified by their respective auditors.

In accordance with the provisions of the applicable accounting regulations, for accounting purposes, it was set on 1 January 2018 as the date from which SIBSV operations were to be considered carried out by Banco Santander.

In accordance with article 89.1 of the LIS, the merger described here was subject to the tax regime established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB) 10. of the Royal Legislative Decree 1/1993, of September 24, which approves the Consolidated Text of the Tax on Patrimonial Transmissions and Documented Legal Acts.

Below is the balance sheet of SIBSV as of 31 December 2017 (in thousands of euros):

Santander Investment Bolsa, Sociedad de Valores S.A
(in thousand of euros)

ASSETS	2017	LIABILITIES AND EQUITY	2017
Negotiation portfolio	169	Financial liabilities at amortized cost	2,862
Financial assets available for sale	2	Provisions	3,213
Credit investments	174,491	Tax liabilities	72
Active material	40	Remains of liabilities	38,514
Intangible asset	747		
Tax assets	2,481	**TOTAL LIABILITIES**	**44,661**
Other assets	64,995	OWN FUNDS	198,378
		Capital	24,882
		Issuance premium	51,196
		Reservations	1,175,971
		Result of the excersice	6,329
		Adjustments by Valuation	(114)
		TOTAL EQUITY	**198,264**
TOTAL ASSETS	**242,925**	**TOTAL LIABILITIES AND EQUITY**	**242,925**

In accordance with the provisions of the applicable regulations, as a result of the accounting record of this merger by absorption above, carried out by the Bank in 2018, an increase in the Bank's voluntary reserves in said fiscal year was shown. 1 million euros due to the decrease in participation in the absorbed company (See Note 29).

e) Merger by absorption between Banco Santander, S.A. (absorbing company) and Popular de Renting, S.A.U. (as absorbed company)

On 25 June 2018, the members of the Board of Directors of Banco Santander, S.A. y Popular de Renting, S.A.U. ("Popular Renting") drafted and approved the joint merger project between Banco Santander (as an absorbing company) and Popular Renting (as an absorbed company).

Under Articles 49.1 and 51 of the LME, it was not necessary to approve the aforementioned merger by the sole member of Popular Renting, since it is fully owned by Banco Santander, or by the shareholders meeting of Banco Santander, as it is not required by its shareholders in accordance with the provisions of article 51 of the LME.

Likewise, the operation described here constitutes a merger of those regulated in article 76.1.c) of the LIS. The information required in Article 86.1 of the aforementioned Law regarding the merger between Banco Santander and Popular Renting is incorporated into this report (Annex VIII).

Once the mandatory authorization of the Ministry of Economy and Business was obtained (additional provision twelfth of Law 10/2014, of June 26, on supervision and solvency of credit institutions), on 18 December 2018 the corresponding deed was granted of merger, which was submitted for registration in the Mercantile Registry of Cantabria on 28 December 2018 and was registered on 8 January 2019. Accordingly, on the occasion of the registration of this merger, and effective on 28 On December 2018, there was the extinction without liquidation of Popular Renting and the block transfer of all of its assets to Banco Santander, which acquired it by universal succession and without continuity solution. Given that the absorbed company was fully owned by Banco Santander, in accordance with article 49.1, in relation to article 26 of the LME, the Bank did not increase capital. The merger acquired with the aforementioned date of effect, all of the Popular Renting shares were fully amortized, extinguished and canceled.

Those included in the annual accounts corresponding to the year ended 31 December 2017, formulated by the Board of Directors of Banco Santander and Popular Renting and duly verified by their respective auditors.
In accordance with the provisions of the applicable accounting regulations, for accounting purposes, it was set on 1 January 2018 as the date from which Popular Renting operations were to be considered carried out by Banco Santander.

In accordance with article 89.1 of the LIS, the merger described here was subject to the tax regime established in chapter VII of title VII and in the second additional provision of the LIS, as well as in article 45, paragraph IB) 10. of the Royal Legislative Decree 1/1993, of September 24, which approves the Consolidated Text of the Tax on Patrimonial Transmissions and Documented Legal Acts.

Below is the balance sheet of Popular de Renting, S.A.U. as of December 31, 2017 (in thousands of euros):

Popular de Renting S.A
(in thousand of euros)

ASSETS	2017	LIABILITIES AND EQUITY	2017
NON-CURRENT ASSETS	**60,838**	**EQUITY**	**8,043**
Long-term financial investments	60,838	Own funds	8,043
		Capital	3,005
CURRENT ASSETS	**4,420**	Reservations	2,480
Commercial debts and others bills to receive the pay,	293	Results of past exercises	1,382
Short-term financial investments	3,445	Result of the exercise	1,176
Short-term accruals	681		
Cash and other equivalent liquid assets	409	**NON-CURRENT LIABILITIES**	**2,795**
		Long term debts	2,795
		CURRENT LIABILITIES	**54,420**
		Short-term provisions	56
		Short term debts,	1,330
		Debts with group companies and short-term associates	51,254
		Commercial debitors and other accounts payable	1,377
		Short-term accruals	403
TOTAL ASSETS	**65,258**	**TOTAL EQUITY AND LIABILITIES**	**65,258**

In application of the provisions of the applicable regulations, as a result of the accounting record of this operation of merger by absorption indicated above carried out by the Bank in the year 2018, no change in the Bank's voluntary reserves was shown in that year due to the decrease in the share in the absorbed company (Note 29).

j) Events after the reporting period

On 9 January, the Group announced that it had placed contingently convertible preference shares ("PPCC") into newly issued ordinary shares of the Bank, excluding pre emptive rights of its shareholders, for a nominal value of EUR 1,500,000,000.

The placement was carried out at par and the remuneration of the shares, whose payment is subject to certain conditions and is also discretionary, was set at 4.375% on an annual basis for the first six years, being reviewed every five years thereafter by applying a margin of 453.4 basis points ever the five- year Mid-Swap Rate.

On the same date, the Group announced its irrevocable decision to proceed with the voluntary early redemption of the PPCC issue for a nominal amount of EUR 1,500,000,000 made at 12 March 2014.

On 29 January 2020, the Group announced that the Bank`s board of directors. agreed to propose to the next shareholder Bank annual general meeting, that the second payment of the remuneration 2019 profit be made for a total of EUR 0.13 per share by means of:

- The payment in cash of a final dividend of 0.10 euros per share and

- A scrip dividend (in the form of the *Santander Dividendo Elección* programme) which will allow shareholders to receive it in cash, for those who choose this option, EUR 0.03 per share

k) Other information

United Kingdom Referendum

On 31 January 2020 the United Kingdom ceased to be a member of the European Union. The UK and the European Union agreed withdrawal terms which establish a transition period until 31 December 2020. During the transition period (i) the United Kingdom will be treated as if it were still a member of the European Union for trading purposes, (ii) European Union legislation will continue to apply in the United Kingdom and (iii) negotiations on a trade agreement will be conducted, as well as on the extent of legislative and regulatory convergence and regulatory cooperation. The European Union will also carry out regulatory equivalence assessments for financial services. Such assessments, even if positive, do not guarantee that equivalence will be granted. Although the withdrawal agreement foresees the possibility to extend the transition period for two more years after the 31 January 2020, this is not automatic and the United Kingdom has enshrined the 31 December 2020 date in local legislation passing the withdrawal agreement as the end of the transition period, signalling a current desire not to extend it.

Uncertainty remains around the terms of the United Kingdom´s relationship with the European Union at the end of the transition period. If the transition period were to end without a comprehensive trade agreement, the United Kingdom ’s and Europe´s economic growth may be negatively impacted. At the end of the transition period, even if a trade agreement is entered into and/or if equivalence is granted to certain areas of the United Kingdom ’s financial services, contingency measures may still be necessary in certain economic or financial matters to avoid uncertainty and adverse economic effects and there will be some changes in the products and services that Santander United Kingdom can continue to offer into the European Economic Area (EEA) and to EEA residents or EEA incorporated entities. Where possible, Santander UK would look to service such EEA customers from Banco Santander S.A. instead.

2. Accounting policies

The accounting policies applied in preparing the financial statements were as follows:

a) Foreign currency transactions

The Bank's functional and presentation currency is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in foreign currency.

The balances in the financial statements whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities, at the closing rates.

- Income and expenses, at the average exchange rates for the year.

- Equity items, at the historical exchange rates.

The exchange differences arising on the translation of foreign currency balances to the functional currency are generally recognised at their net amount under Exchange differences in the income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised in the income statement without distinguishing them from other changes in fair value, and for exchange differences arising on non-monetary items measured at fair value through equity, which are recognised under Other comprehensive income–Items that may be reclassified to profit or loss–Exchange differences (except for exchange differences on equity instruments, where the option to irrevocably elect to be measured at fair value through changes in accumulated other comprehensive income, which are recognised in accumulated other comprehensive income - Items not to be reclassified to profit or loss - Changes in fair value of equity instruments measured at fair value through other comprehensive income. (See note 25).

b) Investments in subsidiaries, joint ventures and associates

Subsidiaries are defined as entities over which the Bank has the capacity to exercise control. The Bank controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Joint ventures are deemed to be entities that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more parties have interests in entities so that decisions about the relevant activities require the unanimous consent of all the parties sharing control.

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control. Significant influence generally exists when the Bank holds 20% or more of the voting power of the investee.

Investments in subsidiaries, jointly controlled entities and associates are presented in the balance sheet at acquisition cost, net of any impairment losses.

When there is evidence of impairment of these investments, the amount of the related impairment loss is equal to the difference between the carrying amount of the investments and their recoverable amount. Impairment losses are recognised with a charge to Impairment losses on other assets (net) - Other assets in the income statement.

At 31 December 2019 the Bank controls the following company in which it holds an ownership interest of less than 50% of the share capital, Luri 1, S.A..The percentage ownership interest in the aforementioned company is 46% (See Appendix I). Although the Bank holds less than half the voting power, it manages and, as a result, exercises control over this entity. The company´s corporate purpose for the entity is the acquisition of real estate and other general operations relating thereto, including rental, and the purchase and sale of properties; the company object of the latter entity is the provision of payment services.

Appendices I and II contain significant information on these companies. In addition, Note 13 provides information on the most significant acquisitions and disposals in 2019 and 2018.

c) Definitions and classification of financial instruments

i. Definitions

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

An equity instrument is a contract that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A financial derivative is a financial instrument whose value changes in response to the change in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price, market index or credit rating), whose initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

Hybrid financial instruments are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

Compound financial instruments are contracts that simultaneously create for their issuer a financial liability and an own equity instrument (such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer).

The preference shares contingently convertible into ordinary shares eligible as *Additional Tier 1* capital ("CCPSs") - perpetual shares, which may be repurchased by the issuer in certain circumstances, the interest on which is discretionary, and would convert into variable number of newly issued ordinary shares if the capital ratio of the Bank or its consolidated group falls below a given percentage (*trigger event*), as those two terms are defined in the related issue prospectuses- are recognised for accounting purposes by the Bank as compound instruments. The liability component reflects the issuer's obligation to deliver a variable number of shares and the equity component reflects the issuer's discretion in relation to the payment of the related coupons. In order to effect the initial allocation, the Bank estimates the fair value of the liability as the amount that would have to be delivered if the trigger event were to occur immediately and, accordingly, the equity component, calculated as the residual amount, is zero. In view of the aforementioned discretionary nature of the payment of the coupons, they are deducted directly from equity.

Capital perpetual preference shares ("CPPSs"), with the possibility of purchase by the issuer in certain circumstances, whose remuneration is discretionary, and which will be amortised permanently, totally or partially, in the event that the Bank or its consolidated group submits a capital ratio lesser than a certain percentage (*trigger event*), as defined in the corresponding prospectuses, are accounted for by the Bank as equity instruments.

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates and joint ventures (see Note 13).

- Rights and obligations under employee benefit plans (see Note 23).

- Rights and obligations under insurance contracts (see Note 14).

- Contracts and obligations relating to employee remuneration based on own equity instruments (see Note 30).

ii. Classification of financial assets for measurement purposes

Financial assets are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as Non-current assets held for sale or they relate to Cash, cash balances at central banks and other deposits on demand, Changes in the fair value of hedged items in portfolio hedges of interest rate risk (asset side), Hedging derivatives and Investments, which are reported separately.

Classification of financial instruments: the classification criteria for financial assets depends on the business model for their management and the characteristics of their contractual flows.

The Bank's business models refer to the way in which it manages its financial assets to generate cash flows. In defining these models, the Bank takes into account the following factors:

- How key management staff are assessed and reported on the performance of the business model and the financial assets held in the business model.

- The risks that affect the performance of the business model (and the financial assets held in the business model) and, specifically, the way in which these risks are managed.

- How business managers are remunerated.

- The frequency and volume of sales in previous years, as well as expectations of future sales.

The analysis of the characteristics of the contractual flows of financial assets requires an assessment of the congruence of these flows with a basic loan agreement. The Bank determines if the contractual cash flows of its financial assets that are only principal and interest payments on the outstanding principal amount at the beginning of the transaction. This analysis takes into consideration four factors (performance, clauses, contractually linked products and currencies). Furthermore, among the most significant judgements used by the Bank in carrying out this analysis, the following ones are included:

- The return on the financial asset, in particular in cases of periodic interest rate adjustments where the term of the reference rate does not coincide with the frequency of the adjustment. In these cases, an assessment is made to determine whether or not the contractual cash flows differ significantly from the flows without this change in the time value of money, establishing a tolerance level of 2%.

- The contractual clauses that may modify the cash flows of the financial asset, for which the structure of the cash flows before and after the activation of such clauses is analysed.

- Financial assets whose cash flows have different priority for payment due to a contractual link to underlying assets (e.g. securitisations) require a look-through analysis by the Bank so as to review that both the financial asset and the underlying assets are only principal and interest payments and that the exposure to credit risk of the set of underlying assets belonging to the tranche analysed is less than or equal to the exposure to credit risk of the set of underlying assets of the instrument.

Depending on these factors, the asset can be measured at amortised cost, at fair value with changes in other comprehensive income, or at fair value with changes through profit and loss. Bank of Spain Circular 4/2017 also establishes an option to designate an instrument at fair value with changes in profit or loss, when doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'accounting asymmetry') that would otherwise arise from measuring assets or liabilities or recognising gains and losses on different bases. The Bank uses the following criteria for the classification of financial debt instruments:

- Amortized cost: financial instruments under a business model whose objective is to collect principal and interest flows, over which there is no significant unjustified sales and fair value is not a key element in the management of these assets and contractual conditions they give rise to cash flows on specific dates, which are only payments of principal and interest on the outstanding principal amount. In this sense, unjustified sales are considered to be those other than those related to an increase in the credit risk of the asset, unanticipated funding needs (stress case scenarios). Additionally, the characteristics of its contractual flows represent substantially a "basic financing agreement".

- Fair value with changes in other comprehensive income: financial instruments held in a business model whose objective is to collect principal and interest cash flows and the sale of these assets, where fair value is a key factor in their management. Additionally, the contractual cash flow characteristics substantially represent a “basic financing agreement”.

- Fair value with changes in profit or loss: financial instruments included in a business model whose objective is not obtained through the above mentioned models, where fair value is a key factor in managing of these assets, and financial instruments whose contractual cash flow characteristics do not substantially represent a “basic financing agreement”. In this section it can be enclosed the portfolios classified under “Financial assets held for trading”, “Non-trading financial assets mandatorily at fair value through profit or loss” and “Financial assets at fair value through profit or loss”. In this regard, the most of the financial assets presented in the category of "Financial assets designated at value reasonable with change in results" are instruments financial services that, not being part of the portfolio of negotiation, are contracted jointly with other financial instruments that are recorded in the category of "held for trading", and that by both are recorded at fair value with changes in results, so your record in any other category would produce accounting asymmetries.

Equity instruments will be classified at fair value under Bank of Spain Circular 4/2017, with changes in profit or loss, unless the Bank decides, for non-trading assets, to classify them at fair value with changes in other comprehensive income (irrevocably) in the initial moment.

iii. Classification of financial assets for presentation purposes

Financial assets are classified by nature into the following items in the balance sheet:

- Cash, cash balances at Central Banks and other deposits on demand: cash balances and balances receivable on demand relating to deposits with central banks and credit institutions.

- Loans and advances: includes the debit balances of all credit and loans granted by the Bank, other than those represented by securities, as well as finance lease receivables and other debit balances of a financial nature in favour of the Bank, such as cheques drawn on credit institutions, balances receivable from clearing houses and settlement agencies for transactions on the stock exchange and organised markets, bonds given in cash, capital calls, fees and commissions receivable for financial guarantees and debit balances arising from transactions not originating in banking transactions and services, such as the collection of rentals and similar items. They are classified, on the basis of the institutional sector to which the debtor belongs, into:

    - Central banks: credit of any nature, including deposits and money market operations received from the Bank of Spain or other central banks.

    - Credit institutions: credit of any nature, including deposits and money market operations, in the name of credit institutions.

    - Customers: includes the remaining credit, including money market operations through central counterparties.

- Debt instruments: bonds and other securities that represent a debt for their issuer, that generate an interest return, and that are in the form of certificates or book entries.

- Equity instruments: financial instruments issued by other entities, such as shares, which have the nature of equity instruments for the issuer, other than investments in subsidiaries, joint ventures or associates. Investment fund units are included in this item.

- Derivatives: includes the fair value in favour of the Bank of derivatives which do not form part of hedge accounting, including embedded derivatives separated from hybrid financial instruments.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts credited to the income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: Includes the fair value in favour of the Bank of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

iv. Classification of financial liabilities for measurement purposes

Financial liabilities are initially classified into the various categories used for management and measurement purposes, unless they have to be presented as Liabilities associated with non-current assets held for sale or they relate to Hedging derivatives or Changes in the fair value of hedged items in portfolio hedges of interest rate risk (liability side), which are reported separately.

Bank of Spain Circular 4/2017 and subsequent amendments stablish the classification and measurement criteria of financial liabilities. In most cases, the changes in the fair value of financial liabilities designated at fair value with changes recognised through profit or loss for the year, due to the entity credit risk, are classified under other comprehensive income.

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Financial liabilities are included for measurement purposes in one of the following categories:

- Financial liabilities held for trading (at fair value through profit or loss): this category includes financial liabilities incurred for the purpose of generating a profit in the near term from fluctuations in their prices, financial derivatives not designated as hedging instruments, and financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements ("reverse repos") or borrowed (short positions).

- Financial liabilities designated at fair value through profit or loss: financial liabilities are included in this category when they provide more relevant information, either because this eliminates or significantly reduces recognition or measurement inconsistencies (accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases, or because a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided on that basis to the Bank's key management personnel. Liabilities may only be included in this category on the date when they are incurred or originated.

- Financial liabilities at amortised cost: financial liabilities, irrespective of their instrumentation and maturity, not included in any of the above-mentioned categories which arise from the ordinary borrowing activities carried on by financial institutions.

v. Classification of financial liabilities for presentation purposes

Financial liabilities are classified by nature into the following items in the balance sheet:

- Deposits: includes all repayable balances received in cash by the Group, other than those instrumented as marketable securities and those having the substance of subordinated liabilities (amount of the loans received, which for credit priority purposes are after common creditors), except for the debt instruments. This item also includes cash bonds and cash consignments received the amount of which may be invested without restriction. Deposits are classified on the basis of the creditor's institutional sector into:

  - Central banks: deposits of any nature, including credit received and money market transactions received from the Bank of Spain or other central banks.

  - Credit institutions: deposits of any nature, including credit received and money market transactions in the name of credit institutions.

  - Customer: includes the remaining deposits, including money market transactions through central counterparties.

- Marketable debt securities: includes the amount of bonds and other debt represented by marketable securities, other than those having the substance of subordinated liabilities (amount of the loans received, which for credit priority purposes are after common creditors, and includes the amount of the financial instruments issued by the Bank which, having the legal nature of capital, do not meet the requirements to qualify as equity, such as certain preferred shares issued). This item includes the component that has the consideration of financial liability of the securities issued that are compound financial instruments.

- Derivatives: includes the fair value, with a negative balance for the Bank, of derivatives, including embedded derivatives separated from the host contract, which do not form part of hedge accounting.

- Short positions: includes the amount of financial liabilities arising from the outright sale of financial assets acquired under reverse repurchase agreements or borrowed.

- Other financial liabilities: includes the amount of payment obligations having the nature of financial liabilities not included in other items, and liabilities under financial guarantee contracts, unless they have been classified as non-performing.

- Changes in the fair value of hedged items in portfolio hedges of interest rate risk: this item is the balancing entry for the amounts charged to the income statement in respect of the measurement of the portfolios of financial instruments which are effectively hedged against interest rate risk through fair value hedging derivatives.

- Hedging derivatives: includes the fair value of the Bank's liability in respect of derivatives, including embedded derivatives separated from hybrid financial instruments, designated as hedging instruments in hedge accounting.

d) Measurement of financial assets and liabilities and recognition of fair value changes

In general, financial assets and liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be the transaction price.

The fair value of instruments not measured at fair value through profit and loss is adjusted by transaction costs. Subsequently, and on the occasion of each accounting close, they are valued in accordance with the following criteria:

i. Measurement of financial assets

Financial assets are measured at fair value are valued mainly at their fair value without deducting any transaction cost for their sale.

The fair value of a financial instrument on a given date is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market (quoted price or market price). At 31 December 2019 there were no significant investments in quoted financial instruments that had ceased to be recognised at their quoted price because their market could not be deemed to be active.

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

All derivatives are recognised in the balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. The changes in the fair value of derivatives from the trade date are recognised in Gains/losses on financial assets and liabilities held for trading (net) in the income statement. Specifically, the fair value of financial derivatives traded in organised markets included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement (present value or theoretical close) using valuation techniques commonly used by the financial markets: net present value (NPV), option pricing models and other methods.

The amount of debt securities and loans and advances under a business model whose objective is to collect the principal and interest flows are valued at their amortised cost, using the effective interest rate method in their determination. Amortised cost refers to the acquisition cost of a corrected financial asset or liability (more or less, as the case may be) for repayments of principal and the part systematically charged to the income statement of the difference between the initial cost and the corresponding reimbursement value at expiration. In the case of financial assets, the amortised cost includes, in addition, the corrections to their value due to the impairment. In the loans and advances covered in fair value hedging transactions, the changes that occur in their fair value related to the risk or the risks covered in these hedging transactions are recorded.

The effective interest rate is the discount rate that exactly matches the carrying amount of a financial instrument to all its estimated cash flows of all kinds over its remaining life. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees and transaction costs that, because of their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing in all connections until the next benchmark interest reset date.

Equity instruments and contracts related with these instruments are measured at fair value. However, in certain circumstances the Bank estimates cost value as a suitable estimate of the fair value. This can happen if the recent event available information is not enough to measure the fair value or if there is a broad range of possible measures and the cost value represents the best estimates of fair value within this range.

The amounts at which the financial assets are recognised represent, in all material respects, the Bank´s maximum exposure to credit risk at each reporting date. Also, the Bank has received collateral and other credit enhancements to mitigate its exposure to credit risk, which consist mainly of mortgage guarantees, cash collateral, equity instruments and personal security, assets leased out under finance lease and full-service lease agreements, assets acquired under repurchase agreements, securities loans and credit derivatives.

ii. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under Financial liabilities held for trading and Financial liabilities designated at fair value through profit or loss and financial liabilities designated as hedged items (or hedging instruments) in fair value hedges, which are measured at fair value. The changes in credit risk arising from financial liabilities designated at fair value through profit or loss are recognised in accumulated other comprehensive income, unless they generate or increase an accounting mismatch, in which case changes in the fair value of the financial liability in all respects are recognised in the income statement.

iii. Valuation techniques

The following table shows a summary of the fair values, at the end of 2019 and 2018 of the financial assets and liabilities indicated below, classified on the basis of the various measurement methods used by the Group to determine their fair value:

	Million euros					
	2019			2018		
	Published price quotations in active Markets (Level 1)	Internal Models (Lvel 2 and 3)	**Total**	Published price quotations in active Markets (Level 1)	Internal Models (Level 2 and 3)	**Total**
Financial assets held for trading	44,581	63,649	**108,230**	37,108	55,771	**92,879**
Non-trading financial assets mandatorily at fair value through profit or loss	1,530	3,381	**4,911**	1,835	8,895	**10,730**
Financial assets designated at fair value through profit or loss	2,572	59,497	**62,069**	3,102	54,358	**57,460**
Financial assets at fair value through other comprehensive income	103,089	22,619	**125,708**	103,590	17,501	**121,091**
Hedging derivatives (assets)	-	7,216	**7,216**	-	8,607	**8,607**
Financial liabilities held for trading	9,781	67,358	**77,139**	16,104	54,239	**70,343**
Financial liabilities designated at fair value through profit or loss	1,484	59,511	**60,995**	987	67,071	**68,058**
Hedging derivatives (liabilities)	-	6,048	**6,048**	5	6,358	**6,363**
Liabilities under insurance contracts	-	739	**739**	-	765	**765**

The same information in the table above, but referred to Banco Santander, S.A. it is presented below:

	31/12/2019			31/12/2018		
	Published price quotations in active Markets (Level 1)	Internal Models (Level 2 and 3)	Total	Published price quotations in active Markets (Level 1)	Internal Models (Level 2 and 3)	Total
Financial assets held for trading	30,858	55,725	**86,583**	18,961	51,864	**70,825**
Non-trading financial assets mandatorily at fair value through profit or loss	45	2,574	**2,619**	41	3,710	**3,751**
Financial assets designated at fair value through profit or loss	-	49,859	**49,859**	-	41,326	**41,326**
Financial assets at fair value through other comprehensive income	26,512	5,515	**32,027**	33,492	2,423	**35,915**
Hedging derivatives (assets)	-	2,226	**2,226**	-	2,108	**2,108**
Financial liabilities held for trading	9,190	55,166	**64,356**	7,399	50,622	**58,021**
Financial liabilities designated at fair value through profit or loss	-	24,264	**24,264**	-	35,079	**35,079**
Hedging derivatives (liabilities)	-	2,044	**2,044**	-	3,506	**3,506**

The financial instruments at fair value determined on the basis of published price quotations in active markets (Level 1) include government debt securities, private-sector debt securities, derivatives traded in organised markets, securitised assets, shares, short positions and fixed-income securities issued.

In cases where price quotations cannot be observed, management makes its best estimate of the price that the market would set, using its own internal models. In most cases, these internal models use data based on observable market parameters as significant inputs (Level 2) and, in cases, they use significant inputs not observable in market data (Level 3). In order to make these estimates, various techniques are employed, including the extrapolation of observable market data. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, unless the fair value of the instrument can be obtained from other market transactions performed with the same or similar instruments or can be measured by using a valuation technique in which the variables used include only observable market data, mainly interest rates.

The Group, to which Banco Santander belongs to, has developed a formal process for the systematic valuation and management of financial instruments, which has been implemented worldwide across all the Group's units. The governance scheme for this process distributes responsibilities between two independent divisions: Treasury (development, marketing and daily management of financial products and market data) and Risk (on a periodic basis, validation of pricing models and market data, computation of risk metrics, new transaction approval policies, management of market risk and implementation of fair value adjustment policies).

The approval of new products follows a sequence of steps (request, development, validation, integration in corporate systems and quality assurance) before the product is brought into production. This process ensures that pricing systems have been properly reviewed and are stable before they are used.

The following subsections set forth the most important products and families of derivatives, and the related valuation techniques and inputs, by asset class:

Fixed income and inflation

The fixed income asset class includes basic instruments such as interest rate forwards, interest rate swaps and cross currency swaps, which are valued using the net present value of the estimated future cash flows discounted taking into account basis swap and cross currency spreads determined on the basis of the payment frequency and currency of each leg of the derivative. Vanilla options, including caps, floors and swaptions, are priced using the Black-Scholes model, which is one of the benchmark industry models. More exotic derivatives are priced using more complex models which are generally accepted as standard across institutions.

These pricing models are fed with observable market data such as deposit interest rates, futures rates, cross currency swap and constant maturity swap rates, and basis spreads, on the basis of which different yield curves, depending on the payment frequency, and discounting curves are calculated for each currency. In the case of options, implied volatilities are also used as model inputs. These volatilities are observable in the market for cap and floor options and swaptions, and interpolation and extrapolation of volatilities from the quoted ranges are carried out using generally accepted industry models. The pricing of more exotic derivatives may require the use of non-observable data or parameters, such as correlation (among interest rates and cross-asset), mean reversion rates and prepayment rates, which are usually defined from historical data or through calibration.

Inflation-related assets include zero-coupon or year-on-year inflation-linked bonds and swaps, valued with the present value method using forward estimation and discounting. Derivatives on inflation indices are priced using standard or more complex bespoke models, as appropriate. Valuation inputs of these models consider inflation-linked swap spreads observable in the market and estimations of inflation seasonality, on the basis of which a forward inflation curve is calculated. Also, implied volatilities taken from zero-coupon and year-on-year inflation options are also inputs for the pricing of more complex derivatives.

Equity and foreign exchange

The most important products in these asset classes are forward and futures contracts; they also include vanilla, listed and OTC (Over-The-Counter) derivatives on single underlying assets and baskets of assets. Vanilla options are priced using the standard Black-Scholes model and more exotic derivatives involving forward returns, average performance, or digital, barrier or callable features are priced using generally accepted industry models or bespoke models, as appropriate. For derivatives on illiquid stocks, hedging takes into account the liquidity constraints in models.

The inputs of equity models consider yield curves, spot prices, dividends, asset funding costs (repo margin spreads), implied volatilities, correlation among equity stocks and indices, and cross-asset correlation. Implied volatilities are obtained from market quotes of European and American-style vanilla call and put options. Various interpolation and extrapolation techniques are used to obtain continuous volatility for illiquid stocks. Dividends are usually estimated for the mid and long term. Correlations are implied, when possible, from market quotes of correlation-dependent products. In all other cases, proxies are used for correlations between benchmark underlyings or correlations are obtained from historical data.

The inputs of foreign exchange models include the yield curve for each currency, the spot foreign exchange rate, the implied volatilities and the correlation among assets of this class. Volatilities are obtained from European call and put options which are quoted in markets as of-the-money, risk reversal or butterfly options. Illiquid currency pairs are usually handled by using the data of the liquid pairs from which the illiquid currency can be derived. For more exotic products, unobservable model parameters may be estimated by fitting to reference prices provided by other non-quoted market sources.

Credit

The most common instrument in this asset class is the credit default swap (CDS), which is used to hedge credit exposure to third parties. In addition, models for first-to-default (FTD), n-to-default (NTD) and single-tranche collateralised debt obligation (CDO) products are also available. These products are valued with standard industry models, which estimate the probability of default of a single issuer (for CDS) or the joint probability of default of more than one issuer for FTD, NTD and CDO.

Valuation inputs are the yield curve, the CDS spread curve and the recovery rate. For indices and important individual issuers, the CDS spread curve is obtained in the market. For less liquid issuers, this spread curve is estimated using proxies or other credit-dependent instruments. Recovery rates are usually set to standard values. For listed single-tranche CDO, the correlation of joint default of several issuers is implied from the market. For FTD, NTD and bespoke CDO, the correlation is estimated from proxies or historical data when no other option is available.

Valuation adjustment for counterparty risk or default risk

The Credit valuation adjustment (CVA) is a valuation adjustment to OTC derivatives as a result of the risk associated with the credit exposure assumed to each counterparty.

The CVA is calculated taking into account potential exposure to each counterparty in each future period. The CVA for a specific counterparty is equal to the sum of the CVA for all the periods. The following inputs are used to calculate the CVA:

- Expected exposure: including for each transaction the mark-to-market (MtM) value plus an add-on for the potential future exposure for each period. Mitigating factors such as collateral and netting agreements are taken into account, as well as a temporary impairment factor for derivatives with interim payments.

- Loss Given Default: percentage of final loss assumed in a counterparty credit event/default.

- Probability of default: for cases where there is no market information (the CDS quoted spread curve, etc.), proxies based on companies holding exchange-listed CDS, in the same industry and with the same external rating as the counterparty, are used.

- Discount factor curve.

The debit valuation adjustment (DVA) is a valuation adjustment similar to the CVA but, in this case, it arises as a result of the Group's own risk assumed by its counterparties in OTC derivatives.

The CVA at 31 December 2019 amounted to EUR 272 million (resulting in a reduction of 22.5% compared to 31 December 2018) and DVA amounted to EUR 171 million (resulting in a reduction of 34.6% compared to 31 December 2018). The variations are due to the fact that credit spreads for the most liquid maturities have been decreased in percentages over 40%.

The CVA at 31 December 2018 amounted to EUR 351 million (8.8% compared to 31 December 2017) and DVA amounted EUR 261 million (18.9%). The changes were due to the increase in credit spreads of more than 30% in the most liquid terms.

With respect to Banco Santander, at the end of December 2019, has recorded CVA adjustments worth EUR 200.9 million and DVA adjustments worth EUR 55.2 million. The decrease is due to the fact that credit spreads have been reduced in percentages greater than 40% in the most liquid terms and reductions in the exposure of the main counterparts.

In addition, the Group amounts the funding fair value adjustment (FFVA) is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The FFVA impact is not material for the consolidated financial statements as of 31 December 2019 and 2018.

As a result of the first application of IFRS9, the exposure at 1 January 2018, in level 3 financial instruments, increased by EUR 2,183 million, mainly for loans and receivables, arising from new requirements regarding the classification and measurement of amortised cost items at other fair value items whose value is calculated using unobservable market inputs (see note 1.b).

The Group has not carried out significant reclassifications of financial instruments between levels other than those disclosed in level 3 movement table during 2019 and 2018.

In 2019, the Group has reclassified financial instruments amounting to EUR 708 million (net) between levels 2 and 3 (mainly due to the reclassifications to level 2 of positions, both derivatives and debt instruments, with maturities for which are already observable valuation inputs or for which new sources of recurring prices have be en accessed; and to level 3 of certain government bonds in Brazil which, based on the Group's observability criteria, do not meet the requirements to be considered as observable inputs).

Regarding Banco Santander, S.A., during 2019 there have been no reclassifications of financial instruments at Level 3 of relevant importation. As of 31 December 2019, the financial instruments classified in Level 3 in Banco Santander, S.A. amount to EUR 4,694 million.

In 2018, the Group reclassified the market value of certain transactions of bonds, long-term repos and derivatives for approximately EUR 1,300 million, due to the lack of liquidity in certain significant inputs used in the calculation of the fair value.

Valuation adjustments due to model risk

The valuation models described above do not involve a significant level of subjectivity, since they can be adjusted and recalibrated, where appropriate, through internal calculation of the fair value and subsequent comparison with the related actively traded price. However, valuation adjustments may be necessary when market quoted prices are not available for comparison purposes.

The sources of risk are associated with uncertain model parameters, illiquid underlying issuers, and poor quality market data or missing risk factors (sometimes the best available option is to use limited models with controllable risk). In these situations, the Bank calculates and applies valuation adjustments in accordance with common industry practice. The main sources of model risk are described below:

- In the fixed income markets, the sources of model risk include bond index correlations, basis spread modelling, the risk of calibrating model parameters and the treatment of near-zero or negative interest rates. Other sources of risk arise from the estimation of market data, such as volatilities or yield curves, whether used for estimation or cash flow discounting purposes.

- In the equity markets, the sources of model risk include forward skew modelling, the impact of stochastic interest rates, correlation and multi-curve modelling. Other sources of risk arise from managing hedges of digital callable and barrier option payments. Also worthy of consideration as sources of risk are the estimation of market data such as dividends and correlation for quanto and composite basket options.

- For specific financial instruments relating to home mortgage loans secured by financial institutions in the UK (which are regulated and partially financed by the Government) and property asset derivatives, the main input is the Halifax House Price Index (HPI). In these cases, risk assumptions include estimations of the future growth and the volatility of the HPI, the mortality rate and the implied credit spreads.

- Inflation markets are exposed to model risk resulting from uncertainty around modelling the correlation structure among various CPI rates. Another source of risk may arise from the bid-offer spread of inflation-linked swaps.

- The currency markets are exposed to model risk resulting from forward skew modelling and the impact of stochastic interest rate and correlation modelling for multi-asset instruments. Risk may also arise from market data, due to the existence of specific illiquid foreign exchange pairs.

- The most important source of model risk for credit derivatives relates to the estimation of the correlation between the probabilities of default of different underlying issuers. For illiquid underlying issuers, the CDS spread may not be well defined.

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Set forth below are the financial instruments at fair value whose measurement was based on internal models (Levels 2 and 3) at 31 December 2019 and 2018:

	Million euros			
	Fair values calculated using internal models at 2019 (*)			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**149,711**	**6,651**		
Financial assets held for trading	**63,051**	**598**		
Credit institutions	-	-	Present value method	Yield curves, FX market prices
Customers (**)	355	-	Present value method	Yield curves, FX market prices
Debt and equity instruments	760	65	Present value method	Yield curves, FX market prices
Derivatives	61,936	533		
Swaps	*51,594*	*182*	Present value method, Gaussian Copula (***)	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*469*	*8*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*3,073*	*177*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*190*	-	Present value method	Yield curves, FX market prices
Index and securities options	*1,164*	*95*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX & EQ marketprices, Dividends, Liquidity
Other	*5,446*	*71*	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Liquidity, Others
Hedging derivatives	**7,216**	-		
Swaps	*6,485*	-	Present value method	FX market prices, Yield curves, Basis
Interest rate options	*25*	-	Black's Model	FX market prices, Yield curves, Volatility surfaces
Other	*706*	-	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, HPI, Credit, Others
Non-trading financial assets mandatorily at fair value through profit or loss	**1,780**	**1,601**		
Equity instruments	1,272	550	Present value method	Yield curves, FX market prices, Basis
Debt instruments	498	675	Present value method	Yield curves, FX market prices, Volatility surfaces
Loans and receivables (**)	10	376	Present value method, swap asset model & CDS	Yield curves, Volatility surfaces, FX market prices,Credit, Liquidity, Others
Financial assets designated at fair value through profit or loss	**58,833**	**664**		
Central banks	6,474	-	Present value method	Interest rates curves, FX market prices
Credit institutions	21,598	50	Present value method	Interest rates curves, FX market prices
Customers	30,729	32	Present value method	Interest rates curves, FX market prices, HPI
Debt instruments	32	582	Present value method	Interest rates curves, FX market prices
Financial assets at fair value through other comprehensive income	**18,831**	**3,788**		
Equity instruments	98	407	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	17,486	188	Present value method	Interest rates curves, FX market prices
Loans and receivables	1,247	3,193	Present value method	Interest rates curves, FX market prices and Credit curves
LIABILITIES	**132,582**	**1,074**		
Financial liabilities held for trading	**67,068**	**290**		
Central banks	-	-	Present value method	Yield curves, FX market prices
Credit institutions	-	-	Present value method	Yield curves, FX market prices
Customers	-	-	Present value method	Yield curves, FX market prices
Derivatives	61,789	290		
Swaps	*49,927*	*115*	Present value method, Gaussian Copula (***)	Yield curves, FX market prices, Basis, Liquidity, HPI
Exchange rate options	*658*	*1*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*4,291*	*34*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*1,309*	*88*	Black-Scholes Model	Yield curves, FX market prices
Interest rate and equity futures	*20*	*2*	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Other	*5,584*	*50*	Present value method, Advanced stochastic volatility models	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Short positions	5,279	-	Present value method	Yield curves ,FX & EQ market prices, Equity
Hedging derivatives	**6,048**	-		
Swaps	*4,737*	-	Present value method	Yield curves ,FX & EQ market prices, Basis
Interest rate options	*10*	-	Black's Model	Yield curves , Volatility surfaces, FX market prices, Liquidity
Other	*1,301*	-	Present value method, Advanced stochastic volatility models and other	Yield curves , Volatility surfaces, FX market prices, Credit, Liquidity, Other
Financial liabilities designated at fair value through profit or loss	**58,727**	**784**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	**739**	-	Present Value Method with actuarial techniques	Mortality tables and interest rate curves

(*) Level 2 internal models use data based on observable market parameters, while level 3 internal models use significant non-observable inputs in market data.

(**) Includes mainly short-term loans and reverse repurchase agreements with corporate customers (mainly brokerage and investment companies).

(***) Includes credit risk derivatives with a net fair value of EUR -6 million at 31 December 2019 (31 December 2018 and 2017: net fair value of EUR 0 million and EUR 0 million, respectively). These assets and liabilities are measured using the Standard Gaussian Copula Model.

	Million euros Fair values calculated using internal models at 2018 (*)		
	Level 2	Level 3	Valuation techniques
ASSETS:	**140,659**	**4,473**	
Financial assets held for trading	**55,033**	**738**	
Credit institutions	-	-	Present value method
Customers (**)	205	-	Present value method
Debt and equity instruments	314	153	Present value method
Derivatives	54,514	585	
Swaps	*44,423*	*185*	Present value method, Gaussian Copula (***)
Exchange rate options	*617*	*2*	Black-Scholes Model
Interest rate options	*3,778*	*149*	Black's Model, multifactorial advanced models interest rate
Interest rate futures	*-*	*-*	Present value method
Index and securities options	*1,118*	*198*	Black's Model, multifactorial advanced models interest rate
Other	*4,578*	*51*	Present value method, Advanced stochastic volatility models and other
Hedging derivatives	**8,586**	**21**	
Swaps	*7,704*	*21*	Present value method
Interest rate options	*20*	*-*	Black's Model
Other	*862*	*-*	Present value method, Advanced stochastic volatility models and other
Non-trading financial assets mandatorily at fair value through profit or loss	**7,492**	**1,403**	
Equity instruments	985	462	Present value method
Debt instruments	5,085	481	Present value method
Loans and receivables (**)	1,422	460	Present value method, swap asset model & CDS
Financial assets designated at fair value through profit or loss	**53,482**	**876**	
Central banks	9,226	-	Present value method
Credit institutions	22,897	201	Present value method
Customers (****)	21,355	560	Present value method
Debt instruments	4	115	Present value method
Financial assets at fair value through other comprehensive income	**16,066**	**1,435**	
Equity instruments	455	581	Present value method
Debt instruments	14,699	165	Present value method
Loans and receivables	912	689	Present value method
LIABILITIES	**127,991**	**442**	
Financial liabilities held for trading	**53,950**	**289**	
Central banks	-	-	Present value method
Credit institutions	-	-	Present value method
Customers	-	-	Present value method
Derivatives	53,950	289	
Swaps	*43,489*	*111*	Present value method, Gaussian Copula (***)
Exchange rate options	*610*	*7*	Black-Scholes Model
Interest rate options	*4,411*	*26*	Black's Model, Heath-Jarrow- Morton Model
Index and securities options	*1,233*	*143*	Black-Scholes Model
Interest rate and equity futures	*7*	*-*	Present value method
Other	*4,200*	*2*	Present value method, Advanced stochastic volatility models and other
Short positions	-	-	Present value method
Hedging derivatives	**6,352**	**6**	
Swaps	*5,868*	*6*	Present value method
Interest rate options	*158*	*-*	Black's Model
Other	*326*	*-*	Present value method, Advanced stochastic volatility models and other
Financial liabilities designated at fair value through profit or loss	**66,924**	**147**	Present value method
Liabilities under insurance contracts	**765**	**-**	

(*) Level 2 internal models use data based on observable market parameters, while level 3 internal models use significant non-observable inputs in market data.

(**) Includes mainly short-term loans and reverse repurchase agreements with corporate customers (mainly brokerage and investment companies).

(***) Includes credit risk derivatives with a net fair value of EUR -6 million at 31 December 2019 (31 December 2018 and 2017: net fair value of EUR 0 million and EUR 0 million, respectively). These assets and liabilities are measured using the Standard Gaussian Copula Model.

(****) Includes home mortgage loans to financial institutions in the UK (which are regulated and partly financed by the Government). The fair value of these loans was obtained using observable market variables, including current market transactions with similar amounts and collateral facilitated by the UK Housing Association. Since the Government is involved in these financial institutions, the credit risk spreads have remained stable and are homogeneous in this sector. The results arising from the valuation model are checked against current market transactions.

The same information from the previous table, but referred to Banco Santander, S.A., is presented below:

	Millions of euros			
	Fair values calculated using internal models at 31/12/19			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**111,852**	**4,047**		
Financial assets held for trading	**55,276**	**449**		
Credit institutions	-	-	Present value method	Yield curves, FX market prices
Customers	98	-	Present value method	Yield curves, FX market prices
Debt and equity instruments	833	36	Present value method	Yield curves, FX market prices
Derivatives	54,345	413		
Swaps	*46,932*	*404*	Present value method, Gaussian Copula	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*4,476*	*5*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*2,160*	*2*	Black’s Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*52*	-	Present value method	Yield curves, FX market prices
Index and securities options	*619*	-	Black’s Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Liquidity
Other	*106*	*2*	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Correlation, HPI, Credit, Others
Hedging derivatives	**2,222**	**4**		
Swaps	*1,918*	*4*	Present value method	Yield curves, FX market prices, Basis
Exchange rate options	*254*	-	Black´s Model	Yield curves, FX market prices, Volatility surfaces
Interest rate options	*10*	-	Black´s Model	Yield curves, FX market prices, Volatility surfaces
Other	*40*	-	Present value method, Modelos de volatilidad estocásticos avanzados y otros	Yield curves, Volatility surfaces, FX marketprices, Credit, Liquidity, Others
Non-trading financial assets mandatorily at fair value through profit or loss	**1,954**	**620**		
Equity instruments	62	137	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	629	457	Present value method	Interest rates curves
Loans and receivables	1,263	26	Present value method. Swap asset model & CDS	Interest rates curves and Credit curves
Financial assets designated at fair value through profit or loss	**49,809**	**50**		
Central banks	138	-	Present value method	Interest rates curves, FX market prices
Credit institutions	18,493	50	Present value method	Interest rates curves, FX market prices
Customers	31,178	-	Present value method	Interest rates curves, FX market prices, HPI
Debt instruments	-	-	Present value method	Interest rates curves, FX market prices
Financial assets at fair value through other comprehensive income	**2,591**	**2,924**		,
Equity instruments	-	148	Present value method	Market price, Interest rates curves, Dividends and Others
Debt instruments	1,502	-	Present value method	Interest rates curves, FX market prices
Loans and receivables	1,089	2,776	Present value method	Interest rates curves, FX market prices and Credit curves
LIABILITIES	**80,827**	**647**		
Financial liabilities held for trading	**54,811**	**355**		
Central banks	-	-	Present value method	Yield curves, FX market prices
Credit institutions	-	-	Present value method	Yield curves, FX market prices
Customers	-	-	Present value method	Yield curves, FX market prices
Derivatives	54,811	355		
Swaps	*45,049*	*337*	Present value method, Gaussian Copula	Yield curves, FX market prices, Basis, Liquidity, HPI
Exchange rate options	*4,355*	-	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*2,212*	*18*	Black-Scholes Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Index and securities options	*55*	-	Black-Scholes Model	Yield curves, FX market prices
Interest rate and equity futures	*570*	-	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Other	*2,570*	-	Present value method, Advanced stochastic volatility models	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI, Credit, Others
Short positions	-	-	Present value method	Yield curves, FX & EQ market prices, Equity
Hedging derivatives	***2,040***	***4***		
Swaps	*907*	4	Present value method	Yield curves, FX & EQ market prices, Basis
Exchange rate options	*766*	-		
Interest rate options	*313*	-	Black’s Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Other	*54*	-	Present value method, Advanced stochastic volatility models	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Other
Financial liabilities designated at fair value through profit or loss	***23,976***	***288***	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	-	-	Present valueMethod with actuarial techniques	Mortality tables and interest rate curves

	Millions of euros			
	Fair values at 31/12/18 (*)			
	Level 2	Level 3	Valuation techniques	Main assumptions
ASSETS:	**98,196**	**3,233**		
Financial assets held for trading	**51,458**	**406**		
Credit institutions	-	-	Present value method	Yield curves, FX market prices
Customers	19	-	Present value method	Yield curves, FX market prices
Debt and equity instruments	1,023	32	Present value method	Yield curves, FX market prices
Derivatives	50,416	374		
Swaps	*42,766*	*364*	Present value method, Gaussian Copula	Yield curves, FX market prices, HPI, Basis, Liquidity
Exchange rate options	*4,470*	-	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*2,511*	*1*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate futures	*32*	-	Present value method	Yield curves, FX market prices
Index and securities options	*674*	*9*	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Other	*(37)*	-	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX and EQ market prices, Dividends, Correlation, HPI, Credit, Others
Hedging derivatives	**2,086**	**21**		
Swaps	*1,702*	*21*	Present value method	Yield curves, FX market prices, Basis
Interest rate options	*263*	-	Black's Model	FX market prices, Yield curves, Volatility surfaces
Other	*115*	-	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Others
Non-trading financial assets mandatorily at fair value through profit or loss	**2,747**	**962**		
Equity instruments	42	141		Yield curves, FX market prices & EQ, Dividends, Others
Debt instruments	1,335	641	Present value method	
Loans and receivables	1,370	180		
Financial assets designated at fair value through profit or loss	**40,585**	**740**		
Central banks	103	-	Present value method	Yield curves, FX market prices
Credit institutions	17,335	201	Present value method	Yield curves, FX market prices
Customers	23,147	539	Present value method	Yield curves, FX market prices, HPI
Debt instruments	-	-	Present value method	FX market prices, Yield curves
Financial assets at fair value through other comprehensive income	**1,320**	**1,104**	Present value method	Yield curves, FX market prices & EQ, Dividends, Credit, Other
Equity instruments	343	331		
Debt instruments	326	-		
Loans and receivables	651	773		
LIABILITIES	**88,737**	**470**	Present value method	Yield curves, FX market prices
Financial liabilities held for trading	**50,301**	**321**	Present value method	Yield curves, FX market prices
Central banks	-	-	Present value method	Yield curves, FX market prices
Credit institutions	-	-		
Customers	-	-		
Derivatives	50,301	321	Present value method, Gaussian Copula	Yield curves, FX market prices, Basis, Liquidity, HPI
Swaps	*40,634*	*306*	Black-Scholes Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Exchange rate options	*4,406*	-	Black's Model, multifactorial advanced models interest rate	Yield curves, Volatility surfaces, FX market prices, Liquidity
Interest rate options	*2,416*	*9*	Black-Scholes Model	Yield curves, FX market prices
Index and securities options	*34*	-	Present value method	Yield curves, Volatility surfaces, FX & EQ market prices, Dividends, Correlation, Liquidity, HPI
Interest rate and equity futures	*543*	-	Present value method	Yield curves, FX market prices y equity
Other	*2,267*	*6*	Present value method	Yield curves, FX market prices y equity
Short positions	-	-		
Hedging derivatives	**3,499**	**7**		
Swaps	*3,075*	*7*	Present value method	Yield curves, FX market prices, Basis
Exchange rate options	*273*	-		
Interest rate options	*150*	-	Black's Model	Yield curves, Volatility surfaces, FX market prices, Liquidity
Other	*1*	-	Present value method, Advanced stochastic volatility models and other	Yield curves, Volatility surfaces, FX market prices, Credit, Liquidity, Others
Financial liabilities designated at fair value through profit and loss	**34,937**	**142**	Present value method	Yield curves, FX market prices
Liabilities under insurance contracts	-	-		

Santander

Level 3 financial instruments

Set forth below are the Group's main financial instruments measured using unobservable market data as significant inputs of the internal models (Level 3):

- Instruments in Santander UK's portfolio (loans, debt instruments and derivatives) linked to the House Price Index (HPI). Even if the valuation techniques used for these instruments may be the same as those used to value similar products (present value in the case of loans and debt instruments, and the Black-Scholes model for derivatives), the main factors used in the valuation of these instruments are the HPI spot rate, the growth and volatility thereof, and the mortality rates, which are not always observable in the market and, accordingly, these instruments are considered illiquid.

    - HPI spot rate: for some instruments the NSA HPI spot rate, which is directly observable and published on a monthly basis, is used. For other instruments where regional HPI rates must be used (published quarterly), adjustments are made to reflect the different composition of the rates and adapt them to the regional composition of Santander UK's portfolio.

    - HPI growth rate: this is not always directly observable in the market, especially for long maturities, and is estimated in accordance with existing quoted prices. To reflect the uncertainty implicit in these estimates, adjustments are made based on an analysis of the historical volatility of the HPI, incorporating reversion to the mean.

    - HPI volatility: the long-term volatility is not directly observable in the market but is estimated on the basis of shorter-term quoted prices and by making an adjustment to reflect the existing uncertainty, based on the standard deviation of historical volatility over various time periods.

    - Mortality rates: these are based on published official tables and adjusted to reflect the composition of the customer portfolio for this type of product at Santander UK.

- Callable interest rate derivatives (Bermudan-style options) where the main unobservable input is mean reversion of interest rates.

- Trading derivatives on interest rates, taking as an underlying asset titling and with the amortization rate (CPR, Conditional prepayment rate) as unobservable main entry.

- Derivatives from trading on inflation in Spain, where volatility is not observable in the market.

- Derivatives on volatility of long-term interest rates (more than 30 years) where volatility is not observable in the market at the indicated term.

- Equity volatility derivatives, specifically indices and equities, where volatility is not observable in the long term.

- HTC&S (Hold to collect and sale) syndicated loans classified in the fair value category with changes in other comprehensive income, where the cost of liquidity is not directly observable in the market, as well as the prepayment option in favour of the borrower.

The measurements obtained using the internal models might have been different if other methods or assumptions had been used with respect to interest rate risk, to credit risk, market risk and foreign currency risk spreads, or to their related correlations and volatilities. Nevertheless, the Bank's directors consider that the fair value of the financial assets and liabilities recognised in the balance sheet and the gains and losses arising from these financial instruments are reasonable.

The Group´s net amount recognised in profit and loss in 2019 arising from models whose significant inputs are unobservable market data (Level 3) amounted to a EUR 185 million profit (EUR 10 million profit in 2018), amounting to EUR 52 million profit for the Bank in 2019 (EUR 65 million losses in 2018).

The table below shows the effect, at 31 December 2019 on the fair value of the main financial instruments classified as Level 3 of a reasonable change in the assumptions used in the valuation. This effect was determined by applying the probable valuation ranges of the main unobservable inputs detailed in the following table:

Portfolio/Instrument (Level 3)	Valuation technique	Main unobservable inputs	Range	Weighted average	Impacts (Million euros) Unfavourable scenario	 Favourable scenario
Financial assets held for trading						
Trading derivatives	Present value model	Curves on TAB indices (*)	(a)	(a)	(0.2)	0.2
	Present value model, Modified Black-Scholes	HPI forward growth rate	0%-5%	2,5%	(23.8)	23.1
		HPI spot	n/a	783.87 (**)	(8.5)	8.5
	Interest Rate Curves, FX Market Prices	CPR	n/a	n/a	(163.2)	(84.4)
Caps/floors	Black Model	No interest rate curve observable in the market. It is valued with the MXNTIIE28 swap curve and an FVA is calculated based on the differential between the corresponding fixings.	MXNTIIE28 curve + (-25bp, -2bp)	(13bp)	0.2	2.1
Cross Currency Swaps	Forward estimation	- No interest rate curve observable in the market. It is valued with the MXNTIIE28 swap curve and an FVA is calculated based on the differential between the corresponding fixings. -MXN long term fees	MXNTIIE91 Curve = MXNTIIE28 Curve + (-25bp, -2bp) Bid Offer Spread IRS TIIE 2bp - 10bp X-CCY USD/MXN 3bp - 10bp Swaps UDI/MXN 5bp - 20bp	TIIE91 -13bp IRS TIIE 6bp X-CCY MXN/ USD 7bp Swaps UDI/ MXN 13bp	(0.4)	0.4
Quanto options	Local term volatility and reference strike under the partial differential equation method.	No market volatility, a proxy is used	Beta vs Volatility Surface STOXX50E 69%-62%	Beta 65%	-	-
Interest Rate Swaps	Forward Estimation	This is a Balance Guaranteed Swap, which, as it did not have the appropriate valuation model, was completely covered Back-to-Back (both IRS clauses contain the same conditions for repayments)	n/a	n/a	-	-
Interes Rate Swaps	Forward Estimation	- No interest rate curve observable in the market. It is valued with the MXNTIIE28 swap curve and an FVA is calculated based on the differential between the corresponding fixings. -MXN long term fees	'MXNTIIE91 Curve = MXNTIIE28 Curve + (-25bp, -2bp) Bid Offer Spread IRS TIIE 2bp - 10bp CCY USD/MXN 3bp - 10bp Swaps UDI/MXN 5bp - 20bp	'TIIE91 -13bp IRS TIIE 6bp X-CCY MXN/ USD 7bp Swaps UDI/ MXN 13bp	(0.6)	1.7
Financial assets at fair value through other comprehensive income						
Debt instruments and equity holdings	Present value method, others	Contingencies for litigation	0%-100%	22%	(26.5)	7.3
	Present value method, others	Late payment and prepayment rate capital cost long-term profit growth rate	(a)	(a)	(11,4)	11.4
	Present value method, others	Interest Rate Curves, FX Market Prices and Credit Curves	(a)	(a)	(2.2)	2.2
Loans and advances to customers	Local Volatility	Long term volatility	n/a	34.0%	244.9	(313.8)
	Estimation of default probabilities form credit curves	CDS curves generic curves are used	CDS Spread (24bp-55bp)	35.63 spread	(26.6)	-
Non-trading financial assets mandatorily at fair value through profit or loss						
Credit to customers	Weighted average by probability (according to forecast mortality rates) of European HPI options, using the Black-Scholes model	HPI forward growth rate	0%-5%	2.7%	(6.6)	5.8
Debt instruments and equity instruments		HPI spot	n/a	785.87 (**)	(7.7)	7.7
	TD Black	Spain volatility	n/a	4.7%	2.2	(11.5)
	Asset Swap & CDS Model	Model - Interest Rate Curves and Credit	n/a	7.7%	(19.8)	4.4
	Cvx. Adj (SLN)	Long term volatility	n/a	8.0%	(121.2)	105.1
	Present Value Model, others	Credit Spreads	0.2%-1.6%	1,0%	0,1	(0,1)
Financial liabilities held for trading						
Trading derivatives	Present value method, modified Black-Scholes Model	HPI forward growth rate	0%-5%	2.41%	(7.3)	6.8
		HPI spot	N/A	765.38 (**)	(4.3)	4.9
	EquityLinked Deposits	Basis Risk	1.ii5%-2%	0.5%	(6.8)	0.8
		Curves on TAB indexes (*)	(a)	(a)	-	-
	Discounted flows denominated in different currencies	This is a Balance Guaranteed Swap, which, as it did not have the appropriate valuation model, was completely covered Back-to-Back (both IRS clauses contain the same conditions for repayments)	N/A	N/A	-	-
	Discounted flows denominated in different currencies	No interest rate curve observable in the market. It is valued with the MXNTIIE28 swap curve and an FVA is calculated (*)	MXNTIIE28 Curve + (-20bp, 9.5bp	(5bp)	-	0.1
Hedging derivatives (liabilities)						
Hedging derivatives	Advanced models of local and stochastic volatility	Correlation between the price of shares	55%-75%	65%	N/A	N/A
	Advanced multi-factor interest rate models	Mean reversion of interest rates	0.0001-0.03	0.01 (***)	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	(b)	(b)
Customer deposits	Flow Discounting Method	Curve specified by the local regulator	Curve (IGPM + 6) + 100bps	Curve (IGPM + 6) + 100bps	(37.0)	37.0

(*) TAB: "Tasa Activa Bancaria" (Active Bank Rate). Average interest rates on 30, 90, 180 and 360-day deposits published by the Chilean Association of Banks and Financial Institutions (ABIF) in nominal currency (Chilean peso) and in real terms, adjusted for inflation (in Chilean unit of account (Unidad de Fomento - UF)).

(**) There are national and regional HPIs. The HPI spot value is the weighted average of the indices that correspond to the positions of each portfolio. The impact reported is in response to a 10% shift.

(***) Theoretical average value of the parameter. The change made for the favourable scenario is from 0.0001 to 0.03. An unfavourable scenario was not considered as there was no margin for downward movement from the parameter's current level.

(a) The exercise was performed for the unobservable inputs described in the column "Main unobservable inputs" under probable scenarios. The weighted average range and value used is not shown because this exercise has been carried out jointly for different inputs or variants of them (for example, the TAB input are vector-term curves, for which there are also nominal and indexed curves to inflation), it is not possible to break down the result in an isolated manner by type of input. In the case of the TAB curve, the result is reported before movements of +/- 100 bp for the joint sensitivity of this index in CLP (Chilean peso) and UF. The same applies for interest rates in MXN (Mexican peso).

(b) The Group calculates the potential impact on the measurement of each instrument on a joint basis, regardless of whether the individual value is positive (assets) or negative (liabilities), and discloses the joint effect associated with the related instruments classified on the asset side of the consolidated balance sheet.

Note: Null impacts in Quanto options arise because the position is completely covered back-to-back.

Lastly, the changes in the financial instruments classified as Level 3 in 2019 and 2018 were as follows:

	2018	Changes						2019
Million euros	Fair calculated using internal models (Level 3)	Purchases/ Issuances	Sales/ Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**738**	**142**	**(80)**	**115**	**-**	**(317)**	**-**	**598**
Debt instruments and equity instruments	153	34	(38)	4	-	(88)	-	65
Trading derivatives	585	108	(42)	111	-	(229)	-	533
Swaps	*185*	*10*	*(14)*	*22*	-	*(20)*	*(1)*	*182*
Exchange rate options	*2*	-	-	*6*	-	-	-	*8*
Interest rate options	*149*	-	*(5)*	*33*	-	-	-	*177*
Index and securities options	*198*	*48*	*(18)*	*50*	-	*(182)*	*(1)*	*95*
Other	*51*	*50*	*(5)*	-	-	*(27)*	*2*	*71*
Hedging derivatives (Assets)	**21**	-	-	-	-	**(21)**	-	-
Swaps	*21*	-	-	-	-	*(21)*	-	-
Financial assets at fair value through profit or loss	**876**	**55**	**(16)**	**65**	**-**	**(261)**	**(55)**	**664**
Credit entities	201	-	-	-	-	(151)	-	50
Loans and advances to customers	560	20	(9)	(1)	-	(496)	(42)	32
Debt instruments	115	35	(7)	66	-	386	(13)	582
Non-trading financial assets mandatorily at fair value through profit or loss	**1,403**	**426**	**(325)**	**81**	**-**	**-**	**16**	**1,601**
Loans and advances to customers	460	126	(252)	21	-	-	21	376
Debt instruments	481	199	(7)	(10)	-	-	12	675
Equity instruments	462	101	(66)	70	-	-	(17)	550
Financial assets at fair value through other comprehensive income	**1,435**	**4,424**	**(1,698)**	**-**	**(190)**	**(252)**	**69**	**3,788**
TOTAL ASSETS	**4,473**	**5,047**	**(2,119)**	**261**	**(190)**	**(851)**	**30**	**6,651**
Financial liabilities held for trading	**289**	**136**	**(12)**	**45**	**-**	**(164)**	**(4)**	**290**
Trading derivatives	289	136	**(12)**	45	-	(164)	(4)	290
Swaps	*111*	*6*	***(5)***	*(17)*	-	*20*	-	*115*
Exchange rate options	*7*	*1*	-	-	-	*(7)*	-	*1*
Interest rate options	*26*	-	-	*8*	-	-	-	*34*
Index and securities options	*143*	*79*	***(7)***	*51*	-	*(177)*	*(1)*	*88*
Securities and interest rate futures	-	*3*	-	-	-	-	*(1)*	*2*
Others	*2*	*47*	-	*3*	-	-	*(2)*	*50*
Hedging derivatives (Liabilities)	**6**	-	-	-	-	**(6)**	-	-
Swaps	*6*	-	-	-	-	*(6)*	-	-
Financial liabilities designated at fair value through profit or loss	**147**	**298**	**(5)**	**31**	**-**	**313**	**-**	**784**
TOTAL LIABILITIES	**442**	**434**	**(17)**	**76**	**-**	**143**	**(4)**	**1,074**

Million euros	2017	Changes						2018
	Fair value calculated using internal models (Level 3)	Purchases/ Issuances	Sales/ Settlements	Changes in fair value recognised in profit or loss	Changes in fair value recognised in equity	Level reclassifications	Other	Fair value calculated using internal models (Level 3)
Financial assets held for trading	**437**	**85**	**(60)**	**(16)**	**-**	**312**	**(20)**	**738**
Debt instruments and equity instruments	32	22	(40)	2	-	141	(4)	153
Trading derivatives	405	63	(20)	(18)	-	171	(16)	585
Swaps	*189*	-	*(8)*	*4*	-	*4*	*(4)*	*185*
Exchange rate options	*5*	-	-	*(2)*	-	-	*(1)*	*2*
Interest rate options	*162*	-	*(3)*	*(16)*	-	*8*	*(2)*	*149*
Index and securities options	*5*	*41*	*(1)*	*(35)*	-	*195*	*(7)*	*198*
Other	*44*	*22*	*(8)*	*31*	-	*(36)*	*(2)*	*51*
Hedging derivatives (Assets)	**18**	**-**	**-**	**3**	**-**	**-**	**-**	**21**
Swaps	*18*	-	-	*3*	-	-	-	*21*
Financial assets at fair value through profit or loss	**-**	**105**	**-**	**19**	**-**	**699**	**53**	**876**
Credit entities	-	-	-	(1)	-	202	-	201
Loans and advances to customers	-	-	-	6	-	497	57	560
Debt instruments	-	105	-	14	-	-	(4)	115
Non-trading financial assets mandatorily at fair value through profit or loss	**1,365**	**66**	**(35)**	**12**	**-**	**31**	**(36)**	**1,403**
Loans and advances to customers	465	**56**	**(22)**	20	-	-	(59)	460
Debt instruments	518	-	(7)	(29)	-	1	(2)	481
Equity instruments	382	10	(6)	21	-	30	25	462
Financial assets at fair value through other comprehensive income	**1,726**	**162**	**(238)**	**-**	**(269)**	**147**	**(93)**	**1,435**
TOTAL ASSETS	**3,546**	**418**	**(333)**	**18**	**(269)**	**1,189**	**(96)**	**4,473**
Financial liabilities held for trading	**182**	**41**	**(95)**	**9**	**-**	**161**	**(9)**	**289**
Trading derivatives	182	41	**(95)**	9	-	161	(9)	289
Swaps	*100*	-	*(7)*	*(7)*	-	*28*	*(3)*	*111*
Exchange rate options	*9*	-	-	*(2)*	-	-	-	*7*
Interest rate options	*19*	-	*(1)*	*(1)*	-	*10*	*(1)*	*26*
Index and securities options	*41*	*41*	*(87)*	*25*	-	*128*	*(5)*	*143*
Others	*13*	-	-	*(6)*	-	*(5)*	-	*2*
Hedging derivatives (Liabilities)	**7**	**-**	**-**	**(1)**	**-**	**-**	**-**	**6**
Swaps	*7*	-	-	*(1)*	-	-	-	*6*
Financial liabilities designated at fair value through profit or loss	**7**	**140**	**-**	**-**	**-**	**-**	**-**	**147**
TOTAL LIABILITIES	**196**	**181**	**(95)**	**8**	**-**	**161**	**(9)**	**442**

iv. Recognition of fair value changes

As a general rule, changes in the carrying amount of financial assets and liabilities are recognised in the income statement. A distinction is made between the changes resulting from the accrual of interest and similar items, (which are recognised under Interest income or Interest expense, as appropriate), and those arising for other reasons, which are recognised at their net amount under Gains/losses on financial assets and liabilities.

Adjustments due to changes in fair value arising from:

- Financial assets at fair value with changes in other comprehensive income are recorded temporarily, in the case of debt instruments in other comprehensive income - Elements that can be reclassified to profit or loss - Financial assets at fair value with changes in other comprehensive income, while in the case of equity instruments are recorded in other comprehensive income -Elements that will not be reclassified to line item - Changes in the fair value of equity instruments valued at fair value with changes in other comprehensive income. Exchange differences on debt instruments measured at fair value with changes in other comprehensive income are recognised under Exchange Differences, net of the consolidated income statement. Exchange differences on equity instruments, in which the irrevocable option of being measured at fair value with changes in other comprehensive income has been chosen, are recognised in Other comprehensive income - Items that will not be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income.

- Items charged or credited to Items that may be reclassified to profit or loss – Financial assets at fair value through other comprehensive income and Other comprehensive income – Items that may be reclassified to profit or loss – Exchange differences in equity remain in the Bank's equity until the asset giving rise to them is impaired or derecognised, at which time they are recognised in the income statement.
- Unrealised gains on Financial assets classified as Non-current assets held for sale because they form part of a disposal group or a discontinued operation are recognised in Other comprehensive income under Items that may be reclassified to profit or loss – Non-current assets held for sale.

v. Hedging transactions

The Bank use financial derivatives for the following purposes: i) to facilitate these instruments to customers who request them in the management of their market and credit risks; ii) to use these derivatives in the management of the risks of its own positions and assets and liabilities (hedging derivatives); and iii) to obtain gains from changes in the prices of these derivatives (derivatives).

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

A derivative qualifies for hedge accounting if all the following conditions are met:

1. The derivative hedges one of the following three types of exposure:

    a. Changes in the fair value of assets and liabilities due to fluctuations, among others, in the interest rate and/or exchange rate to which the position or balance to be hedged is subject (fair value hedge);

    b. Changes in the estimated cash flows arising from financial assets and liabilities, commitments and highly probable forecast transactions (cash flow hedge);

    c. The net investment in a foreign operation (hedge of a net investment in a foreign operation).

2. It is effective in offsetting exposure inherent in the hedged item or position throughout the expected term of the hedge, which means that:

   a. At the date of arrangement the hedge is expected, under normal conditions, to be highly effective (prospective effectiveness).

   b. There is sufficient evidence that the hedge was actually effective during the whole life of the hedged item or position (retrospective effectiveness). To this end, the Bank checks that the results of the hedge were within a range of 80% to 125% of the results of the hedged item.

3. There must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this hedge was expected to be achieved and measured, provided that this is consistent with the Bank's management of own risks.

   The changes in value of financial instruments qualifying for hedge accounting are recognised as follows:

   a. In fair value hedges, the gains or losses arising on both the hedging instruments and the hedged items attributable to the type of risk being hedged are recognised directly in the income statement.

      In fair value hedges of interest rate risk on a portfolio of financial instruments, the gains or losses that arise on measuring the hedging instruments are recognised directly in the income statement, whereas the gains or losses due to changes in the fair value of the hedged amount (attributable to the hedged risk) are recognised in the income statement with a balancing entry under Changes in the fair value of hedged items in portfolio hedges of interest rate risk on the asset or liability side of the balance sheet, as appropriate.

   b. In cash flow hedges, the effective portion of the change in value of the hedging instrument is recognised temporarily in Other comprehensive income – under Items that may be reclassified to profit or loss – Hedging derivatives – Cash flow hedges (effective portion) until the forecast transactions occur, when it is recognised in the income statement, unless, if the forecast transactions result in the recognition of non-financial assets or liabilities, it is included in the cost of the non-financial asset or liability.

   c. In hedges of a net investment in a foreign operation, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in Other comprehensive income under Items that may be reclassified to profit or loss – Hedges of net investments in foreign operations until the gains or losses – on the hedged item are recognised in profit or loss.

   d. The ineffective portion of the gains or losses on the hedging instruments of cash flow hedges and hedges of a net investment in a foreign operation is recognised directly under Gains/losses on financial assets and liabilities (net) in the income statement, in Gains or losses from hedge accounting, net.

If a derivative designated as a hedge no longer meets the requirements described above due to expiration, ineffectiveness or for any other reason, the derivative is classified for accounting purposes as a trading derivative.

When fair value hedge accounting is discontinued, the adjustments previously recognised on the hedged item are amortised to profit or loss at the effective interest rate recalculated at the date of hedge discontinuation. The adjustments must be fully amortised at maturity.

When cash flow hedge accounting is discontinued, any cumulative gain or loss on the hedging instrument recognised in equity under other comprehensive income - Items that may be reclassified to profit or loss (from the period when the hedge was effective) remains in this equity item until the forecast transaction occurs, at which time it is recognised in profit or loss, unless the transaction is no longer expected to occur, in which case the cumulative gain or loss is recognised immediately in profit or loss.

vi. Derivatives embedded in hybrid financial instruments

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as financial assets/liabilities designated at fair value through profit or loss or as Financial assets/liabilities held for trading.

e) Derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

1. If the Bank transfers substantially all the risks and rewards to third parties unconditional sale of financial assets, sale of financial assets under an agreement to repurchase them at their fair value at the date of repurchase, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to the new holders, and other similar cases-, the transferred financial asset is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

2. If the Bank retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised:

   a. An associated financial liability, which is recognised for an amount equal to the consideration received and is subsequently measured at amortised cost, unless it meets the requirements for classification under Financial liabilities designated at fair value through profit or loss.

   b. The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability, without offsetting.

3. If the Bank neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of assets in which the transferor retains a subordinated debt or other type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:

   a. If the transferor does not retain control of the transferred financial asset, the asset is derecognised and any rights or obligations retained or created in the transfer are recognised.

   b. If the transferor retains control of the transferred financial asset, it continues to recognise it for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the rights to the cash flows, they generate have expired or when substantially all the inherent risks and rewards have been transferred to third parties. Similarly, financial liabilities are only derecognised when the obligations they generate have been ext

inguished or when they are acquired with the intention either to cancel them or to resell them.

f) *Offsetting of financial instruments*

Financial asset and liability balances are offset, i.e. reported in the balance sheet at their net amount, only if the Bank currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Following is the detail of financial assets and liabilities that were offset in the balance sheets as at 31 December 2019 and 2018:

	Millions euros					
	31/12/2019			31/12/2018		
Assets	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets presented in the balance sheet
Derivados	111,629	(53,709)	57,920	93,694	(39,949)	53,745
Repos	49,047	(3,198)	45,849	36,319	-	36,319
	160,676	**(56,907)**	**103,769**	**130,013**	**(39,949)**	**90,064**

	Millions euros					
	31/12/2019			31/12/2018		
Liabilities	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities presented in the balance sheet e
Derivatives	111,821	(53,709)	58,112	95,153	(39,949)	55,204
Repos	20,084	(3,198)	16,886	29,389	-	29,389
	131,905	**(56,907)**	**74,998**	**124,542**	**(39,949)**	**84,593**

Also, most of the derivatives and repos not compensated in balance sheet are subject to netting and collateral agreements.

At 31 December 2018 the balance sheet amounts EUR 91,250 million on derivatives and repos as assets and EUR 66,501 million on derivatives and repos as liabilities that are subject to netting and collateral arrangements (EUR 81,157 million and EUR 73,610 million in 2018, respectively).

g) *Impairment of financial assets*

i. Definition

The Bank associates an impairment in the value of financial assets measured at amortized cost, debt instruments measured at fair value with changes in other comprehensive income, lease receivables and commitments and guarantees granted that are not measured at fair value.

The impairment for expected credit losses is recorded with a charge to the income statement for the period in which the impairment arises. In the event of occurrence, the recoveries of previously recognised impairment losses are recorded in the income statement for the period in which the impairment no longer exists or is reduced.

In the case of purchased or originated credit-impaired assets, the Bank only recognizes at the reporting date the changes in the expected credit losses during the life of the asset since the initial recognition as a credit loss. In the case of assets measured at fair value with changes in other comprehensive income, the changes in the fair value due to expected credit losses are charged in the consolidated income statement of the year where the change happened, reflecting the rest of the valuation in other comprehensive income.

As a rule, the expected credit loss is estimated as the difference between the contractual cash flows to be recovered and the expected cash flows discounted with the original effective interest rate. In the case of purchased or originated credit-impaired assets, this difference is discounted using the effective interest rate adjusted by credit rating.

Depending on the classification of financial instruments, which is mentioned in the following sections, the expected credit losses may be along 12 months or during the life of the financial instrument:

- 12-month expected credit losses: arising from the potential default events, as defined in the following sections that are estimated to be likely to occur within the 12 months following the reporting date. These losses will be associated with financial assets classified as "normal risk" as defined in the following sections.

- Expected credit losses over the life of the financial instrument: expected credit losses arising from potential default events that are estimated to be likely to occur throughout the life of the instruments. These losses are associated with financial assets classified as "normal risk under watchlist" or "doubtful risk".

With the purpose of estimating the expected life of the financial instrument all the contractual terms have been taken into account (e.g. prepayments, duration, purchase options, etc.), being the contractual period (including extension options) the maximum period considered to measure the expected credit losses. In the case of financial instruments with an uncertain maturity period and a component of undrawn commitment (e.g.: credit cards), the expected life is estimated through quantitative analyses to determine the period during which the entity is exposed to credit risk, also considering the effectiveness of management procedures that mitigate such exposure (e.g. the ability to unilaterally cancel such financial instruments, etc.).

The following constitute effective guarantees:

a) Mortgage guarantees on housing as long as they are first duly constituted and registered in favour of the entity. The properties include:

    i. Buildings and building elements, distinguishing among:

        - Houses.

        - Offices commercial and multi-purpose premises.

        - Rest of buildings such as non-multi-purpose premises and hotels.

    ii. Urban and developable ordered land.

    iii. Rest of properties that would be classified as: buildings and building elements under construction, such as property development in progress and halted development, and the rest of land types, such as rustic lands.

b) Collateral guarantees on financial instruments in the form of cash deposits and debt securities issued by creditworthy issuers.

c) Other types of real guarantees, including properties received in guarantee and second and subsequent mortgages on properties, as long as the entity demonstrates its effectiveness. When assessing the effectiveness of the second and subsequent mortgages on properties the entity will implement particularly restrictive criteria. It will take into account, among others, whether the previous charges are in favour of the entity itself or not and the relationship between the risk guaranteed by them and the property value.

d) Personal guarantees, as well as the incorporation of new owners, covering the entire amount of the instruments and implying direct and joint liability to the entity of persons other entities whose solvency is sufficiently proven to ensure the repayment of the loan on the agreed terms.

The different aspects that the Bank considers for the evaluation of specific guarantees are setout below in relation to the individualized analysis.

ii. Financial instruments presentation

For the purposes of estimating the impairment adjustment, and in accordance with its internal policies, the Bank classifies its financial instruments (financial asset, commitments and guarantees) measured at amortized cost or fair value through other comprehensive income in one of the following categories:

- Normal Risk ("Stage 1"): includes all instruments that do not meet the requirements to be classified in the rest of the categories.

- Normal risk under watchlist ("Stage 2"): includes all instruments that, without meeting the criteria for classification as doubtful or default risk, have experienced significant increases in credit risk since initial recognition.

In order to determine whether a financial instrument has increased its credit risk since initial recognition and is to be classified in Stage 2, the Bank considers the following criteria:

Quantitative criteria	Changes in the risk of a default occurring through the expected life of the financial instrument are analysed and quantified with respect to its credit level in its initial recognition. With the purpose of determining if such changes are considered as significant, with the consequent classification into stage 2, the Bank has defined the quantitative thresholds to consider in each of its portfolios taking into account corporate guidelines ensuring a consistent interpretation in all units. Within these quantitative thresholds, two types are considered: a relative threshold is understood to be that which compares the current credit quality with the credit quality at the time of origination in percentage terms of change. Additionally, an absolute threshold compares both references in total terms, calculating the difference between the two. These absolute/relative concepts are used homogeneously (with different values) in all geographies. The use of this type of threshold or another (or both) is determined according to the process developed in Note 49, and is marked by the type of portfolio and characteristics such as the starting point of the average credit quality of the portfolio
Qualitative criteria	In addition to the quantitative criteria indicated, various indicators are used that are aligned with those used by the Group in the normal management of credit risk. Irregular positions of more than 30 days and renewals are common criteria with the Bank. In addition, each unit can define other qualitative indicators, for each of its portfolios, according to the particularities and normal management practices in line with the policies currently in force (e.g. use of management alerts, etc.). The use of these qualitative criteria is complemented with the use of an expert judgement, under the corresponding governance.

In the case of forbearances, instruments classified as "normal risk under watchlist" may be reclassified to "normal risk" in the following circumstances: at least two years have elapsed from the date of reclassification to that category or from its forbearance date, the client has paid the accrued principal and interest balance, and the client has no other instruments with more than 30 days past due balances.

- Doubtful Risk (“Stage 3"): includes financial instruments, overdue or not, in which, without meeting the circumstances to classify them in the category of default risk, there are reasonable doubts about their total repaymet (principal and interests) by the client in the terms contractually agreed. Likewise, off-balance-sheet exposures whose payment is probable and their recovery doubtful are considered in Stage 3. Within this category, two situations are differentiated:

    - Doubtful risk for non-performing loans: financial instruments, irrespective of the client and guarantee, with balances more than 90 days past due for principal, interest or expenses contractually agreed.

      This category also includes all loan balances for a client which overdue amount more than 90 days past due is greater than 20% of the loan receivable balance.

      These instruments may be reclassified to other categories if, as a result of the collection of part of the past due balances, the reasons for their classification in this category do not remain and the client does not have balances more than 90 days past due in other loans.

    - Doubtful risk for reasons other than non-performing loans: this category includes doubtful recovery financial instruments that are not overdue by more than 90 days pastdue.

      The Bank considers that a financial instrument to be doubtful for reasons other than delinquency when one or more combined events have occurred with a negative impact on the estimated future cash flows of the financial instrument. To this end, the following indicators, among others, are considered:

      a) Negative net equity or decrease because of losses of the customer's net equity by at least 50% during the last financial year.

      b) Continued losses or significant decrease in revenue or, in general, in the customer's recurring cash flows.

      c) Generalised delay in payments or insufficient cash flows to service debts.

      d) Significantly inadequate economic or financial structure or inability to obtain additional financing by the client.

      e) Existence of an internal or external credit rating showing that the customer is in default.

      Existence of overdue customer commitments with a significant amount to public institutions or employees.

      These financial instruments may be reclassified to other categories if, as a result of an individualised study, reasonable doubts do not remain about the total repayment under the contractually agreed terms and the client does not have balances with more than 90 days past due.

      In the case of forbearances, instruments classified as doubtful risk may be reclassified to the category of 'normal risk under watchlist' when the following circumstances are present: a minimum period of one year has elapsed from the forbearance date, the client has paid the accrued principal and interest amounts, and the client has no other loan balance with amounts of more than 90 days past due.

- Default Risk: includes all financial assets, or part of them, for which, after an individualised analysis, their recovery is considered remote due to a notorious and irrecoverable deterioration of their solvency.

In any event, except in the case of financial instruments with effective collateral covering a substantial portion of the transaction amount, the Bank generally consider as remote the following:

- Those operations that, after an individualized analysis, are categorized as unsustainable debt, assuming an irrecoverability of such debt.

- Transactions classified as doubtful due to non-performing loans with recovery costs that exceed the amounts receivable.

- The operations on which the award is executed. The queue of these operations shall be included under default risk, as the recovery of the flows, provided that no further guarantees associated with the operation remain after the award of the property.

- Those operations on which a deduction is made, the portion of the operation corresponding to that deduction, will be given as a balance at the time of signature.

A financial asset amount is maintained in the balance sheet until they are considered as a "default risk", either all or a part of it, and the write-off is registered against the balance sheet.

In the case of operations that have only been partially derecognised, for forgiveness reasons or because part of the total balance is considered unrecoverable, the remaining amount shall be fully classified in the category of "doubtful risk", except where duly justified.

The classification of a financial asset, or part of it, as a 'default risk' does not involve the disruption of negotiations and legal proceedings to recover the amount.

iii. Impairment valuation assessment

The Bank has policies, methods and procedures in place to hedge its credit risk, both due to the insolvency attributable to counterparties and its residence in a specific country.

These policies, methods and procedures are applied in the concession, study and documentation of financial assets, risks and contingent commitments, as well as in the identification of their impairment and in the calculation of the amounts needed to cover their credit risk.

The asset impairment model in Circular 4/2017 applies to financial assets measured at amortised cost, debt instruments at fair value with changes in other comprehensive income, lease receivables and commitments and guarantees granted that are not measured at fair value.

The impairment represents the best estimation of the financial assets expected credit losses at the balance sheet date, assessed both individually and collectively.

- Individually: for the purposes of estimating the provisions for credit risk arising from the insolvency of a financial instrument, the Bank individually assesses impairment by estimating the expected credit losses on those financial instruments that are considered to be significant and with sufficient information to make such an estimate.

  Therefore, this classification mostly includes wholesale banking customers - Corporations, specialised financing - as well as some of the largest companies – Chartered and real estate developers - from retail banking. The determination of the perimeter in which the individualised estimate is applied is detailed in a later section.

  The individually assessed impairment estimate is equal to the difference between the gross carrying amount of the financial instrument and the estimated value of the expected cash flows receivable discounted using the original effective interest rate of the transaction. The estimate of these cash flows takes into account all available information on the financial asset and the effective guarantees associated with that asset. This estimation process is detailed below.

- Collectively: the Bank also assesses impairment by estimating the expected credit losses collectively in cases where they are not assessed on an individual basis. This includes, for example, loans with individuals, sole proprietors or businesses in retail banking subject to a standardised risk management.

  For the purposes of the collective assessment of expected credit losses, the Bank has consistent and reliable internal models. For the development of these models, instruments with similar credit risk characteristics that are indicative of the debtors' capacity to pay are considered.

  The credit risk characteristics used to group the instruments are, among others: type of instrument, debtor's sector of activity, geographical area of activity, type of guarantee, aging of past due balances and any other factor relevant to estimating the future cash flows.

  The Bank performs retrospective and monitoring tests to evaluate the reasonableness of the collective estimate.

On the other hand, the methodology required to estimate the expected credit loss due to credit events is based on an unbiased and weighted consideration by the probability of occurrence of a series of scenarios, considering a range of three to five possible future scenarios, depending on the characteristics of each unit, which could have an impact on the collection of contractual cash flows, always taking into account the time value of money, as well as all available and relevant information on past events, current conditions and forecasts of the evolution of macroeconomic factors that are shown to be relevant for the estimation of this amount (for example: GDP (Gross Domestic Product), housing price, unemployment rate, etc.).

For the estimation of the parameters used in the estimation of impairment provisions (EAD (Exposure at Default), PD (Probability of Default), LGD (Loss Given Default)), the Bank based its experience in developing internal models for the estimation of parameters both in the regulatory area and for management purposes, adapting the development of the impairment provision models under Circular 4/2017.

  - Exposure at default: is the amount of estimated risk incurred at the time of the counterparty's analysis.

  - Probability of default: is the estimated probability that the counterparty will default on its principal and/or interest payment obligations.

  - Loss given default: is the estimate of the severity of the loss incurred in the event of non-compliance. It depends mainly on the updating of the guarantees associated with the operation and the future cash flows that are expected to be recovered.

In any case, when estimating the flows expected to be recovered, portfolio sales are included. It should be noted that due to the Bank's recovery policy and the experience observed in relation to the prices of past sales of assets classified as Stage 3 and/or default risk, there is no substantial divergence between the flows obtained from recoveries after performing recovery management of the assets with those obtained from the sale of portfolios of assets discounting structural expenses and other costs incurred.

The definition of default implemented at the Bank for the purpose of calculating the impairment provision models is based on the definition in Article 178 of Regulation 575/2013 of the European Union (CRR), which is fully aligned with the requirements of the Bank of Spain Circular 4/2017, which considers that a "default" exists in relation to a specific customer/contract when at least one of the following circumstances exists: the entity considers that there are reasonable doubts about the payment of all its credit obligations or that the customer/contract is in an irregular situation for more than 90 days with respect to any significant credit obligation.

In addition, the Bank considers the risk generated in all cross-border transactions due to circumstances other than the usual commercial risk of insolvency (sovereign risk, transfer risk or risks arising from international financial activity, such as wars, natural catastrophes, balance of payments crisis, etc.).

Bank of Spain Circular 4/2017 includes a series of practical solutions that can be implemented by entities, with the aim of facilitating its implementation. However, in order to achieve a complete and high-level implementation of the standard, and following the best practices of the industry, the Bank does not apply these practical solutions in a generalised manner:

- Rebuttable presumption that the credit risk has increased significantly, when payments are more than 30 days past due: this threshold is used as an additional, but not primary, indicator of significant risk increase. Additionally, there may be cases in the Bank where its use has been rebutted as a result of studies that show a low correlation of the significant risk increase with this past due threshold.

- Assets with low credit risk at the reporting date: the Bank assesses the existence of significant risk increase in all its financial instruments.

This information is provided in more detail in Note 49 b. (Credit risk).

iv. Detail of the individualized estimate of the impairment correction

For the individual estimate of the correction for impairment of the financial asset, the Bank has a specific methodology to estimate the value of the cash flows expected to be collected:

• Recovery through the debtor's ordinary activities ("Going Concern" approach).

• Recovery through the execution and sale of collaterals that guarantee operations ("Gone Concern" approach).

"*Going Concern" approach:*

a. Evaluation of the effectiveness of guarantees

The Bank assesses the effectiveness of all the guarantees associated considering the following aspects

• The time required to execute these guarantees;

• The Bank's ability to enforce or assert these guarantees in its favor;

• The existence of limitations imposed by each local unit´s regulation on the foreclosure of collateral.

Under no circumstances the Bank considers that a guarantee is effective if its effectiveness depends substantially on the solvency of the debtor, as could be the case:

• Promises of shares or other securities of the debtor himself when their valuation may be significantly affected by a debtor's default.

• Personal cross-collateralisation: when the guarantor of a transaction is, at the same time, guaranteed by the holder of that transaction.

On the basis of the foregoing, the following types of guarantees are considered to be effective

• Mortgage guarantees on properties, which are first charge, duly constituted and registered: Real estate includes:

- Buildings and finished building elements

- Urban and developable land in order.

- Other real estate, including buildings under construction, developments in progress or at a standstill, and other land, such as rural properties.

• Pledges on financial instruments such as cash deposits, debt securities of recognised issuers or equity instruments.

• Other types of security interests, including movable property received as security and second and subsequent mortgages on real state , provided that they are proven to be effective under particularly restrictive criteria.

• Personal guarantees, as well a the incorporation of new owners, covering the entire amount of the transaction and involving the direct and joint liability before the entity of persons or entities whose equity solvency is sufficiently proven to ensure repayment of the transaction under the agreed terms.

b. Valuation of guarantees

The Bank assesses the guarantees on the basis of their nature in accordance with the following:

• Mortgage guarantees on properties associated with financial instruments using complete individual valuations carried out by independent valuation experts and under generally accepted valuation standards. If it is not possible, alternative valuations are used by duly documented and approved internal valuation models.

• Personal guarantees are valued individually on the basis of the guarantor´s updated information.

• The rest of the guarantees are valued based of current market values.

c. Adjustments to the value of guarantees and estimation of future cash flow inflows and outflows

The Bank applies a series of adjustments to the value of the guarantees in order to improve the reference values:

•Adjustments based on the historical sales experience of local units for certain types of assets.

• Individual expert adjustments based on additional management information.

Likewise, to adjust the value of the guarantees, the temporary value of the money is taken into account based on the historical experience of each of the units, estimating:

• Period of adjudication.

• Estimated time of sale of the asset.

In addition, the Bank takes into account all those cash inflows and outflows linked to that guarantee until its sold:

• Possible future income commitments in favour of the borrower which will available after the asset is awarded.

• Estimated foreclosure costs.

• Asset maintenance costs, taxes and community costs.

• Estimated marketing sales costs.

Finally, since it is considered that the guarantee will be sold in the future, the Bank applies an additional adjustment ("index forward") in order to adjust the value of the guarantees to future valuation expectations.

v. Scope of application of the individual estimate of the correction for impairment

The Bank determines the perimeter over which it makes an estimate of the correction for impairment on an individual basis based itself. In general, the Bank applies the individualised calculation of expected losses to the significant exposures classified in stage 3, although Banco Santander, S.A. has also extended its analyses to some of the exposures classified in stage 2.

It should be noted that, in any case and irrespective of the stage in which their transactions are carried out, for customers who do not receive standardised treatment, a relational risk management model is applied, with individualised treatment and monitoring by the assigned risk analyst. In addition to wholesale customers (SCIB, Santander Corporate & Investment Banking) and large companies, this relational management model also includes other segments of smaller companies for which there is information and capacity for more personalised and expert analysis and monitoring. As indicated in the Bank's wholesale credit model, the individual treatment of the client facilitates the continuous updating of information. The risk assumed must be followed and monitored throughout its life cycle, enabling anticipation and action to be taken in the event of possible impairments. In this way, the customer's credit quality is analysed individually, taking into account specific aspects such as his competitive position, financial performance, management, etc. In the wholesale risk management model, every customer with a credit risk position is assigned a rating, which has an associated probability of customer default. Thus, individual analysis of the debtor triggers a specific rating for each customer, which determines the appropriate parameters for calculating the expected loss, so that it is the rating itself that initially modulates the necessary coverage, adjusting the severity of the possible loss to the guarantees and other mitigating factors that the customer may have available. In addition, if as a result of this individualised monitoring of the customer, the analyst finally considers that his coverage isot sufficient, he has the necessary mechanisms to adjust it under his expert judgement, always under the appropriate governance.

h) Repurchase agreements and reverse repurchase agreements

Purchases (sales) of financial instruments under a non-optional resale (repurchase) agreement at a fixed price (repos) are recognised in the balance sheet as financing granted (received), based on the nature of the debtor (creditor), under Loans and advances with central banks, Loans and advances to credit institutions or Loans and advances to customers (Deposits from central banks, Deposits from credit institutions or Customer deposits).

Differences between the purchase and sale prices are recognised as interest over the contract term.

i) Non-current assets and Liabilities associated with non-current assets held for sale

Non-current assets held for sale includes the carrying amount of individual items, disposal groups or items forming part of a business unit earmarked for disposal (discontinued operations), whose sale in their present condition is highly likely to be completed within one year from the reporting date. Therefore, the recovery of the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be effected through the proceeds from their disposal.

Specifically, property or other non-current assets received as total or partial settlement of their debtors' payment obligations to them are deemed to be Non-current assets held for sale, unless the Bank have decided to make continuing use of these assets. In this connection, for the purpose of its consideration in the initial recognition of these assets, the Bank obtains, at the foreclosure date, the fair value of the related asset through a request for appraisal by external appraisal agencies.

The Bank has in place a corporate policy that ensures the professional competence and the independence and objectivity of the external appraisal agencies, in accordance with the regulations, which require appraisal agencies to meet independence, neutrality and credibility requirements, so that the use of their estimates does not reduce the reliability of its valuations. This policy establishes that all the appraisal companies and agencies with which the Bank works in Spain should be registered in the Official Register of the Bank of Spain and that the appraisals performed by them should follow the methodology established in Ministry of Economy Order ECO/805/2003, of 27 March. The main appraisal companies and agencies with which they worked in Spain in 2018 are as follows: Eurovaloraciones, S.A., Gloval Valuation, S.A.U., Tinsa Tasaciones Inmobiliarias, S.A.U., and Krata, S.A.

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Liabilities associated with non-current assets held for sale includes the balances payable arising from the assets held for sale or disposal groups and from discontinued operations.

Non-current assets and disposal groups of items that have been classified as held for sale are generally recognised at the date of their allocation to this category and are subsequently valued at the lower of their fair value less costs to sell or book value. Non-current assets and disposal groups of items that are classified as held for sale are not amortised as long as they remain in this category.

At 31 December 2019 the fair value less costs to sell of non-current assets held for sale exceeded their carrying amount by EUR 151 million (EUR 225 million in 2018); however, in accordance with the applicable legislation, this unrealised gain could not be recognised.

The valuation of the portfolio of non-current assets held for sale has been made in compliance with the requirements of International Financial Reporting Standards in relation to the estimate of the fair value of tangible assets and the value-in-use of financial assets.

The value of the portfolio is determined as the sum of the values of the individual elements that compose the portfolio, without considering any total or batch grouping in order to correct the individual values.

Banco Santander, in compliance with Bank of Spain Circular 4/2017 on public and private financial reporting standards and financial statement models, has developed a methodology that enables it to estimate the fair value and costs of sale of assets foreclosed or received in payment of debts. This methodology is based on the classification of the portfolio of foreclosed assets into different segments. Segmentation enables the intrinsic characteristics of Banco Santander's portfolio of foreclosed assets to be differentiated, so that assets with homogeneous characteristics are grouped by segment.

Thus, the portfolio is segmented into i) finished assets of a residential and tertiary nature, ii) developments in progress and iii) land[1].

In determining the critical segments in the overall portfolio, assets are classified on the basis of the nature of the asset and its stage of development. This segmentation is made in order to seek the liquidation of the asset (which should be carried out in the shortest possible time).

When making decisions, the situation and/or characteristics of the asset are fundamentally taken into account, as well as the evaluation of all the determining factors that favour the recovery of the debt. For them, the following aspects are analyzed, among others:

- The time that has elapsed since the adjudication.
- The transferability and contingencies of the foreclosed asset.
- The economic viability from the real estate point of view with the necessary investment estimate.
- The expenses that may arise from the marketing process.
- The offers received, as well as the difficulties in finding buyers.

[1] The assets in a situation of "stopped development" are included under "land".

In the case of real estate assets foreclosed in Spain, which represent 86% of the Group's total non-current assets held for sale, the valuation of the portfolio is carried out by applying the following models:

- Market Value Model used in the valuation of finished properties of a residential nature (mainly homes and car parks) and properties of a tertiary nature (offices, commercial premises and multipurpose buildings). For the valuation of finished assets whose availability for sale is immediate, a market sale value provided by a third party external to Banco Santander is considered, calculated under the AVM methodology by the comparable properties method adjusted by our experience in selling similar assets, given the term, price, volume, trend in the value of these assets and the time elapsing until their sale and discounting the estimated costs of sale.

  The market value is determined on the basis of the definition established by the International Valuation Standards drawn up by the IVSC (International Valuation Standards Council), understood as the estimated amount for which an asset or a liability should be exchanged on the measurement date between a willing buyer and a willing seller, in an arm's length transaction, after appropriate marketing, and in which the parties have acted with sufficient information, prudently and without coercion.

  The current market value of the properties is estimated on the basis of automated valuations obtained by taking comparable properties as a reference; simulating the procedure carried out by an appraiser in a physical valuation according to Order ECO 805/2003: selection of properties and obtaining the unit value by applying homogenisation adjustments. The selection of the properties is carried out by location within the same real estate cluster and according to the characteristics of the properties, filtering by type[2], surface area range and age. The model enables a distinction to be made within the municipality under study as to which areas are similar and comparable and therefore have a similar value in the property market, discriminating between which properties are good comparators and which are not.

  Adjustments to homogenize the properties are made according to: i) the age of the property according to the age of the property to be valued, ii) the deviation of the built area from the common area with respect to the property to be valued and iii) by age of the date of capture of the property according to the price evolution index of the real estate market.

  In addition, for individually significant assets, complete individual valuations are carried out, including a visit to the asset, market analysis (data relating to supply, demand, current sale or rental price ranges and supply-demand and revaluation expectations) and an estimate of expected income and costs.

  For this segmentation of assets, when they are completed, the real costs are known and the actual expenses for the marketing and sale of the asset must be taken into account. Therefore, Banco Santander uses the actual costs in its calculation engine or, failing that, those estimated on the basis of its observed experience.

- Market Value Model according to Evolution of Market Values used to update the valuation of developments in progress. The valuation model estimates the current market value of the properties based on complete individual valuations by third parties, calculated from the values of the feasibility studies and development costs of the promotion, as well as the selling costs, distinguishing by location, size and type of property. The inputs used in the valuation model for residential assets under construction are actual revenues and costs.

[2] Assets qualified as protected housing are taken into account. The Maximum Legal Value of these assets is determined by the VPO module, obtained from the result of multiplying the State Basic Module (MBE) by a zone coefficient determined by each Autonomous Community. To carry out the valuation of a protected property, the useful surface area is used in accordance with current regulations.

For this purpose, in order to calculate the investment flows, Banco Santander considers, on the basis of the feasibility studies, the expenditure required for construction, the professional fees relating to the project and to project management, the premiums for mandatory building insurance, the developer's administrative expenses, licences, taxes on new construction and fees, and urban development charges.

With respect to the calculation of income flows, Banco Santander takes into account the square metres built, the number of homes under construction and the estimated selling price over 1.5 years.

The market value will be the result of the difference between the income flows and the investment flows estimated at each moment.

- Land Valuation model. The methodology followed by the Group regarding land valuation consists of updating the individual reference valuation of each of the soils on an annual basis, through updated valuation valuations carried out by independent professionals and following the methodology established in the OM (Ministerial Order) ECO/805/2003, of 27 March, whose main verifications in the case of soil valuation, regardless of the degree of urbanisation of the soil, correspond to:

  – Visual verification of the assessed property.

  – Registry description.

  – Urban planning.

  – Visible easements.

  – Visible state of occupation, possession, use and exploitation.

  – Protection regime.

  – Apparent state of preservation.

  – Correspondence with cadastral property.

  – Existence of expropriation procedure, expropriation plan or project, administrative resolution or file that may lead to expropriation.

  – Expiry of the Urbanization or Building deadlines.

  – Existence of a procedure for failure to comply with obligations.

  – Verification of surfaces.

For the purposes of valuation, the land will be classified in the following levels:

  – Level I: It will include all the lands that do not belong to Level II.

  – Level II: It shall include land classified as undeveloped where building is not allowed for uses other than agriculture, forestry, livestock or linked to an economic exploitation permitted by the regulations in force. Also included are lands classified as developable that are not included in a development area of urban planning or that, in such an area, the conditions for its development have not been defined.

In those cases where the Bank does not have an updated reference value through an ECO valuation for the current year, we use as a reference value the latest available ECO valuation reduced or corrected by the average annual coverage ratio of the land on which we have obtained an updated reference value, through an ECO valuation.

The Bank applies a discount to the aforementioned reference values that takes into account both the discount on the reference value in the sales process and the estimated costs of marketing or selling the land:

Discount on reference value = % Discount on Sales + % Marketing Costs

being:

– % Discount on Sales: = 100 - (sales price / updated appraisal value).

– Marketing Costs: Calculated on the basis of our historical experience in sales and in accordance with the marketing management fees negotiated with our suppliers of this type of service.

In this way the Bank obtains the corrected market value, an amount that we compare with the net cost of each piece of land to determine its correct valuation and conclude with our valuation process.

In addition, in relation to the previously mentioned valuations, less costs to sell, are contrasted with the sales experience of each type of asset in order to confirm that there is no significant difference between the sale price and the valuation.

Impairment losses on an asset or disposal group arising from a reduction in its carrying amount to its fair value (less costs to sell) are recognised under Gains or (losses) on non current assets held for sale not classified as discontinued operations in the income statement. The gains on a non-current asset held for sale resulting from subsequent increases in fair value (less costs to sell) increase its carrying amount and are recognised in the income statement up to an amount equal to the impairment losses previously recognised.

j) Reinsurance Assets and Liabilities under insurance contracts

Insurance contracts linked to pensions on the asset side of the balance sheet, included in the section Other assets (Note 2.n) includes the amounts that the Bank is entitled to receive for insurance contracts with third parties and, specifically, the insurer's share of the technical provisions recorded by the insurance entities.

At least once a year these assets are reviewed to ascertain whether they are impaired (i.e. there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Bank may not receive all amounts due to it under the terms of the contract and the amount that will not be received can be reliably measured), and any impairment loss is recognised in the income statement and the assets are written down.

k) *Tangible assets*

Tangible assets includes the amount of buildings, land, furniture, vehicles, computer hardware and other fixtures owned by the consolidated entities or acquired under finance leases. Tangible assets are classified by use as follows:

i. Property, plant and equipment for own use

Property, plant and equipment for own use – including tangible assets received by the Bank in full or partial satisfaction of financial assets representing receivables from third parties which are intended to be held for continuing use and tangible assets acquired under finance leases– are presented at acquisition cost, less the related accumulated depreciation and any estimated impairment losses (carrying amount higher than recoverable amount).

Depreciation is calculated, using the straight-line method, on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The period tangible asset depreciation charge is recognized in the income statement and is calculated using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual rate
Buildings for own use	2
Furniture	10
Fixtures	5
Computer equipment	25
Vehicles	16
Other	5
Lease usage rights	Less than the lease term or the useful life of the underlying asset

The Bank assess at the reporting date whether there is any indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life has to be re-estimated).

Similarly, if there is an indication of a recovery in the value of a tangible asset, the Bank recognises the reversal of the impairment loss recognised in prior periods and adjust the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least at the end of the reporting period with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the income statement in future years on the basis of the new useful lives

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense in the period in which they are incurred, since they do not increase the useful lives of the assets.

ii. Investment property

Investment property reflects the net values of the land, buildings and other structures held either to earn rentals or for obtaining profits by sales due to future increase in market prices.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

In order to evaluate the possible impairment the Bank determines periodically the fair value of its investment property so that, at the end of the reporting period, the fair value reflects the market conditions of the investment property at that date. This fair value is determined annually, taking as benchmarks the valuations performed by independent experts. The methodology used to determine the fair value of investment property is selected based on the status of the asset in question; thus, for properties earmarked for lease, the valuations are performed using the sales comparison approach, whereas for leased properties the valuations are made primarily using the income capitalisation approach and, exceptionally, the sales comparison approach.

In the sales comparison approach, the property market segment for comparable properties is analysed, inter alia, and, based on specific information on actual transactions and firm offers, current prices are obtained for cash sales of those properties. The valuations performed using this approach are considered as Level 2 valuations.

In the income capitalisation approach, the cash flows estimated to be obtained over the useful life of the property are discounted taking into account factors that may influence the amount and actual obtainment thereof, such as: (i) the payments that are normally received on comparable properties; (ii) current and probable future occupancy; (iii) the current or foreseeable default rate on payments. The valuations performed using this approach are considered as Level 3 valuations, since significant unobservable inputs are used, such as current and probable future occupancy and/or the current or foreseeable default rate on payments.

iii. Assets leased out under an operating lease

Property, plant and equipment - Leased out under an operating lease reflects the amount of the tangible assets, other than land and buildings, leased out by the Bank under an operating lease.

The criteria used to recognise the acquisition cost of assets leased out under operating leases, to calculate their depreciation and their respective estimated useful lives and to recognise the impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use.

l) Accounting for leases

Since 1 January, 2019, the Bank has changed the accounting policy for leases when acting as a lessee (This accounting policy is described in Note 1.b.).

Until 31 December 2018, the accounting policy applied by the Bank when acting as lessee was the following

i. Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the Bank acts as the lessors of an asset, the sum of the present value of the lease payments receivable from the lessee, including the exercise price of the lessee's purchase option at the end of the lease term when such exercise price is sufficiently below fair value at the option date such that it is reasonably certain that the option will be exercised, is recognised as lending to third parties and is therefore included under Loans and receivables in the balance sheet.

When the Bank acts as the lessees, they present the cost of the leased assets in the balance sheet, based on the nature of the leased asset, and, simultaneously, recognise a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments payable to the lessor plus, if appropriate, the exercise price of the purchase option). The depreciation policy for these assets is consistent with that for property, plant and equipment for own use.

In both cases, the finance income and finance charges arising under finance lease agreements are credited and debited, respectively, to interest and similar income and Interest expense and similar charges in the income statement so as to produce a constant rate of return over the lease term.

ii. Operating leases

In operating leases, ownership of the leased asset and substantially all the risks and rewards incidental thereto remain with the lessor.

When the Bank acts as the lessor, it presents the acquisition cost of the leased assets under Tangible assets (see Note 15). The depreciation policy for these assets is consistent with that for similar items of property, plant and equipment for own use, and income from operating leases is recognised on a straight-line basis under Other operating income in the income statement.

When the Bank acts as the lessees, the lease expenses, including any incentives granted by the lessor, are charged on a straight-line basis to Other general administrative expenses in its income statements.

iii. Sale and leaseback transactions

In sale and leaseback transactions where the sale is at fair value and the leaseback is an operating lease, any profit or loss is recognised at the time of sale. In the case of finance leasebacks, any profit or loss is amortised over the lease term.

In accordance with Bank of Spain Circular 4/2017 and subsequent modifications, in determining whether a sale and leaseback transaction results in an operating lease, the Group should analyse, inter alia, whether at the inception of the lease there are purchase options whose terms and conditions make it reasonably certain that they will be exercised, and to whom the gains or losses from the fluctuations in the fair value of the residual value of the related asset will accrue.

m) Intangible assets

Intangible assets are identifiable non-monetary assets (separable from other assets) without physical substance which arise as a result of a legal transaction or which are developed internally by the Bank. Only assets whose cost can be estimated reliably and from which the consolidated entities consider it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Goodwill

Any excess of the cost of the investments in the equity of subsidiaries, joint ventures and associates entities accounted for using the equity method over the corresponding underlying carrying amounts acquired, adjusted at the date of first-time consolidation, is allocated as follows:

- If it is attributable to specific assets and liabilities of the companies acquired, by increasing the value of the assets (or reducing the value of the liabilities) whose fair values were higher (lower) than the carrying amounts at which they had been recognised in the acquired entities' balance sheets.

- If it is attributable to specific intangible assets, by recognising it explicitly in the balance sheet provided that the fair value of these assets within twelve months following the date of acquisition can be measured reliably.

- The remaining amount is recognised as goodwill, which is allocated to one or more cash-generating units (a cash-generating unit is the smallest identifiable group of assets that, as a result of continuing operation, generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets). The cash-generating units represent the Bank's geographical and/or business segments.

Goodwill (only recognised when it has been acquired by consideration) represents, therefore, a payment made by the acquirer in anticipation of future economic benefits from assets of the acquired entity that are not capable of being individually identified and separately recognised.

Goodwill, in accordance with Bank of Spain Circular 4/2017, will be amortised over a 10-year period unless proven otherwise. The debits to the income statements for the amortisation of these assets are recorded under the section Amortisation in the income statement.

At the end of each annual reporting period or whenever there is any indication of impairment goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to below its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to Impairment or reversal of impairment on non-financial assets, net - Intangible assets in the income statement.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

ii. Other intangible assets

Other intangible assets includes the amount of identifiable intangible assets (such as purchased customer lists and computer software).

In accordance with Rule Twenty Eight of Bank of Spain Circular 4/2017, in the financial statements (individual and consolidated) not subject to the framework of International Financial Reporting Standards, intangible assets will be assets with a limited useful life.

Intangible assets useful life may not exceed the period during which the entity is entitled to use the asset. If the right of use is for a limited period that can be renewed, the useful life will include the renewal period only when there is evidence that the renewal will be carried out without significant cost.

When the useful life of assets cannot be estimated reliably, they will be amortized over a period of ten years. In the absence of evidence to the contrary, the useful life of goodwill, if applicable, shall be deemed ten years.

Intangible assets shall be amortised in accordance with the criteria established for the tangible assets (a maximum period of 10 years). The Bank reviews, at least at the end of each year, the amortisation period and the amortisation method of each of its intangible assets and, if it considers that they are not appropriate, the impact will be treated as a change in its accounting estimates.

The intangible asset amortisation charge is recognised under Depreciation and amortisation cost in the income statement.

In both cases the Bank recognises any impairment loss on the carrying amount of these assets with a charge to Impairment or reversal of impairment on non-financial assets, net - Intangible assets in the income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for tangible assets (See Note 2.k).

Internally developed computer software

Internally developed computer software is recognised as an intangible asset if, among other requisites (basically the Bank's ability to use or sell it), it can be identified and its ability to generate future economic benefits can be demonstrated.

Expenditure on research activities is recognised as an expense in the year in which it is incurred and cannot be subsequently capitalised into the carrying amount of the intangible asset.

n) Other assets

Other assets in the balance sheet includes the amount of any assets not recorded in other items, the breakdown being as follows:

- Inventories: this item includes the amount of assets, other than financial instruments, that are held for sale in the ordinary course of business, that are in the process of production, construction or development for such purpose, or that are to be consumed in the production process or in the provision of services. Inventories include land and other property held for sale in the property development business.

  Inventories are measured at the lower of cost and net realisable value, which is the estimated selling price of the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs required to make the sale.

  Any write-downs of inventories -such as those due to damage, obsolescence or reduction of selling price- to net realisable value and other impairment losses are recognised as expenses for the year in which the impairment or loss occurs. Subsequent reversals are recognised in the income statement for the year in which they occur.

  The carrying amount of inventories is derecognised and recognised as an expense in the period in which the revenue from their sale is recognised.

- Other: this item includes the balance of all prepayments and accrued income (excluding accrued interest, fees and commissions), the net amount of the difference between pension plan obligations and the value of the plan assets with a balance in the entity's favour, when this net amount is to be reported in the balance sheet, and the amount of any other assets not included in other items.

Additionally, in this chapter at 31 December 2019, the right of collection acquired from Enagás Transporte is registered in the amount of EUR 666 million of principal charged to the gas system conferred by Royal Decree-Law 13/2004 (for which urgent measures were adopted in relation to with the gas system and due to the extraordinary and urgent need to find a solution to the complex technical situation existing in the underground storage of natural gas «Castor», especially after the resignation of the concession presented by its owner).

In the aforementioned RD-law, it was agreed the hibernation of the Castor gas submarine storage facilities and the assignation of the operations required for its maintenance and operability to Enagás Transporte. It also recognised the value of the investment at EUR 1,350 million and an obligation to pay this amount to the holder of the extinguished concession by Enagás Transporte, recognising a collection right, charged to the monthly billing for access tolls and gas system fees during 30 years, for the amount paid to the holder of the extinguished concession plus the financial remuneration recognised by the RD-law.

Banco Santander acquired, along with other financial entities, the collection right for its nominal redemption value under a contract with full legal effectiveness and protected, in good faith, in the full constitutionality of the RD-law that created it, set its amount, established the legal mechanism for its payment from the gas system and allowed its transfer with full effect against it.

On 21 December 2017 the Constitutional Court gave a judgement declaring unconstitutional certain provisions of RD-Law 13/2014 and cancelling them due to procedural defect, considering that the urgency reasons for which said provisions had to be excluded from the ordinary legislative procedure were not proven. Among others, the recognition of the costs accrued until the entry into force of the Royal Decree by the concessionaire waiving the investment and, therefore, the compensation of EUR 1,350 million, and the recognition of Enagás Transporte's right of collection from the gas system for the amount of this compensation were cancelled.

Because of the termination of the payment of the right of collection and the obligation to reimburse the amounts received following the declaration of unconstitutionality of the RD-law, the Bank has internally analysed the situation and, with due external advice, has concluded that the probability of recovery of the total amount invested is high, highlighting that the opinion of the Permanent Commission of the State Council No. 196/2019, of 27 June, in the ex officio review file of the final settlements paid to the bank under the gas system, and considers that the current situation involves an unjust enrichment of the State (or the gas system) having received a work but not having assumed the cost of its construction by the concessionaire.

The bank has also initiated the administrative and judicial procedures that it has considered appropriate for the defence of its rights. None of these procedures have been concluded yet, but the bank considers them likely to be favourably resolved, existing other recovery channels available in the event that those described above are not successful. This indemnification asset, since it does not arise as a consequence of a contract, but rather from the liability of the State legislator, does not meet the definition of a financial asset. Consequently, and since it has the characteristic of certain, it also does not meet the definition of a contingent asset, it was classified as a non-financial asset.

ñ) Other liabilities

Other liabilities includes the balance of all accrued expenses and deferred income, excluding accrued interest, and the amount of any other liabilities not included in other categories.

o) Provisions and contingent assets and liabilities

When preparing the Bank's financial statements, the Bank’s directors made a distinction between:

- Provisions: credit balances covering present obligations at the reporting date arising from past events which could give rise to a loss for the Bank, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing.

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Bank. They include the present obligations of the Bank when it is not probable that an outflow of resources embodying economic benefits will be required to settle them. The Bank does not recognise the contingent liability. The Bank will disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

- Contingent assets: possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by, the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent assets are not recognised in the balance sheet or in the income statement, but rather are disclosed in the notes, provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

The Bank's financial statements include all the material provisions with respect to which it is considered that it is more likely than not the obligation will have to be settled. In accordance with accounting standards, contingent liabilities must not be recognised in the financial statements, but must rather be disclosed in the notes.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

Provisions are classified according to the obligations covered as follows (see Note 23):

- Provision for pensions and similar obligations: includes the amount of all the provisions made to cover post-employment benefits, including obligations to pre-retirees and similar obligations.

- Provisions for contingent liabilities and commitments: include the amount of the provisions made to cover contingent liabilities -defined as those transactions in which the Group guarantees the obligations of a third party, arising as a result of financial guarantees granted or contracts of another kind- and contingent commitments -defined as irrevocable commitments that may give rise to the recognition of financial assets.

- Provisions for taxes and other legal contingencies and Other provisions: include the amount of the provisions recognised to cover tax and legal contingencies and litigation and the other provisions recognised by the Bank. Other provisions includes, inter alia, any provisions for restructuring costs and environmental measures.

p) *Court proceedings and/or claims in process*

At the end of 2019 certain court proceedings and claims were in process against the Bank arising from the ordinary course of their operations (see Note 23).

q) *Own equity instruments*

Own equity instruments are those meeting both of the following conditions:

- The instruments do not include any contractual obligation for the issuer: (i) to deliver cash or another financial asset to a third party; or (ii) to exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the issuer.

- The instruments will or may be settled in the issuer's own equity instruments and are: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled by the issuer through the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Transactions involving own equity instruments, including their issuance and cancellation, are charged directly to equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the consolidated financial statements. Consideration received or paid in exchange for such instruments, including the coupons on preference shares contingently convertible into ordinary shares and the coupons associated with CCPP, is directly added to or deducted from equity.

r) *Equity-instrument-based employee remuneration*

Own equity instruments delivered to employees in consideration for their services, if the instruments are delivered once the specific period of service has ended, are recognised as an expense for services (with the corresponding increase in equity) as the services are rendered by employees during the service period. At the grant date the services received (and the related increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments granted are vested immediately, the Bank recognises in full, at the grant date, the expense for the services received.

When the requirements stipulated in the remuneration agreement include external market conditions (such as equity instruments reaching a certain quoted price), the amount ultimately to be recognised in equity will depend on the other conditions being met by the employees (normally length of service requirements), irrespective of whether the market conditions are satisfied. If the conditions of the agreement are met but the external market conditions are not satisfied, the amounts previously recognised in equity are not reversed, even if the employees do not exercise their right to receive the equity instruments.

s) *Recognition of income and expenses*

The most significant criteria used by the Bank to recognise income and expenses are summarised as follows:

i. Interest income, interest expenses and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies are recognised as income when the Bank's right to receive them arises.

However, the recognition of accrued interest in the income statement is suspended for debt instruments individually classified as impaired and for the instruments for which impairment losses have been assessed collectively because they have payments more than 90 days past due. Any interest that may have been recognised in the income statement before the corresponding debt instruments were classified as impaired, and that had not been collected at the date of that classification, is considered when determining the allowance for loan losses; accordingly, if subsequently collected, the reversal of the related impairment losses on this interest is recognised. Interest whose recognition in the income statement has been suspended is accounted for as interest income, when collected, on a cash basis.

ii. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to financial assets and financial liabilities measured at fair value through profit or loss are recognised when paid.

- Those arising from transactions or services that are performed over a period of time are recognised over the life of these transactions or services.

- Those relating to services provided in a single act are recognised when the single act is carried out.

iii. Non-finance income and expenses

They are recognised for accounting purposes when the good is delivered or the non-financial service is rendered. To determine the amount and timing of recognition, a five-step model is followed: identification of the contract with the customer, identification of the separate obligations of the contract, determination of the transaction price, distribution of the transaction price among the identified obligations and finally recording of income as the obligations are satisfied.

iv. Deferred collections and payments

These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

v. Loan arrangement fees

Loan arrangement fees, mainly loan origination, application and information fees, are accrued and recognised in income over the term of the loan.

t) Financial guarantees

Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, insurance policies or credit derivatives.

The Bank initially recognises the financial guarantees provided on the liability side of the balance sheet at fair value, which is generally the present value of the fees, commissions and interest receivable from these contracts over the term thereof, and simultaneously the Bank recognises the amount of the fees, commissions and similar interest received at the inception of the transactions and a credit on the asset side of the balance sheet for the present value of the fees, commissions and interest outstanding.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost (described in Note 2.g above).

The provisions made for these transactions are recognised under Provisions - Provisions for contingent liabilities and commitments and guarantees given in the balance sheet (See note 23). These provisions are recognised and reversed with a charge or credit, respectively, to Provisions or reversal of provisions, net, in the consolidated income statement.

If a specific provision is required for financial guarantees, the related unearned commissions recognised under Financial liabilities at amortised cost - Other financial liabilities in the balance sheet are reclassified to the appropriate provision.

u) Post-employment benefits

Under the collective agreements currently in force and other arrangements, the Bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability or death, and the post-employment welfare benefits.

The Bank's post-employment obligations to its employees are deemed to be defined contribution plans when the Bank makes pre-determined contributions (recognised under personnel expenses in the income statement) to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as defined benefit plans (see Note 23).

Defined contribution plans

*T*he contributions made in this connection in each year are recognised under Personnel expenses in the income statement. The amounts not yet contributed at each year-end are recognised, at their present value, under Provisions - Provision for pensions and similar obligations on the liability side of the balance sheet.

Defined benefit plans

The Bank recognises under Provisions - Provision for pensions and similar obligations on the liability side of the balance sheet (or under Other assets on the asset side, as appropriate) the present value of its defined benefit post-employment obligations, net of the fair value of the plan assets.

Plan assets are defined as those that will be directly used to settle obligations and that meet the following conditions:

- They are not owned by the Bank, but by a legally separate third party that is not a party related to the Bank.

- They are only available to pay or fund post-employment benefits and they cannot be returned to the Bank unless the assets remaining in the plan are sufficient to meet all the benefit obligations of the plan and of the entity to current and former employees, or they are returned to reimburse employee benefits already paid by the Bank.

If the Bank can look to an insurer to pay part or all of the expenditure required to settle a defined benefit obligation, and it is practically certain that said insurer will reimburse some or all of the expenditure required to settle that obligation, but the insurance policy does not qualify as a plan asset, the Bank recognises its right to reimbursement -which, in all other respects, is treated as a plan asset- under Insurance contracts linked to pensions on the asset side of the balance sheet.

Post-employment benefits are recognised as follows:

- Current service cost, (the increase in the present value of the obligations resulting from employee service in the current period), is recognised under Staff costs.
- The past service cost, which arises from changes to existing post-employment benefits or from the introduction of new benefits and includes the cost of reductions, is recognised under Provisions or reversal of provisions.

- Any gain or loss arising from a liquidation of the plan is included in the provisions or reversion of provisions.

- Net interest on the net defined benefit liability (asset), i.e. the change during the period in the net defined benefit liability (asset) that arises from the passage of time, is recognised under Interest expense and similar charges (Interest and similar income if it constitutes income) in the income statement.

The remeasurement of the net defined benefit liability (asset) is recognised under Other comprehensive income under items not reclassified to profit or loss and includes:

- Actuarial gains and losses generated in the year, arising from the differences between the previous actuarial assumptions and what has actually occurred and from the effects of changes in actuarial assumptions.

- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

- Any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

v) Other long-term employee benefits

Other long-term employee benefits, defined as obligations to pre-retirees -taken to be those who have ceased to render services at the entity but who, without being legally retired, continue to have economic rights vis-à-vis the entity until they acquire the legal status of retiree-, long-service bonuses, obligations for death of spouse or disability before retirement that depend on the employee's length of service at the entity and other similar items, are treated for accounting purposes, where applicable, as established above for defined benefit post-employment plans, except that actuarial gains and losses are recognised under Provisions or reversal of provisions, net, in the income statement (see Note 23).

w) Termination benefits

Termination benefits are recognised when there is a detailed formal plan identifying the basic changes to be made, provided that implementation of the plan has begun, its main features have been publicly announced or objective facts concerning its implementation have been disclosed.

x) Income tax

The income tax expense is recognised in the income statement, except when they arise from a transaction whose results are recognised directly in equity, in which case the related tax effect is recognised in equity.

The current income tax expense is calculated as the sum of the current tax resulting from application of the appropriate tax rate to the taxable profit for the year (net of any deductions allowable for tax purposes), and of the changes in deferred tax assets and liabilities recognised in the income statement.

Deferred tax assets and liabilities include temporary differences, which are identified as the amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their related tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Tax assets includes the amount of all tax assets, which are broken down into current -amounts of tax to be recovered within the next twelve months- and deferred -amounts of tax to be recovered in future years, including those arising from tax loss or tax credit carryforwards.

Tax liabilities includes the amount of all tax liabilities (except provisions for taxes), which are broken down into current -the amount payable in respect of the income tax on the taxable profit for the year and other taxes in the next twelve months- and deferred -the amount of income tax payable in future years.

Deferred tax liabilities are recognised in respect of taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, except when the Bank is able to control the timing of the reversal of the temporary difference and, in addition, it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are only recognised for temporary differences to the extent that it is considered probable that the Bank will have sufficient future taxable profits against which the deferred tax assets can be utilised, and the deferred tax assets do not arise from the initial recognition (except in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Other deferred tax assets (tax loss and tax credit carryforwards) are only recognised if it is considered probable it will have sufficient future taxable profits against which they can be utilised.

Income and expenses recognised directly in equity are accounted for as temporary differences.

The deferred tax assets and liabilities are reassessed at the reporting date in order to ascertain whether any adjustments need to be made on the basis of the findings of the analyses performed.

y) *Residual maturity periods and average interest rates*

The analysis of the maturities of the balances of certain items in the balance sheet and the average interest rates at the end of the reporting periods is provided in Note 48.

z) *Statement of recognized income and expenses*

This statement presents the income and expenses generated by the Bank as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the income statement for the year and the other income and expenses recognised directly in equity.

Accordingly, this statement presents:

a. Profit for the year.

b. The net amount of the income and expenses recognised in Other comprehensive income under items that will not be reclassified to profit or loss.

c. The net amount of the income and expenses recognised in Other comprehensive income under items that may be reclassified subsequently to profit or loss.

d. The income tax incurred in respect of the items indicated in b) and c) above, except for the valuation adjustments arising from investments in associates or joint ventures accounted for using the equity method, which are presented net.

e. Total recognised income and expense calculated as the sum of a) to d) above, presenting separately the amount attributable to the parent company and the amount relating to non-controlling interests.

The statement presents the items separately by nature, grouping together items that, in accordance with the applicable accounting standards, will not be reclassified subsequently to profit and loss since the requirements established by the corresponding accounting standards are met.

aa) *Statement of changes in total equity*

This statement presents all the changes in equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the equity items, and the changes are grouped together on the basis of their nature into the following items:

a. Adjustments due to changes in accounting policies and to errors: include the changes in equity arising as a result of the retrospective restatement of the balances in the financial statements, distinguishing between those resulting from changes in accounting policies and those relating to the correction of errors.

b. Income and expense recognised in the year: includes, in aggregate form, the total of the aforementioned items recognised in the statement of recognised income and expense.

c. Other changes in equity: includes the remaining items recognised in equity, including, inter alia, increases and decreases in capital, distribution of profit, transactions involving own equity instruments, equity-instrument-based payments, transfers between equity items and any other increases or decreases in equity.

ab)Statements of cash flows

The following terms are used in the statements of cash flows with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value, irrespective of the portfolio in which they are classified.

  The Bank classifies as cash and cash equivalents the balances recognised under Cash, cash balances at Central Banks and other deposits on demand in the balance sheet.

- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities.

During 2019, the Bank received interest amounting to EUR 7,597 million and paid interest amount to EUR 4,554 million (EUR 6,989 and 4,886 million euro, respectively in 2018).

Likewise, the dividends received and paid by the Bank are detailed in Notes 4 and 36.

3. Santander Group

a) *Banco Santander, S.A. and international Group structure.*

The growth of the Group in the last decades has led the Bank to also act, in practice, as a holding entity of the shares of the various companies in its Group, and its results are becoming progressively less representative of the performance and earnings of the Group. Therefore, each year the Bank determines the amount of the dividends to be distributed to its shareholders on the basis of the consolidated net profit, while maintaining the Group's objectives of capitalisation and taking into account that the transactions of the Bank and of the rest of the Group are managed on a consolidated basis (notwithstanding the allocation to each company of the related net worth effect).

At the international level, the various banks and other subsidiaries, joint ventures and associates of the Group are integrated in a corporate structure comprising various holding companies which are the ultimate shareholders of the banks and subsidiaries abroad.

The purpose of this structure, all of which is controlled by the Bank, is to optimise the international organisation from the strategic, economic, financial and tax standpoints, since it makes it possible to define the most appropriate units to be entrusted with acquiring, selling or holding stakes in other international entities, the most appropriate financing method for these transactions and the most appropriate means of remitting the profits obtained by the Group's various operating units to Spain.

The Appendices provide relevant data on the consolidated Group companies and on the companies accounted for using the equity method.

b) ***Acquisitions and disposals***

Following is a summary of the main acquisitions and disposals of ownership interests in the share capital of other entities and other significant corporate transactions performed by the Bank in the last two years:

i- Agreement for the acquisition of 50.1% of Ebury

On 4 November 2019, Banco Santander, S.A. announced a strategic investment in Ebury, one of the best payments and currency platforms for SMEs, worth GPG 350 million (approximately EUR 400 million). In accordance with the conditions of the operation, Santander will acquire 50.1% of Ebury for GBP 350 million, of which GBP 70 million correspond to new shares (approximately EUR 80 million) to support the company's plans to enter in new markets in Latin America and Asia.

As of 31 December 2019, the Group had acquired a 6.4% interest in Ebury for a price of GBP 40 million (approximately EUR 45 million), pending the rest of the investment in compliance with the usual suspensive conditions in this type of operations, including obtaining regulatory approvals. The rest of the investment is expected to be completed in 2020.

ii- Offer to acquire shares of Banco Santander Mexico, S.A., Institución de Banca Multiple, Grupo Financiero Santander México.

On 12 April 2019, Banco Santander, S.A. announced its intention to make an offer to acquire all the shares of Banco Santander Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México ("Santander México") which are not owned by Grupo Santander, representing approximately 25% of the share capital of Santander México.

The shareholders who have accepted the offer have received 0.337 newly issued shares of Banco Santander, S.A. per share of Santander México and 1.685 American Depositary Shares (ADSs) of Banco Santander, S.A. per ADS of Santander México.

The offer was accepted by holders of shares representing 16.69% of the capital stock of Santander Mexico, so the Group's participation in Santander Mexico has become 91.65% of its share capital. To meet the exchange, the Bank proceeded to issue, in execution of the agreement adopted by the extraordinary general meeting held on 23 July 2019, 381,540,640 shares, which represented approximately 2.35% of the Bank's share capital in the date of issue. This operation meant an increase of 191 million euros in Capital and 1,491 million euros in issue premium.

iii- Reorganization of the banking insurance business, asset management and pension plans in Spain

On 24 June 2019, Banco Santander, S.A. reached an agreement with the Allianz Group to terminate the agreement that Banco Popular Español, S.A.U. ("Banco Popular") held in Spain with the Allianz Group for the exclusive distribution of certain life insurance products, non-life insurance products, collective investment institutions, and pension plans through the Banco Popular network (the "Agreement").

The Agreement was executed on 15 January 2020 for the non-life business and on 31 January 2020 for the remaining businesses, once the regulatory authorisations were obtained in the first half of 2020. The execution of the Termination Agreement entailed the payment by Banco Santander of a total consideration of EUR 859 million (after deducting the dividends paid until the end of the operation).

It is expected that, subject to the fulfilment of certain suspensive conditions, 51% of the life-risk insurance business held by Banco Santander and 51% of the new General Insurance line of business from Banco Popular's network not transferred to Mapfre (in accordance with the agreement indicated below) will be acquired by Aegon.

These transactions are not expected to have a significant impact on the Bank's income statement.

In addition, under the agreement reached between Banco Santander and Mapfre on 21 January 2019, 50.01% of the car, commercial, SME and corporate liability insurance business throughout Banco Santander's network in Spain was acquired by Mapfre on 25 June 2019 for EUR 82 million.

iv- Sale of the 49% stake in Wizink

Once the relevant regulatory authorizations were obtained, on 6 November 2018 the operations related to the agreement reached with entities managed by Värde Partners, Inc ("Varde) and with WiZink Bank, S.A. ("WiZink") communicated by the Group on 26 March 2018 by virtue of which:

i. Banco Santander, S.A. sold its 49% stake in WiZink to Varde for EUR 1,043 million, with no significant impact on the Bank's results and,

ii. Banco Santander, S.A. and Banco Santander Totta, S.A. acquired the business of credit and debit cards marketed by Grupo Banco Popular in Spain and Portugal that WiZink had acquired in 2014 and 2016. As a result of this transaction, the Bank paid a total of EUR 681 million, receiving net assets worth EUR 306 million (mainly customer loans worth EUR 315 million), with the business combination generating a goodwill of EUR 375 million, which will be managed by the businesses in Spain.

With these transactions, the Bank resumed Grupo Banco Popular's debit and credit card business, which improves the commercial strategy.

v- Sale agreement of Banco Popular S.A.U.'s real estate business

In relation with Banco Popular Español S.A.U's real estate business, on 8 August 2017, the Group announced the agreement with a Blackstone fund for the acquisition by the fund of 51% of, and hence the assignment of control over, part of Banco Popular's real estate business (the "Business"), which comprises a portfolio of foreclosed properties, real estate companies, non-performing loans relating to the sector and other assets related to these activities owned by Banco Popular and its affiliates (including deferred tax assets allocated to specific real estate companies which are part of the transferred portfolio) registered on certain specified dates (31 March 2017 or 30 April 2017).

The agreements were entered following the European Commission's unconditional authorization of the acquisition of Banco Popular Español S.A.U. by Banco Santander, S.A. for the purposes of competition law.

The transaction closed on 22 March 2018 following receipt of the required regulatory authorizations and other usual conditions in this type of transactions. The transaction consisted of the creation of various companies, being the parent company Project Quasar Investments 2017, S.L., in which Banco Santander, S.A. maintains 49% of the share capital and Blackstone the remaining 51%, and to which Banco Popular and some subsidiaries transferred the business constituted by the indicated assets, and its participation in the capital of Aliseda Real Estate Management Services, S.L. The value attributed to the contributed assets is approximately 10,000 million euros (see Note 13), of which approximately 70% was financed with third party bank debt. After the contribution to the vehicle by its shareholders of the necessary liquidity for the transaction of the business, the 49% stake in the capital of the vehicles was recorded in the balance sheet of the Bank for EUR 1,701 million in the "Investments in joint ventures and associates - entities" section ii.)., without impact in the Bank´s income statement.

vi- Merger by absorption of Banco Santander, S.A. with Banco Popular Español, S.A.U.

On 23 April 2018 the boards of directors of Banco Santander, S.A. and Banco Popular Español, S.A.U. agreed to approve and sign the merger project by absorption of Banco Popular Español, S.A.U. by Banco Santander, S.A.

On 28 September 2018 the merger certificate of Banco Popular Español, S.A.U. by Banco Santander, S.A. was registered in the Mercantile Registry of Cantabria. After the merger, Banco Santander, S.A. has acquired, by universal succession, all the rights and obligations of Banco Popular Español, S.A.U., including those that have been acquired from Banco Pastor, S.A.U. and Popular Banca Privada, S.A.U., by virtue of the merger of Banco Pastor, S.A.U. and Popular Banca Privada, S.A.U. with Banco Popular Español, S.A.U. that was also approved on 23 April 2018 by the respective board of directors (See Note 1.i.).

c) *Off-shore entities*

According to current Spanish regulation (Royal Decree 1080/1991, of 5th July), Santander has entities in 4 off- shore territories: Jersey, Guernsey, Isle of Man and Cayman Islands. Santander has 3 subsidiaries and 4 branches in these territories. Santander also has 4 subsidiaries in off- shore territories, of which 3 are tax resident in the UK and 1 tax resident in Spain, to whose tax regimes they are subjected.

I) Subsidiaries in off-shore territories.

At the reporting date, the Group has 3 subsidiaries resident in off-shore territories, two in Jersey, whitewick limited (in liquidation) and Abbey National International Limited, and one in the Isle of Man, ALIL Services limited (its liquidation is expected in 2020). These subsidiaries contributed with a very immaterial result to he Group's consolidated profit in 2019. During 2019 a subsidiary resident in Jersey has been liquidated.

II) Off-shore branches.

The Group also has 4 operative off-shore branches: 2 in the Cayman Islands, 1 in the Isle of Man and 1 in Jersey. These branches report to and consolidate their balance sheets and income statements with their respective foreign headquarters. Likewise they are taxed with their respective headquarters (Cayman Islands branches, one of Brazil and other of USA) or in the territories where they are located (Jersey and Isle of Man branches belonging to UK).

The aforementioned entities of Sections I and II have a total of 135 employees as of December 2019.

III) Subsidiaries in off-shore territories that are tax resident in the UK and Spain.

As indicated, the Group also has 4 subsidiaries constituted in these territories that are not considered to be off-shore entities, since 3 of them are tax residents in the UK and, therefore, subject to UK tax law during the period and operate exclusively from the UK (one of these subsidiaries is expected to be liquidated in 2020). In addition, since April 2018, the fourth subsidiary ceased to be a resident for tax purposes in the UK to become a tax resident in Spain.

IV) Other off-shore investments.

The Group manages from Brazil a segregated portfolio company called Santander Brazil Global Investment Fund SPC in the Cayman Islands, and manages from the United Kingdom a protected cell company in Guernsey called Guaranteed Investment Products 1 PCC Limited. The Group also has, directly or indirectly, few investments of reduced amount in entities located in the Cayman Islands, as is the case of the minority stakes through a subsidiary in UK.

OECD.

The Group has no presence in non-cooperative territories for tax purposes as defined by the OECD in July 2019. In this sense it should be noted that Jersey, Guernsey, Isle of Man and Cayman Islands, comply with OECD standards in terms of transparency and exchange of information for tax purposes.

The European Union.

After the last update published in February 2020, the EU blacklist is composed of 12 jurisdictions in which the Group only has presence in Cayman Islands, also considered offshore territory by Spanish legislation, and one entity without activity and in process of sale in Panama. On the contrary, the Group has no presence in any of the 13 jurisdictions in the gray list that have committed, in a way considered sufficient, to correct their legal frameworks to align them with international standards and whose implementation will be monitored by the EU.

The Group has established appropriate procedures and controls (risk management, supervision, verification and review plans and periodic reports) to prevent reputational, tax and legal risk at these entities. In addition, the Group has continued to implement its policy of reducing the number of these off-shore units.

The financial statements of the Group’s off-shore units are audited by PwC (PricewaterhouseCoopers) member firms in 2019, 2018 and 2017.

d) *Group consolidated balance sheet, income statement, statement of recognised income and* expenses, statement of changes in total equity and cash-flow statement

The Group's consolidated balance sheets at December 31, 2019 and 2018 and the consolidated income statements, consolidated statements of recognised income and expense, consolidated statements of changes in total equity and consolidated statements of cash flows for the years then ended are as follows:

Santander Group – Consolidated balance sheets –- (millions of euros)

ASSETS	2019	2018 (*)
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND	**101,067**	**113,663**
FINANCIAL ASSETS HELD FOR TRADING	**108,230**	**92,879**
Derivatives	63,397	55,939
Equity instruments	12,437	8,938
Debt instruments	32,041	27,800
Loans and advances	355	202
Central banks	-	-
Credit institutions	-	-
Customers	355	202
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*28,445*	*23,495*
NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS	**4,911**	**10,730**
Equity instruments	3,350	3,260
Debt instruments	1,175	5,587
Loans and advances	386	1,883
Central banks	-	-
Credit institutions	-	2
Customers	386	1,881
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*224*	-
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	**62,069**	**57,460**
Debt instruments	3,186	3,222
Loans and advances	58,883	54,238
Central banks	6,473	9,226
Credit institutions	21,649	23,097
Customers	30,761	21,915
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*8,340*	*6,477*
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**125,708**	**121,091**
Equity instruments	2,863	2,671
Debt instruments	118,405	116,819
Loans and advances	4,440	1,601
Central banks	-	-
Credit institutions	-	-
Customers	4,440	1,601
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*29,116*	*35,558*
FINANCIAL ASSETS AT AMORTISED COST	**995,482**	**946,099**
Debt instruments	29,789	37,696
Loans and advances	965,693	908,403
Central banks	18,474	15,601
Credit institutions	40,943	35,480
Customers	906,276	857,322
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	*19,993*	*18,271*
HEDGING DERIVATIVES	**7,216**	**8,607**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RISK	**1,702**	**1,088**
INVESTMENTS	**8,772**	**7,588**
Joint ventures entities	1,325	979
Associated entities	7,447	6,609
ASSETS UNDER INSURANCE OR REINSURANCE CONTRACTS	**292**	**324**
TANGIBLE ASSETS	**35,235**	**26,157**
Property, plant and equipment	34,262	24,594
For own-use	*15,041*	*8,150*
Leased out under an operating lease	*19,221*	*16,444*
Investment property	973	1,563
Of which leased out under an operating lease	*823*	*1,195*
Memorandum items:acquired in lease	*5,051*	*98*
INTANGIBLE ASSETS	**27,687**	**28,560**
Goodwill	24,246	25,466
Other intangible assets	3,441	3,094
TAX ASSETS	**29,585**	***30,251***
Current tax assets	6,827	6,993
Deferred tax assets	22,758	23,258
OTHER ASSETS	**10,138**	**9,348**
Insurance contracts linked to pensions	192	210
Inventories	5	147
Other	9,941	8,991
NON-CURRENT ASSETS HELD FOR SALE	**4,601**	**5,426**
TOTAL ASSETS	**1,522,695**	**1,459,271**

(*) Presented for comparison purposes only.

LIABILITIES	2019	2018 (*)
FINANCIAL LIABILITIES HELD FOR TRADING	**77,139**	**70,343**
Derivatives	63,016	55,341
Short positions	14,123	15,002
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Marketable debt securities	-	-
Other financial liabilities	-	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS	**60,995**	**68,058**
Deposits	57,111	65,304
Central banks	12,854	14,816
Credit institutions	9,340	10,891
Customers	34,917	39,597
Marketable debt securities	3,758	2,305
Other financial liabilities	126	449
Memorandum ítems:subordinated liabilities	-	-
FINANCIAL LIABILITIES AT AMORTISED COST	**1,230,745**	**1,171,630**
Deposits	942,417	903,101
Central banks	62,468	72,523
Credit institutions	90,501	89,679
Customers	789,448	740,899
Marketable debt securities	258,219	244,314
Other financial liabilities	30,109	24,215
Memorandum ítems:subordinated liabilities	*21,062*	*23,820*
HEDGING DERIVATIVES	**6,048**	**6,363**
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**269**	**303**
LIABILITIES UNDER INSURANCE OR REINSURANCE CONTRACTS	**739**	**765**
PROVISIONS	**13,987**	**13,225**
Pensions and other post-retirement obligations	6,358	5,558
Other long term employee benefits	1,382	1,239
Taxes and other legal contingencies	3,057	3,174
Contingent liabilities and commitments	739	779
Other provisions	2,451	2,475
TAX LIABILITIES	**9,322**	**8,135**
Current tax liabilities	2,800	2,567
Deferred tax liabilities	6,522	5,568
OTHER LIABILITIES	**12,792**	**13,088**
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**-**	**-**
TOTAL LIABILITIES	**1,412,036**	**1,351,910**
SHAREHOLDERS´ EQUITY	**122,103**	**118,613**
CAPITAL	**8,309**	**8,118**
Called up paid capital	8,309	8,118
Unpaid capital which has been called up	-	-
Memorandum items: uncalled up capital	-	-
SHARE PREMIUM	**52,446**	**50,993**
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL	**598**	**565**
Equity component of the compound financial instrument	-	-
Other equity instruments issued	598	565
OTHER EQUITY	**146**	**234**
ACCUMULATED RETAINED EARNINGS	**61,028**	**56,756**
REVALUATION RESERVES	**-**	**-**
OTHER RESERVES	**(5,246)**	**(3,567)**
Reserves or accumulated losses in joint ventures investments	1,166	917
Others	(6,412)	(4,484)
(-) OWN SHARES	**(31)**	**(59)**
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**6,515**	**7,810**
(-) INTERIM DIVIDENDS	**(1,662)**	**(2,237)**
OTHER COMPREHENSIVE INCOME	**(22,032)**	**(22,141)**
ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS	**(4,288)**	**(2,936)**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(17,744)**	**(19,205)**
NON-CONTROLLING INTEREST	**10,588**	**10,889**
Other comprehensive income	(982)	(1,292)
Other items	11,570	12,181
EQUITY (*)	**110,659**	**107,361**
TOTAL LIABILITIES AND EQUITY	**1,522,695**	**1,459,271**
MEMORANDUM ITEMS: OFF BALANCE SHEET AMOUNTS		
Loans commitment granted	241,179	218,083
Financial guarantees granted	13,650	11,723
Other commitments granted	68,895	74,389

Santander Group – Consolidated statement of income (millions of euros)

	(Debit) Credit	
	2019	2018 (*)
Interest income	56,785	54,325
Financial assets at fair value through other comprehensive income	*3,571*	*4,481*
Financial assets at amortized cost	*48,552*	*47,560*
Other interest income	*4,662*	*2,284*
Interest expense	(21,502)	(19,984)
Interest income / (charges)	**35,283**	**34,341**
Dividend income	533	370
Income from companies accounted for using the equity method	324	737
Commission income	15,349	14,664
Commission expense	(3,570)	(3,179)
Gain or losses on financial assets and liabilities not measured at fair value through profit or loss, net	1,136	604
Financial assets at amortized cost	308	39
Other financial assets and liabilities	828	565
Gain or losses on financial assets and liabilities held for trading, net	1,349	1,515
Reclassification of financial assets at fair value through other comprehensive income	-	-
Reclassification of financial assets at amortized cost	-	-
Other gains (losses)	1,349	1,515
Gains or losses on non-trading financial assets and liabilities mandatorily at fair value through profit or loss	292	331
Reclassification of financial assets at fair value through other comprehensive income	-	-
Reclassification of financial assets at amortized cost	-	-
Other gains (losses)	292	331
Gain or losses on financial assets and liabilities measured at fair value through profit or loss, net	(286)	(57)
Gain or losses from hedge accounting, net	(28)	83
Exchange differences, net	(932)	(679)
Other operating income	1,797	1,643
Other operating expenses	(2,138)	(2,000)
Income from assets under insurance and reinsurance contracts	2,534	3,175
Expenses from liabilities under insurance and reinsurance contracts	(2,414)	(3,124)
Total income	**49,229**	**48,424**
Administrative expenses	(20,279)	(20,354)
Staff costs	(12,141)	(11,865)
Other general administrative expenses	(8,138)	(8,489)
Depreciation and amortisation cost	(3,001)	(2,425)
Provisions or reversal of provisions, net	(3,490)	(2,223)
Impairment or reversal of impairment at financial assets not measured at fair value through profit or loss and net gains and losses from changes	(9,352)	(8,986)
Financial assets at fair value through other comprehensive income	(12)	(1)
Financial assets at amortized cost	(9,340)	(8,985)
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates, net	-	(17)
Impairment or reversal of impairment on non-financial assets, net	(1,623)	(190)
Tangible assets	(45)	(83)
Intangible assets	(1,564)	(117)
Others	(14)	10
Gain or losses on non-financial assets and investments, net	1,291	28
Negative goodwill recognised in results	-	67
Gains or losses on non-current assets held for sale not classified as discontinued operations	(232)	(123)
Operating profit/(loss) before tax	**12,543**	**14,201**
Tax expense or income from continuing operations	(4,427)	(4,886)
Profit from continuing operations	**8,116**	**9,315**
Profit or loss after tax from discontinued operations	-	-
Profit for the year	**8,116**	**9,315**
Profit attributable to non-controlling interests	1,601	1,505
Profit attributable to the parent	6,515	7,810
Earnings per share		
Basic	0.362	0.449
Diluted	0.361	0.448

(*) Presented for comparison purposes only.

Santander Group – Consolidated statements of recognised income and expense (millions of euros)

	2019	2018 (*)
CONSOLIDATED PROFIT FOR THE YEAR	**8,116**	**9,315**
OTHER RECOGNISED INCOME AND EXPENSE	**419**	**(1,899)**
Items that will not be reclassified to profit or loss	**(1,351)**	**332**
Actuarial gains and losses on defined benefit pension plans	(1,677)	618
Non-current assets held for sale	-	-
Other recognised income and expense of investments in subsidiaries, joint ventures and associates	1	1
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	(29)	(174)
Gains or losses resulting from the accounting for hedges of equity instruments measured at fair value through other comprehensive income, net	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged item)	*44*	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	*(44)*	-
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	(156)	109
Income tax relating to items that will not be reclassified	510	-222
Items that may be reclassified to profit or loss	**1,770**	**(2,231)**
Hedges of net investments in foreign operations (effective portion)	(1,151)	*(2)*
Revaluation gains (losses)	*(1,151)*	*(2)*
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Exchanges differences	1,396	(1,874)
Revaluation gains (losses)	*1,396*	*(1,874)*
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	8	174
Revaluation gains (losses)	*(1,104)*	*491*
Amounts transferred to income statement	*1,112*	*(317)*
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments (items not designated)	-	-
Revaluation gains (losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Debt instruments at fair value with changes in other comprehensive income	2,414	(591)
Revaluation gains (losses)	*2,588*	*(29)*
Amounts transferred to income statement	*(792)*	*(562)*
Other reclassifications	*618*	-
Non-current assets held for sale	-	-
Revaluation gains (losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments	(27)	(77)
Income tax relating to items that may be reclassified to profit or loss	(870)	139
Total recognised income and expenses for the year	**8,535**	**7,416**
Attributable to non-controlling interests	1,911	1,396
Attributable to the parent	6,624	6,020

(*) Presented for comparison purposes only.

Santander Group - Consolidated statements of changes in total equity (millions of euros)

	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Non-controlling interest: Other comprehensive income	Non-controlling interest: Other income	Total
Balance as of 31-12-18 (*)	**8,118**	**50,993**	**565**	**234**	**56,756**	**-**	**(3,567)**	**(59)**	**7,810**	**(2,237)**	**(22,141)**	**(1,292)**	**12,181**	**107,361**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	(391)	-	-	-	-	-	-	(391)
Opening balance as of 01-01-19 (*)	**8,118**	**50,993**	**565**	**234**	**56,756**	**-**	**(3,958)**	**(59)**	**7,810**	**(2,237)**	**(22,141)**	**(1,292)**	**12,181**	**106,970**
Total recognised income and expense	-	-	-	-	-	-	-	-	**6,515**	-	**109**	**310**	**1,601**	**8,535**
Other changes in equity	191	**1,453**	**33**	**(88)**	**4,272**	**-**	**(1,288)**	**28**	**(7,810)**	**575**	**-**	**-**	**(2,212)**	**(4,846)**
Issuance of ordinary shares	191	1,453	-	-		-	28	-	-	-	-	-	1	1,673
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)
Dividends	-	-	-	-	(1,055)	-	-	-	-	(1,662)	-	-	(895)	(3,612)
Purchase of equity instruments	-	-	-	-	-	-	-	(928)	-	-	-	-	-	(928)
Disposal of equity instruments	-	-	-	-	-	-	(6)	956	-	-	-	-	-	950
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	5,327	-	246	-	(7,810)	2,237	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	110	110
Share-based payment	-	-	-	(88)	-	-	-	-	-	-	-	-	-	(88)
Others increases or (-) decreases of the equity	-	-	33	-	-	-	(1,556)	-	-	-	-	-	(1,426)	(2,949)
Balance as of 31-12-19	**8,309**	**52,446**	**598**	**146**	**61,028**	**-**	**(5,246)**	**(31)**	**6,515**	**(1,662)**	**(22,032)**	**(982)**	**11,570**	**110,659**

(*) Presented for comparison purposes only.

	Capital	Share premium	Equity instruments issued (not capital)	Other equity instruments	Accumulated retained earnings	Revaluation reserves	Other reserves	(-) Own shares	Profit attributable to shareholders of the parent	(-) Interim dividends	Other comprehensive income	Non-controlling interest		Total
												Other comprehensive income	Other income	
Balance as of 31-12-17 (*)	**8,068**	**51,053**	**525**	**216**	**53,437**	**-**	**(1,602)**	**(22)**	**6,619**	**(2,029)**	**(21,776)**	**(1,436)**	**13,780**	**106,833**
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	(1,473)	-	-	-	1,425	253	(1,545)	(1,340)
Opening balance as of 01-01-19 (*)	**8,068**	**51,053**	**525**	**216**	**53,437**	**-**	**(3,075)**	**(22)**	**6,619**	**(2,029)**	**(20,351)**	**(1,183)**	**12,235**	**105,493**
Total recognised income and expense	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,810**	**-**	**(1,790)**	**(109)**	**1,505**	**7,416**
Other changes in equity	**50**	**(60)**	**40**	**18**	**3,319**	**-**	**(492)**	**(37)**	**(6,619)**	**(208)**	**-**	**-**	**(1,559)**	**(5,548)**
Issuance of ordinary shares	50	-	-	-	-	-	10	-	-	-	-	-	-	-
Issuance of preferred shares	-	60	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maturity of other financial instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	(968)	-	-	-	-	(2,237)	-	-	(687)	(3,892)
Purchase of equity instruments	-	-	-	-	-	-	-	(1,026)	-	-	-	-	-	(1,026)
Disposal of equity instruments	-	-	-	-	-	-	-	989	-	-	-	-	-	989
Transfer from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items	-	-	-	-	4,287	-	303	-	(6,619)	2,029	-	-	-	-
Increases (decreases) due to business combinations	-	-	-	-	-	-	59	-	-	-	-	-	(660)	(601)
Share-based payment	-	-	-	(74)	-	-	-	-	-	-	-	-	17	(57)
Others increases or (-) decreases of the equity	-	-	40	92	-	-	(864)	-	-	-	-	-	(229)	(961)
Balance as of 31-12-18	**8,118**	**50,993**	**565**	**234**	**56,756**	**-**	**(3,567)**	**(59)**	**7,810**	**(2,237)**	**(22,141)**	**(1,292)**	**12,181**	**107,361**

(*) Presented for comparison purposes only.

Santander Group – Consolidated statements of cash flows (millions of euros)

	2019	2018 (*)
A. CASH FLOWS FROM OPERATING ACTIVITIES	**3,389**	**3,416**
Profit for the year	**8,116**	**9,315**
Adjustments made to obtain the cash flows from operating activities	**23,990**	**21,714**
Depreciation and amortisation cost	*3,001*	*2,425*
Other adjustments	*20,989*	*19,289*
Net increase/(decrease) in operating assets	**64,593**	**51,550**
Financial assets held-for-trading	*15,450*	*(31,656)*
Non-trading financial assets mandatorily at fair value through profit or loss	*(6,098)*	*5,795*
Financial assets at fair value through profit or loss	*4,464*	*16,275*
Financial assets at fair value through other comprehensive income	*1,693*	*(2,091)*
Financial assets at amortized cost	*49,541*	*61,345*
Other operating assets	*(457)*	*1,882*
Net increase/(decrease) in operating liabilities	**38,469**	**27,279**
Liabilities held-for-trading financial	*6,968*	*(36,315)*
Financial liabilities designated at fair value through profit or loss	*(8,858)*	*8,312*
Financial liabilities at amortized cost	*47,622*	*60,730*
Other operating liabilities	*(7,263)*	*(5,448)*
Income tax recovered/(paid)	**(2,593)**	**(3,342)**
B. CASH FLOWS FROM INVESTING ACTIVITIES	**(7,229)**	**3,148**
Payments	**14,289**	**12,936**
Tangible assets	*12,766*	*10,726*
Intangible assets	*1,377*	*1,469*
Investments	*63*	*11*
Subsidiaries and other business units	*83*	*730*
Non-current assets held for sale and associated liabilities	-	-
Other payments related to investing activities	-	-
Proceeds	**7,060**	**16,084**
Tangible assets	*4,091*	*3,670*
Intangible assets	-	-
Investments	*686*	*2,327*
Subsidiaries and other business units	*218*	*431*
Non-current assets held for sale and associated liabilities	*2,065*	*9,656*
Other proceeds related to investing activities	-	-
C. CASH FLOW FROM FINANCING ACTIVITIES	**(10,122)**	**(3,301)**
Payments	**12,159**	**7,573**
Dividends	*3,773*	*3,118*
Subordinated liabilities	*5,123*	*2,504*
Redemption of own equity instruments	-	-
Acquisition of own equity instruments	*928*	*1,026*
Other payments related to financing activities	*2,335*	*925*
Proceeds	**2,037**	**4,272**
Subordinated liabilities	*1,090*	*3,283*
Issuance of own equity instruments	-	-
Disposal of own equity instruments	*947*	*989*
Other proceeds related to financing activities	-	-
D. EFFECT OF FOREIGN EXCHANGE RATE DIFFERENCES	**1,366**	**(595)**
E. NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(12,596)**	**2,668**
F. CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**113,663**	**110,995**
G. CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**101,067**	**113,663**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash	*8,764*	*10,370*
Cash equivalents at central banks	*75,353*	*89,005*
Other financial assets	*16,950*	*14,288*
Less: Bank overdrafts refundable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**101,067**	**113,663**
In which: restricted cash	-	-

(*) Presented for comparison purposes only

4. Distribution of the Bank's profit, shareholder remuneration scheme and earnings per share.

a) *Distribution of the bank's profit and shareholder remuneration scheme*

The distribution of the Bank's net profit against the results for 2019 that the board of directors will submit for approval by the shareholders at the annual general meeting is as follows:

	Million of euros
Dividend distributed at 31 December (*) Complementary dividend (includes in its case, cash dividend from shareholders who opt to receive cash in scrip dividend (**)	1,662 1,761
	3,423
To voluntary reserves	107
Net profit for the year	**3,530**

(*) Recognised under Shareholders' equity – Interim dividends.

(**) Assuming a % of cash requests of 20%

As of 2019, the Bank's shareholders have received the dividend in two payments, instead of the four received in previous years.

On 24 September 2019, the bank´s Board of Directors approved its first dividend against 2019 earnings of EUR 1,662 million (EUR 0.10 per share), which was entirely paid in cash on 1 November, 2019.

A remuneration of EUR 0.23 per share, charged to the 2019 annual period, will be proposed by the board of directors to the shareholders at the annual general meeting.

b) *Earnings per share from continuing and discontinued operations*

i. Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in equity - See Note 21) and the capital perpetual preference shares, if applicable, by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2019	2018
Profit attributable to the parent (million euros)	6,515	7,810
Remuneration of contingently convertible preference shares (CCP) (million euros) (Note 21)	(595)	(560)
	5,920	7,250
Of which:		
Profit or Loss from discontinued operations (non controlling interest net) (million euros)	-	-
Profit or Loss from continuing operations (net of non-controlling interests and CCP) (million euros	*5,920*	*7,250*
Weighted average number of shares outstanding	*16,348,415,883*	*16,150,090,739*
Adjusted number of shares	*16,348,415,883*	*16,150,090,739*
Basic earnings per share (euros)	**0.362**	**0.449**
Basic earnings per share from discontinued operations (euros)	**0.000**	**0.000**
Basic earnings per share from continuing operations (euros)	**0.362**	**0.449**

ii. Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by the after-tax amount of the remuneration of contingently convertible preference shares recognised in Equity - See Note 21) and the capital perpetual preference shares, if applicable, by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares and adjusted for all the dilutive effects inherent to potential ordinary shares (share options, and convertible debt instruments).

Accordingly, diluted earnings per share were determined as follows:

	2019	2018
Profit attributable to the parent (million euros)	6,515	7,810
Remuneration of contingently convertible preference shares (CCP) (million euros) (Note 23)	(595)	(560)
	5,920	*7,250*
Of which:		
Profit (Loss) from discontinued operations (net of non-controlling interests) (million euros)	-	-
Profit from continuing operations (net of non-controlling interests and CCP) (million euros)	*5,920*	*7,250*
Weighted average number of shares outstanding	16,348,415,883	16,150,090,739
Dilutive effect of options/rights on shares	35,891,644	42,873,078
Adjusted number of shares	16,384,307,527	16,192,963,817
Diluted earnings per share (euros)	**0.361**	**0.448**
Diluted earnings per share from discontinued operations (euros)	**0.000**	**0.000**
Diluted earnings per share from continuing operations (euros)	**0.361**	**0.448**

5. Remuneration and other benefits paid to the bank's directors and senior managers

The following section contains qualitative and quantitative disclosures on the remuneration paid to the members of the board of directors -both executive and non-executive directors- and senior managers for 2019 and 2018:

a) Remuneration of Directors

i. Bylaw-stipulated emoluments

The annual General Meeting held on 22 March 2013 approved an amendment to the Bylaws, whereby the remuneration of directors in their capacity as board members became an annual fixed amount determined by the annual General Meeting. This amount shall remain in effect unless the shareholders resolve to change it at a general meeting. However, the board of directors may elect to reduce the amount in any years in which it deems such action justified. The remuneration established by the Annual General Meeting was EUR 6 million in 2019 (same amount as in 2018), with two components: (a) an annual emolument and (b) attendance fees.

The specific amount payable for the above-mentioned items to each of the directors is determined by the Board of Directors. For such purpose, it takes into consideration the positions held by each director on the Board, their membership of the Board and the board committees and their attendance to the meetings thereof, and any other objective circumstances considered by the Board.

The total bylaw-stipulated emoluments earned by the Directors in 2019 amounted to EUR 4.9 million (EUR 4.6 million in 2018).

Annual emolument

The amounts received individually by the directors in 2019 and 2018 based on the positions held by them on the board and their membership of the Board committees were as follows:

	Euros	
	2019	2018
Members of the board of directors	90,000	90,000
Members of the executive committee	170,000	170,000
Members of the audit committee	40,000	40,000
Members of the appointments committee	25,000	25,000
Members of the remuneration committee	25,000	25,000
Members of the risk supervision, regulation and compliance oversight committee	40,000	40,000
Members of the responsible banking, sustainability and culture committee	15,000	15,000
Chairman of the audit committee	70,000	70,000
Chairman of the appointments committee	50,000	50,000
Chairman of the remuneration committee	50,000	50,000
Chairman of the risk, regulation and compliance oversight committee	70,000	70,000
Chairman of the responsible banking, sustainability and culture committee	50,000	50,000
Lead director (*)	110,000	110,000
Non-executive deputy chairman	30,000	30,000

(*) Mr Bruce Carnegie-Brown, for duties performed as part of the board and board committees, specifically as chairman of the appointments and remuneration committees and as lead director, and for the time and dedication required to perform these duties, has been allocated minimum total annual remuneration of EUR 700,000 since 2015, including the aforementioned annual allowances and attendance fees corresponding to him.

Attendance fees

The directors receive fees for attending board and committee meetings, excluding executive committee meetings, since no attendance fees are received for this committee.

By resolution of the board of directors, at the proposal of the remuneration committee, the fees for attending board and committee meetings - excluding, as aforementioned, executive committee meetings - were as follows:

Meeting attendance fees	Euros	
	2019	2018
Board of directors	2,600	2,600
Audit committee and risk supervision, regulation and compliance oversight committee	*1,700*	*1,700*
Other committees (except the executive committee)	*1,500*	*1,500*

ii. Salaries

The executive directors receive salaries. In accordance with the policy approved by the annual general meeting, salaries are composed of a fixed annual remuneration and a variable one consisting of a unique incentive, which is based on a deferred variable remuneration linked to multi-year objectives, which establishes the following payment scheme:

- 40% of the variable remuneration amount, determined at year-end on the basis of the achievement of the established objectives, is paid immediately.

- The remaining 60% is deferred over five years, to be paidin five portions, provided that the conditions ofpermanence in the Group and non-concurrence of the malus clauses are met, and subject to long term metrics, taking into account the following accrual scheme:

  - The accrual of the first and second portion (payment in 2021 and 2022) is conditional on none of the malus clauses being triggered.

  - The accrual of the third, fourth, and fifth portion (payment in 2023, 2024 and 2025), is linked to certain objectives related to the period 2019-2021 and the metrics and scales associated with these objectives. The fulfilment of the objective determines the percentage to be paid of the deferred amount in these three annuities, which accordingly, might not be paid, where the maximum amount determined at clasing of 2019, being the maximum amount determined at the end of the 2019 when the total variable remuneration is approved.

- In accordance with current remuneration policies, the amounts already paid will be settled to a possible recovery (clawback) by the Bank during the period set out in the policy in force each moment.

The immediate payment (or short-term) as well as each deferred payment (linked to long term metrics and not linked to long-termn metrics) will be settled 50% in cash and the remaining 50% in Santander shares.

iii. Detail by director

The detail, by Bank director, of the short-term (immediate) and deferred (not subject to long-term goals) remuneration for 2019 and 2018 is provided below:

Directors	Thousands euros																	
	2019																	2018
	Bylaw-stipulated emoluments								Short-term and deferred (not subject to long-term goals) salaries of executive directors						Pension Contribution	Other Remuneration (7)	Total	Total
	Annual emolument							Attendance fees and commissions	Fixed	Variable – immediate payment		Deferred variable		Total				
	Board (H)	Executive committee	Audit committee	Appointments committee	Remuneration committee	Risk, regulation and compliance oversight committee	Responsible banking, sustainability and cultural committee			In cash	In shares	In cash	In shares					
Ms. Ana Botín-Sanz de Sautuola y O'Shea	90	170	-	-	-	-	15	59	3,176	1,302	1,302	781	781	7,342	1,145	1,131	9,952	10,483
Mr José Antonio Álvarez Álvarez	90	170	-	-	-	-	-	53	2,541	870	870	522	522	5,325	858	1,773	8,269	8,645
Mr Bruce Carnegie- Brown	393	170	-	25	25	-	-	87	-	-	-	-	-	-	-	-	700	732
Mr Rodrigo Echenique Gordillo (A)	90	57	-	17	-	-	-	56	-	400	400	240	240	1,280	-	2,775	4,275	4,830
Mr Guillermo de la Dehesa Romero	90	170	-	25	25	-	-	89	-	-	-	-	-	-	-	-	399	441
Ms Homaira Akbari	90	-	40	-	-	-	15	81	-	-	-	-	-	-	-	-	226	199
Mr Ignacio Benjumea Cabeza de Vaca	90	170	-	-	25	40	15	93	-	-	-	-	-	-	-	91	524	513
Mr Francisco Javier Botín-Sanz de Sautuola y O'Shea (B)	90	-	-	-	-	-	-	47	-	-	-	-	-	-	-	-	137	121
Ms Sol Daurella Comadrán	90	-	-	25	25	-	15	85	-	-	-	-	-	-	-	-	240	215
Ms Esther Giménez-Salinas i Colomer	90	-	-	4	-	40	15	79	-	-	-	-	-	-	-	-	228	196
Ms Belén Romana García	160	170	40	-	-	40	15	100	-	-	-	-	-	-	-	-	525	414
Mr Ramiro Mato García Ansorena	140	170	40	-	-	40	15	95	-	-	-	-	-	-	-	-	500	450
Mr Alvaro Cardoso de Souza (C)	160	-	-	-	-	40	15	61	-	-	-	-	-	-	-	-	276	148
Mr Henrique Manuel Drumond Borges Cirne de Castro (D)	41	-	8	-	4	-	-	33	-	-	-	-	-	-	-	-	86	-
Ms Pamela Ann Walkden (E)	16	-	7	-	-	-	-	11	-	-	-	-	-	-	-	-	34	-
Mr Carlos Fernández González (F)	74	-	33	21	21	-	-	65	-	-	-	-	-	-	-	-	214	266
Mr Juan Miguel Villar Mir (G)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	108
Total 2019	**1,794**	**1,247**	**168**	**117**	**125**	**200**	**120**	**1,094**	**5,717**	**2,572**	**2,572**	**1,543**	**1,543**	**13,947**	**2,003**	**5,770**	**26,585**	**-**
Total 2018	**1,763**	**1,275**	**160**	**113**	**125**	**247**	**61**	**872**	**7,517**	**3,254**	**3,254**	**1,952**	**1,952**	**17,929**	**2,284**	**2,932**	**-**	**27,761**

A. Ceased to be an executive director on 30 April 2019. Non-executive director since 1 May 2019.
B. All amounts received were reimbursed to Fundación Botín.
C. Director since 1 April 2018
D. Director since 17 July 2019.
E. Director since 29 October 2019.
F. Ceased to be a director on 28 October 2019
G. Ceased to be a director on 1 January 2019
H. Includes committee chairmanship and other roles emoluments.
I. Includes, inter alia, the life and medical insurance costs borne by the Group relating to Bank directors as well as a fixed supplement approved as part of the benefit systems transformation of the Executive Directors Ms Ana Botín and Mr José Antonio Álvarez

Following is the detail, by executive director, of the linked to multiannual objectives salaries at their fair value, which will only be received if the conditions of continued service, non-applicability of "malus" clauses and, full achievement of the objectives established (or, as the case may be, of the minimum thresholds thereof, with the consequent reduction of the agreed-upon amount in the end of the year) in the terms described in Note 42.

	Thousands euros			
	2019			2018
	Variable subject to Long-term objectives (1)		Total	Total
	In cash	In shares		
Ms. Ana Botín-Sanz de Sautuola y O'Shea	821	821	1,642	1,864
Mr. José Antonio Álvarez Álvarez	548	548	1,096	1,246
Mr. Rodrigo Echenique Gordillo	252	252	504	990
Total	**1,621**	**1,621**	**3,242**	**4,100**

(1) Corresponds with the fair value of the maximum amount they are entitled to in a total of 3 years: 2023, 2024 and 2025, subject to conditions of continued service, with the exceptions provided, and to the non-applicability of "malus" clauses and achievement of the objectives established.

The fair value has been determined at the grant date based on the valuation report of an independent expert, Willis Towers Watson. According to the design of the plan for 2019 and the levels of achievement of similar plans in comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60% - 80%. Accordingly, it has been considered that the fair value is 70% of the maximum (see Note 42).

Note 5.e below includes disclosures on the shares delivered from the deferred remuneration schemes in place in previous years and for which delivery conditions were met, as well as on the maximum number of shares that may be received in future years in connection with the aforementioned 2019 and 2018 variable remuneration plans.

b) *Remuneration of the Board members as representatives of the Bank*

By resolution of the executive committee, all the remuneration received by the Bank's directors who represent the Bank on the Boards of Directors of listed companies in which the Bank has a stake, paid by those companies and relating to appointments made on or after 18 March 2002 accrues to the Group. In 2019 and 2018 the Bank's directors did not receive any remuneration in respect of these representative duties.

On the other hand, Mr, Alvaro Cardoso de Souza, in his role as non-executive Chairman of Banco Santander (Brasil) S.A. received a remuneration in 2019 of 1,752 thousand Brazilian reales (397 thousand euro) and Mr. Rodrigo Echenique, received a remuneration of 666 thousand euro for his role as Chairman of the board of the Santander Spain business unit for the period from 1 May 2019 to 31 December 2019.

c) *Post-employment and other long-term benefits*

The executive directors other than Mr Rodrigo Echenique participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of its executive directors. The contracts of the executive directors (and the other members of the Bank's senior management) with defined benefit pension commitments were amended in 2012 to align them with the new system, transforming them into a defined contribution system. The new system gives executive directors the right to receive benefits upon retirement, regardless of whether or not they are active at the Bank at such time, based on contributions to the system, and replaced their previous right to receive a pension supplement in the event of retirement. In the event of preretirement and up until the retirement date, executive directors, except for Mr. Rodrigo Echenique, have the right to receive an annual allotment.

The initial balance for each of the executive directors in the new defined benefits system corresponded to the market value of the assets from which the provisions corresponding to the respective accrued obligations had materialised on the date on which the old pension commitments were transferred into the new benefits system.

Since 2013, the Bank has made annual contributions to the benefits system in favour of executive directors and senior executives, in proportion to their respective pensionable bases, until they leave the Group or until their retirement within the Group, death, or disability (including, if applicable, during pre-retirement).

Mr Rodrigo Echenique's contract does not provide for any charge to Banco Santander regarding benefits, without prejudice to the pension rights to which Mr Echenique was entitled prior to his appointment as executive director.

The benefit plan is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., and the economic rights of the foregoing directors under this plan belong to them regardless of whether or not they are active at the Bank at the time of their retirement, death or disability.

In accordance with the provisions of the remuneration regulations, contributions made that are calculated on variable remuneration are subject to the discretionary pension benefits regime. Under this regime, these contributions are subject to malus clauses and clawback according to the policy in force at any time and during the same period in which the variable remuneration is deferred.

Furthermore, they must be invested in Bank shares for a period of five years from the date when the executive director leaves the Group, regardless of whether or not they leave to retire. Once that period has elapsed, the amount invested in shares will be reinvested, along with the remainder of the cumulative balance corresponding to the executive director, or it will be paid to the executive director or to their beneficiaries in the event of a contingency covered by the benefits system.

Until March 2018, the system also included a supplementary benefits scheme for cases of death (death of spouse and death of parent) and permanent disability of serving directors envisaged in the contracts of Ms Ana Botín and Mr José Antonio Álvarez.

As per the director´s remuneration policy approved at the 23 March 2018 general shareholder´s meeting, in 2018 the system was changed with a focus on:

- Aligning the annual contributions with practices of comparable institutions.
- Reducing future liabilities by eliminating the supplementary benefits scheme in the event of death (death of spouse or parent) and permanent disability of serving directors.
- Not increasing total costs for the Bank.

The changes to the system were the following:

- Fixed and variable pension contributions were reduced to 22% of the respective pensionable bases. The gross annual salaries and the benchmark variable remuneration were increased in the corresponding amount with no increase in total costs for the Bank. The pensionable base
- for the purposes of the annual contributions for the executive directors is the sum of fixed remuneration plus 30% of the average of their last three variable remuneration amounts (or, in the event of Mr José Antonio Álvarez's pre-retirement, his fixed remunerationas a senior executive vice president).
- The death and disability supplementary benefits have been eliminated since 1 April 2018. A fixed remuneration supplement (included in other remuneration in section a.iii in this note) was implemented the same date.
- The total amount insured for life and accident insurance was increased.

The provisions recognised in 2019 and 2018 for retirement pensions and supplementary benefits (surviving spouse and child benefits, and permanent disability) were as follows:

	Thousands euros	
	2019	2018
Ms Ana Botín-Sanz de Sautuola y O'Shea (1)	1,145	1,234
Mr José Antonio Álvarez Álvarez	858	1,050
	2,003	**2,284**

Following is a detail of the balances relating to each of the executive directors under the welfare system at 31 December 2019 and 2018:

	Thousands euros	
	2019	2018
Ms Ana Botín-Sanz de Sautuola y O'Shea (1)	48,104	46,093
Mr José Antonio Álvarez Álvarez	17,404	16,630
Mr Rodrigo Echenique Gordillo (2)	13,268	13,614
	78,776	**76,337**

(1) Includes the amounts relating to the period of provision of services at Banesto, externalised with another insurance company.

(2) Mr. Rodrigo Echenique Gordillo does not participate in the defined pension scheme defined in the preceding paragraphs. However, as a previous executive director and for informational purposes, this year´s table includes the rights to which he was entitled prior to his designation as such. The payment made to him in 2019 with the respect to his participation in this plan amounted to 0.9 million euros (0.9 million euros in 2018).

d) Insurance

The Group has taken out life insurance policies for the Bank's directors, who will be entitled to receive benefits if they are declared disabled; in the event of death, the benefits will be payable to their heirs. The premiums paid by the Group are included in the Other remuneration column of the table shown in Note 5.a.iii above. Also, the following table provides information on the sums insured for the Bank's executive directors:

	Insured capital (Thousand euros)	
	2019	2018
Ms. Ana Botín-Sanz de Sautuola y O'Shea	22,475	22,710
Mr. José Antonio Álvarez Álvarez	19,373	19,694
Mr. Rodrigo Echenique Gordillo	5,400	5,400
	47,248	**47,804**

The insured capital has been modified in 2018 for Ms Ana Botín and Mr José Antonio Alvarez as part of the pension systems transformation set out in Note 5.c) above, which has encompassed the elimination of the supplementary benefits systems (death of spouse and death of parent) and the increase of the life insurance annuities.

During years 2019 and 2018, the Group has disbursed a total amount of 11.6 million euros and 10.1 million euros, respectively, for the payment of civil-liability insurance premiums. These premiums correspond to several civil-liability insurance policies that hedge, among others, directors, senior executives and other managers and employees of the Group and the Bank itself as well as its subsidiaries, in light of certain types of potential claims. For this reason, it is not possible to disaggregate or individualize the amount that correspond to the directors and executives.

As of 31 December 2019 and 2018, no life insurance commitments exist for the Group in respect of any other directors.

e) Deferred variable remuneration systems

The following information relates to the maximum number of shares to which the executive directors are entitled at the beginning and end of 2019 and 2018 due to their participation in the deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to 2019 and prior years, as well as on the deliveries, in shares or in cash, made to them in 2019 and 2018 once the conditions for the receipt thereof had been met (see Note 42):

i) Deferred conditional variable remuneration plan

From 2011 to 2015, the bonuses of executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration that puts them on the same remuneration level as senior executives and employees who assume risk (all of whom are referred to as identified staff) have been approved by the Board of Directors and instrumented, respectively, through various cycles of the deferred conditional variable remuneration plan. Application of these cycles, insofar as they entail the delivery of shares to the plan beneficiaries, was authorized by the related Annual General Meetings.

The purpose of these plans is to defer a portion of the bonus of the plan beneficiaries (60% in the case of executive directors) over a period of five years (three years for the plans approved up to 2014) for it to be paid, where appropriate, in cash and in Santander shares. The remaining 40% portion of the bonus is paid in cash and Santander shares (in equal parts), upon commencement of this plan, in accordance with the rules set forth below.

In addition to the requirement that the beneficiary remains in Santander Group's employ, the accrual of the deferred remuneration is conditional upon none of the following circumstances existing in the opinion of the Board of Directors -following a proposal of the remuneration committee-, in relation to the corresponding year, in the period prior to each of the deliveries: (i) poor financialperformance of the Group; (ii) breach by the beneficiary of internal regulations, including, in particular, those relating to risks; (iii) material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards; or (iv) significant changes in the Group's economic capital or its risk profile. All the foregoing shall be subject in each case to the regulations of the relevant plan cycle.

On each delivery, the beneficiaries will be paid an amount in cash equal to the dividends paid for the amount deferred in shares and the interest on the amount deferred in cash. If the *Santander Dividendo Elección* scrip dividend scheme is applied, payment will based on the price offered by the Bank for the bonus share rights corresponding to those shares.

The maximum number of shares to be delivered is calculated taking into account the daily volume-weighted average prices for the 15 trading sessions prior to the date on which the Board of Directors approves the bonus for the Bank's Executive Directors for each year.

This plan and the Performance Shares (ILP) plan described below have been integrated for the executive directors and other senior managers in the deferred variable compensation plan linked to multiannual objectives, in the terms approved by the General Meeting of Shareholders held on 18 March 2016.

ii) Deferred variable compensation plan linked to multiannual objectives

In the annual shareholders meeting of 12 March 2016, with the aim of simplifying the remuneration structure, improving the *ex-ante* risk adjustment and increasing the incidence of long-term objectives, the bonus plan (deferred and conditioned variable compensation plan) and ILP were replaced by one single plan, the deferred multiyear objectives variable remuneration plan.

The variable remuneration of executive directors and certain executives (including senior management) corresponding to 2019 has been approved by the Board of Directors and implemented through the fourth cycle of the deferred variable remuneration plan linked to multi-year objectives. The application of the plan was authorised by the annual general meeting of shareholders, as it entails the delivery of shares to the beneficiaries.

As indicated in section a.ii of this Note, 60% of the variable remuneration amount is deferred over five years (three years for certain beneficiaries, not including executive directors), to be paid, where appropriate, in five portions, provided that the conditions of permanence in the group and non-concurrence of malus clauses are met, and subject to long term metrics, according to the following accrual scheme:

- The accrual of the first and second parts (instalments in 2021 and 2022) is conditional on none of the malus clauses being triggered.
- The accrual of the third, fourth and fifth parts (instalments in 2023, 2024 and 2025) is linked to the fulfilment of certain objectives related to the period 2019-2021 and the metrics and scales associated with those objectives, as well as to non-concurrence of malus clauses. These objectives are:
  - the growth of earnings per share in 2021 compared to 2018;
  - the relative performance of the Bank's total shareholder return (RTA) in the period 2019-2021 in relation to the weighted RTAs of a reference group of 9 credit institutions;
  - compliance with the fully loaded ordinary level 1 capital objective for the year 2021;

The degree of compliance with the above objectives determines the percentage to be applied to the deferred amount in these three annuities, the maximum being the amount determined at the end of the year 2019 when the total variable remuneration is approved.

Both the immediate (short-term) and each of the deferred (long-term and conditioned) protion are paid 50% in cash and the remaining 50% in Santander shares.

The accrual of deferred amounts (whether or not subject to performance measures) is conditioned, in addition to the permanence of the beneficiary in the Group,to non-occurrence, during the period prior to each of the deliveries, of any the circumstances giving rise to the *malus* clause as set out in the Group's remuneration policy in its chapter related to malus and clawback. Likewise, the already paid amounts of the incentive will be subject to clawback by the Bank in the cases and during the term foreseen in said policy, always in the terms and conditions that are foreseen in it.

The application of malus and clawback is activated in cases in which there is poor financial performance of the entity as a whole or of a specific division or area of the entity or of the exposures generated by the personnel, and at least the following factors must be considered:

(i) Significant failures in risk management committed by the entity, or by a business unit or risk control.
(ii) The increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures.
(iii) Regulatory sanctions or judicial sentences from events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity.
(iv) Irregular conduct, whether individual or collective. The negative effects derived from the marketing of inappropriate products and the responsibilities of the people or bodies that made those decisions will be specially considered.

The maximum number of shares to be delivered is calculated by taking into account the average weighted daily volume of the average weighted listing prices corresponding to the fifteen trading sessions prior to the previous Friday (excluded) to the date on which the bonus is agreed by the board of executive directors of the Bank.

iii) Shares assigned by deferred variable remuneration plans

The following table shows the number of Santander shares assigned to each executive director and pending delivery as of 1 January 2018, 31 December 2018 and 2019, as well as the gross shares that were delivered to them in 2018 and 2019, either in the form of an immediate payment or a deferred payment. In this case after having been appraised by the board, at the proposal of the remuneration committee, that the corresponding one-fifth (one third until 2014) of each plan had accrued. They come from each of the plans through which the variable remunerations of deferred conditional variable remuneration plans in 2014 and 2015 and of the deferred conditional and linked to multiannual objectives in 2016, 2017, 2018 and 2019.

Santander

	Maximum number of shares to be delivered at January 1, 2018	Shares delivered in 2018 (immediate payment 2017 variable remuneration)	Shares delivered in 2018 (deferred payment 2016 variable remuneration)	Shares delivered in 2018 (deferred payment 2015 variable remuneration)	Shares delivered in 2018 (deferred payment 2014 variable remuneration)	Variable remuneration 2018 (maximum number of shares to be delivered	Maximum number of shares to be delivered at December 31, 2018	Shares delivered in 2019 (immediate payment 2018 variable remuneration)	Shares delivered in 2019 (deferred payment 2017 variable remuneration)	Shares delivered in 2019 (deferred payment 2016 variable remuneration)	Shares delivered in 2019 (deferred payment 2015 variable remuneration)	Variable remuneration 2019 (Maximum number of shares to be delivered)(1)	Maximum number of shares to be delivered at December 31, 2019(4)
2014 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea	61,721				(61,721)								
Mr. José Antonio Álvarez Álvarez (2)	26,632				(26,632)								
	88,353				**(88,353)**								
2015 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea	257,617			(64,404)			193,213				(64,404)		128,809
Mr. José Antonio Álvarez Álvarez	171,242			(42,811)			128,431				(42,811)		85,620
Mr. Rodrigo Echenique Gordillo	126,846			(31,712)			95,134				(31,712)		63,422
	555,705			**(138,927)**			**416,778**				**(138,927)**		**277,851**
2016 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea	360,512		(72,102)				288,410			(72,102)			216,308
Mr. José Antonio Álvarez Álvarez	243,332		(48,667)				194,665			(48,667)			145,998
Mr. Rodrigo Echenique Gordillo	180,226		(36,046)				144,180			(36,046)			108,134
	784,070		**(156,815)**				**627,255**			**(156,815)**			**470,440**
2017 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea	574,375	(229,750)					344,625		(68,925)				275,700
Mr. José Antonio Álvarez Álvarez	384,118	(153,647)					230,471		(46,094)				184,377
Mr. Rodrigo Echenique Gordillo	299,346	(119,738)					179,608		(35,922)				143,686
	1,257,839	**(503,135)**					**754,704**		**(150,941)**				**603,763**
2018 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea						860,865	860,865	(344,346)					516,519
Mr. José Antonio Álvarez Álvarez						575,268	575,268	(230,107)					345,161
Mr. Rodrigo Echenique Gordillo						456,840	456,840	(182,736)					274,104
						1,892,973	**1,892,973**	**(757,189)**					**1,135,784**
2019 variable remuneration													
Ms. Ana Botín-Sanz Sautuola y O'Shea												887,193	887,193
Mr. José Antonio Álvarez Álvarez												592,915	592,915
Mr. Rodrigo Echenique Gordillo (3)												272,480	272,480
												1,752,588	**1,752,588**

(1) For each director, 40% of the shares indicated correspond to the short-term variable (or immediate payment). The remaining 60% is deferred for delivery, where appropriate, by fifths in the next five years, the last three being subject to the fulfillment of multiannual objectives.
(2) Maximum number of shares resulting from their participation in the corresponding plans during their stage as general manager.
(3) Ceased to be an executive director on 30 April 2019.
(4) In addition, Mr. Ignacio Benjumea Cabeza de Vaca maintains the right to a maximum of 70,741 shares arising from his participation in the corresponding plans during his term as executive vice president

In addition, the table below shows the cash delivered in 2019 and 2018, by way of either immediate payment or deferred payment, in the latter case once the Board had determined, at the proposal of the remuneration committee, that one-fifth relating to each plan had accrued:

	Thousands of euros			
	2019		2018	
	Cash paid (immediate payment 2018 variable remuneration)	Cash paid (deferred payments from 2017, 2016 and 2015 variable remuneration)	Cash paid (immediate payment 2017 variable remuneration)	Cash paid (deferred payments from 2016, 2015 and 2014 variable remuneration)
Ms. Ana Botín-Sanz de Sautuola y O'Shea	1,480	1,025	1,370	947
Mr. José Antonio Álvarez Álvarez (1)	989	686	916	574
Mr. Rodrigo Echenique Gordillo	785	519	714	305
	3,254	**2,230**	**3,000**	**1,826**

(1) Includes paid cash corresponding to his participation in the corresponding plans during the time as executive vice president.

iv) Information on former members of the Board of Directors

The chart below includes information on the maximum number of shares to which former members of the Board of Directors who ceased in office prior to 1 January 2018 are entitled for their participation in the various deferred variable remuneration systems, which instrumented a portion of their variable remuneration relating to the years in which they were Executive Directors. Also set forth below is information on the deliveries, whether in shares or in cash, made in 2019 and 2018 to former board members, upon achievement of the conditions for the receipt thereof (see Note 42):

Maximum number of shares to be delivered	2019	2018
Deferred conditional variable remuneration plan (2015)	121,694	182,541
Deferred conditional variable remuneration plan and linked to objectives (2016)	98,253	171,696
Deferred conditional variable remuneration plan and linked to objectives (2017)	140,530	175,662

Number of shares delivered	2019	2018
Deferred conditional variable remuneration plan (2014)	-	148,589
Deferred conditional variable remuneration plan (2015)	60,847	60,847
Performance shares plan ILP (2015)	129,612	-
Deferred conditional variable remuneration plan and linked to objectives (2016)	42,924	42,924
Deferred conditional variable remuneration plan and linked to objectives (2017)	35,132	117,108

In addition, EUR 663 thousand and EUR 2,057 thousand relating to the deferred portion payable in cash of the aforementioned plans were paid each in 2019 and 2018.

f) Loans

The Group's direct risk exposure to the Bank's directors and the guarantees provided for them are detailed below. These transactions were made on terms equivalent to those that prevail in arm's-length transactions or the related compensation in kind was recognised:

	Thousand of euros					
	2019			2018		
	Loans and credits	Guarantees	Total	Loans and credits	Guarantees	Total
Ms. Ana Botín-Sanz de Sautuola y O'Shea	18	-	18	18	-	18
Mr. José Antonio Álvarez Álvarez	27	-	27	8	-	8
Mr. Bruce Carnegie-Brown	-	-	-	-	-	-
Mr. Rodrigo Echenique Gordillo	33	-	33	29	-	29
Mr. Javier Botín-Sanz de Sautuola y O'Shea	21	-	21	15	-	15
Ms. Sol Daurella Comadran	55	-	55	53	-	53
Mr. Carlos Fernandez Gonzalez[1]	-	-	-	12	-	12
Ms. Esther Gimenez-Salinas i Colomer	1	-	1	1	-	1
Mr. Ignacio Benjumea Cabeza de Vaca	1	-	1	-	-	-
Ms. Belén Romana García	21	-	21	21	-	21
Mr. Guillermo de la Dehesa Romero	56	-	56	21	-	21
	233	**-**	**233**	**178**	**-**	**178**

(1) Ceased to be a director on December 2019

g) Senior managers

The table below includes the amounts relating to the short-term remuneration of the members of senior management at 31 December 2019 and those at 31 December 2018, excluding the remuneration of the executive directors, which is detailed above:

		Thousands of euros							
		Short-term salaries and deferred remuneration							
Year	Number of persons	Fixed	Variable remuneration (bonus) - Immediate payment		Deferred variable remuneration		Pensions	Other remuneration (1)	Total
			In cash	In shares (2)	In cash	In shares(3)			
2019	18	22,904	7,669	7,669	3,336	3,337	6,282	7,491	58,687
2018	18	22,475	8,374	8,374	3,791	3,791	6,193	7,263	60,261

(1) Includes other remuneration items such as life and medical insurance premiums and localization aids.

(2) The amount of immediate payment in shares for 2019 is 2,090,536 shares (1,936,037 Santander shares in 2018)

(3) The deferred amount in shares not linked to long-term objectives for 2019 is 900,534 shares (877,154 Santander shares in 2018).

Likewise, the shareholders meeting of 12 April 2019 approved the 2019 Digital Transformation Incentive, which is a a compensation system that includes the delivery of Santander shares and share options subject to meeting certain important milestones of the Group's digital roadmap.

Three senior executives are included within this plan, which is aimed at a larger group of up to 250 employees whose performance is considered essential to the growth and digital transformation of Santander Group. The three employees have been awarded a total overall amount of 2,100 thousand euro, which will be provided to them in thirds, on the third, fourth and fifth anniversary of the granting date (2023, 2024 and 2025).

See Note 42 for further detail on the Digital Transformation Incentive.

Also, the detail of the breakdown of the remuneration linked to long-term objectives of the members of senior management at 31 December 2019 and 2018 is provided below. These remuneration payments shall be received, as the case may be, in the corresponding deferral periods, upon achievement of the conditions stipulated for each payment (see Note 42):

Year	Number of people	Thousands of euros		
		Variable remuneration subject to long-term objectives[1]		
		Cash payment	Share payment	Total
2019	18	3,503	3,504	7,007
2018	18	3,981	3,981	7,962

1. Relates in 2019 with the fair value of the maximum annual amounts for years 2022, 2023 and 2024 of the third cycle of the deferred conditional variable remuneration plan (2021, 2022 and 2023 for the first cycle of the deferred variable compensation plan linked to annual objectives for the year 2017).

Senior executive vice presidents who retired in 2019 and, therefore, were not members of senior management at year-end, received in 2019 salaries and other remuneration relating to their termination amounting to EUR 6,789 thousand (EUR 1,861 thousand in 2018). Likewise, these same individuals have generated as senior managers the right to obtain variable remuneration linked to long-term objectives for a total amount to 618 thousand euro (this right has not been generated in 2018 in respect of any employee who has ceased in his/her role as senior manager)

The average total remuneration awarded to women who were part of the senior management during 2019, excluding executive directors, is 1 % higher than the average remuneration of men senior managers.

The maximum number of Santander shares that the members of senior management at each plan grant date (excluding executive directors) were entitled to receive as of December 31, 2019 and 2018 relating to the deferred portion under the various plans then in force is hte following (see Note 42):

Maximum number of shares to be delivered	2019	2018
Deferred conditional variable remuneration plan (2015)	391,074	705,075
Performance shares plan ILP (2015)	-	515,456
Deferred conditional variable remuneration plan and linked to objectives (2016)	660,205	1,079,654
Deferred conditional variable remuneration plan and linked to objectives (2017)	1,115,570	1,434,047
Deferred conditional variable remuneration plan and linked to objectives (2018)	1,986,754	2,192,901
Deferred conditional variable remuneration plan and linked to objectives (2019)	2,273,859	-

Since the conditions established in the corresponding deferred share-based remuneration schemes for prior years had been met, the following number of Santander shares was delivered in 2019 and 2018 to the senior management, in addition to the payment of the related cash amounts:

Number of shares delivered	2019	2018
Deferred conditional variable remuneration plan (2014)	-	248,963
Deferred conditional variable remuneration plan (2015)	257,187	261,109
Performance shares plan ILP (2015)	515,456	-
Deferred conditional variable remuneration plan and linked to objectives (2016)	215,868	258,350
Deferred conditional variable remuneration plan and linked to objectives (2017)	245,575	-

As indicated in Note 5.c above, the senior managers participate in the defined benefit system created in 2012, which covers the contingencies of retirement, disability and death. The Bank makes annual contributions to the benefit plans of its senior managers.

In 2012, the contracts of the senior managers with benefit pension commitments were amended to transform them into a contribution system. The system, which is outsourced to Santander Seguros y Reaseguros, Compañía Aseguradora, S.A., gives senior managers the right to receive benefits upon retirement, regardless of whether or not they are active at the Bank at such time, based on contributions to the system. This new system replaced their previous right to receive a pension supplement in the event of retirement. In the event of pre-retirement, and up to the retirement date, senior managers appointed prior to September 2015 are entitled to receive an annual allowance.

In addition, further to applicable remuneration regulations, from 2016 (inclusive), a discretionary pension benefit component of at least 15% of total remuneration in contributions to the pension system has been included.Under the regime corresponding to these discretionary benefits, the contributions made that are calculated on variable remunerations are subject to malus and clawback clauses according to the policy in force at each moment and during the same period in which the variable remuneration is deferred.

Likewise, the annual contributions calculated on variable remunerations must be invested in Bank shares for a period of five years from the date tht the senior manager leaves the Group, regardless of whether or not they leave to retire. Once that period has elapsed, the amount invested in shares will be reinvested, along with the remainder of the cumulative balance corresponding to the senior manager, or it will be paid to the senior manager or to their beneficiaries in the event of a contingency covered by the benefits system.

At the begining of 2018 the contracts of certain senior managers went through the amendments set out in note 5.c. for executive directors. The amendments, aimed at aligning the annual contributions with practices of comparable institutions and reducing future liabilities by eliminating the supplementary benefits scheme in the event of death (death of spouse or parent) and in the event of permanent disability while still in active employment, with no increase in total costs for the Bank, were the following:

- Contributions of the pensionable bases have been reduced. Gross annual salaries have been increased in the corresponding amount with no increases in total costs for the Bank.
- The death and disability supplementary benefits have been eliminated since January 1, 2018. A fixed remuneration supplement (included in other remuneration in the table above) was implemented the same date.
- The amounts insured for life and accident insurance were increased.

All of the above was done without an increase in total cost for the Bank.

The balance as of December 31, 2019 in the pension system for those who were part of senior management during the year amounted to EUR: 69.8 million (EUR: 66.5 million in December 31, 2018).

The net charge to income corresponding to pension and supplementary benefits for widows, orphans and permanent invalidity amounted to EUR 6.3 million in 2019 (EUR: 6.4 in December 31, 2018).

In 2019 and 2018 there have been no payments in the form of a single payment of the annual voluntary pre-retirement allowance.

Additionally, the capital insured by life and accident insurance at December 31, 2019 of this group amounts to EUR 134.1 million (EUR: 133.3 million at December 31, 2018).

h) Post-employment benefits to former Directors and former executive vice presidents

The post-employment benefits and settlements paid in 2019 to former directors of the Bank, other than those detailed in note 5.c amounted to EUR 6.3 million (2018: EUR 13.8 million). Also, the post-employment benefits and settlements paid in 2019 to former executive vice presidents amounted to EUR 6.5 million (2018: EUR 63 million).

Contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits to previous members of the Bank's board of directors, amounted to EUR 0.2 million in 2019 (EUR 0.5 million in 2018). Likewise, contributions to insurance policies that hedge pensions and complementary widowhood, orphanhood and permanent disability benefits for previous senior managers amounted to EUR 5.5 million in 2019 (EUR 5.4 million in 2018).

In addition, Provisions - Pension Fund and similar obligations in the consolidated balance sheet as at December 31, 2019 included EUR 172 million in respect of the post-employment benefit obligations to former Directors of the Bank (December 31, 2018: EUR 70.2 million) and EUR 172 million corresponding to former senior managers (2018: EUR 179 million).

i) Pre-retirement and retirement

In case of termination in their role as executive directors prior to reaching their retirement age, the following executive directors will be entitled to take pre-retirement, subject to the terms indicated below:

Ms. Ana Botín will be entitled to take pre-retirement in the event of termination for reasons other than breach. In such case, she will be entitled to an annual emolument equivalent to her fixed remuneration plus 30% of the average of her latest amounts of variable remuneration, up to a maximum of three years. This emolument would be reduced by up to 8% in the event of voluntary retirement before the age of 60. This assignment will be subject to malus and clawback conditions in effect for a period of 5 years. Mr. José Antonio Álvarez will be entitled to take preretirement in the event of termination for reasons other than his own free will or breach. In such case, he will be entitled to an annual emolument equivalent to the fixed remuneration corresponding to him as senior executive vice president. This assignment will be subject to malus and clawback conditions in effect for a period of 5 years.

j) Contract termination

The executive directors and senior executives have indefinite-term employment contracts. Executive directors or senior executives whose contracts are terminated voluntarily or due to breach of duties are not entitled to receive any economic compensation. If the Bank terminates the contract for any other reason, they will be entitled to the corresponding legally-stipulated termination benefit, without prejudice to the compensation that corresponds to the non-competition obligations, as detailed in the remuneration policy.

If the Bank were to terminate her contract, Ms. Ana Botín would have to remain at the Bank's disposal for a period of four months in order to ensure an adequate transition, and would receive her fixed salary during that period.

k) Information on investments held by the directors in other companies and conflicts of interest

None of the members of the board of directors or persons related to them perform, as independent professionals or as employees, activities that involve effective competition, be it present or potential, with the activities of Banco Santander, S.A., or that, in any other way, place the directors in an ongoing conflict with the interests of Banco Santander, S.A.

Without prejudice to the foregoing, following is a detail of the declarations by the directors with respect to their equity interests in companies not related to the Group whose object is banking, financing or lending; and of the management or governing functions, if any, that the directors discharge thereat.

Administrator	Denomination	Number of shares	Functions
Ms. Ana Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A. (*)	5,000,000	-
Mr. Bruce Neil Carnegie-Brown	Moneysupermarket.com Group plc	30,000	-
	Lloyd's of London Ltd	-	President (**)
Mr. Guillermo de la Dehesa Romero	Goldman, Sachs & Co. (The Goldman Sachs Group, Inc.)	19,546	-
Mr. Javier Botín-Sanz de Sautuola y O'Shea	Bankinter, S.A.	6,929,853	-
	JB Capital Markets Sociedad de Valores, S.A.	2,077,198	President
Mr. Pamela Ann Walkden	Standard Chartered Bank (***)	651,141	-
Mr. Ramiro Mato García- Ansorena	BNP Paribas, S.A	13,806	-
Mr. Rodrigo Echenique Gordillo	Mitsubishi UFJ Financial Group (*)	17,500	-
	Contingent convertible (CoCos) issued in 2018 by Caixabank, S.A*	1	-
	Ares Capital Corporation	13,128	-

*. Indirect ownership.
**. Non-executive.
***. includes: Ordinary shares; Deferred shares; Deferred option and Management Long Term Inventive Plan (MLTIP).

In addition, according to the Article 40 of the rules and Regulations of the Board, the Board, following a favorable report from the audit committee, must authorize the operations that the bank carries out with directors (unless their approval corresponds by law to the Shareholders Meeting), with the exception of those that simultaneously meet the conditions referred to in paragraph 2 of said Article 40.

Accordingly, the related party transactions carried out during the financial year met the conditions established in the regulations of the board of directors so as not to require a prior favourable report from the audit committee and subsequent authorisation from the board of directors.

In addition, during 2019 there were 49 occasions in which, in accordance with the provisions of article 36.1 (b) (iii) of the Regulations of the Board, the directors have abstained from intervening and voting in the deliberation of matters in the sessions of the board of directors or its committees. The breakdown of the 49 cases is as follows: on 28 occasions they were due to proposals for the appointment, re-election or resignation of directors, as well as members of board committees; on 13 occasions it was about retributive aspects or the granting of loans or credits and on 8 occasions the abstention occurred in relation to the annual verification of the directors' suitability or nature.

6. Loans and advances to central banks and credit institutions

The detail, by classification, type and currency, of Loans and advances to credit institutions in the accompanying balance sheets is as follows:

	Millons of euros	
	31/12/2019	31/12/2018
CENTRAL BANKS		
Classification:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	138	103
Financial assets designated at fair value through other comprehensive income	-	-
Financial assets at amortised cost	22	46
	160	**149**
Breeakdown by product:		
Reverse repurchase agreements	138	103
Other term loans	20	20
Advances different from loans	2	26
Of which: impaired assets	-	-
Of which: valuation adjustments for impairment	-	-
	160	**149**
Currency:		
Euro	160	149
	160	**149**
CREDIT INSTITUTIONS		
Classification:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	2
Financial assets designated at fair value through profit or loss	18,543	17,536
Financial assets designated at fair value through other comprehensive income	-	185
Financial assets at amortised cost	34,747	35,856
	53,290	**53,579**
Breakdown by product:		
Credit card Debt	-	-
Commercial credit	1,044	890
Finance leases	8	1
Reverse repurchase agreements	24,667	23,267
Other term loans	14,324	18,582
Advances different from loans	13,247	10,839
Of which: impaired assets	-	*1*
Of which: valuation adjustments for impairment	*(7)*	*(6)*
	53,290	**53,579**
Currency:		
Euro	40,069	35,276
Pound sterling	1,539	1,283
US dollar	10,555	15,532
Chilean pesos	747	728
Brazilian real	237	137
Other currencies	143	623
	53,290	**53,579**
TOTAL	**53,450**	**53,728**

The loans and advances classified under Financial assets designated at fair value through profit or loss consist of assets of Spanish and foreign institutions acquired under reverse repurchase agreements.

The loans and advances to credit institutions classified under Financial assets at amortised are mainly time accounts and deposits. In addition, at 31 December 2019, there were outstanding balances with central banks and credit institutions for EUR 24,596 million and EUR 6,324 million, respectively (2018: EUR 45,232 million and EUR 5,324 million, respectively). These balances are included under Cash, cash balances at central banks and other deposits on demand.

Note 48 contains a detail of the residual maturity periods of Financial assets at amortised cost and of the related average interest rates.

The breakdown as of 31 December 2019 of the exposure and of the provision fund by phase of impairment of the Financial assets at amortised cost accounted is EUR 34,776 million and EUR 7 million in phase 1 (EUR 36,094 million and 6 million in phase 1, in 2018).

7. Debt instruments

The detail, by classification, type, listing status and currency, of Debt instruments in the accompanying balance sheets is as follows:

	Millons of euros	
	31/12/2019	31/12/2018
Classification:		
Financial assets held for trading	19,094	10,525
Non-trading financial assets mandatorily at fair value through profit or loss	1,099	1,976
Financial assets designated at fair value through profit or loss	-	-
Financial assets designated at fair value through other comprehensive income	26,306	32,741
Financial assets at amortised cost	14,528	24,372
	61,027	**69,614**
Sectoralization:		
Central banks	322	300
Public sector	36,252	44,001
Credit institutions	10,651	11,032
Other financial institutions	12,327	12,960
Non-financial institutions	1,475	1,321
Of which: impaired assets	-	-
Of which: value adjustments for impairment	*(11)*	*(10)*
	61.027	**69,614**
Currency:		
Euro	44,556	50,695
Us dollar	7,699	10,468
Pound sterling	5,693	4,775
Brazilian real	1,834	1,837
Other currencies	1,245	1,839
	61,027	**69,614**

At 31 December 2019, the nominal amount of debt instruments assigned to the Bank's own obligations, mainly to secure financing facilities received by the Bank, amounted to EUR 18,373 million (EUR 36,854 million in 2018), of which EUR 11,553 million related to Spanish government debt (EUR 32,202 million in 2018).

In the last quarter of 2019, the securities representing the debt of the portfolio of financial assets have been transferred at a amortized cost to the portfolio of financial assets at a fair value with changes in other comprehensive income. The fair value of these assets at the date of the transfer was 6,359 million euros.

As established in Circular 4/2017, the aforementioned transfer was made prospectively, recognising the difference between the previous amortised cost of the transferred financial assets and their fair value in other comprehensive income. In application of this standard, the effective interest rate and the measurement of expected credit losses were not adjusted as a result of the transfer.

The context of adapting the Bank's commercial strategy to the changes in business models, in order to favour a greater alignment of the sensitivity of the bank's balance sheet masses to interest rates, has led to a change in the assets related to these liabilities from a business model whose objective is to collect the principal and interest flows to a business model whose objective is achieved through the collection of the principal and interest flows and the sale of these assets.

Note 25 e) contains a detail of the Other comprehensive income, recognised in equity, on Financial assets designated at fair value through other comprehensive income, and also the related impairment losses.

Note 48 contains a detail of the residual maturity periods of loans and advances and of available-for-sale financial assets, as well as their average interest rate.

8. Equity instruments

a) Breakdown

The detail, by classification, listing status, currency and type, of Equity instruments in the accompanying balance sheets is as follows:

	Millons euros	
	31/12/2019	31/12/2018
Classification:		
Financial assets held for trading	11,697	8,644
Non-trading financial assets mandatorily at fair value through profit or loss	231	224
Financial assets designated at fair value through other comprehensive income	1,856	1,751
	13,784	**10,619**
Listing status:		
Listed	13,439	9,892
Unlisted	345	727
	13,784	**10,619**
Currency:		
Euros	8,751	7,130
Pound sterling	2,737	1,845
Chinese yuan	1,127	1,010
Brazilian real	451	427
US Dollar	126	91
Other currencies	592	116
	13,784	**10,619**
Type:		
Shares of Spanish companies	3,555	3,178
Shares of foreign companies	9,668	6,959
Investment fund units and shares	561	482
	13,784	**10,619**

Note 25 contains a detail of the Other comprehensive income, recognised in equity, on Financial assets designated at fair value through other comprehensive income (Bank of Spain Circular 4/2017 and subsequent modifications).

b) *Changes*

The changes in Non-trading financial assets mandatorily at fair value through profit or loss and Financial assets at fair value through other comprehensive income were as follows:

	Millions euros	
	2019	2018
Balance at December 31 of the previous year	1,751	1,863
Merger effect (*)	-	77
Balance at beginning of the year after merger	1,751	1,940
Purchases and capital increases	749	18
Of which:		
Saudi British Bank	*632*	-
Disposals and capital reductions	(550)	(28)
Of which:		
RFS Holdings, B.V.	*(540)*	-
Other global result	(94)	(179)
Balance at end of the year	**1,856**	**1,751**

(*) See further detail Note 1.d and Note 1.i.

ii. RFS Holding, B.V. / Saudí British Bank

Under the "Share Premiun Contribution Agreement" dated 13.06.2019 and 10.07.2019, the Bank has contributed 53 million euros to RFS Holding and this entity has proceeded to the distribution of assets and liabilities among each of the partners of the holding, then proceeding to the sale of this.

Due to the distribution cited in the previous paragraph, the Bank has received shares of Saudi British Bank equivalent to 3.01% of the capital of said entity for a market value of 632 million euros and has withdrawn its participation in RFS Holding.

c) *Notifications of acquisitions of investments*

The notifications made by the Bank in 2019, in compliance with Article 155 of the Spanish Limited Liability Companies Law and Article 125 of Spanish Securities Market Law 24/1998, of the acquisitions and disposals of holdings in investees are listed in Appendix IV.

9. Derivatives (assets and liabilities) and Short positions

a) Trading derivatives

The detail, by type of inherent risk, of the fair value of the trading derivatives arranged by the Bank at 31 December 2019 and 2018 is as follows.

	Millions of euros			
	31/12/2019		31/12/2018	
	Debit balance	Credit balance	Debit balance	Credit balance
Interest rate	37,828	35,305	32,561	31,075
Equity instruments	2,233	1,816	2,768	1,796
Currency and Gold	15,324	18,562	16,102	18,657
Credit	206	286	113	78
Commodities	-	-	-	-
Others	103	99	93	92
	55,694	**56,068**	**51,637**	**51,698**

b) Short positions

Following is a breakdown of the short positions:

	Millions of euros	
	31/12/2019	31/12/2018
Securities lending:		
Equity instruments	308	987
Uncovered on assignments:		
Debt instruments	7,980	5,336
Total	**8,288**	**6,323**

10. Loans and advances to customers

a) Detail

The detail, by classification, of Loans and advances to customers in the accompanying balance sheets is as follows:

	EUR million	
	31/12/2019	31/12/2018
Financial assets held for trading	98	19
Non-trading financial assets mandatorily at fair value through profit or loss	1,289	1,549
Financial assets designated at fair value through profit or loss	31,178	23,687
Financial assets at fair value through other comprehensive income	3,865	1,238
Financial assets at amortised cost	239,998	236,669
Of which:		
Disregarding impairment losses	*250,108*	*245,207*
Impairment losses	*(6,245)*	*(7,300)*
	276,428	263,162
Loans and advances to customers disregarding impairment losses	**282,673**	**270,462**

In May 2019, Banco Santander, S.A. segregated the existing Factoring and Confirming business on its balance sheet in favor of the Santander Group Company Factoring y Confirming, S.A.U., E.F.C. The accounting effects date of business segregation in favor of Santander Factoring and Confirming was 1 January 2019, so, for comparative purposes, the amount reflected in the previous table in the portfolio of financial assets at cost should be considered amortized by Banco Santander as of 31 December 2019, includes the effect of this operation, which meant a reduction in loans and advances of the clientele amounting to EUR 1,088 million.

Note 48 contains a detail of the maturity periods of financial assets at amortised cost and of the related average interest rates.

At 31 December 2019 and 2018, there were no loans and advances to customers for material amounts without fixed maturity dates.

b) Breakdown

The following is a breakdown of the loans and advances granted to the Bank´s clients, which include exposure to the Bank´s credit risk in its main activity, without considering the balance of impairment reserve or the valuation adjustments (except accrued interest) depending on the modality and situation of the operations, the geographical area of the residence of the borrower and the modality of interest rate of the operation:

	Millions of euros	
	31/12/2019	31/12/2018
Loan type and status:		
On demand and with a short prior period	1,967	3,442
Credit cards receivables	1,597	1,714
Commercial credit	17,277	14,248
Finance leases	3,471	3,690
Reverse repurchase agreements	21,043	12,947
Other term loans	220,829	219,689
Non loans advances	10,244	7,432
Of which:		
Impaired assets	*13,994*	*15,695*
Impairment losses	*(6,245)*	*(7,300)*
Mortgage loans	*94,758*	*97,279*
Other secured loans	*41,845*	*31,825*
Book value	**276,428**	**263,162**
Gross book value	**282,673**	**270,462**
By sector:		
Public sector	13,287	16,261
Other financial institutions	57,143	44,508
Non-financial institutions	125,907	121,212
Households	86,336	88,481
	282,673	**270,462**
Geographical area:		
Spain	199,878	214,626
European Union (excluding Spain)	41,129	27,805
United States of America and Puerto Rico	17,082	9,348
Other OECD countries	7,814	6,315
Latin America (non-OECD)	7,373	5,448
Rest of the world	9,397	6,920
	282,673	**270,462**
Interest rate:		
Fixed rate	113,223	103,770
Floating rate	169,450	166,692
	282,673	**270,462**

At 31 December 2019 and 2018, the Bank had EUR 9,691 and 13,224 million, respectively, of loans and advances granted to Spanish public administrations whose rating at 31 December 2019 is A (rating at 31 December 2018 was A) and with EUR 3,596 and 3,036 million, respectively, granted to the Public Sector of other countries (as of December 31, 2019 this amount was composed, based on the rating of the issuer as follows: 52% AAA, 9% AA, 7% A, 3% BBB and 29% lower than BBB).

Without considering the Public Administrations, the amount of loans and advances as of 31 December 2019 amounts to EUR 269,386 million, of which EUR 255,392 million are in no doubt situation.

The above-mentioned ratings were obtained by converting the internal ratings awarded to customers by the Bank (See Note 49) into the external ratings classification established by Standard & Poor's, in order to make them more readily comparable.

Santander

Following is a detail, by activity, of the loans to customers at 31 December 2019, net of impairment losses:

	2019								
	Millions of euros								
			Secured loans						
			Net exposure		*Loan-to-value ratio (a)*				
	Total (*)	Without collateral	Of which: Property collateral	Of which: Other collateral	Less than or equal to 40%	More than 40% and less than or equal to 60%	More than 60% and less than or equal to 80%	More than 80% and less than or equal to 100%	More than 100%
Public sector	11,272	10,522	236	514	81	100	73	419	77
Other financial institutions and individual traders (business financial activity)	49,533	25,168	703	23,662	264	467	462	22,986	186
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	128,493	83,506	26,745	18,242	10,311	8,555	5,550	8,951	11,620
Of which:									
Construction and property development (including land)	*2,665*	*27*	*2,636*	*2*	*955*	*1,009*	418	*89*	*167*
Civil engineering construction	*2,207*	*1,180*	*137*	*890*	*22*	*249*	*9*	*312*	*435*
Large companies	*78,913*	*59,223*	*6,152*	*13,538*	*2,698*	*1,963*	*1,541*	*6,567*	*6,921*
SMEs and individual traders	*44,708*	*23,076*	*17,820*	*3,812*	*6,636*	*5,334*	*3,582*	*1,983*	*4,097*
Other households (broken down by purpose)	76,886	8,617	66,995	1,274	18,429	20,072	19,321	6,208	4,239
Of which:									
Residential	*61,445*	686	*60,542*	*217*	*16,420*	*18,496*	*17,764*	5,140	2,939
Consumer loans	*7,757*	*6,931*	*503*	*323*	*216*	*153*	*189*	*148*	*120*
Other purposes	*7,684*	*1,000*	*5,950*	*734*	*1,793*	*1,423*	*1,368*	*920*	*1,180*
Total *(*)*	**266,184**	**127,813**	**94,679**	**43,692**	**29,085**	**29,194**	**25,406**	**38,564**	**16,122**
Memorandum item									
Refinanced and restructured transactions (**)	*11,468*	*1,419*	*8,804*	*1,245*	*1,815*	*1,483*	*1,440*	*1,375*	*3,936*

(*) Includes the net balance of the valuation adjustments associated with impaired assets.
(**) Not including loans advances.
(a) The ratio of the carrying amount of the transactions at 31 December 2019 to the latest available appraisal value of the collateral.

Note 49 includes information regarding the refinanced / restructured portfolio.

Following the movement of the gross exposure is broken down by the phase of impairment of loans and advances to customers recognised under "Financial assets at amortized cost" and “Financial assets at fair value through other comprehensive income” under Bank of Spain Circular 4/2017 to 31 December 2019:

	Millons of euros			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year (*)	217,537	11,975	15,695	245,207
Movements				
Transfers				
Transfer to Stage 2 from Stage 1	(1,387)	1,387		-
Transfer to Stage 3 from Stage 1	(470)		470	-
Transfer to Stage 3 from Stage 2		(903)	903	-
Transfer to Stage 1 from Stage 2	2,073	(2,073)		-
Transfer to Stage 2 from Stage 3		532	(532)	-
Transfer to Stage 1 from Stage 3	264		(264)	-
Net changes on financial assets	8,809	(1,630)	202	7,381
Write-offs			(2,480)	(2,480)
Loss allowance as of 31 December 2019	226,826	9,288	13,994	250,108

(*) See reconciliation of Bank of Spain Circular 4/2004 and subsequent modifications as at December 31, 2018 to Bank of Spain Circular 4/2017 as at January 1, 2019 (Note 1.b).

(**) See further detail Note 1.d and Note 1.i.

As of 31 December 2019, the total net exposure of loans and advances to Bank customers is 243,863 million euros, of which 226,011 million euros correspond to phase 1, 9,255 million euros to phase 2 and 8,597 million euros. euros with phase 3. The Bank presents 444 million euros (447 million euros as of December 31, 2018) in impaired assets purchased with impairment, which correspond mainly to the business combinations that the Bank has carried out.

c) Impairment losses on loans and advances to customers at amortised cost and at fair value through other comprehensive income

The changes in the impairment losses on the assets making up the balances of financial assets at amortised cost and at fair value through other comprehensive income - Loans and advances - Customers:

	Millions of euros	
	2019	2018
Balance at beginning of the year	7,300	5,001
Merger effect (*)	-	4,780
Balance at beginning of the year after merger	7,300	9,781
Net impairment losses charged to income for the year	1,423	916
Of which:		
Impairment losses charged to income	*3,972*	*2,802*
Impairment losses reversed with a credit to income	*(2,549)*	*(1,886)*
Decreases due to amounts used against value adjustments	(2,480)	(2,795)
Exchange differences and other changes	2	(602)
Balance at end of the year	**6,245**	**7,300**
Of which:		
By status of the asset:		
Impaired assets	5,397	6,307
Of which: due to country risk	*5*	*6*
Other assets	848	993
Balance at end of the year	**6,245**	**7,300**
Of which:		
Individually calculated:	*1,083*	*1,846*
Collective calculated:	*5,162*	*5,454*

(*) See further detail Note 1.d and Note 1.i.

Previously suspensed assets recovered in 2019 amounted to EUR 179 million (31 December 2018: EUR 197 million).

Considering these assets in suspense recovered, as well as the net impairment recorded in the Loans and advances of central banks and credit institutions, of debt securities (see Notes 6 and 7, respectively) and of clientele (the latter detailed in the previous table), the impairment losses recorded under the heading of loans and advances to customers at amortized cost and fair value with changes in another comprehensive income of the profit and loss account amounted to 1,246 million euros in the year 2019 (EUR 686 million in 2018).

Following is the movement of the loan loss provision broken down by impairment stage of loans and advances to customers, under Circular 4/2017 of Bank of Spain during 2019:

	Millons of euros			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	290	703	6.307	7.300
Transfers				
Transfer to Stage 2 from Stage 1	(14)	106		92
Transfer to Stage 3 from Stage 1	(30)		171	141
Transfer to Stage 3 from Stage 2		(113)	472	359
Transfer to Stage 1 from Stage 2	13	(181)		(168)
Transfer to Stage 2 from Stage 3		51	(79)	(28)
Transfer to Stage 1 from Stage 3	13		(41)	(28)
Net changes of the exposure and modifications in the credit risk	63	(53)	1,047	1,057
Changes due to update in the methodology of estimates of the entity				
Write-offs			(2,480)	(2,480)
FX and other movements				
Gross carrying amount as of 31 December 2019	**335**	**513**	**5,397**	**6,245**

As of 31 December 2019, the total net amount of loans and advances to the Bank's customers is 243,863 million euros, of which EUR 226,011 million are in phase 1, EUR 9,255 million in phase 2 and EUR 8,597 million in phase 3. In addition, there are doubtful risks amounting to EUR 444 million that come from impaired assets purchased with credit impairment.

d) *Impaired assets and assets with unpaid past-due amounts*

The detail of the changes in the balance of the financial assets classified as Financial assets at amortised cost – Customers considered to be impaired due to credit risk is as follows:

	Millions of euros	
	2019	2018
Balance at beginning of the year	15,695	9,244
Merger effect(*)	-	9,078
Balance at beginning of the year after merger	15,695	18,322
Net additions	779	439
Written-off assets	(2,480)	(2,795)
Other changes	-	(271)
Balance at end of the year	**13,994**	**15,695**

(*) See further detail Note 1.d and Note 1.i.

This amount, once the corresponding provisions have been deducted, is the Bank´s best estimate of the discounted value of the flows that are expected to be recovered from impaired assets.

At 31 December 2019, the balance of the assets written-off amounted to EUR 8,296 million. (2018: EUR 12,405 million).

Details of those financial assets classified in the Financial assets at amortised cost – Customers portfolio and considered as impaired by reason of their credit risk, classified according to the sector where the risks are located, as well as depending on the period elapsed since the maturity of the amount unpaid on said oldest date of each operation

	31/12/2019				
	Millions of euros				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	**Total**
Public sector	6	-	-	9	**15**
Other financial institutions	4	1	1	16	**22**
Non-financial institutions	2,222	368	805	4,579	**7,974**
Households	1,441	434	454	3,654	**5,983**
	3,673	**803**	**1,260**	**8,258**	**13,994**

	31/12/2018				
	Millions of euros				
	With no past-due balances or less than 3 months past due	With balances past due by			
		3 To 6 months	6 To 12 months	More than 12 months	**Total**
Public sector	11	-	-	8	**19**
Other financial institutions	10	6	1	7	**24**
Non-financial institutions	3,657	418	702	5,007	**9,784**
Households	1,438	306	361	3,763	**5,868**
	5,116	**730**	**1,064**	**8,785**	**15,695**

Set forth below for each class of impaired asset are the gross amount, associated allowances and information relating to the collateral and/or other credit enhancements obtained at 31 December 2019:

	Millon of euros		
	Gross amount	Allowance recognised	Estimated collateral value (*)
Without associated real collateral	3,045	2,153	-
With associated real collateral	10,128	2,821	6,748
With other collateral	821	424	197
Total	**13,994**	**5,397**	**6,945**

(*) Including the estimated value of the collateral associated with each loan. Accordingly, any other cash flows that may be obtained, such as those arising from borrowers' personal guarantees, are not included.

When classifying assets in the previous table, the main factors considered by the Group to determine whether an asset has become impaired are the existence of amounts past due -assets impaired due to arrears- or other circumstances may be arise which will not result in all contractual cash flow being recovered, such as a deterioration of the borrower's financial situation, the worsening of its capacity to generate funds or difficulties experienced by it in accessing credit.

Past-due amounts receivable

In addition, at 31 December 2019, there were assets with amounts receivable that were past due by 90 days or less, the detail of which, by age of the oldest past-due amount, is as follows:

	Million euros		
	Less than1 month	1 to 2 months	2 to 3 months
Loans and advances to customers	756	294	75
Of which Public Sector	*1*	-	-
Total	**756**	**294**	**75**

e) *Securitisation*

The heading loans and advances to customers includes, among other, the securitised loans transferred to third parties on which the Bank has retained risk and benefits, albeit partially, and which therefore, in accordance with the applicable accounting standards, cannot be derecognised. The breakdown of the securitised loans, by type of original financial instrument, and of the securitised loans derecognised because the stipulated requirements were met (see Note 2.e) is shown below. The liabilities associated with these securitisation transactions are detailed in Note 19.

	Millions of euros	
	31/12/2019	31/12/2018
Derecognised	1,313	1,367
Of which mortgage assets are securitised through:		
Mortgage participation certificates	*454*	*1,049*
Mortgage transfer certificates	*594*	*237*
Retained on the balance sheet	18,769	19,864
Of which mortgage assets are securitised through:		
Mortgage transfer certificates	*14,569*	*15,915*
	19,899	**21,231**

The evolution of this activity responds to its use as a regulatory capital management tool and as a resource for the diversification of Bank´s liquidity sources. In 2019 and 2018 the Bank did not derecognise any of the securitisations performed, and the balance shown as derecognised for those years relates to securitisations performed in prior years.

The loans retained on the face of the balance sheet include the loans associated with securitisations in which the Group retains a subordinated debt and/or grants any manner of credit enhancements to the new holders.

The loans transferred through securitisation are mainly mortgage loans, loans to companies and consumer loans.

f) Guarantee

Following is a detail of the mortgage-backed bonds and securitised bonds, excluding treasury shares, securing liabilities or contingent liabilities at 31 December 2019 and 2018:

	Millions of euros	
	31/12/2019	31/12/2018
Guarantee:		
Mortgage-backed bonds	23,594	20,778
Asset-backed securities	116	631
	23,710	**21,409**

The mortgage-backed bonds are secured by mortgage loans with average maturities of more than ten years. In order to calculate the amount of the qualifying assets, the following transactions are excluded from the total base of the unsecuritised mortgage portfolio:

- Transactions classified as at pre-action stage and procedural stage.
- Transactions without appraisal by a specialist valuer.
- Transactions exceeding 80% of the appraised value in residential financing and 60% in the case of other assets.
- Second mortgages or mortgages with insufficient collateral.
- Transactions without insurance or with insufficient insurance.

The asset-backed securities, including asset-backed securities and notes issued by special-purpose vehicles (SPVs), are secured by:

- Mortgage loans to individuals to finance the acquisition and refurbishment of homes with an average maturity of more than ten years.
- Personal consumer finance loans with no specific guarantee and unsecured loans with an average maturity of five years.
- Loans to SMEs (non-financial small and medium-sized enterprises) secured by State guarantees, and loans to companies (SMEs -self-employed, microbusinesses, small and medium-sized enterprises- and large companies) secured by property mortgages, the borrower's personal guarantee, guarantees and other collateral other than property mortgages, with an average maturity of seven years.
- Mortgage and non-mortgage loans to finance municipalities, autonomous communities and subsidiaries with an average maturity of more than ten years.
- Asset-backed securities issued by various European special-purpose vehicles backed by German and Italian loans for the purchase of vehicles and Italian personal loans, with an average maturity of eight years.
- Commercial credit of Banco Santander (ordinary and occasional invoice discounting and advances to customers on legitimate receivables) with an average maturity of 45 days.

The fair value of the guarantees received by the Bank (financial and non-financial assets) which the Bank is authorised to sell or pledge even if the owner of the guarantee has not defaulted is scantly material taking into account the Bank's financial statements as a whole.

11. Trading derivatives

The detail of the notional and/or contractual amounts and the market values of the trading derivatives held by the Bank in 2019 and 2018 is as follows:

	Millions of euros			
	31/12/2019		31/12/2018	
	Notional value	Market value	Notional value	Market value
Held for trading:				
Interest rate	4,638,109	2,523	4,610,119	1,486
Options	*302,937*	*(533)*	*323,410*	*182*
Other	*4,335,172*	*3,056*	*4,286,709*	*1,304*
Equity instruments	54,880	417	52,983	972
Options	*35,402*	*(301)*	*35,903*	*(298)*
Other	*19,478*	*718*	*17,080*	*1,270*
Currency	634,016	(3,239)	592,918	(2,555)
Options	*39,205*	*13*	*48,284*	*5*
Other	*594,811*	*(3,252)*	*544,634*	*(2,560)*
Credit	23,190	(80)	18,787	36
Hedging default derivative	*23,190*	*(80)*	*18,787*	*36*
Securities and commodities derivatives and other	5,677	4	5,647	-
	5,355,872	**(375)**	**5,280,454**	**(61)**

12. Non-current assets held for sale

The detail of Non-current assets held for sale in the accompanying balance sheets is as follows:

	Millions of euros	
	31/12/2019	31/12/20178
Investments in subsidiaries, jointly controlled entities and associates	-	-
Loans	-	-
Foreclosed assets	1,089	1,979
Other assets leased out under an operating lease	33	8
Investment property	42	53
Total	**1,164**	**2,040**

At 31 December 2019, Non-current assets held for sale was reduced by impairment losses amounting to EUR 598 million (2018: EUR 1,261 million), of which EUR 70 million were recognised in 2019 (2018: EUR 39 million) under Gains/losses on non-current assets held for sale not classified as discontinued operations in the income statement (see Note 46).

At December 31, 2019 there are no liabilities associated in disposable groups of items that have been classified as held for sale associated with other non-current assets and alienable groups of items that have been classified as held for sale.

13. Investments

a) Associates

Investments - Associates in the accompanying balance sheets includes the Bank's ownership interests in associates (see Note 2.b).

Appendix II contains a detail of these companies, indicating the percentages of direct or indirect ownership and other relevant information.

At 31 December 2019 there were no capital increases in progress at any major associate.

i. Breakdown

The detail of the balance of this heading of the attached balances, based on the contracting currency and the admission or non-listing of the securities, is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
Currency:		
Euro	4,860	5,037
Foreign Currenc	-	63
	4,860	**5,100**
Listing status:		
Listed	1,938	1,857
Unlisted	2,922	3,243
	4,860	**5,100**

ii. Changes

The changes in 2019 and 2018 in Investments - Associates, disregarding impairment losses, were as follows:

	Millions of euros	
	2019	2018
Balance at the end of the year	**5,446**	**2,458**
Merger effect(*)	-	905
Balance at the beginning of the year	**5,446**	**3,363**
Purchases, capital increases and mergers	83	1,749
Of which:		
Testa Residencial, SOCIMI, S.A.	-	*47*
Project Quasar Investment 2017, S.L.	-	*1,701*
Promotoria Manzana, S.A..	*72*	
Disposals, reductions and mergers:	**(116)**	**(431)**
Of which:		
Merlin Properties, SOCIMI, S.A.	*(8)*	*(19)*
Testa Residencial, SOCIMI, S.A.	-	*(411)*
Grupo Financiero Ve por Más, S.A. de C.V.	*(86)*	
Transfers	-	**756**
Of which:		
Metrovacesa, S.A.	-	*782*
Cartera origen Banco Popular	-	*(22)*
Testa Residencial Socimi, S.A.	-	*(7)*
Other changes (net)	19	9
Balance at end of the year	**5,432**	**5,446**

(*) See further detail Note 1.d and Note 1.i.

In March, within the framework of a project related to the sale of foreclosed properties by several Group companies, the Bank acquired 20% of the company Promontoria Manzana, S.A., obtaining a real estate contribution. As a result of the contribution made by partners and the following capital increase, the cost of this participation amounted to 72 million euros.

In addition, on July 1, 2019, the Bank has proceeded to sell its stake in the Mexican company Grupo Financiero Ve por Más, S.A. from C.V. of 85 million euros, registering the Bank a profit for this operation of 12 million euros.

In February 2018, the accounting reclassification was made to this heading of the participation in Metrovacesa, S.A., under the heading of Entities of the Group, for an amount of 782 million euros (see Note 13.b.ii).

Also, in the month of March 2018, within the Quasar operation, a percentage of 49% of the company's capital stock was acquired through the capital increase of the Project Quasar Investment 2017, S.L. This participation was registered for an amount of 1,701 million euros (see Note 3.b.iii).

On July 17, 2108, the Bank bought Luri 4, S.A.U. 2.67% of the entity Testa Residencial SOCIMI, S.A. for a price of 47 million euros reaching a 15.77% participation percentage in said company. This participation increased to 18.70% due to the accounting record of the merger by absorption of Banco Popular Español, S.A.U. which had in its books a participation of 2.93% of the mentioned company. Subsequently, on December 21, 2018, the Bank received from Testa Residencial SOCIMI, S.A. a dividend charged to the issuance premium of 188 million euros and proceeded to sell 17.91% of its stake for 159 million euros. This sale was a credit to results for the release of 27 million of the registered impairment fund. Given that after this operation, the Bank only held 0.79% of the capital of this company at a cost of 7 million euros, it accounted for accounting of its participation in the portfolio of Financial Assets at fair value with changes in results.

iii. Impairment losses

The changes in the balance of this item were as follows:

	Millions of euros	
	2019	2018
Balance at end of the prior year	346	259
Merger effect (*)	-	168
Balance at the beginning of the year	346	427
Net impairment losses (reversals) (Note 44)	250	(114)
Other changes	(24)	33
Balance at end of the year	**572**	**346**

(*) See further detail Note 1.d and Note 1.i.

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b) Subsidiaries

Investments - Subsidiaries includes the equity instruments owned by the Bank and issued by subsidiaries belonging to Santander Group.

Relevant information on these companies is provided in Appendix I.

i. Breakdown

The detail, by currency and listing status, of Investments - Subsidiaries in the balance sheets as at 31 December 2019 and 2018 is as follows.

	Millions of euros	
	31/12/2019	31/12/2018
Currency:		
Euro	38,212	34,867
Pound Sterling	15,383	15,128
Other currencies	28,628	26,329
	82,223	**76,324**
Listing status:		
Listed	8,787	6,962
Unlisted	73,436	69,362
	82,223	**76,324**

ii. Changes

The changes in 2019 and 2018 in Investments - Subsidiaries, disregarding impairment losses, were as follows:

	Millions of euros	
	2019	2018
Balance at the end of the prior year	83,309	90,041
Merger effect (*)	-	(5,757)
Balance at beginning of the year	83,309	84,284
Acquisitions, contributions, capital increase payments and mergers	6,026	9,324
Of which:		
Santander Consumer Finance, S.A.	*3,193*	-
Landmark Iberica, S.L.	*272*	-
Banco Santander (México), S.A.; Institución de Banca Múltiple	*1,683*	*4,352*
Santander Holdings USA, Inc.	-	*84*
Grupo Financiero Santander México.	-	*3,741*
SAM UK Investment HolNding Ltd.	-	*980*
Disposals, capital reductions and mergers	(770)	*(9,494)*
Of which:		
Grupo Financiero Santander México.	-	*(4,352)*
Banco Santander (México), S.A.; Institución de Banca Múltiple	-	*(4,352)*
Metrovacesa, S.A.	-	*(270)*
Inversiones Capital Global, S.A.	*(197)*	-
Transfers	*3*	*(760)*
Of which:		
Metrovacesa, S,A.	-	*(782)*
Reclassification of Associates of several companies.	-	*22*
FX and other movements	750	*(45)*
Balance at end of the year	**89,318**	**83,309**

(*) See further detail Note 1.d and Note 1.i.

On 22 January 2019, the Bank has set up the company Landmark Ibéria, SL, Subsequently, on 29 April 2019 it has made a contribution of partners for 1 million euros and on November 8 it signed, together with other Group companies, a non-monetary capital increase with an emission premium through land contributions, for a value of EUR 271 million. After these operations it has reached a participation percentage of 16.20% in said company.

On 10 September 2019, on the occasion of the Public Offer of Acquisition of shares of Banco Santander (México), S.A. Multiple Bank Institution, the Bank has acquired 16.69% of the shares of said company, for this purpose, it has made a capital increase of 381,540,640 shares with an issue premium, for a total of 1,683 million euros, which have been delivered to the shareholders of the aforementioned entity that have come to the Offer.

In addition, on 26 September 2019 the entity Inversiones Capital Global, S.A.U. made a return of reserves for 169 million euros, which the Bank has registered reducing the net cost of the participation by that amount.

On December 20, 2019, the Bank purchased Holneth B.V. its participation in Santander Consumer Finance, S.A. for 3,193 million euros, reaching with this acquisition a percentage of 99.99% in said company.

In January 2018, a corporate corporate restructuring was registered in Mexico through which an inverse merger between Banco Santander (México), S.A. Multiple Banking Institution as absorber of its parent Grupo Financiero Santander México, S.A.B. from C.V. The value for which the absorbing entity was initially registered is for the EUR 4,352 million for which the participation in the absorbed entity has been registered. Then, once it took effect this as a merger, the Bank contributed all of its participation in the absorbing entity, that is, Banco Santander (Mexico) Institution of Multiple Bank, to the constitution of a new entity called Grupo Financiero Santander México, S.A. from C.V. going on to hold a 99.99% participation percentage in this entity. For the accounting record of this operation, the Bank derecognised the cost of the shares delivered for EUR 4,352 million euros and discharged the shares received from the new Group for the consolidated cost of the contributed entity amounting to EUR 3,689 million. The difference between the two amounts of 663 million euros is due in Other reserves.

Likewise, the Assembly of Grupo Financiero Santander México, S.A. from C.V. approved on 29 January 2018 a capital increase for a value of EUR 52 million that was fully subscribed by the Bank.

In February 2018, the Bank, together with other reference shareholders, went to an offer to acquire shares of Metrovacesa, S.A. for which it proceeded to the sale of 9.22% of its stake in Metrovacesa, S.A. for an amount of 230 million euros, registering a loss for this operation of 6 million euros. After this operation, this participation has been reclassified to the sub-heading of associated entities (see Note 13.a.).

On June 19, 2018, the SAM UK Investment Holdings Ltd. approved a capital increase of 980 million euros that was fully subscribed by the Bank through the capitalization of loans granted to said entity.

Also, during 2018, the Bank made successive capital contributions to Santander Holding USA for a total of 84 million euros *iii. Impairment losses*

The changes in the balance of this item were as follows:

	Millions of euros	
	2019	2018
Balance at end of the prior year	6,985	7,114
Merger effect (*)	-	269
Balance at beginning of the year	6,985	7,383
Net impairment losses (reversals) (Note 44)	207	22
Other changes (**)	(97)	(420)
Balance at end of the year	**7,095**	**6,985**

(*) See further detail Note 1.d and Note 1.i.
(**) Includes in 2018, with respect to Metrovacesa, S.A. the use, at the time of sale, of a provision for impairment of EUR 34 million and a transfer of EUR 97 million of provision by Metrovacesa, S.A. reclassified to the associates heading (see Note 13.a.iii).

The management of the company make an analysis of the potential loss of value of the investments in Group companies, jointly entities and associates that it has registered in relation to its book value. This analysis is carried out using different parameters, such as equity value, list value and recoverable value. The investments valued in the last item are analyzed by comparing this book value and its recoverable amount, which is obtained from the estimates of expected cash flows or net equity corrected by the unrealized capital gains existing on the valuation date, including the goodwill registered at that date.

The impairment losses recognised by the Bank in 2019 included EUR 90 million (2018: EUR 62 million) for impairment of the participation held in Open Digital Services, S.L.

c) Jointly controlled entities

The cost of the investee entities registered under this heading as of 31 December of 2019 amounts of EUR 247 million, while the provisions for impairment recorded as of that date are of EUR 179 million.

In March 2019, the Bank has sold 34.18% of its stake in Inbond Inversiones 2014, S.L. for an amount of EUR 146 million, registering a capital gain for this operation of EUR 57.3 million.

On 7 November 2018, the Bank sold 49% of its stake in WiZink Bank, S.A. for an amount of EUR 1,028 million, registering a capital gain for this operation of EUR 38 million.

During the 2019 financial year, the Bank has released provisions of EUR 23 million for the entities registered under this heading, of which EUR 23 million correspond to the UCI, SA, while in 2018 it provided of EUR 13 million of which of EUR 10 million corresponded to this company.

14. Reinsurance assets

The detail of Insurance contracts linked to pensions in the accompanying balance sheets is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
Assets relating to insurance contracts covering post-employment benefit plan obligations (Notes 17 & 23)	511	1,654
	511	**1,654**

Santander

15. Tangible assets

a) Changes

The changes in tangible assets in the balance sheets were as follows:

	Millions of euros							
	Tangible assets				Os which: Right-of-use for operating lease			
	For own use	Leased out under an operating lease	Investment property	Total	For own use	Leased out under an operating lease	Investment property	Total
Cost:								
Balance at 1 January 2018	**4,183**	**571**	**428**	**5,182**				
Additions/disposals (net)	(481)	107	19	(355)				
Transfers and other	17	-	-	17				
Balances at 31 December 2018	**3,719**	**678**	**447**	**4,844**				
Impact of adoption of IFRS16	**4,236**	-	-	**4,236**	**4,236**	-	-	**4,236**
Balance at 1 January 2019	**7,955**	**678**	**447**	**9,080**	**4,236**	-	-	**4,236**
Additions/disposals (net)	754	172	(5)	921	(1,290)	-	-	(1,290)
Transfers and others	(112)	-	(105)	(217)	-	-	-	-
Balances at 31 December 2019	**8,597**	**850**	**337**	**9,784**	**2,946**	-	-	**2,946**
Accumulated depreciation:								
Balance at 1 January 2018	**(2,536)**	**(212)**	**(18)**	**(2,766)**				
Charge for the year	(155)	-	(4)	(159)				
Disposals	642	66	5	713				
Transfers and others	(7)	(37)	(3)	(47)				
Balances at 31 December 2018	**(2,056)**	**(183)**	**(20)**	**(2,259)**				
Impact of adoption of IFRS16	-	-	-	-	-	-	-	-
Balance at 1 January 2019	**(2,056)**	**(183)**	**(20)**	**(2,259)**	-	-	-	-
Charge for the year	(435)	(67)	(5)	(507)	(268)	-	-	(268)
Disposals	195	62	2	259	-	-	-	-
Transfers and other	(2)	(11)	2	(11)	-	-	-	-
Balances at 31 December 2019	**(2,298)**	**(199)**	**(21)**	**(2,518)**	**(268)**	-	-	**(268)**
Impairment losses:								
Balance at 1 January 2018	(22)	-	(171)	(193)				
Transfers and others	-	-	18	18				
Balances at 31 December 2018	**(22)**	-	**(153)**	**(175)**				
Impact of adoption of IFRS16	-	-	-	-	-	-	-	-
Balance at 1 January 2019	**(22)**	-	**(153)**	**(175)**	-	-	-	-
Transfers and other	(24)	-	64	40				
Balances at 31 December 2019	**(46)**	-	**(89)**	**(135)**	-	-	-	-
Tangible assets, net:								
Balances at 31 December 2018	**1,641**	**495**	**274**	**2,410**				
Impact of adoption of IFRS16	**4,236**	-	-	**4,236**	**4,236**	-	-	**4,236**
Balance at 1 January 2019	**5,877**	**495**	**274**	**6,646**	**4,236**	-	-	**4,236**
Balances at 31 December 2019	**6,253**	**651**	**227**	**7,131**	**2,678**	-	-	**2,678**

b) *Property, plant and equipment for own use*

The detail, by class of asset, of Property, plant and equipment - For own use in the balance sheets is as follows:

	Millions of euros				
	Cost	Accumulated depreciation	Impairment losses	Carrying amount	Of which: Right-of-use for operating lease
Land and buildings	782	(197)	(22)	563	
Furniture, fixtures and vehicles	2,323	(1,391)	-	932	
Computer hardware	580	(468)	-	112	
Other	34		-	34	
Balances at 31 December 2018	**3,719**	**(2,056)**	**(22)**	**1,641**	
Land and buildings	5,759	(439)	(46)	5,274	2,678
Furniture, fixtures and vehicles	2,202	(1,352)	-	850	
Computer hardware	602	(507)	-	95	
Other	34	-	-	34	
Balances at 31 December 2019	**8,597**	**(2,298)**	**(46)**	**6,253**	**2,678**

The carrying amount at 31 December 2019 in the table above includes the following approximate amounts:

- EUR 2 million (31 December 2018: EUR 2 million) relating to property, plant and equipment owned by the Bank's branches located abroad.

- EUR 627 million (31 December 2018: EUR 689 million) relating to property, plant and equipment held under finance leases by the Bank, of which EUR 513 million related to leases in force at 31 December 2019 (31 December 2018: EUR 565 million) (see Note 2.l).

16. Intangible assets

a) *Goodwill*

The detail of goodwill, based on the cash-generating units giving rise thereto, is as follows:

	Millions euros	
	31/12/2019	31/12/2018
Santander España	623	623
Amortization charge	(102)	(40)
Balance at end of year	**521**	**583**

The changes in goodwill were as follows:

	Millions euros	
	2019	2018
Balance at end of prior year	583	-
Merger effect (*)	-	236
Balance at beginning of the year	583	236
Additions (Note 3)	-	375
Of which:		
Santander España	-	*375*
Amortization charge	(62)	(28)
Impairment losses	-	-
Disposals or changes in scope	-	-
Balance at end of year	**521**	**583**

(*) See further detail Note 1.d and Note 1.i.

During 2019, the Bank has not registered goodwill.

During 2018, the Bank registered a goodwill generated in the following corporate operations:

- Merger by absorption of Banco Popular Español, S.A.U.: the Bank acquired on June 7, 2017 100% of the capital stock of Banco Popular Español, S.A.U., arising as a result of the business combination, a goodwill of 248 million euros recorded in consolidated books. Subsequently, on September 28, 2018, the merger deed by absorption of Banco Popular Español, S.A.U has been registered in the Mercantile Registry of Cantabria by Banco Santander, S.A., with accounting effects on January 1, 2018, arising a goodwill in the individual books of the Bank, at that date, of EUR 236 million, (Note 1.d and Note 1.i.).

- Repurchase of the credit and debit card business marketed by the Banco Popular Group in Spain and Portugal generating the business combination a goodwill of EUR 375 million.

In accordance with Bank of Spain Circular 4/2017, will be amortized over a period of ten years. In addition, the Bank periodically reviews the term and method of amortization and, if it considers that they are not adequate, the impact will be treated as a change in the accounting estimates.

The Bank, at least once per year and whenever there is evidence of impairment, performs an analysis of the potential loss of value of the goodwill it has recorded with respect to its recoverable value. The first step that must be taken in order to perform this analysis is the identification of the cash-generating units, which are the Bank's smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

For the purposes of those mentioned in the previous paragraph, Bank administrators have identified the commercial banking business in Spain as the cash generating unit to which to allocate the goodwill arising from both the acquisition and subsequent merger by absorption of Banco Popular Español , SAU as for the repurchase of the credit and debit card business of Grupo Banco Popular.

Its book value is determined taking into account the book value of all the assets and liabilities that make up the commercial banking business in Spain, together with the corresponding Goodwill.

This book value is compared to its recoverable amount in order to determine if there is impairment. The recoverable amount of the Santander España cash generating unit has been determined as the fair value of said cash generating unit obtained from quotes, market references (multiples) and internal estimates. At the end of the year, said value exceeded the book value.

Based on the foregoing, and in accordance with the estimates of the Bank's administrators, during the years 2019 and 2018 the Bank has not recorded a balance under the heading Impairment or reversal of the impairment of the value of non-financial assets - intangible assets - in impairment concept of goodwill.

b) *Other intangible assets*

i) Breakdown

The detail of Intangible assets - Other intangible assets in the balance sheets is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
With finite useful life		
IT Developments	550	488
Accumulated amortisation	(386)	(293)
Balance at end of year	**164**	**195**

ii) Changes

The changes in Intangible assets - Other intangible assets in the balance sheets were as follows

	Millions of euros	
	2019	2018
Balance at end of prior year	195	225
Net additions and disposals	62	96
Amortization charge	(93)	(126)
Balance at end of year	**164**	**195**

In 2019 and 2018 impairment losses were not recognised under non financial assets (net) Impairment losses in the income statement.

17. Other assets and Other liabilities

The detail of Other assets and Other liabilities in the accompanying balance sheets is as follows:

	Millions of euros			
	Assets		Liabilities	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Transactions in transit	565	83	433	-
Insurance contracts linked to pensions (Note 14)	511	1,654	-	-
Inventory	-	-	-	-
Prepayments and accrued income	503	524	1,737	1,609
Other (*)	4,368	2,766	1,761	2,735
Total:	**5,947**	**5,027**	**3,931**	**4,344**

(*) Includes, mainly, unsettled transactions.

18. Deposits from central banks and credit institutions

The detail by classification, type and currency of Deposits from central banks and Deposits from credit institutions in the accompanying balance sheets is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
CENTRAL BANKS		
Classification:		
Financial liabilities designated at fair value through profit or loss	7,596	12,377
Financial liabilities at amortised cost	36,896	48,519
	44,492	**60,896**
Type:		
Time deposits	43,686	59,818
Deposits available with prior notice	-	-
Repurchase agreements	806	1,078
Of which: valuation adjustments	*(306)*	*(349)*
	44,492	**60,896**
Currency:		
Euro	37,237	47,252
US dollar	7,189	13,018
Pound Sterling	6	355
Other currencies	60	271
	44,492	**60,896**
CREDIT INSTITUTIONS		
Classification		
Financial liabilities designated at fair value through profit or loss	6,152	8,772
Financial liabilities at amortised cost	51,180	55,883
	57,332	**64,655**
Nature:		
Current accounts / Intraday deposits	15,911	18,034
Time deposits	28,496	24,502
Deposits available with prior notice	-	-
Repurchase agreements	12,925	22,119
Of which: valuation adjustments	*364*	389
	57,332	**64,655**
Currency:		
Euro	33,804	44,986
US dollar	18,614	15,426
Sterling Pound	4,163	3,608
Other currencies	751	635
	57,332	**64,655**

(*) See further detail Note 1.d and Note 1.i.

The Bank, having benefited from the various long-term financing programs of the European Central Bank (TLTRO I, TLTRO II), maintains deposits at amortised cost from these programs amounting to EUR 35,200 million as at 31 December 2019 (2018: EUR 45,200 million).

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

19. Customer deposits

The detail by classification, type and geographical area, of Customer deposits in the accompanying balance sheets is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
Classification:		
Financial liabilities held for trading	-	-
Financial liabilities designated at fair value through profit or loss	10,516	13,930
Financial liabilities at amortised cost	250,521	240,693
	261,037	**254,623**
Type:		
Current accounts / Intraday deposits	219,852	202,178
Time deposits	38,030	46,254
Deposits available with prior notice	-	-
Repurchase agreements	3,155	6,191
Of which: subordinated deposits	-	-
Of which: issued securities	*116*	*628*
Of which: valuation adjustments	*2,639*	*2,482*
	261,037	**254,623**
Sector:		
Public sector	20,012	19,283
Other financial companies	40,090	38,832
Non-financial companies	64,442	63,197
Households	136,493	133,311
	261,037	**254,623**
Geographical area:		
Spain	229,873	224,307
European Union (excluding Spain)	22,286	22,382
United States and Puerto Rico	3,451	3,037
Other OECD countries	2,606	1,764
Latin America (non-OECD)	2,146	2,324
Rest of the world	675	809
	261,037	**254,623**

Funds received under financial asset transfers in the table above includes the liabilities associated with securitisation transactions (see Note 10.e).

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

20. Marketable debt instruments

a) Breakdown

The detail by classification and type, of Marketable debt securities in the accompanying balance sheets is as follows.

	Millions of euros	
	31/12/2019	31/12/2018
Classification:		
Financial liabilities at amortised cost (Note 19)	87,567	77,095
	87,567	**77,095**
Type:		
Certificates of deposit	3,661	1,495
Guaranteed bonds	49,610	48,611
Mortgage bonds	*41,199*	*38,470*
Others mortgage bonds and guaranteed bonds	*8,411*	*10,141*
Other non-convertible issued securities (Notes 19&21)	59,273	53,380
Of which subordinated liabilities	*15,352*	*17,984*
Treasury shares (*)	(26,351)	(27,785)
Valuation adjustments	1, 374	1,394
	87,567	**77,095**

(*) At 31 December 2019 y 2018, the registered balance corresponds mainly to guaranteed bonds.

Note 48 contains a detail of the residual maturity periods of financial liabilities at amortised cost and of the related average interest rates.

b) *Certificates of deposit*

The detail of Certificates of deposits by currency of issuance is as follows:

	Millions of euros		31 December 2019	
Currency of issuance	31/12/2019	31/12/2018	Outstanding issue amount in foreign currency (millions)	Annual interest rate (*)
US dollar	3,661	1,422	4,113	2,17%
Hong Kong dollar	-	73	-	0,00%
Balance at end of the year	**3,661**	**1,495**		

(*) Average interest rate of the issuances at 31 December 2019 based on their principal amounts.

i. Changes

The changes in Certificates of deposits in 2019 and 2018 were as follows:

	Millions of euros	
	2019	2018
Balance at end of the prior year	1,495	34
Issues	10,404	3,107
Redemptions	(8,278)	(1,675)
Exchange differences and other changes	40	29
Balance at end of the year	**3,661**	**1,495**

In 2019 the Bank issued certificates of deposits amounting to EUR 10,404 million (2018: EUR 3,107 million), with an average maturity of 5 months (four months during 2018) and of which EUR million were amortised in 2019 (2018: EUR 1,675 million).

c) *Marketable mortgage-backed securities*

The detail by currency of issuance, of Marketable mortgage-backed securities is as follows:

	Millions of euros		31 December 2019
Currency of issuance	31/12/2019	31/12/2018	Annual interest rate (*)
Euros	41,199	38,470	1.19 %
Balance at end of the year	**41,199**	**38,470**	

(*) Average interest rate of the various issues at 31 December 2019 based on their nominal values.

i. Changes

The changes in 2019 and 2018 in Marketable mortgage-backed securities were as follows:

	Millions of euros	
	2019	2018
Balance at the end of the prior year	38,470	21,911
Merger effect(*)	-	17,267
Balance at the beginning of the year	38,470	39,178
Reclassification of deposits	-	-
Issues	4,749	3,537
Of which:		
June 2018	-	*350*
October 2018	-	*2,987*
November 2018	-	*200*
May 2019	*1,499*	-
December 2019	*1,500*	-
Transfers	*1,750*	-
Amortizations on maturity	(2,020)	(3,845)
Advanced amortizations	-	(400)
Balance at end of the year	**41,199**	**38,470**

(*) See further detail Note 1.d and Note 1.i.

ii. Disclosures required pursuant to the Mortgage Market Law 2/1981, of 25 March, of the Spanish Royal Decree 716/2009, of 24 April, implementing certain provisions of this Law, and to Bank of Spain Circular 7/2010, of 30 November, and Bank of Spain Circular 5/2011, of 30 November.

The members of the board of directors hereby state that the Group entities operating in the Spanish mortgage-market issues area have established and implemented specific policies and procedures to cover all activities carried on and guarantee strict compliance with mortgage-market regulations applicable to these activities as provided for in Royal Decree 716/2009, of 24 April implementing certain provisions of Mortgage Market Law 2/1981, of 25 March, and, by application thereof, in Bank of Spain Circulars 7/2010 and 5/2011, and other financial and mortgage system regulations. Also, financial management defines the Group entities' funding strategy.

The risk policies applicable to mortgage market transactions envisage maximum loan-to-value (LTV) ratios, and specific policies are also in place adapted to each mortgage product, which occasionally require the application of stricter limits.

The Bank's general policies in this respect require the repayment capacity of each potential customer (the effort ratio in loan approval) to be analysed using specific indicators that must be met. This analysis must determine whether each customer's income is sufficient to meet the repayments of the loan requested. In addition, the analysis of each customer must include a conclusion on the stability over time of the customer's income considered with respect to the life of the loan. The aforementioned indicator used to measure the repayment capacity (effort ratio) of each potential customer takes into account mainly the relationship between the potential debt and the income generated, considering on the one hand the monthly repayments of the loan requested and other transactions and, on the other, the monthly salary income and duly supported income.

The Group entities have specialised document comparison procedures and tools for verifying customer information and solvency (Note 49).

The Bank´s procedures envisage that each mortgage originated in the mortgage market must be individually valued by an appraisal company not related to the Bank.

In accordance with Article 5 of Mortgage Market Law 41/2007, any appraisal company approved by the Bank of Spain may issue valid appraisal reports. However, as permitted by this same article, the Group entities perform several checks and select, from among these companies, a small group with which they enter into cooperation agreements with special conditions and automated control mechanisms. The Group's internal regulations specify, in detail, each of the internally approved companies, as well as the approval requirements and procedures and the controls established to uphold them. In this connection, the regulations establish the functions of an appraisal company committee on which the various areas of the Group related to these companies are represented. The aim of the committee is to regulate and adapt the internal regulations and the activities of the appraisal companies to the current market and business situation (See note 2.i).

Basically, the companies wishing to cooperate with the Group must have a significant level of activity in the mortgage market in the area in which they operate, they must pass a preliminary screening process based on criteria of independence, technical capacity and solvency -in order to ascertain the continuity of their business- and, lastly, they must pass a series of tests prior to obtaining definitive approval.

In order to comply in full with the legislation, any appraisal provided by the customer is reviewed, irrespective of which appraisal company issues it, to check that the requirements, procedures and methods used to prepare it are formally adapted to the valued asset pursuant to current legislation and that the values reported are customary in the market.

Mortgage-backed bonds

The mortgage-backed bonds ("cédulas hipotecarias") issued by the Bank entities are securities the principal and interest of which are specifically secured by mortgages, there being no need for registration in the property register, by mortgage on all those that at any time are recorded in favor of the issuer and are not affected by the issuance of mortgage bonds and / or are subject to mortgage participations, and / or mortgage transfer certificates, and, if they exist, by substitution assets eligible to be hedged and for the economic flows generated by derivative financial instruments linked to each issue, and without prejudice to the issuer's unlimited liability.

The mortgage bonds include the credit right of its holder against the issuing entity, guaranteeing in the manner provided for in the previous paragraph, and involve the execution to claim from the issuer the payment after due date. The holders of these securities are recognised as preferred creditors, singularly privileged, with the preference, included in number 3º of article 1,923 of the Spanish Civil Code against any other creditor, in relation with the entire group of loans and mortgage loans registered in favor of the issuer, except those that act as coverage for mortgage bonds and / or are subject to mortgage participations and / or mortgage transfer certificates.

In the event of insolvency, the holders of mortgage-backed bonds, as long as they are not considered "persons especially related" to the issuing entity in accordance with the Insolvency Law 22/2003, of 9 July, will enjoy the special privilege established in Article 90.1.1 of the aforementioned law. Without prejudice to the foregoing, in accordance with Article 84.2.7 of the Insolvency Law, during the insolvency proceedings, the payments relating to the repayment of the principal and interest of the bonds issued and outstanding at the date of the insolvency filing will be settled up to the amount of the income received by the insolvent party from the mortgage loans and credits and, where appropriate, from the replacement assets backing the bonds and from the cash flows generated by the financial instruments associated with the issues (Final Provision 19 of the Insolvency Law).

If, due to a timing mismatch, the income received by the insolvent party is insufficient to meet the payments described in the preceding paragraph, the insolvency managers must settle them by realising the replacement assets set aside to cover the issue and, if this is not sufficient, they must obtain financing to meet the mandated payments to the holders of the mortgage-backed bonds, and the finance provider must be subrogated to the position of the bond-holders.

In the event that the measure indicated in Article 155.3 of the Insolvency Law were to be adopted, the payments to all holders of the mortgage-backed bonds issued would be made on a pro-rata basis, irrespective of the issue dates of the bonds. If the same credit or loan is subject to the payment of bonds and a mortgage bond issue, it will be paid first to the holders of the bonds.

Mortgage-backed bond issuers have an early redemption option solely for the purpose of complying with the limits on the volume of outstanding mortgage-backed bonds stipulated by mortgage market regulations. In addition, the issuing entity may advance the mortgage-backed bonds, if this has been expressly established in the final conditions of the issue in question and under the conditions set out therein.

None of the mortgage-backed bonds issued by the Group entities had replacement assets assigned to them.

Following is a detail, by their main features, of the marketable mortgage-backed bonds outstanding at 31 December 2019 and 2018:

	Millions of euros				
	31/12/2019	31/12/2018	Nominal amount 31-12-2019	Annual interest rate (%)	Maturity date
Euros					
Issue April 2005	993	993	1,000	4,00	April 2020
Issue February 2006	1,488	1,488	1,500	3,87	February 2026
Issue May 2007	1,494	1,494	1,500	4,63	May 2027
Issue January 2010	100	100	100	0,13	January 2022
Issue February 2011	-	100	100	-	February 2019
Issue June 2012	100	100	100	2,80	June 2020
Issue November 2014	1,728	1,728	1,750	1,13	November 2024
Issue November 2014	1,238	1,238	1,250	2,00	November 2034
Issue September 2015	994	994	1,000	0,75	September 2022
Issue January 2016	997	997	1,000	1,50	January 2026
Issue February 2016	933	933	907	2,04	February 2036
Issue March 2016	100	100	100	1,52	March 2028
Issue June 2016	4,000	4,000	4,000	0,13	June 2021
Issue June 2016	150	150	150	-	June 2020
Issue December 2016	250	250	250	0,45	December 2021
Issue June 2017	350	350	350	0,13	June 2022
Issue June 2017	2,000	2,000	2,000	0,02	June 2021
Issue June 2017	2,000	2,000	2,000	0,16	June 2022
Issue November 2017	12	12	13	-	November 2029
Cedula BEI	-	100	100	-	August 2019
Cedula Pitch	299	299	300	5,13	July 2022
Issue April 2010 (Banco Popular)	39	39	40	4,55	July 2020
Issue April 2013	200	200	200	2,47	April 2021
Issue July 2013	15	15	15	5,28	June 2029
Issue July 2013	400	400	400	1,34	September 2026
Issue July 2013	500	500	500	1,59	October 2027
Issue July 2013	1,500	1,500	1,500	1,84	November 2028
Issue December 2013	100	100	100	2,06	December 2021
Issue February 2014	1,000	1,000	1,000	2,10	February 2026
Issue March 2014	200	200	200	1,36	March 2022
Issue March 2014	250	250	250	0,52	September 2022
Issue April 2015	995	1,000	1,000	1,00	April 2025
Issue June 2015	575	575	575	0,06	June 2023
Issue July 2015	1,248	1,250	1,250	0,75	September 2020
Issue October 2015	749	750	750	0,88	September 2021
Issue March 2016	1,500	1,500	1,500	1,00	March 2022
Issue October 2016	500	500	500		October 2021
Issue December 2016	250	250	250	1,13	December 2024
Issue March 2017	1,000	1,000	1,000	0,54	March 2024
Issue April 2017	1,600	1,600	1,600	0,69	April 2027
Issue July 2014 (Banco Pastor)	1,000	1,000	1,000	2,82	July 2028
Issue June 2018	350	350	350		June 2023
Issue October 2018	987	987	1,000	1,12	October 2028
Issue October 2018	2,000	2,000	2,000	0,29	October 2022
Issue November 2018	200	200	200	0,40	November 2023
Issue June 2010	-	88	88	-	June 2019
Issue June 2011	-	200	200	-	June 2019
Issue January 2013	-	600	600	-	January 2019
Issue April 2014	-	1,000	999	-	October 2019
Issue May 2019	1,485	-	1,500	1,12	May 2031
Issue July 2019	1,493	-	1,500	0,25	July 2029
Issue December 2019	1,733	-	1,749	0,13	June 2030
Balance at end of the year	**41,095**	**38,470**	**41,199**		

The detail of the principal amount of the Bank's mortgage securities outstanding at 31 December 2019 and 2018 is as follows:

	Principal amount (Millions of euros)	
	31/12/2019	31/12/2018
1. Mortgage bonds outstanding	-	-
2. Mortgage-backed bonds issued	41,199	38,537
Of which: Recognised in liabilities	*23,594*	*20,845*
2.1. Debt instruments. Issued through a public offering	41,199	38,537
- Term to maturity of up to one year	2,540	2,088
- Term to maturity of one to two years	7,800	2,540
- Term to maturity of two to three years	7,700	7,800
- Term to maturity of three to five years	4,125	8,825
- Term to maturity of five to ten years	13,627	15,100
- Term to maturity of more than ten years	5,407	2,184
2.2. Debt instruments. Other issues	-	-
2.3. Deposits	-	-
- Term to maturity of up to one year	-	-
- Term to maturity of one to two years	-	-
- Term to maturity of two to three years	-	-
- Term to maturity of three to five years	-	-
- Term to maturity of five to ten years	-	-
- Term to maturity of more than ten years	-	-
3. Mortgage participation certificates issued (1)	-	-
4. Mortgage transfer certificates issued (1) (2)	14,569	15,807
4.1. Issued through a public offering (Note 10.e)	14,569	15,756

(1) Relating solely to mortgage loans and credits not derecognised.
(2) The average term to maturity weighted by amount, expressed in months, rounded up, was 465 months (471 months during 2018).

Asset transactions

Pursuant to Bank of Spain Circulars 7/2010 and 5/2011, of 30 November, on the implementation of certain aspects of the mortgage market, the table below details: the principal amount of all the mortgage loans and credits, those that are eligible pursuant to Royal Degree 716/2009 on the regulation of the Spanish mortgage market for the purposes of calculating the limit of mortgage-backed bond issues, the mortgage loans and credits covering mortgage bond issues, those that have been transferred through mortgage participation certificates or mortgage transfer certificates, and the uncommitted transactions relating to the Bank. The breakdown of the mortgage loans at 31 December 2019 and 2018 indicating their eligibility and computability for mortgage market regulatory purposes, is as follows:

	Principal amount (Millions of euros)	
	31/12/2019	31/12/2018
Total mortgage loans and credits (1)	98,823	100,798
Mortgage participation certificates issued	454	1,049
Of which: loans recognised in assets	-	-
Mortgage transfer certificates issued	15,346	16,044
Of which: loans recognised in assets	*14,569*	*15,807*
Mortgage loans and credits backing mortgage and mortgage-backed bond issues (2)	83,023	83,705
i) Non-eligible mortgage loans and credits (3)	24,614	24,648
- *Which comply with the eligibility requirements, except for the limit established in Article 5.1 of Royal Decree 716/2009*	*15,934*	*11,461*
- *Other non-eligible loans*	*8,680*	*13,187*
ii) Eligible mortgage loans and credits (4)	58,409	59,057
- *Un-measurable amounts* (5)	-	27
- *Measurable amounts*	*58,409*	*59,030*
a) Mortgage loans and credits covering mortgage bond issues	-	-
b) Mortgage loans and credits eligible to cover mortgage-backed bond issues	*58,409*	*59,030*

(1) Including mortgage loans and credits acquired through mortgage participation certificates and mortgage transfer certificates, irrespective of whether they have been derecognised.
(2) Total loans less mortgage participation certificates issued, mortgage transfer certificates issued and mortgage loans securing borrowings.
(3) Due to non-compliance with the requirements of Art. 3 of Royal Decree 716/2009.
(4) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the measurement limits established in Art. 12 of Royal Decree 716/2009.
(5) Pursuant to Art. 12 of Royal Decree 716/2009.

Following is a detail of the principal amount of the outstanding mortgage loans and credits and of the principal amount of the loans and credits that are eligible pursuant to Royal Decree 716/2009, without considering the measurement limits established under Article 12 of Royal Decree 716/2009, by origin, currency, payment status, average term to maturity, interest rate, borrower and type of guarantee:

	Principal amount (millions of euros)			
	31/12/2019		31/12/2018	
	Mortgage loans and credits backing mortgage and mortgage-backed bond issues	Of which: Eligible loans (*)	Mortgage loans and credits backing mortgage and mortgage-backed bond issues	Of which: Eligible loans (*)
By origin of transactions				
Originated by the entity	82,137	57,574	79,354	55,680
From subrogations	886	835	4,351	3,377
	83,023	**58,409**	**83,705**	**59,057**
By currency				
Euro	81,971	58,409	82,628	58,524
Other currencies	1,052	-	1,077	533
	83,023	**58,409**	**83,705**	**59,057**
By payment status				
Current	73,508	56,772	74,154	57,572
Past due	9,515	1,637	9,551	1,485
	83,023	**58,409**	**83,705**	**59,057**
By term to maturity				
Less than 10 years	27,793	15,806	25,877	15,770
10 to 20 years	29,395	24,404	31,248	25,301
20 to 30 years	22,260	17,431	22,134	16,888
More than 30 years	3,575	768	4,446	1,098
	83,023	**58,409**	**83,705**	**59,057**
By interest rate				
Fixed-rate loans	11,214	8,332	8,760	5,883
Floating-rate loans	71,809	50,077	74,945	53,174
	83,023	**58,409**	**83,705**	**59,057**
By borrower				
Legal entities and individual traders	28,078	14,248	28,933	15,181
Of which: Property developments(including land)	*3,376*	*1,042*	*3,466*	*614*
Other individuals and non-profit institutions serving households	54,945	44,161	54,772	43,876
	83,023	**58,409**	**83,705**	**59,057**
By type of guarantee				
Completed buildings – residential	60,835	47,167	61,443	47,631
Of which: Officially sponsored housing	*3,695*	*3,190*	*3,478*	*2,557*
Completed buildings – commercial	6,720	3,807	8,764	5,172
Completed buildings – other	11,024	5,870	8,770	4,355
Buildings under construction – residential	1,106	3	946	105
Of which: Officially sponsored housing	*5*	*2*	*51*	*-*
Buildings under construction – commercial	38	-	60	12
Buildings under construction – other	68	9	153	27
Land – developed consolidated land	1,656	750	1,835	840
Land – other	1,576	803	1,734	915
	83,023	**58,409**	**83,705**	**59,057**

(*) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account te measurement limits established in Art. 12 of Royal Decree 716/2009.

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Following is a detail, by loan-to-value ratio, of the principal amount of the eligible mortgage loans and credits pursuant to Royal Decree 716/2009, without considering the measurement limits established in Article 12 of Royal Decree 716/2009:

	31 December 2019				
	Principal amount by LTV range (millions of euros)				
	<=40%	>40%, <= 60%	>60%, <= 80%	>80%	TOTAL
Mortgage loans and credits for mortgage and mortgage-backed bond issues	24,093	20,916	13,400	-	58,409
Home property	17,868	*15,901*	*13,400*	-	*47,169*
Other property	*6,225*	*5,015*	-	-	*11,240*

(*) Pursuant to Art. 3 of Royal Decree 716/2009.

Following is a detail of the changes in 2019 in the principal amount of eligible and non-eligible mortgage loans and credits pursuant to Royal Decree 716/2009:

	Millions of euros	
	Eligible mortgage loans and credits (*)	Non-eligible mortgage loans and credits (**)
Balance at 31 December 2018	**59,057**	**24,648**
Period additions:	8,970	6,479
Originated by the Bank	*6,187*	*4,081*
Subrogations from other entities	*5*	*2*
Other	*2,778*	*2,396*
Period disposals:	*9,618*	6,513
Repayments on maturity	*502*	*896*
Early repayments	3,633	*2,287*
Other (***)	*5,483*	*3,330*
Balance at 31 December 2019	**58,409**	**24,614**

(*) Pursuant to Art. 3 of Royal Decree 716/2009, without taking into account the measurement limits established in Art. 12 of Royal Decree 716/2009.

(**) That do not comply with the requirements of Art. 3 of Royal Decree 716/2009.

(***) The Bank performs a reappraisal its mortgage portfolio on a regular basis and, as a result, the measurable amount is updated.

Following is a detail of the undrawn balances of the mortgage loans and credits backing mortgage and mortgage-backed bond issues:

	Millions of euros	
	Principal amount (*)	
	31/12/2019	31/12/2018
Potentially eligible (**)	622	457
Non-eligible	2,131	2,055

(*) Amounts committed less amounts drawn down, including amounts delivered to property developers only when the housing units are sold.

(**) Pursuant to Art. 3 of Royal Decree 716/2009.

d) Other non-convertible marketable securities

The balance of Other non-convertible marketable securities relates to territorial bonds (cédulas territoriales), non-convertible bonds and internationalisation bonds. The detail, by issue currency and interest rate, is as follows:

	Millions of euros		31 December 2019
Currency of issuance	31/12/2019	31/12/2018	Annual interest rate (*)
Euro	6,668	7,475	0,48%
US dollar	1,743	2,666	2,83%
Balance at end of the year	8,411	**10,141**	

(*) Average interest rate of the various securities at 31 December 2018 based on their nominal amounts.

i. *Changes*

The changes in Other non-convertible marketable securitifes were as follows:

	Millions of euros			
	2019	2018	Annual interest rate (%) (**)	Maturity date
Balance at end of the prior year	10,141	7,863		
Merger effect (*)	-	680		
Balance at beginning of year	10,141	8,543		
Issues	-	1,873	3,00%	Dic- 23
Of which:				
December 2018		*1,873*		
Redemptions	(1,778)	(68)		
Exchange differences	48	(207)		
Balance at end of the year	**8,411**	**10,141**		

(*) See further detail Note 1.d and Note 1.i.

During 2019, the bank has amortized two issues of internationalization bonds made in 2015 amounting to 908 million euros

Likewise, there have been other partial amortizations amounting to 870 million euros, of which 500 million euros correspond to a Territorial Card issued in 2016 and the rest correspond to Internalization Bonds.

No new issuance was made in the year

ii. Disclosures required by Bank of Spain Circular 4/2017, of 27 November Territorial bonds

The members of the board of directors have stated that in the territorial bond issuances the Bank has established specific policies and procedures in relation to the financing activities of public entities pursuant to Bank of Spain Circular 4/2017, of 27 November.

Following is a detail of the total principal amount of the loans used to secure the territorial bonds outstanding at 31 December 2019:

	Principal amount (*) (Millions of euros)
	Residents in Spain
Central governments	161
Autonomous or regional governments	7,682
Local governments	984
	8,827

(*) Unrepaid portion of the loan nominal amounts.

Following is a detail of the territorial bonds issued outstanding at 31 December 2019:

	Principal amount (Millions of euros)
Issued through a public offering	-
Other issues	5,772
Of which: Treasury shares	*4,500*
Term to maturity of up to one year	4,900
Term to maturity of one to two years	218
Term to maturity of two to three years	309
Term to maturity of three to five years	345
Term to maturity of five to ten years	-
Term to maturity of more than ten years	-
	5,772

The coverage ratio of the territorial bonds with respect to the loans was 65,39% at 31 December 2019 (67,98% at 31 December 2018).

Internationalisation bonds

The members of the board of directors have stated that in the internationalisation bond issuances the Bank has established specific policies and procedures in relation to its financing activities with regard to agreements to export goods and services and business internationalisation processes pursuant to Bank of Spain Circular 4/2017, of 27 November.

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Following is a detail of the outstanding internationalisation bonds issued, and of the loans used to secure them, at 31 December 2019:

Issue date	Maturity date	Millions of euros					Coverage ratio of bonds to loans
		Internationalisation bonds			Cover loans		
		Principal amount			Principal amount		
		Not issued through a public offering (*)	Of which: Own securities	Present value (**)	Computable for the purposes of the issue limit	Present value (**)	
March 2016	March 2020	45	45	46	54	59	77.55%
%December 2016	December 2020	69	69	69	99	101	68.70%
October 2017	October 2022	833	833	846	994	1,051	80.54%
December 2018	December 2023	896	896	903	994	1,094	82.59%
December 2018	December 2023	795	795	807	781	835	96.72%
		2,638	**2,638**	**2,671**	**2,922**	**3,140**	

(*) Relate in full to Debt securities.

(**) Represents the value pursuant to Article 12 of Royal Decree-Law 579/2014.

None of the internationalisation bonds issued by the Bank had replacement assets assigned to them.

21. Other non convertible issuances

a) Breakdown

The detail by type and currency of Subordinated liabilities in the accompanying balance sheets is as follows:

	Millions of euros (*)	
	31/12/2019	31/12/2018
Type:		
Other non convertible issuances	59,273	53,380
Of which subordinated liabilities	*15,352*	*17,984*
	59,273	**53,380**
Currency:		
Euro	29,384	28,455
US dollar	22,596	19,473
Pound Sterling	3,685	2,683
Other currencies (**)	3,608	2,774
	59,273	**53,380**

(*) This amount includes the principal, in other currencies.

(**) As of December 31, 2019 this amount corresponds to yen.

b) *Changes*

The changes in Subordinated marketable debt securities in the foregoing table for the years 2019 and 2018 are as follows:

	Millions of euros	
	2019	2018
Balance at the end of prior year	**53,380**	**41,109**
Merger Effect (*)	-	55
Balance at the beginning of the year	**53,380**	**41,164**
Issues	44,305	26,542
Redemptions	(39,230)	(15,222)
Exchange differences	818	896
Balance at end of the year	**59,273**	**53,380**

(*) See further detail Note 1.d and Note 1.i.

Within the sub-heading Other Non-convertible Marketable Securities, there are commercial paper issues, as well as other issues made by the bank.

- Commercial paper

In the fiscal year 2019, the “Commercial paper or promissory note issuance program in the United States” was renewed in 2018. The average rate of securities in force in 2019 amounts to 2.05%.

On April 17, 2019, Banco Santander approved the annual renewal of the "European Commercial Paper Issuance Program", which was originally agreed on May 29, 2008, empowering certain authorized persons to set the necessary conditions to carry out such renewal , as well as those of the emissions that are made under its protection. Said Program, has as issuer Banco Santander, S.A. for a maximum nominal global amount of up to 15,000,000 thousand euros.

The issuance of commercial paper made in both currencies is admitted to trading on the Irish Stock Exchange and gives its holders the right to receive remuneration payable at the expiration of the issuance, at the fixed or variable interest rate that each of them offers .

At the end of fiscal year 2019, the interest rate is between -0.53% and 3.285% per year, with the average nominal interest rate being 1.586% per year. At the end of 2018, the interest rate was between -0.50% and 3,285% per year, with the average nominal interest rate being 1,655% per year.

On June 5, 2018, Banco Santander, S.A. approved the annual renewal of the "Program for the issuance of commercial paper or promissory notes in the United States", empowering certain authorized persons to set the necessary conditions to carry out such renewal, as well as those of the emissions that are made under their protection. Said Program has as issuer Banco Santander, S.A., for a maximum nominal global amount of up to 20,000,000 thousand US dollars.

Similarly, dated April 20, 2018, Banco Santander, S.A. approved the annual renewal of the "European Commercial Paper Issuance Program", which was originally agreed on May 29, 2008, empowering certain authorized persons to fix the necessary conditions to carry out such renewal, as well as those of the emissions that are made under his protection. Said Program, has as issuer Banco Santander, S.A. for a maximum nominal global amount of up to 15,000,000 thousand euros.

The issuance of commercial paper made in both currencies is admitted to trading on the Irish Stock Exchange and gives its holders the right to receive remuneration payable at the expiration of the issuance, at the fixed or variable interest rate that each of them offers , and that at the end of the 2017 and 2016 fiscal years they were between -0.535% and 1.85% per year and -0.36% and 1.48% per year, respectively, the average nominal interest rate being 0.432% annual, respectively, and that at the end of the 2018 financial year it was between -0.50% and 3.285% per year, the average nominal interest rate being 1.655% per year.

- Remaining emissions

During fiscal year 2019, Banco Santander, S.A. It has reported 42 issues for a nominal amount of 8,230 million euros (excluding perpetual issues amounting to USD 1,200 million, see note 21.c). The average remuneration for these issues has been set at 2.10% per year.

During fiscal year 2018, Banco Santander, S.A. reported 37 issues for a nominal amount of 6,132 million euros (excluding perpetual issues amounting to € 2,750 MM, see note 21.c). The average remuneration for these issues was set at 2.65% per year.

c) Other information

This heading includes preferred shares as well as other financial instruments issued, which, having the legal nature of capital, do not meet the requirements to qualify as equity (preferred shares).

Preferred shares have no voting rights and are not cumulative. They have been subscribed by third parties outside the Bank, the rest are amortizable by decision of the issuer, according to the conditions of each issue.

The preferred shares are placed for the purpose of priority of loans behind common creditors and subordinated deposits. Their remuneration is conditional on obtaining sufficient distributable benefits, and on the limitations imposed by Spanish banking regulations on own resources, and they lack political rights. The rest of the issues are subordinated and, for the purposes of the priority of credits, are placed behind all common creditors of the issuing entities.

As of December 31, 2019 there are the following convertible issues in Bank shares:

On February 8, 2019, Banco Santander S.A carried out the issuance of convertible preferred shares contingently convertible into newly issued Bank common shares (the PPCC) for a nominal amount of US $ 1.2 billion. The remuneration of CCPs whose payment is subject to certain conditions and is at the same time discretionary, was set at 7.5% per year for the first five years, thereafter being revised applying a margin of 498.9 basis points on the type Five-year Mid-Swap Rate.

As of December 31, 2018 there were the following convertible issues in Bank shares:

On March 5, May 8 and September 2, 2014, Banco Santander, SA reported that its executive committee had agreed to carry out three issues of preferred shares contingently convertible into newly issued Bank common shares (the “PPCC ”), For a nominal amount of 1,500 million euros, 1,500 million dollars and 1,500 million euros, respectively. The remuneration of the PPCC, whose payment is subject to certain conditions and is also discretionary, was set at 6.25% annually for the first five years (revised thereafter applying a margin of 541 basis points on the Mid-type Five-year swap (5 year Mid-Swap Rate)) for the March issue, at 6.375% per annum for the first five years (revised thereafter applying a margin of 478.8 basis points over the Mid-Swap rate a five years (5 year Mid-Swap Rate)) for the issuance of May and at 6.25% per annum for the first seven years (thereafter reviewed every five years applying a margin of 564 basis points on the Mid- type Five-year Swap Rate for the September issue.

On March 25, May 28 and September 30, 2014, the Bank of Spain approved the computability of these PPCCs as Tier 1 capital (additional tier 1) under the new European own resources regulations of European Regulation 575/2013 . PPCCs are perpetual, although they may be amortized in advance in certain circumstances, and would be converted into newly issued ordinary shares of Banco Santander if the Bank or its consolidable group had a ratio lower than 5,125% of ordinary-level capital (common equity Tier 1 ratio), calculated according to the aforementioned regulation 575/2013. PPCCs are traded on the Global Exchange Market of the Irish Stock Exchange.

With dates April 25, and September 29, 2017, Banco Santander, S.A. carried out issues of preferred shares contingently convertible into ordinary shares of the newly issued Bank (the “PPCC”), for a nominal amount of 750 million euros, and 1,000 million euros respectively. The remuneration of the PPCC, whose payment is subject to certain conditions and is also discretionary, was set at 6.75% per annum for the first five years (revised thereafter applying a margin of 680.3 basis points on the type Five-year Mid-Swap Rate for the issue disbursed in April, at 5.25% per year for the first six years (revised thereafter by applying a margin of 499.9 basis points over the 5-year Mid-Swap Rate for the issuance disbursed in September.

On March 19, 2018, Banco Santander S.A carried out the issuance of convertible preferred shares contingently convertible into ordinary shares of the newly issued Bank (the PPCC) for a nominal amount of 1,500 million euros. The remuneration of the PPCC, whose payment is subject to certain conditions and is also discretionary, was set at 4.75% per annum for the first five years, thereafter being revised applying a margin of 409.7 basis points on the Mid type -Swap to five years (5 year Mid- Swap Rate).

The interests of the PPCC during the year 2019 amounted to 466 million euros (425 million euros in the year 2018).

22. Other financial liabilities

Following is a detail of Other financial liabilities in the accompanying balance sheets:

	Millions of euros	
	31/12/2019	31/12/2018
Trade payables	758	726
Payment obligations	3,239	1,587
Public agency revenue collection accounts	3,401	3,122
Unsettled financial transactions	1,133	1,996
Other accounts	2,323	1,054
	10,854	**8,485**

Set forth below are the disclosures required by Additional Provision Three of Law 15/2010, of 5 July (amended by Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with the Spanish Accounting and Audit Institute (ICAC) Resolution of 29 January 2016 on the disclosures to be included in notes to financial statements in relation to the average period of payment to suppliers in commercial transactions,

	2019	2018
	Days	
Average period of payment to suppliers	12	12
Ratio of transactions paid	12	12
Ratio of transactions pending payments	-	49
	Millions of euros	
Total payments made	3,233	3,602
Total payments outstanding	-	4

In accordance with the ICAC Resolution, the average period of payment to suppliers was calculated by taking into account the commercial transactions relating to the supply of goods or services for which payment has accrued since the date of entry into force of Law 31/2014, of 3 December.

For the sole purpose of the disclosures provided for in the Resolution, suppliers are considered to be the trade creditors for the supply of goods or services.

“Average period of payment to suppliers” is taken to be the period that elapses from the delivery of the goods or the provision of the services by the supplier to the effective payment of the transaction,

Note 48 contains a detail of the residual maturity periods of Other financial liabilities at each year-end.

Lease liabilities

The total cash outflow of leases in 2019 was EUR 390 million.

The analysis of the maturities of lease liabilities as of 31 December 2019 is shown below:

Million euros	2019
Maturity Analysis – Discounted payments	
Within 1 year	341
Between 1 and 3 years	556
Between 3 and 5 years	299
Later than 5 years	1,422
Total Discounted payments at 31 December 2019	**2,618**

During 2019, there were no significant variable lease payments not included in the valuation of lease liabilities.

23. Provisions

a) Breakdown

The detail of Provisions in the balance sheets at 31 December 2019 and 2018 is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
Provision for pensions and similar obligations	5,138	5,006
Of which:		
Pensions and similar defined benefit obligations post-employment	*3,918*	*3,895*
Other long-term remunerations to employees	*1,220*	*1,111*
Provisions for taxes and other legal contingencies	501	498
Provisions for commitments and guarantees given	180	263
Rest of provisions	671	914
	6,490	**6,681**

b) Changes

The changes in Provisions in 2019 and 2018 were as follows:

	Millions of euros									
	2019					2018				
	Post-employment	Long – Term	Commitments and guarantees given	Other provisions	Total	Post-employment	Long - Term	Contingent liabilities and commitments	Other provisions	Total
Balance at end of prior year	3,895	1,111	263	1,412	6,681	4,141	1,231	196	1,047	6,615
Merger effect(*)	-	-	-			61	347	134	655	1,197
Balance at beginning of year	**3,895**	**1,111**	**263**	**1,412**	**6,681**	**4,202**	**1,578**	**330**	**1,702**	**7,812**
Changes in value recognised in equity	327				327	(43)	-	-	-	(43)
Additions charged to income:										
(Interest income)/Interest expense (Notes 34, 35)	28	14			42	38	18	-	-	56
Staff costs (Note 42)	12	1	-	-	13	17	1	-	-	18
Provisions or reversal of provision	(25)	624	(60)	560	1,099	-	216	40	374	630
	15	639	(60)	560	1,154	55	235	40	374	704
Payments to pensioners and pre-retirees	(297)	(565)			(862)	(326)	(600)	-	-	(926)
Amounts used and other changes	(22)	35	(23)	(800)	(810)	7	(102)	(107)	(664)	(866)
Balances at end of year	**3,918**	**1,220**	**180**	**1,172**	**6,490**	**3,895**	**1,111**	**263**	**1,412**	**6,681**

(*) See further detail Note 1.d and Note 1.i

c) Provision for pensions and similar obligations

The detail of Provision for pensions and similar obligations at 31 December 2019 and 2018 is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
Provisions for pensions and similar defined benefit plan obligations	5,138	5,006
Of which:		
Provisions for pensions	*3,918*	*3,895*
Provisions for similar obligations	*1,220*	*1,111*
Of which: pre-retirements	*1,206*	*1,096*
Provisions for pensions and similar defined contribution plan obligations	-	-
Total provisions for pensions and similar obligations	**5,138**	**5,006**

i. Post-employment benefits

At the end of 2012, the Bank reached an agreement with the employees' representatives to convert the defined benefit obligations arising from the collective agreement into defined contribution plans, In addition, the senior executives' contracts with defined-benefit pension obligations were amended to convert such obligations into a defined-contribution employee welfare system.

Practically all pension commitments with active personnel correspond to defined contribution plans. The total contributions made to said aircraft during the year 2019 amounted to 82 million euros (82 million during the year 2018) (See Note 42).

In addition, at 31 December 2019 and 2018, the Bank had certain defined benefit obligations, The table below shows the present value of the Bank's defined benefit post-employment benefit obligations and the value of the reimbursement rights under the insurance policies linked to these obligations at 31 December 2019 and for the preceding four years:

	Millions of euros				
	2019	2018	2017	2016	2015
Present value of the obligations:					
To current employees	78	58	22	43	44
To retired employees	5,378	5,331	4,244	4,433	4,567
Other	-	-	19	297	286
	5,456	5,389	4,285	4,773	4,897
Fair value of plan assets	(1,543)	(1,496)	(146)	(154)	(155)
Assets not recognised	5	2	2	2	1
Provisions - Provisions for pensions	**3,918**	**3,895**	**4,141**	**4,621**	**4,743**
Of which:					
Internal provisions for pensions	*3,407*	*2,241*	*2,409*	*2,787*	*2,819*
Insurance contracts linked to pensions (Note 14)	*511*	*1,654*	*1,732*	*1,834*	*1,924*
Of which:					
Group insurance entities	*319*	*1,445*	*1,494*	*1,565*	*1,625*
Other insurers	*192*	*209*	*238*	*269*	*299*

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method, which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

2. Actuarial assumptions used: unbiased and mutually compatible, Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2019	2018
Annual discount rate	0.80%	1.55%
Expected return on plan assets rate	0.80%	1.55%
Mortality tables	PE2000P M/F	PE2000P M/F
Cumulative annual CPI growth	1%	1%
Annual pension increase rate	1%	1%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The fair value of insurance contracts was determined as the present value of the related payment obligations, taking into account the following assumptions:

	2019	2018
Expected rate of return on reimbursement rights	0.80%	1.55%

The amounts recognised in the accompanying income statements in relation to the aforementioned defined benefit obligations are as follows:

	Millions of euros	
	2019	2018
Service cost:		
Current service cost (Note 42)	12	17
Past service cost (including reductions)	3	2
Pre-retirement cost	1	1
Settlements	(29)	(3)
Net interest (Note 35)	52	73
Expected return on insurance contracts linked to pensions (Note 34)	(24)	(35)
	15	**55**

In addition, in 2019 Other comprehensive income – items not reclassified to profit or loss– Actuarial gains or (-) losses on defined benefit pension plans has caused an additional actuarial losses of EUR 327 million respect to defined benefit obligations (2018: EUR 42 million of actuarial gains).

The changes in 2019 and 2018 in the present value of the accrued defined benefit obligations were as follows:

	Millions of euros	
	2019	2018
Present value of the obligations at end of the prior year	5,389	4,285
Merger effect(*)	-	1,551
Present value of the obligations at beginning of the year	5,389	5,836
Current service cost	12	17
Interest cost	71	98
Pre-retirement cost	1	1
Settlements	(29)	(3)
Benefits paid for settlements	-	-
Other benefits paid	(397)	(420)
Past service cost	3	2
Actuarial (gains)/losses (**)	404	(144)
Exchanges rate differences and others	2	2
Present value of the obligations at end of the year	**5,456**	**5,389**

(*) See further detail Note 1.d and Note 1.i.

(***) Including in 2019 demographic actuarial losses of EUR 15 million and financial actuarial losses of EUR 389 million (2018: demographic actuarial gains of EUR 21 million and financial actuarial gains of EUR 123 million).

The changes in 2019 and 2018 in the fair value of the plan assets are as follows:

	Millions of euros	
	2019	2018
Fair value of plan assets at end of prior year	1,496	146
Merger effect (*)	-	1,490
Fair value of plan assets at beginning of year	1,496	1,636
Expected return on plan assets	19	25
Benefits paid	(108)	(114)
Contributions payable by the employer	8	21
Exchange rate differences and others	2	-
Actuarial gains/(losses)	126	(72)
Fair value of plan assets at end of year	**1,543**	**1,496**

(*) See further detail Note 1.d and Note 1.i.

The changes in 2019 and 2018 in the fair value of the insurance contracts linked to pensions are as follows:

	Millions of euros	
	2019	2018
Fair value of insurance contracts linked to pensions at end of the prior year	1,654	1,732
Merger effect (*)	-	50
Fair value of insurance contracts linked to pensions at beginning of the year	1,654	1,782
Expected return on insurance contracts (Note 34)	24	35
Actuarial gains/(losses)	(47)	(30)
Premiums paid/(surrenders)	(1,006)	2
Benefits paid	(114)	(135)
Fair value of insurance contracts linked to pensions at end of the year (Note 14)	**511**	**1,654**

(*) See further detail Note 1.d and Note 1.i.

Plan assets and pension insurance contracts linked to pensions are mainly instrumented in insurance policies.

ii. Other long-term employee benefits

In various years the Bank offered to some certain of its employees the possibility of leaving its employ prior to their retirement, Therefore, provisions are recognised to cover the obligations to pre-retirees -in terms of both salaries and other employee benefit costs- from the date of their pre-retirement to the date of their effective retirement.

In 2018, Banco Santander, S.A. reached an agreement with the employees representatives to accept the pre-retirement and voluntary redundancy offer. The provision recognised to cover these obligations amounted to EUR 624 million at 31 December 2019 (31 December 2018: EUR 205 million), corresponding to the pre-retirement offer for that year).

The present value of the aforementioned obligations and the fair value of the assets arising from insurance contracts linked to these obligations at 31 December 2019 and for the preceding four years were as follows:

	Millions of euros				
	2019	2018	2017	2016	2015
Present value of the obligations:					
To pre-retirees	1,220	1,111	1,220	1,578	1,727
Long-service bonuses and other benefits	14	15	11	10	10
Provisions - Provisions for pensions	**1,234**	**1,126**	**1,231**	**1,588**	**1,737**
Fair value of plan assets	(14)	(15)	-	-	-
Provisions - Provisions for pensions	**1,220**	**1,111**	-	-	-
Insurance plans linked to pensions	-	-	-	-	-
Group insurers	-	-	-	-	-
Other insurance entities	-	-	-	-	-

The amount of the defined benefit obligations was determined on the basis of the work performed by independent actuaries using the following actuarial techniques:

1. Valuation method: projected unit credit method.

2. Actuarial assumptions used: unbiased and mutually compatible, Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2019	2018
Annual discount rate	0.80%	1.55%
Expected return on plan assets rate	0.80%	1.55%
Mortality tables	PE2000 M/F	PE2000 M/F
Cumulative annual CPI growth	1%	1%
Annual benefit increase rate	Between 0% & 1.5%	Between 0% & 1.5%

The discount rate used for the flows was determined by reference to high-quality corporate bonds.

3. The estimated retirement age of each employee is the first at which the employee is entitled to retire or the agreed-upon age, as appropriate.

The amounts recognised in the income statement in relation to the aforementioned defined benefit obligations are as follows:

	Millions of Euros	
	2019	2018
Current service cost	1	1
Interest cost (Note 35)	14	18
Extraordinary charges -		
Actuarial (gains)/losses recognised in the year	*4*	*7*
Pre-retirement cost	622	205
Other	(2)	4
	639	**235**

The changes in 2019 and 2018 in the present value of the accrued obligations for other long-term benefits were as follows:

	Millions of euros	
	2019	2018
Present value of the obligations at end of the prior year	1,126	1,231
Merger effect(*)	-	364
Present value of the obligations at beginning of the year	1,126	1,595
Current service cost	1	1
Interest cost (Note 35)	14	18
Past service cost	-	4
Pre-retirement cost	622	205
Effect of curtailment/settlement	(2)	-
Benefits paid	(565)	(601)
Actuarial (gains)/losses	3	6
Other	35	(102)
Present value of the obligations at end of the year	**1,234**	**1,126**

(*) See further detail Note 1.d and Note 1.i.

The movement that has occurred, during the years 2019 and 2018, in the fair value of the assets of the plan, has been as follows:

	Millions of euros	
	2019	2018
Fair value of plan assets at end of the year	15	-
Merger effect (*)	-	17
Fair value of plan assets at the beginning of the year	15	17
Expected return on plan assets	-	-
Benefits paid	(2)	(1)
Contributions by the employer	-	-
Contributions by the employee and others	-	-
Actuarial gains / (losses)	-	(1)
Present value of the obligations at end of the year	**13**	**15**

(*) See further detail Note 1.d and Note 1.i.

The movement that has taken place, during the years 2019 and 2018, in the current value of the insurance contracts linked to pensions, has been as follows:

	Millions of euros	
	2019	2018
Fair value of insurance contracts linked to pensions at the end of the previous year	-	-
Merger effect (*)	-	1
Fair value of insurance contracts linked to pensions at the end of the previous year	-	1
Expected performance of insurance contracts (Note 34)	-	-
Actuarial gains / (losses)	-	-
Premiums paid / (ransoms)	-	-
Benefits paid	-	(1)
Present value of the obligations at end of the year	-	-

(*) See further detail Note 1.d and Note 1.i.

iii. Sensitivity analysis

Any changes in the main assumptions could affect the calculation of the obligations, At 31 December 2019, if the discount rate used had been decreased or increased by 50 basis points, there would have been an increase or decrease in the present value of the post-employment obligations of 5,50% and -5,02%, respectively, and an increase or decrease in the present value of the long-term obligations of 1,17% and -1,14%, These changes would be offset in part by increases or decreases in the fair value of the assets and insurance contracts linked to pensions.

d) Provisions for taxes and other legal contingencies and Other provisions

Provisions - Provisions for taxes and other legal contingencies and Provisions - Other provisions, which include, inter alia, provisions for restructuring costs and tax-related and non-tax-related proceedings, were estimated using prudent calculation procedures in keeping with the uncertainty inherent to the obligations covered. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, these obligations have no fixed settlement period and, in other cases, depend on the legal proceedings in progress.

Our general policy is to record provisions for tax and legal proceedings in which we assess the chances of loss to be probable and we do not record provisions when the chances of loss are possible or remote. We determine the amounts to be provided for as our best estimate of the expenditure required to settle the corresponding claim based, among other factors, on a case-by-case analysis of the facts and the legal opinion of internal and external counsel or by considering the historical average amount of the loss incurred in claims of the same nature. The definitive date of the outflow of resources embodying economic benefits for the Group depends on each obligation. In certain cases, the obligations do not have a fixed settlement term and, in others, they depend on legal proceedings in progress.

e) Litigation and other matters

i. Tax-related litigation

At 31 December 2019 the main tax-related proceedings concerning the Group were as follows:

- Legal actions filed by Banco Santander (Brasil) S.A. and other Group entities to avoid the application of Law 9.718/98, which modifies the basis to calculate PIS and COFINS social contribution, extending it to all the entities income, and not only to the income from the provision of services. In relation of Banco Santander (Brasil) S.A. process, in May 2015 the Federal Supreme Court (FSC) admitted the extraordinary appeal filed by the Federal Union regarding PIS, and dismissed the extraordinary appeal lodged by the Brazilian Public Prosecutor's Office regarding COFINS contribution, confirming the decision of Federal Regional Court favourable to Banco Santander (Brasil) S.A. of August 2007. The appeals filed by the other entities before the Federal Supreme Court, both for PIS and COFINS, are still pending. These claims are fully provisioned.
- Banco Santander (Brasil) S.A. and other Group companies in Brasil have appealed against the assessments issued by the Brazilian tax authorities questioning the deduction of loan losses in their income tax returns (IRPJ and CSLL) in relation to different administrative processes of various years on the ground that the requirements under the applicable legislation were not met. The appeals are pending decision in CARF. No provision was recognised in connection with the amount considered to be a contingent liability.
- Banco Santander (Brasil) S.A. and other Group companies in Brasil are involved in administrative and legal proceedings against several municipalities that demand payment of the Service Tax on certain items of income from transactions not classified as provisions of services. There are several cases in different judicial instances. A provision was recognised in connection with the amount of the estimated loss.
- Banco Santander (Brasil) S.A. and other Group companies in Brasil are involved in administrative and legal proceedings against the tax authorities in connection with the taxation for social security purposes of certain items which are not considered to be employee remuneration. There are several cases in different judicial instances. A provision was recognised in connection with the amount of the estimated loss.
- In May 2003 the Brazilian tax authorities issued separate infringement notices against Santander Distribuidora de Títulos e Valores Mobiliarios Ltda. (DTVM, currently Santander Brasil Tecnologia S.A.) and Banco Santander (Brasil) S.A. in relation to the Provisional Tax on Financial Movements (CPMF) of the years 2000, 2001 and part of 2002. In July 2015, after the unfavourable decision of CARF, both entities appealed at Federal Justice in a single proceeding. In June 2019 this action has been dismissed, and the resolution has been appealed to the higher court. There is a provision recognised for the estimated loss.
- In December 2010 the Brazilian tax authorities issued an infringement notice against Santander Seguros S.A. (Brasil), currently Zurich Santander Brasil Seguros e Previdência S.A., as the successor by merger to ABN AMRO Brasil dois Participações S.A., in relation to income tax (IRPJ and CSLL) for 2005, questioning the tax treatment applied to a sale of shares of Real Seguros, S.A. Actually, it is appealed before the CARF. As the former parent of Santander Seguros S.A. (Brasil), Banco Santander (Brasil) S.A. is liable in the event of any adverse outcome of this proceeding. No provision was recognised in connection with this proceeding as it is considered to be a contingent liability.
- In November 2014 the Brazilian tax authorities issued an infringement notice against Banco Santander (Brasil) S.A. in relation to corporate income tax (IRPJ and CSLL) for 2009 questioning the tax-deductibility of the amortisation of the goodwill of Banco ABN AMRO Real S.A. performed prior to the absorption of this bank by Banco Santander (Brasil) S.A., but accepting the amortisation performed after the merger. Actually, it is appealed before the Higher Chamber of CARF. No provision was recognised in connection with this proceeding as it was considered to be a contingent liability.
- Banco Santander (Brasil) S.A. has also appealed against infringement notices issued by the tax authorities questioning the tax deductibility of the amortisation of the goodwill arising on the acquisition of Banco Comercial e de Investimento Sudameris S.A from years 2007 to 2012. No provision was recognised in connection with this matter as it was considered to be a contingent liability.

- Banco Santander (Brasil) S.A. and other companies of the Group in Brazil are undergoing administrative and judicial procedures against Brazilian tax authorities for not admitting tax compensation with credits derived from other tax concepts, not having registered a provision for such amount since it is considered to be a contingent liability.

  Banco Santander (Brasil) S.A. is involved in appeals in relation to infringement notices initiated by tax authorities regarding the offsetting of tax losses in the CSLL ('Social Contribution on Net Income') of year 2009. The appeal is pending decision in CARF. No provision was recognised in connection with this matter as it is considered to be a contingent liability.

  The total amount for the aforementioned Brasil lawsuits related to tax legal obligations or with probable loss risk is approximately EUR 1,145 million, fully provisioned, and the total amount for tax litigation with possible loss risk is approximately EUR 3,962 million.

- Legal action brought by Sovereign Bancorp, Inc. (currently Santander Holdings USA, Inc.) claiming its right to take a foreign tax credit for taxes paid outside the United States in fiscal years 2003 to 2005 as well as the related issuance and financing costs. On 17 July 2018, the District Court finally ruled against Santander Holdings USA, Inc. On 5 September 2019 the Federal District Court in Massachussests entered a stipulated judgement resolving the Company's tax liability for fiscal years 2003 to 2005, which had no effect on income. The Company has agreed to resolve the treatment of the same transactions for 2006 and 2007, subject to review by the Congressional Joint Committee on Taxation and final IRS approval, with no effect on income.

- Banco Santander has appealed before European Courts the Decisions 2011/5/CE of 28 October 2009, and 2011/282/UE of 12 January 2011 of the European Commission, ruling that the deduction regulated pursuant to Article 12.5 of the Corporate Income Tax Law constituted illegal State aid. On November 2018 the General Court confirmed these Decisions but these judgements have been appealed at the Court of justice of the European Union. The dismissal of this appeal would not have effect on equity.

  At the date of approval of these financial statements certain other less significant tax-related proceedings were also in progress.

ii. Non-tax-related proceedings

At 31 December 2019, the main non-tax-related proceedings concerning the Group were as follows:

- Payment Protection Insurance (PPI): claims associated with the sale by Santander UK plc of payment protection insurance or PPI to its customers. As of 31 December 2019, the remaining provision for PPI redress and related costs amounted to GBP 189 million (EUR 222 million) (2018: GBP 246 million (EUR 275 million)). There was no additional provision in the fourth quarter of 2019. The Financial Conduct Authority ("FCA") set a deadline of 29 August 2019 for PPI complaints and delivered a nationwide communications campaign to raise awareness of this deadline among consumers. In line with industry experience, we received unprecedented volumes of information requests in August 2019 and saw a significant spike in both these requests and complaints in the final days prior to the complaint deadline, with the processing of these claims ongoing.

  Given the passing of the FCA's August 2019 time bar, the level of judgment required by management in determining appropriate assumptions has reduced. At 31 December 2019, the key assumptions in calculating the provision were around the estimated number of customer complaints that would be received in respect of customers with successful information requests.

  The uphold rates are informed by historical experience and the average cost of redress can be predicted reasonably accurately given that management is dealing with a high volume and reasonably homogenous population.

Cumulative complaints to 31 December 2019 were 4.4 million, including c.327,000 that were still being reviewed. Future expected claims, regardless of the likelihood of Santander UK incurring a liability, were c.49,000. For every additional 10,000 inbound PPI complaints, it would be expected an additional charge of GBP 3.3 million (EUR 3.7 million). In addition, there are legal claims being made by Claims Management Companies challenging the FCA's industry guidance on the treatment of Plevin/ recurring non-disclosure assessments.

In 2019, it was charged an additional GBP 169 million (EUR 192 million) in respect of PPI. During 2018, no additional provision was registered.

The provision for conduct remediation recognised represents management's best estimate of Santander UK's liability in respect of mis-selling of PPI policies.

- Delforca: dispute arising from equity swaps entered into by Gaesco (now Delforca 2008, S.A.) on shares of Inmobiliaria Colonial, S.A. Banco Santander, S.A. is claiming to Delforca a total of EUR 66 million from the liquidation of the swaps. Mobiliaria Monesa, S.A. (Delforca's parent company) has commenced a civil proceeding against the Bank claiming damages which, as of date have not been determined. The proceeding has been stayed because the jurisdiction of the Court has been challenged. Within insolvency proceedings before the Commercial Court, both Delforca and Mobiliaria Monesa have instigated a claim against the Bank seeking the recovery of EUR 56.8 million that the Bank received from the liquidation of the swap. The Bank has filed a claim against Delforca seeking the Bank's recognition of its right to receive the credit. At 31 December 2019, the risk is considered remote. The Bank has not recognised any provisions in this connection.

- Former employees of Banco do Estado de São Paulo S.A., Santander Banespa, Cia. de Arrendamiento Mercantil: a claim was filed in 1998 by the association of retired Banespa employees (AFABESP) requesting the payment of a half-yearly bonus contemplated in the by-laws of Banespa in the event that Banespa obtained a profit and that the distribution of this profit were approved by the Board of Directors. The bonus was not paid in 1994 and 1995 since Banespa had not made a profit during those years. Partial payments were made from 1996 to 2000, as approved by the Board of Directors. The relevant clause was eliminated in 2001. The Regional Labor Court and the High Employment Court ordered Santander Brasil, as successor to Banespa, to pay this half-yearly bonus for the period from 1996 to the present. On 20 March 2019, a decision from the Federal Court of Justice (Supremo Tribunal Federal, or "STF") rejected the extraordinary appeal filed by Santander Brasil. A rescission action was brought to revert the decision in the main proceedings and suspend procedural enforcement. The external legal advisor of the Bank has classified the risk of loss as probable. The current court decision does not define a specific amount to be paid by the defendants (this would only be determined once a final decision is issued and the enforcement process has begun).

- "Planos Económicos": like the rest of the banking system in Brasil, Santander Brasil has been the target of customer complaints and collective civil suits stemming from legislative changes and its application to bank deposits, fundamentally ('economic plans'). At the end of 2017, there was an agreement between regulatory entities and the Brazilian Federation of Banks (Febraban), already approved by the Supremo Tribunal Federal, with the purpose of closing the lawsuits. Discussions focused on specifying the amount to be paid to each affected client according to the balance in their notebook at the time of the Plan. Finally, the total value of the payments will depend on the number of endorsements they have made and the number of savers who have demonstrated the existence of the account and its balance on the date the indexes were changed. In November 2018, the STF ordered the suspension of all economic plan processes for two years from May 2018.The provisions recorded for the economic plan processes are considered to be sufficient.

- Floor clauses (“cláusulas suelo”): in consequence of the acquisition of Banco Popular, S.A.U, the Group has been exposed to a material number of transactions with floor clauses. The so-called "floor clauses" or minimum clauses are those under which the borrower accepts a minimum interest rate to be paid to the lender, regardless of the applicable reference interest rate. Banco Popular Español, S.A.U. included "floor clauses" in certain asset transactions with customers. In relation to this type of clauses, and after several rulings made by the Court of Justice of the European Union and the Spanish Supreme Court, and the extrajudicial process established by the Spanish Royal Decree-Law 1/2017, of 2 January, Banco Popular Español, S.A.U. made extraordinary provisions that were updated in order to cover the effect of the potential return of the excess interest charged for the application of the floor clauses between the contract date of the corresponding mortgage loans and May 2013. The Group considered that the maximum risk associated with the floor clauses applied in its contracts with consumers, in the most severe and not probable scenario, would amount to approximately EUR 900 million, as initially measured and without considering the returns performed. For this matter, after the purchase of Banco Popular Español, S.A.U., EUR 402 million provisions have been used by the Group (EUR 238 million in 2017, EUR 119 million in 2018 and EUR 45 million in 2019) mainly for refunds as a result of the extrajudicial process mentioned above. As of 31 December 2019, the amount of the Group's provisions in relation to this matter amounts to EUR 79,9 million (2018: EUR 104 million).

- Banco Popular´s acquisition: considering the declaration setting out the resolution of Banco Popular Español, S.A.U., the redemption and conversion of its capital instruments and the subsequent transfer to Banco Santander, S.A. of the shares resulting from this conversion in exercise of the resolution instrument involving the sale of the institution's business, in the application accordance with the single resolution framework regulation referred to in Note 3 of the 2018 consolidated annual accounts, some investors have filed claims against the EU’s Single Resolution Board decision, the FROB's resolution executed in accordance to the aforementioned decision, and claims have been filed and may be filed in the future against Banco Santander, S.A. or other Santander Group companies deriving from or related to the acquisition of Banco Popular Español, S.A.U.. There are also criminal investigations in progress led by the Spanish National Court in connection with Banco Popular Español, S.A.U., although not with its acquisition. On 15 January 2019, the Spanish National Court, applying article 130.2 of the Spanish Criminal Code, declared the Bank the successor entity to Banco Popular Español, S.A.U. (following the merger of the Bank and Banco Popular Español, S.A.U. on 28 September 2018), and, as a result, determined that the Bank assumed the role of the party being investigated in the criminal proceeding. The decision was appealed and on 30 April 2019, the Spanish National Court ruled in favor of Banco Santander, S.A. declaring that Banco Santander, S.A. cannot inherit Banco Popular’s potential criminal liability. This ruling was appealed before the Supreme Court who have rejected the appeal.

  At this time it is not possible to foresee the total number of lawsuits and additional claims that could be put forth by the former shareholders, nor their economic implications (particularly considering that the resolution decision in application of the new laws is unprecedented in Spain or any other Member State of the European Union and that possible future claims might not specify any specific amount, allege new legal interpretations or involve a large number of parties). The estimated cost of the potential compensation to the shareholders of Banco Popular Español, S.A.U. has been accounted for as disclosed in the aforementioned Note 3.

- German shares investigation: the Cologne Public Prosecution Office is conducting an investigation against the Bank, and other group entities based in UK - Santander UK plc, Abbey National Treasury Services plc and Cater Allen International Limited -, in relation to a particular type of tax dividend linked transactions known as cum-ex transactions

  The Group is cooperating with the German authorities. According to the state of the investigations, the results and the effects for the Group, which may potentially include the imposition of financial penalties, cannot be anticipated. The Bank has not recognised any provisions in relation to the potential imposition of financial penalties.

- Attorneys General Investigation of auto loan securitisation transactions and fair lending practices: in October 2014, May 2015, July 2015 and February 2017, Santander Consumer USA Inc. (SC) received subpoenas and/or Civil Investigative Demands (CIDs) from the Attorneys General of the U.S. states of California, Illinois, Oregon, New Jersey, Maryland and Washington under the authority of each state's consumer protection statutes. These states serve on behalf of a group of 33 state Attorneys General. The subpoenas and CIDs contained broad requests for information and the production of documents related to SC's underwriting, securitization, the recovery efforts servicing and collection of nonprime vehicle loans. SC responded to these requests within the deadlines specified and has otherwise cooperated with the Attorneys General with respect to this matter. The provisions recorded for this investigation are considered sufficient.

- Financial Industry Regulatory Authority ("FINRA") Puerto Rico Arbitrations: as of 31 December 2019, Santander Securities LLC (SSLLC) had received 751 FINRA arbitration cases related to Puerto Rico Bonds issued by public and public related entities, as well as, Puerto Rico closed-end funds (CEFs). The statements of claims allege, among other things, fraud, negligence, breach of fiduciary duty, breach of contract, unsuitability, over-concentration of the investments and failure to supervise. There were 439 arbitration cases that remained pending as of 31 December 2019.

  As a result of various legal, economic and market factors impacting or that could impact of the value Puerto Rico bonds and CEFs, it is possible that additional arbitration claims and/or increased claim amounts may be asserted against SSLLC in future periods. The provisions recorded for these matters are considered sufficient.

- IRPH Index: a portion of our Spanish mortgage loan portfolio bears interest at a rate indexed to the "Índice de Referencia de Préstamos Hipotecarios" known as "IRPH," which, at the time the contracts were entered into, served as reference rate for mortgage loan agreements in Spain and was published by the Bank of Spain. Consumers in Spain have brought lawsuits against most of the Spanish banking sector alleging that the use and related disclosures of such rate did not comply with the transparency requirements of European regulation. On 14 December 2017, the Supreme Court of Spain ruled that these clauses were valid, as the IRPH is an official rate and therefore non-subject to transparency requirements. The matter has been referred to the Court of Justice of the European Union through a preliminary ruling procedure. Pending the outcome of this referral, the IRPH remains valid as a result of the decision of the Supreme Court of Spain.

  On 10 September 2019, the Advocate General of Court of Justice of the European Union (CJEU) issued a non-binding opinion stating that the IRPH index clause is not excluded from the scope of the Directive 93/13 and article 4 of the Directive 93/13 does not apply. The Advocate General concludes that the consumer information must be sufficient to enable the consumer to make a prudent and fully informed decision about the method of calculating the interest rate applicable to the contract and its components parts, specifying not only the full definition of the index used by this calculation method but also the provisions of the relevant national legislation determining that index; and must refer to the past performance of the index. The Advocate General adds that it is for the national court, when carrying out the transparency control, to verify, taking into account all the circumstances surrounding the conclusion of the contract, on the one hand, whether the contract transparently sets out the method of calculating the interest rate, so that the consumer would be able to assess, on the basis of precise and intelligible criteria, the economic consequences for the contract and, on the other hand, whether this contract complies with all the information obligations laid down in national law.

  In the event the Court of Justice of the European Union questions these clauses, it would need to be determined the effects of the decision which carries the uncertainty as to the interest rate that would apply to the relevant mortgage loans. Additionally, it is unclear whether such a ruling by the Court of Justice of the European Union would have retroactive effect and to what extent.

  The uncertainty regarding the ruling by the Court of Justice of the European Union as well as the effects of such ruling make estimating the potential exposure difficult. Currently, the balance of the relevant mortgage loans held by us equals approximately EUR 4.3 billion. Although it is considered that the decision of the Supreme Court of Spain is well-founded, an unfavorable decision.

- Banco Santander has been sued in a legal proceeding in which the plaintiff alleges that a contract was concluded whereby he would be entrusted with the functions of CEO of the Bank. In the complaint, the claimant mainly requests a declaratory ruling that affirms the validity and conclusion of such contract and its enforcement together with the payment of certain amounts. If the main request is not granted, the claimant seeks compensation for a total amount of approximately EUR 112 million or, an alternative relief for other minor amounts. Banco Santander, S.A. has answered to the complaint. In this answer, it is stated that the conditions to which the appointment was subject to were not met and that the contract required by law was not concluded. The proceeding is ongoing.

- CHF Polish Mortgage Loans: On 3 October 2019, the Court of Justice of the European Union (CJEU) rendered its decision in relation to a lawsuit against an unrelated bank in Poland, with regards to unfair contractual clauses in consumer agreements, specifically the consequences of potentially unfair contractual clauses in CHF-indexed loan agreements. The CJEU has left to Polish courts the decision on whether the whole contract can be maintained once the abusive terms have been removed, which should in turn decide whether the effects of the annulment of the contract are prejudicial to the consumer. In that case, the court may only integrate the contract with default provisions of national law and decide, in accordance with those provisions, on the applicable rate.

  As at 31 December 2019, the Group has a portfolio of mortgage loans denominated in, or indexed to, CHF of approximately PLN 9,891 million (EUR 2,323 million).

  In 2019 the Group (Santander Bank Polska and Santander Consumer Bank) in Poland created PLN 173 million (EUR 40.9 million) provision for CHF. This provision represents the best estimate to date given the difficulty to predict the financial impact, as, it is for national courts to decide the relevant issues.

The Bank and the other Group companies are subject to claims and, therefore, are party to certain legal proceedings incidental to the normal course of their business including those in connection with lending activities, relationships with employees and other commercial or tax matters.

With the information available to it, the Group considers that, at 31 December 2019, it had reliably estimated the obligations associated with each proceeding and had recognized, where necessary, sufficient provisions to cover reasonably any liabilities that may arise as a result of these tax and legal risks. Subject to the qualifications made, it also believes that any liability arising from such claims and proceedings will not have, overall, a material adverse effect on the Group's business, financial position or results of operations.

iii. Administrative sanctions

In accordance with the applicable regulations, during fiscal year 2019, and in accordance with article 303 of the Securities Market Law, the CNMV has imposed a sanction for the Bank (as successor of Banco Popular Español) amount of EUR 1 million in relation to specific information published in the annual remuneration reports of Banco Popular Español, corresponding to years 2013 to 2105, related to long-term savings systems and payments by contract resolution of executive directors of the entity, as it is understood that it fit the serious infraction typified in art. 296.1 of the Secutities Market Law. The Bank has filed an contentious-administrative appeal with the National Court agaist the aforementioned sanction.

24. Tax matters

a) Consolidated Tax Group

Pursuant to current legislation, the Consolidated Tax Group includes Banco Santander, S.A. (as the parent) and the Spanish subsidiaries that meet the requirements provided for in Spanish legislation regulating the taxation of the consolidated profits of corporate groups (as the controlled entities).

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b) Years open for review by the tax authorities

In 2018 the conformity and non-conformity acts relating to the Corporate Income Tax financial years 2009 to 2011 were formalised. The adjustments signed in conformity had no significant impact on results and, in relation to the concepts signed in disconformity in 2018 (Corporate Income Tax 2003 to 2007), that have been appealed, Banco Santander, S.A., as the Parent of the Consolidated Tax Group, considers, in accordance with the advice of its external lawyers, that the adjustments made should not have a significant impact on the consolidated financial statements, and there are sound arguments against them. Consequently, no provision has been recorded for this concept. Following the completion of these actions for 2009 to 2011, subsequent years up to and including 2019 are subject to review. At the date of approval of these accounts, the Corporate Income Tax proceedings for periods not yet prescribed up to and including 2015, and the proceedings relate to other taxes up to and including 2016 are on going.

Likewise, relating the Consolidated Tax Group of which Banco Popular Español S.A.U. was the parent, in 2018 a certificate of conformity was drawn up in a partial proceeding, confirming the 2016 Corporate Income Tax return. During 2019, a certificate of disconformity has been drawn up for 2017 Corporate Income Tax, with no impact on profit, and the final assessment has been appealed. In relation to this Consolidated Tax Group, the years 2010 to 2017 inclusive are subject to review.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of the tax audits of the years reviewed and of the open years might give rise to contingent tax liabilities which cannot be objectively quantified. However, the Group's tax advisers consider that it is unlikely that such tax liabilities will arise, and that in any event the tax charge arising therefrom would not materially affect the Group's consolidated financial statements.

c) Reconciliation

The reconciliation of the income tax expense calculated at the standard tax rate (30%) and the related expense recognised are as follow (in millions of euros):

	Millions of euros	
	Expenses / (Incomes)	
	2019	2018
Profit before taxes	3,579	3,385
Income and expense with no tax effect due to permanent differences	(5,914)	(6,286)
Of which Exemption for dividend and capital gains	*(6,121)*	*(4,033)*
Adjusted profit or loss	(2,335)	(2,901)
Income tax at 30%	1,074	1,016
Income and expense with no tax effect	(1,025)	(932)
	49	**84**

d) Tax recognised in equity

In addition to the income tax recognised in the income statement, the Bank recognised the following amounts in equity in 2019 and 2018:

	Millions of euros	
	Amounts receivable/(Amounts payable)	
	31/12/2019	31/12/2018
Fixed-income securities - Available for sale	(2)	132
Equity securities - Available for sale	(218)	(10)
Cash flow hedges	(37)	(39)
Other valuation adjustments (Note 25)	35	(12)
Circular 4/2017 insolvency coverage effect	96	-
	(126)	**71**

e) *Deferred taxes*

Tax assets in the balance sheets includes debit balances with the Spanish Public Treasury relating to deferred tax assets, Tax liabilities includes the liability for the Bank's various deferred tax liabilities.

In Spain Royal Decree-Law 14/2013, of 29 November, confirmed by Law 27/2014, of 27 November, established a regime whereby certain deferred tax assets may continue to be computable as prudential capital, within the "Global regulatory framework for more resilient banks and banking systems" (known as the Basel III accords) and pursuant to the implementing regulations of these accords, namely, Regulation (EU) No 575/2013 and Directive 2013/36/EU, both of 26 June 2013 ("CRD IV").

Under prudential capital regulations, deferred tax assets that rely on future profitability to be realised should be deducted from regulatory capital while taking into consideration whether they arise from tax loss and tax credit carryforwards or temporary differences, The deferred tax assets in the latter category, including those arising from allowances for loan losses, allowances for foreclosed assets and provisions for pension and pre-retirement obligations, do not rely on future profitability since they may be converted into tax receivables in specific circumstances and, therefore, they are not deducted from regulatory capital (hereinafter "monetizable tax assets").

In 2015 the regulations on monetizable tax assets were completed with the introduction of a financial contribution which involved the payment of 1,5% for maintaining the right to monetise which will be applied to the portion of the deferred tax assets that qualify under the legal requirements as monetizable assets generated prior to 2016.

The detail of Tax assets and Tax liabilities is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
Tax assets:	**12,331**	**13,320**
Current	2,215	2,993
Deferred	10,116	10,327
Of which:		
Relating to pensions	*3,540 (*)*	*3,460 (*)*
Relating to allowances for loan losses	*3,023 (*)*	*3,024 (*)*
Relating to deductions and negative tax bases	*2,064*	*2,402*
Tax liabilities:	**1,591**	**1,303**
Of which, deferred tax liabilities	1,591	*1,303*

(*) Monetizable, not deducted from regulatory capital.

At the accounting closing date, deferred taxes, both assets and liabilities, are reviewed in order to verify if adjustments to them are necessary in accordance with the results of the analyses performed.

These analyses include all the positive and negative evidence of the recoverability of said assets, among others, (i) the results generated in previous years, (ii) projections of results, (iii) estimation of the reversal of the temporary differences according to their nature and (iv) period and limits established in the legislation in force for the recovery of the different deferred tax assets, concluding on the Bank's ability to recover its deferred tax assets recorded.

The projections of results used in this analysis are based on the financial budgets approved by both the local directorates of the corresponding units and by the Group's administrators. The Group's budget estimation process is common for all units. The Group's management prepares its financial budgets based on the following key assumptions:

a) Microeconomic variables of the entities that make up the tax group in each location: the existing balance structure, the mix of products offered and the commercial strategy at each moment defined by local directions in this regard based on the environment are taken into account competition, regulatory and market

b) Macroeconomic variables: the estimated growth is based on the evolution of the economic environment considering the expected evolution in the Gross Domestic Product of each location and the forecasts of behavior of interest rates, inflation and exchange rates. These data are provided by the Group Studies Service, which are based on external sources of information.

Additionally, the Group performs retrospective contrasts (backtesting) on the variables projected in the past. The differential behavior of these variables with respect to the real market data is considered in the projections estimated in each fiscal year. Thus, and in relation to Spain, the deviations identified by the Directorate in recent past years are due to non-recurring events outside the operation of the business, such as the impacts due to the first application of new applicable regulations, the costs assumed for the acceleration of the restructuring plans and the changing effect of the current macroeconomic environment.

Finally, and given the degree of uncertainty of these assumptions, the Group conducts a sensitivity analysis of the most significant considered in the recoverable analysis of deferred tax assets, considering reasonable changes in the key assumptions on which the projections of results of each fiscal entity or group and the estimation of the reversal of the different temporary differences. In relation to Spain, the sensitivity analysis has consisted of adjusting 50 basis points for growth (gross domestic product) and adjusting 50 basis points for inflation. After the sensitivity analysis carried out, the Group does not estimate significant variations in future fiscal gains in relation to its deferred tax assets

The Group has performed an analysis of the recoverability of deferred tax assets recorded as of December 31, 2019, which supports their recoverability in a maximum term of 15 years.

Additionally, the Tax Group in Spain has not recognised deferred tax assets in respect of tax losses, investment deductions for investments and other incentives for approximately 6,600 million euros, of which 290 million are subject, among other requirements, to time limits.

f) Regulatory changes

In 2019 and 2018 significant fiscal reforms have not been approved. However, in order to regulate the tax effects of the first application of Circular 4/2017 of the Bank of Spain, Royal Decree-law 27/2018 of December 28 established a transitory regime, according to which the charges and payments to reserve accounts recorded in the first application, which have fiscal effects, will be included in the tax base of the Corporate Tax in equal parts in each of the first three tax periods beginning on January 1, 2018.

In application of the aforementioned Royal Decree-law will be integrated into the taxable base of Banco Santander S.A. corresponding to 2018 a negative adjustment for an amount of 99 million euros, 30 million in instalment, and a negative adjustment for the aforementioned amount, 99 million euros, will be integrated into the tax base corresponding to 2019, remaining, consequently, pending of integrating a negative adjustment for the same amount.

g) Other information

In compliance with the information obligation established in the 2005 Contribution Standards Instrument issued by the Financial Conduct Authority of the United Kingdom, it is indicated that the shareholders of the Bank who are residents of the United Kingdom will be entitled to request a tax credit for taxes paid abroad with respect to the withholdings that the Bank has to make on the dividends to be paid to said shareholders if the total dividend income exceeds the amount of exempt dividends, of 2,000 pounds sterling for the year 2019/20. Bank shareholders who are residents of the United Kingdom and maintain their participation in the Bank through Santander Nominee Service will be directly provided with information on the amount withheld as well as any other information they may need to complete their tax returns in the United Kingdom. The rest of the Bank's shareholders who are residents of the United Kingdom should contact their bank or their securities agency.

Banco Santander, S.A. It is part of the Large Companies Forum and since 2010 has been a member of the Code of Good Tax Practices in Spain. Also, Santander UK Plc. is a member of the HMRC Code of Practice on Taxation for Banks in the United Kingdom, actively participating in both cases in the cooperative compliance programs that are being developed by these tax administrations.

25. Other comprehensive income

The balances of Other comprehensive income include the amounts, net of the related tax effect, of the adjustments to assets and liabilities recognised in equity through the statement of recognised income and expense. The amounts arising from subsidiaries are presented, on a line by line basis, in the appropriate items according to their nature.

Respect to items that may be reclassified to profit or loss, the statement of recognised income and expense includes changes in other comprehensive income as follows:

- Revaluation gains (losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in equity. The amounts recognised in equity in the year remain under this item, even if in the same year they are transferred to the income statement or to the initial carrying amount of the assets or liabilities or are reclassified to another line item.

- Amounts transferred to income statement: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the income statement.

- Amounts transferred to initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in equity, even in the same year, which are recognised in the initial carrying amount of assets or liabilities as a result of cash flow hedges.

- Other reclassifications: includes the amount of the transfers made in the year between the various valuation adjustment items.

The amounts of these items are recognised gross, presenting the corresponding tax effect is presented under a separate item.

a) Breakdown of Other accumulated comprehensive income - Items that will not be reclassified in results and Items that can be classified in results

	Millions of euros	
	2019	2018
Other accumulated comprehensive income	**(340)**	**(459)**
Items that will not be reclassified in results	**(1,024)**	**(722)**
Actuarial gains and losses on defined benefit pension plans	(1,197)	(1,065)
Non-currrent assets held for sale	-	-
Other recognised income and expense of investments in subsidiaries, joint ventures and associates	-	-
Rest of valuation adjustments	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	171	343
Ineffectiveness of fair value hedges of equity instruments measured at fair value with changes in other comprehensive income	-	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedged ítem)	44	-
Changes in the fair value of equity instruments measured at fair value through other comprehensive income (hedging instrument)	(44)	-
Changes in the fair value of financial liabilities at fair value through profit or loss attributable to changes in credit risk	2	-
Items that can be classified in results	**684**	**263**
Hedges of net investments in foreign operations (effective portion)	-	-
Exchange differences	-	-
Cash flow hedges (effective portion)	(45)	37
Changes in the fair value of debt instruments measured at fair value through changes in other comprehensive income	729	226
Hedging instruments (ítems not designated)	-	-
Non-current assets held for sale	-	-
Share in other income and expenses recognised in investments in joint ventures and associates	-	-

b) *Other accumulated comprehensive income- Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans*

Other comprehensive income – Items not reclassified to profit or loss – Actuarial gains or (-) losses on defined benefit pension plans include the actuarial gains and losses and the return on plan assets, less the administrative expenses and taxes inherent to the plan, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).

Its variation is shown in the statement of income and expense.

c) *Other accumulated comprehensive income - Items that will not be reclassified in results - Changes in the fair value of equity instruments measured at fair value with changes in other comprehensive income*

Includes the net amount of unrealised fair value changes of equity instruments at fair value with changes in other comprehensive income.

The following is a breakdown of the composition of the balance as of 31 December 2019 under "Other accumulated comprehensive income" - Items that will not be reclassified to profit or loss - Changes in the fair value of equity instruments measured at fair value with changes in other global result depending on the geographical origin of the issuer (See Note 8):

	Millions of euros				Millions of euros			
	31/12/19				31/12/18			
	Capital gains by valuation	Capital losses by valuation	Net gains/losses by valuation	Fair value	Capital gains by valuation	Capital losses by valuation	Net gains/losses by valuation	Fair value
Equity instruments	*590*	*(419)*	*171*	*1,856*	*595*	*(252)*	*343*	*1,751*

Since 1 January 2018, with the entry into force of Bank of Spain Circular 4/2017, the Bank, an impairment analysis of equity instruments recognised under Other comprehensive income is not carried. IFRS9 eliminates the need to carry out the impairment estimate on this class of equity instruments and the reclassification to profit and loss on the disposal of these assets.

At the end of the 2019 financial year, the Bank recorded an allocation of 4.07 million euros in equity corresponding to the deterioration of equity instruments.

d) *Other accumulated comprehensive income -Items that may be reclassified to profit or loss - Hedging derivatives – Cash flow hedges (Effective portion)*

Other comprehensive income – Items that may be reclassified to profit or loss - Cash flow hedges includes the gains or losses attributable to hedging instruments that qualify as effective hedges. These amounts will remain under this heading until they are recognised in the income statement in the periods in which the hedged items affect it (See Note 32).

e) *Other accumulated comprehensive income - Items that may be reclassified to profit or loss – Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income (Bank of Spain Circular 4/2017)*

Includes the net amount of unrealised changes in the fair value of assets classified as Itemas than can be reclassified in results –Changes in the fair value of debt instruments measured at fair value with changes in other comprehensive income (See Note 7).

Below is a breakdown of the balance composition as of December 31, 2019 and 2018 of Other accumulated global income - Items that can be reclassified in results - Changes in the fair value of the instruments of debt valued at fair value with changes in other comprehensive income depending on the type of instrument:

	Millions of euros							
	31/12/2019				31/12/2018			
	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value	Revaluation gains	Revaluation losses	Net revaluation gains/ (losses)	Fair value
Debt instruments	747	(18)	729	26,306	327	(101)	226	32,741

As of 1 January, 2018, with the entry into force of Bank of Spain Circular 4/2017, the Bank estimates the expected losses on debt instruments measured at fair value with changes in other comprehensive income.

As of December 31, 2019, the handicaps recorded in the Other accumulated global result - Items that can be reclassified in results - Changes in the fair value of debt instruments valued at fair value with changes in other comprehensive income are not significant.

26. Shareholders' equity

The changes in Shareholders' equity are presented in the statement of changes in total equity. Significant information on certain items of Shareholders' equity and the changes therein in 2019 is set forth below.

27. Issued capital

a) *Changes*

On 7 November 2018, a capital increase of EUR 50 million was made, through which the Santander Dividendo Elección scrip dividend scheme took place, whereby 100,420,360 shares were issued (0.62% of the share capital).

At 31 December 2018, the Bank's share capital consisted of 16,236,573,942 shares with a total pair value of EUR 8,118 million.

On 10 September 2019, a capital increase of EUR 191 million was carried out with the issuance of 381,540,640 shares (2.35% of the Bank's share capital). to meet the takeover bid for 16.69% of the share capital of Banco Santander México, S.A. (see Note 3.a).

Therefore, the Bank's new capital consists of EUR 8,309 million at 31 December 2019, represented by 16,618,114,582 shares of EUR 0.50 of nominal value each one and all of them from a unique class and series.

The Bank's shares are listed on the Spanish Stock Market Interconnection System and on the New York, London, Mexico and Warsaw Stock Exchanges, and all of them have the same features and rights. Santander shares are listed on the London Stock Exchange under Crest Depository Interest (CDI's), each CDI representing one Bank's share. They are also listed on the New York Stock Exchange under American Depositary Receipts (BDRs), each BDR representing one share. During 2018 and the beginning of 2019 the number of markets where the Bank is listed has been reduced; the Bank's shares has been delisted from Buenos Aires, Milan, Lisboa and Sao Paulo's markets.

At 31 December 2019, no shareholder of the Bank individually held more than 3% of its total share capital (which is the significant threshold generally established under Spanish regulations for a significant holding in a listed company to be disclosed). While at 31 December 2019 certain custodians appeared in the register of shareholders as holding more than 3% of the share capital, the Bank understands that those shares were held in custody on behalf of other investors, none of which exceeded that threshold individually. These custodians were State Street Bank and Trust Company (14.06%), The Bank of New York Mellon Corporation (8.12%), Chase Nominees Limited (6.38%), EC Nominees Limited (3.97%) and BNP Paribas (3.40%).

Also, as of that date, BlackRock Inc. had communicated a significant participation in voting rights in the Bank (5.426%), although it specified that the corresponding shares were held on behalf of several funds or other investment entities and that none of them exceeded 3% individually.

Throughout 2019 BlackRock Inc. informed the CNMV of the movements regarding its voting rights in the Bank: 6 February, increase above 5%, 17 April, decrease below 5%, 9 May, increase above 5% and, 23 October, decrease below 5%.

It should be noted that there may be some overlap in the holdings declared by the above mentioned custodians and asset manager.

At 31 December 2019, neither the Bank´s shareholders registry nor the CNMV's registry showed any shareholder resident in a tax haven with a shareholding of 1% or higher of the share capital (which is the other threshold applicable under Spanish regulations).

b) Other considerations

At 23 March 2018, the ordinary general meeting of shareholders also agreed to delegate to the board of directors the broadest power to execute the capital increase agreement adopted by the shareholders meeting and the authorization to the Board of directors to increase it.

At 31 December 2019 the shares of the following companies were listed on official stock markets: Banco Santander Río, S.A.; Banco Financiero Santander México, S.A.; Institución de Banca Múltiple, Grupo Financiero Santader México; Banco Santander - Chile; Santander Chile Holding S.A.; Banco Santander (Brasil) S.A., Santander Bank Polska S.A. (former Bank Zachodni WBK S.A.) and Santander Consumer USA Holdings Inc.

At 31 December 2019 the number of Bank shares owned by third parties and managed by Group management companies (mainly portfolio, collective investment undertaking and pension fund managers) or jointly managed was 40 million shares, which represented 0.24% of the Bank's share capital (63 and 52 million shares, representing 0.39% and 0.32% of the share capital in 2018 and 2017, respectively). In addition, the number of Bank shares owned by third parties and received as security was 227 million shares (equal to 1.36% of the Bank's share capital).

At 31 December 2019 the capital increases in progress at Group companies and the additional capital authorised by their shareholders at the respective general meetings were not material at Group`s level.

28. Share premium

Share premium includes the amount paid up by the Bank's shareholders in capital issues in excess of the par value.

The Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital at the entities at which it is recognised and does not establish any specific restrictions as to its use.

The decrease produced in 2018 was a consequence of the decrease of EUR 50 million to cope with the capital increase due to Santander Dividendo Elección program.

The increased produced in 2019 is a consequence of the increase of EUR 1,491 million to cope with the capital increase for the acquisition of Banco Santander México, S.A, Institución de Banca Múltiple, Grupo Financiero Santander México shares on 10 September 2019.

Also, in 2019, and an amount of EUR 38 million was transferred from the Share premium account to the Legal reserve (2018: EUR 10 million) (See note 29).

29. Accumulated retained earnings

a) Definitions

The balance of Equity - Accumulated gains and Other reserves includes the net amount of the accumulated results (profits or losses) recognised in previous years through the income statement which in the profit distribution were allocated in equity, the expenses of own equity instrument issues, the differences between the amount for which the treasury shares are sold and their acquisition price, as well as the net amount of the results accumulated in previous years, generated by the result of non-current assets held for sale, recognised through the income statement.

b) Breakdown

The detail of Shareholders' Equity - Reserves at 31 December 2019 and 2018 is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
Legal reserve	1,662	1,624
Voluntary reserve	5,533	6,275
Reserve for amortised capital	11	11
Reserve for treasury shares	878	901
Other reserves	(887)	(495)
	7,197	**8,316**

i. Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve. These transfers must be made until the balance of this reserve reaches 20% of the share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount.

In 2019 the Bank transferred EUR 38 million from the Share premium account to the Legal reserve (2018: EUR 10 million; 2017: EUR 154 million) (See note 29)

Consequently, once again, after the capital increases described in Note 27 had been carried out, the balance of the Legal reserve reached 20% of the share capital, and at 31 December 2019 the Legal reserve was of the stipulated level.

ii. Voluntary Reserve

During year 2019 there was a decrease in voluntary reserves amounting to EUR 742 million; which corresponds to a decrease of EUR 269 million for business investments reserves (Note 1.i), a decrease of EUR 466 million for the interests of the PPCC (Note 21), and with a decrease of EUR 7 million for other items.

iii.Reserve for treasury shares

Pursuant to the Consolidated Spanish Limited Liability Companies Law, *a restricted reserve has been* recognised for an amount equal to the carrying amount of the Bank shares owned by subsidiaries. The balance of this reserve will become unrestricted when the circumstances that made it necessary to record it cease to exist. Additionally, this reserve covers the outstanding balance of loans granted by the Group secured by Bank shares and the amount equivalent to loans granted by Group companies to third parties for the acquisition of treasury shares plus the own treasury shares amount.

iv. Other reserves

During fiscal year 2019 there was a decrease in Other reserves due to the impact of the first application of Circular 2/2018 of Bank of Spain for an amount of EUR 392 million.

30. Other equity instruments and own shares

a) *Equity instruments issued not capital and other equity instruments*

Other equity instruments includes the equity component of compound financial instruments, the increase in equity due to personnel remuneration and other items not recognised in other Shareholders' equity items.

On 13 July 2017, Banco Santander and Banco Popular Español, S.A. (hereinafter, Banco Popular) reported that they had decided to launch a commercial action in order to retain retail customers of their networks affected by the resolution of Banco Popular (the "Loyalty Action").

Under the Loyalty Action, customers who meet certain conditions and have been affected by the resolution of Banco Popular could receive, without any payment on their part, negotiable securities issued by Banco Santander for a nominal amount equivalent to the investment in shares or in certain subordinated obligations of Banco Popular (with certain limits) of which they were holders at the date of Banco Popular resolution. To benefit from this action, it was necessary for the client to renounce legal actions against the Group.

The Loyalty Action would be carried out through the delivery to the customer of contingently redeemable perpetual obligations ("Loyalty Bonds") of Banco Santander, S.A. The Loyalty Bonds will accrue a coupon in cash, discretionary, non-cumulative, payable for past due quarters.

This issue was made by Banco Santander, S.A. on 8 September 2017 for a nominal amount of EUR 981 million, fully subscribed by Banco Popular Español, S.A. As of 31 December 2019, the cost recorded in the Equity Instruments caption other than equity in the Bank's balance sheet amounts to EUR 598 million (EUR 565 million as of 31 December 2018).

Loyalty Bonds are perpetual values; however, they may be fully amortized at the discretion of Banco Santander, S.A., with prior authorization from the European Central Bank, on any of the coupon payment dates, seven years after issuance.

b) *Own shares*

Shareholders' equity - Own shares includes the amount of own equity instruments held by the Bank.

Transactions involving own equity instruments, including their issuance and cancellation, are recognised directly in equity, and no profit or loss may be recognised on these transactions. The costs of any transaction involving own equity instruments are deducted directly from equity, net of any related tax effect.

The Bank’s shares owned by the consolidated companies accounted for 0.051% of issued share capital at 31 December 2019 (31 December 2018: 0.075%)

The average purchase price of the Bank’s shares in 2019 was EUR 4.09 per share and the average selling price was EUR 4.11 per share.

At the end of 2019, the purchase and sale transactions of shares issued by the Bank have not generated any results (2018: EUR 80 thousand of losses).

31. Memorandum items

Memorandum items relates to balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions although they may not impinge on its net assets.

a) Guarantees and contingent and commitments

Contingent liabilities include all transactions under which an entity guarantees the obligations of a third party and which result from financial guarantees granted by the entity or from other types of contract. The detail is as follows:

	Million euros	
	31/12/2019	31/12/2018
Loans commitment granted	**85,840**	**72,208**
Available in lines of credit	*83,977*	*71,496*
Deposits in the future	*1,863*	*712*
Financial guarantees granted	**9,474**	**6,508**
Financial guarantees	*207*	*-*
Credit derivatives sold	*9,267*	*6,508*
Other commitments granted	**52,460**	**57,855**
Irrevocable documentary credits	*1,981*	*2,823*
Other guarantees and guarantees granted	*23,107*	*23,976*
Other	*27,372*	*31,056*
	147,774	**136,571**

The breakdown as at 31 December 2019 of the exposures and the provision fund (see note 23) out of balance sheet by impairment stage under Bank of Spain Circular 4/2017 is EUR 145,574 million and EUR 75 million in stage 1, EUR 1,497 million and EUR 20 million in stage 2 and EUR 703 million and EUR 85 million in stage 3, respectively. In addition, the breakdown at 31 December 2018 of exposures and the allowance was EUR 133,679 million and EUR 60 million in phase 1, EUR 1,897 million and EUR 28 million in phase 2 and EUR 994 million and EUR 175 million in phase 3, respectively.

A significant portion of these guarantees will expire without any payment obligation materialising for the consolidated entities and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under Fee and commission income in the income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee.

i. Loan commitments granted

Loan commitments granted: firm commitments of grating of credit under predefined terms and conditions, except for those that comply with the definition of derivatives as these can be settled in cash or through the delivery of issuance of another financial instrument. They include stand-by credit lines and long-term deposits.

ii. Financial guarantees granted

Financial guarantees include, inter alia, financial guarantee contracts such as financial bank guarantees, credit derivatives sold, and risks arising from derivatives arranged for the account of third parties.

iii. Other commitments granted

Other contingent liabilities include all commitments that could give rise to the recognition of financial assets not included in the above items, such as technical guarantees and guarantees for the import and export of goods and services.

The detail is as follows:

	Million euros	
	31/12/2019	31/12/20178
Other commitments granted	**52,460**	**57,855**
Irrevocable documentary credits	1,981	2,823
Other guarantees and guarantees lent	23,107	23,976
Other commitments	27,372	31,056
Of which:		
Subscribed values pending disbursement	*4*	*4*
Conventional procurement contracts assets	*6,530*	*14,459*
Other contingent commitments	*20,838*	*16,593*

b) *Other information*

i. Assets advanced as collateral

At 31 December 2019 and 2018 there were certain assets owned by the Bank that secured transactions performed by it or by third parties, as well as various liabilities and contingent liabilities assumed by the Bank, with respect to which the transferee has the right, by contract or by custom, to transfer them again or to pledge them.

The carrying amount at 31 December 2019 and 2018 of the Bank's financial assets pledged as security for these liabilities, contingent liabilities and similar items was as follows:

	Millions euros	
	31/12/2019	31/12/2018
Financial assets held for trading	21,192	13,819
Of which:		
Public debt Public Sector Agencies	*611*	*1,389*
Fix rent instruments	*14,702*	*8,333*
Equity instruments	*5,879*	*4,097*
Non-trading financial assets mandatorily at fair value through profit or loss	224	-
Financial assets designated at fair value through profit or loss	4,783	5,332
Financial assets at fair value through other comprehensive income	5,329	15,129
Financial assets at amortised cost	2,640	6,155
	34,168	**40,435**

32. Hedging derivatives

The Group, within its financial risk management strategy, and in order to reduce asymmetries in the accounting treatment of its operations, enters into hedging derivatives on interest, exchange rate, credit risk or variation of stock prices, depending on the nature of the risk covered.

Based on its objective, the Group classifies its hedges in the following categories:

- Cash flow hedges: cover the exposure to the variation of the cash flows associated with an asset, liability or a highly probable forecast transaction. This cover the variable-rate issues in foreign currencies, fixed-rate issues in non-local currency, variable-rate interbank financing and variable-rate assets (bonds, commercial loans, mortgages, etc.).

- Fair value hedges: cover the exposure to the variation in the fair value of assets or liabilities, attributable to an identified and hedged risk. This covers the interest risk of assets or liabilities (bonds, loans, bills, issues, deposits, etc.) with coupons or fixed interest rates, interests in entities, issues in foreign currencies and deposits or other fixed rate liabilities.

- Hedging of net investments abroad: cover the exchange rate risk of the investments in subsidiaries domiciled in a country with a different currency from the functional one of the Group.

The notional and fair values of the hedging instruments of Banco Santander, S.A. included in the heading of the hedge derivatives derivative balance sheet, as a function of the risk and the type of coverage, for assets and liabilities, as of December 31, 2019 and 2018 are shown below:

	Million euros				Balance sheet items
	2019				
	Notional Value	Carrying amount		Changes in fair value used for calculating hedge ineffectiveness	
		Assets	Liabilities		
Fair value hedges	**41,791**	**1,865**	**(831)**	**(248)**	
Interest rate risk	**28,445**	**1,571**	**(609)**	**(231)**	
Equity swap	-	-	-	-	
Interest rate future	-	-	-	-	
Interest rate swap	*28,179*	*1,550*	*(600)*	*(208)*	*Hedging derivatives*
Call money swap	-	-	-	-	
Currency swap	-	-	-	-	
Inflation swap	*55*	*4*	-	-	*Hedging derivatives*
Swaption	*51*	*9*	*(9)*	-	*Hedging derivatives*
Necklace	-	-	-	-	
Floor	*160*	*8*	-	*(23)*	*Hedging derivatives*
Exchange rate risk	**8,891**	**49**	**(42)**	**(35)**	
Fx forward	*8,891*	*49*	*(42)*	*(35)*	*Hedging derivatives*
Interest rate and exchange rate risk	**4,197**	**245**	**(174)**	**23**	
Interest rate swap	*3,328*	*235*	*(173)*	*15*	*Hedging derivatives*
Call money swap	-	-	-	-	
Currency coverage	*869*	*10*	*(1)*	*8*	*Hedging derivatives*
Inflation risk	-	-	-	-	
Call money swap	-	-	-	-	
Currency swap	-	-	-	-	
Credit risk	258	-	(6)	(5)	
Exchange swaps for non-payment	*258*	-	*(6)*	*(5)*	*Hedging derivatives*
Cash flow hedges	**23,831**	**112**	**(447)**	**(9)**	
Interest rate risk	**18,861**	**33**	**(48)**	**(3)**	
FX forward	-	-	-	-	
Future interest rate	-	-	-	-	
Interest rate swap	-	-	-	*13*	*Hedging derivatives*
Currency swap	-	-	-	-	
Floor	-	-	-	-	
Futures	*18,861*	*33*	*(48)*	*(16)*	*Hedging derivatives*
Exchange rate risk	-	-	-	-	
Futures FX and c / v term FX	-	-	-	-	
FX forward	-	-	-	-	
Future interest rate	-	-	-	-	
Interest rate swap	-	-	-	-	
Currency swap	-	-	-	-	
Floor	-	-	-	-	
Deposits borrowed	-	-	-	-	
Interest rate and exchange rate risk	**4,970**	**79**	**(399)**	**(6)**	
Interest rate swap	-	-	-	-	
Currency swap	*4,970*	*79*	*(399)*	*(6)*	*Hedging derivatives*
Inflation risk	-	-	-	-	
Fx forward	-	-	-	-	
Currency swap	-	-	-	-	
Equity risk	-	-	-	-	
Option	-	-	-	-	
Other risks	-	-	-	-	
Future and RF term c / v	-	-	-	-	
Net investment hedges abroad	**23,384**	**249**	**(766)**	-	
Exchange rate risk	**23,384**	**249**	**(766)**	-	
Fx forward	*23,384*	*249*	*(766)*	-	*Hedging derivatives*
	89,006	**2,226**	**(2,044)**	**(257)**	

	Million euros				
	2018				
	Notional Value	Carrying amount		Changes in fair value used for calculating hedge ineffectiveness	Balance sheet line items
		Assets	Liabilities		
Fair value hedges:	**42,915**	**1,726**	**(3,166)**	**222**	
Interest rate risk	36,607	1,495	(2,917)	178	
Equity swap	-	-	-	-	*Hedging derivatives*
Future interest rate	-	-	-	-	*Hedging derivatives*
Interest rate swap	*34,945*	*1,484*	*(2,766)*	*268*	*Hedging derivatives*
Call money swap	-	-	-	-	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Inflation swap	-	-	-	*9*	*Hedging derivatives*
Swaption	*51*	*6*	*(6)*	-	*Hedging derivatives*
Collar	-	-	-	-	*Hedging derivatives*
Floor	*1,611*	*5*	*(145)*	*(99)*	*Hedging derivatives*
Exchange rate risk	**2,596**	-	-	**3**	
Fx forward	*2,596*	-	-	*3*	*Hedging derivatives*
Interest rate and exchange rate risk	**3,658**	**231**	**(249)**	**41**	
Interest rate swap	*3,250*	*227*	*(248)*	*4*	*Hedging derivatives*
Call money swap	-	-	-	-	*Hedging derivatives*
Currency swap	*408*	*4*	*(1)*	*37*	*Hedging derivatives*
Inflation risk	-	-	-	-	
Call money swap	-	-	-	-	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Credit risk	**54**	-	-	-	
CDS	*54*	-	-	-	*Hedging derivatives*
Cash flow hedges:	**8,092**	**119**	**(67)**	**109**	
Interest rate risk	8,092	119	(67)	109	
Fx forward	-	-	-	-	*Hedging derivatives*
Future interest rate	-	-	-	-	*Hedging derivatives*
Interest rate swap	*8,092*	*119*	*(67)*	*109*	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Floor	-	-	-	-	*Hedging derivatives*
Exchange rate risk	-	-	-	-	
Future FX and c/v term FV	-	-	-	-	*Hedging derivatives*
FX forward	-	-	-	-	*Hedging derivatives*
Future interest rate	-	-	-	-	*Hedging derivatives*
Interest rate swap	-	-	-	-	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Floor	-	-	-	-	*Hedging derivatives*
Deposits borrowed	-	-	-	-	*Deposits*
Interest rate and exchange rate risk	-	-	-	-	
Interest rate swap	-	-	-	-	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Inflation risk	-	-	-	-	
FX forward	-	-	-	-	*Hedging derivatives*
Currency swap	-	-	-	-	*Hedging derivatives*
Equity risk	-	-	-	-	
Option	-	-	-	-	*Hedging derivatives*
Other risk	-	-	-	-	
Future FX and c/v term RF	-	-	-	-	*Hedging derivatives*
Hedges of net investments in foreign operations:	**20,746**	**263**	**(273)**	-	
Exchange rate risk	**20,746**	**263**	**(273)**	-	
FX forward	*20,746*	*263*	*(273)*	-	*Hedging derivatives*
	71,753	**2,108**	**(3,506)**	**331**	

Banco Santander, S.A. covers the risks of its balance sheet in a variety of ways. On the one hand, documented as fair value hedges, it covers the interest rate, foreign currency and credit risk of fixed-income portfolios at a fixed rate (REPOs are included in this category). Resulting, in an exposure to changes in their fair value due to variations in market conditions based on the various risks hedged, which has an impact on the Bank's income statement. To mitigate these risks, the Bank contracts derivatives, mainly Interest rate Swaps, Cap&Floors, Forex Forward and Credit Default Swaps.

On the other hand, the interest and exchange rate risk of loans granted to corporate clients at a fixed rate is generally covered. These coverages, are carried out through Interest Rate Swaps and Cross Currency Swaps and Exchange Rate Derivatives (Forex Swaps and Forex Forward).

In addition, the Bank manages the interest and exchange risk of debt issues in their various categories (issuing covered bonds, perpetual, subordinated and senior bond) and in different currencies, denominated at fixed rates, and therefore subject to changes in their fair value. These issues are covered through Interest Rate Swaps and Cross Currency Swaps, Cross Currency Swaps or a combination of both by applying differentiated fair value hedging strategies for interest rate risk and cash flow hedging strategies to cover foreign exchange risk.

The Bank's methodology for measuring the effectiveness of this type of coverage is based on comparing the markets value of the hedged items (based on the objective risk of the hedge) and of the hedging instruments in order to analyse whether the changes in the market value of the hedged items are offset by the market value of the hedging instruments, there by mitigating the hedged risk. Prospectively, the same analysis is performed, measuring the theoretical market values in the event of parallel variations in the market curves of a positive basis point.

Regarding cash flow hedges, the objective is to hedge the cash flow exposure to changes in interest rates and exchange rates.

For retrospective purposes, all cash flows generated by the structure (hedged item and hedging instrument) are compared to measure effectiveness. The objective is to obtain a synthetic hedge resulting from the application of the hedging instrument. The total discounted cash flows obtained are compared with the target set for the calculation of potential ineffectiveness.

For prospective purposes, the cash flows of the structure are calculated by shifting the curve by one basis point. As in the retrospective test, the calculation of the flows will take into account the time factor. The measurement of effectiveness is identical to that of the retrospective test, using the new flows based on the new curve-shift scenario applied to both the hedged item and the hedging instrument.

Finally, the Bank also manages and hedges the interest rate risk of its mortgage portfolio and various variable rate issues in cash flow hedges, which hedge the exposure of flows due to the risk of variations in interest curves, which may have an impact on the income statement. These hedges are made through mainly Interest Rate Swaps.

The hypothetical derivative methodology is used to measure the effectiveness of these cash flow hedges, in order to determine the level of risk compensation based on the comparison of the discounted net cash flows of the hedging instruments and the hedged items.

Regarding net foreign investments hedges, basically, they are allocated in Banco Santander, S.A. and Santander Consumer Finance Group. The Group assumes, as a priority objective in risk management, to minimize – up to a determined limit set up by the responsible for the financial management of the Group- the impact on the calculation of the capital ratio of their permanent investments included within the consolidation perimeter of the Group, and whose shares are legally named in a different currency than the holding has. For this purpose, financial instruments (generally derivatives) on exchange rates are hired, that allow mitigating the impact on the capital ratio of changes in the forward exchange rate. The Group hedges the risk, mainly, for the following currencies: BRL, CLP, MXN, CAD, COP, CNY, GBP, CHF, NOK, USD, SAR, MAD and PLN.

The instruments used to hedge the risk of these investments are Forex Swaps, Forex Forward and buys/sells of spot currencies.

In the case of this type of hedge, the ineffectiveness scenarios are considered to be of low probability, given that the hedging instrument is designated considering the determined position and the spot rate at which it is found.

Aditionally, the profile information of maturities and the price/average rate for Banco Santander, S.A. is shown:

	31 de diciembre de 2019					
	Millions of euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges	**233**	**4,311**	**6,529**	**19,550**	**11,168**	**41,791**
Interest rate risk						
Interest rate instruments						
Nominal	*8*	*106*	*1,406*	*16,707*	*10,219*	*28,446*
Average fixed interest rate (%) GBP	-	-	-	*1.43*	*6.82*	
Average fixed interest rate (%) EUR	*5.30*	*2.41*	*3.20*	*0.79*	*2.58*	
Average fixed interest rate (%) CHF	-	-		*0.80*	*0.40*	
Average fixed interest rate (%) JPY	-			*0.46*		
Average fixed interest rate (%) USD	-	-	*2.05*	*3.12*	*3.93*	
Exchange rate risk						
Exchange rate instruments						
Nominal	*211*	*3,903*	*4,777*	-	-	*8,891*
GBP / EUR average exchange rate	-	*0.86*	*0.87*	-	-	
USD / EUR average exchange rate	-	*1.12*	*1.12*	-	-	
USD / CLP average exchange rate	*747.72*	*747.90*	*746.70*	-	-	
CNY / EUR average exchange rate	-	*7.91*	*8.01*	-	-	
SAR / EUR average exchange rate	*4.16*	*4.18*	-	-	-	
Interest rate and exchange risk						
Instruments of exchange rate and interest						
Nominal	*14*	*289*	*346*	*2,599*	*949*	*4,197*
Average fixed interest rate (%) AUD / EUR	-	-	-	*4.00*	*4.66*	
Average fixed interest rate (%) CZK / EUR	-	-	-	*0.86*	-	
Average fixed interest rate (%) EUR / COP	-	-	*6.16*	-	-	
Average fixed interest rate (%) RON / EUR	-	-	-	*4.85*	-	
Average fixed interest rate (%) HKD / EUR	-	-	*2.52*	*2.58*	-	
Average fixed interest rate (%) JPY / EUR	-	-	*0.54*	*0.66*	*1.28*	
Average fixed interest rate (%) NOK / EUR	-	-	-	-	*3.61*	
Average fixed interest rate (%) CHF / EUR	-	-	-	-	*1.24*	
Average fixed interest rate (%) USD / COP	*7.54*	-	*5.67*	*7.62*	*7.22*	
AUD / EUR average exchange rate	-	-	-	*1.50*	*1.51*	
CZK / EUR average exchange rate	-	-	-	*25.40*	*26.03*	
EUR / GBP average exchange rate	-	*1.17*	-	-	-	
EUR / COP average exchange rate	-	-	*0.0003*	-	-	
HKD / EUR average exchange rate	-	-	*8.72*	*8.78*	-	
JPY / EUR average exchange rate	-	-	*130.47*	*132.46*	*125.88*	
MXN / EUR average exchange rate	-	-	-	*14.70*	-	
NOK / EUR average exchange rate	-	-	-	-	*9.60*	
RON / EUR average exchange rate	-	-	-	*4.73*	-	
CHF / EUR average exchange rate	-	-	-	*1.09*	*1.11*	
USD / COP average exchange rate	*0.0003*	-	*0.0003*	*0.0003*	*0.0003*	
USD / MXN average exchange rate	-	-	-	*0.05*	-	
Credit risk						
Credit Risk Instruments						
Nominal	-	*13*	-	*244*	-	*257*
Cash flow hedges:	**11,626**	**0**	**2,145**	**9,853**	**207**	**23,831**
Interest rate and exchange rate risk						
Interest rate and exchange instruments						
Nominal	-	-	*353*	*4,410*	*207*	*4,970*
Interest rate risk						
Bond Forward Instruments						
Nominal	*11,626*	-	*1,792*	*5,443*	-	*18,861*
Net investment hedges abroad	**2,592**	**3,838**	**13,595**	**3,359**	**-**	**23,384**
Exchange rate risk						
Exchange rate instruments						
Nominal	*2,592*	*3,838*	*13,595*	*3,359*	-	*23,384*
BRL / EUR average exchange rate	*4.59*	*4.74*	*4.74*	*4.88*	-	
CLP / EUR average exchange rate	*822.13*	*822.32*	*811.64*	*824.36*	-	
COP / EUR average exchange rate	-	-	*3,828.61*	-	-	
GBP / EUR average exchange rate	*0.89*	*0.91*	*0.94*	-	-	
MAD / EUR average exchange rate	-	*10.77*	*10.87*	-	-	
MXN / EUR average exchange rate	*23.49*	*23.10*	*23.27*	-	-	
PLN / EUR average exchange rate	*4.37*	*4.38*	*4.39*	-	-	
Total	**14,451**	**8,149**	**22,269**	**32,762**	**11,375**	**89,006**

	31 de December de 2018					
	Millions of euros					
	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Fair value hedges	**541**	**2,951**	**1,316**	**15,121**	**22,986**	**42,915**
Interest rate risk						
Interest rate instruments						
Nominal	500	665	425	12,987	22,030	36,607
Average fixed interest rate (%) GBP	-	-	-	-	*7.08*	
Average fixed interest rate (%) EUR	*3.75*	*0.63*	*2.06*	*1.81*	*3.20*	
Average fixed interest rate (%) CHF	-	-		*0.76*	*1.04*	
Average fixed interest rate (%) USD	-	-	*1.38*	*3.43*	*4.11*	
Exchange rate risk						
Exchange rate instruments						
Nominal	-	*1.825*	*771*	-	-	*2.596*
Interest rate and foreign exchange rate risk						
Exchange and interest rate instruments						
Nominal	41	461	120	2.085	951	3.658
Average fixed interest rate (%) AUD/EUR	-	-	-	*4.00*	*4.80*	
Average fixed interest rate (%) CZK/EUR	-	-	-	*0.86*	-	
Average fixed interest rate (%) EUR/COP	-	-	*7.54*	-	-	
Average fixed interest rate (%) HKD/EUR	-	-	-	*2.52*	-	
Average fixed interest rate (%) JPY/EUR	-	-	-	*0.64*	*1.28*	
Average fixed interest rate (%) NOK/EUR	-	-	-	-	*3.61*	
Average fixed interest rate (%) USD/COP	*6.13*	*6.71*	-	*9.47*	-	
Average AUD/EUR exchange rate	-	-	-	*1.50*	*1.50*	
Average CZK/EUR exchange rate	-	-	-	*25.41*	*26.03*	
Average EUR/GBP exchange rate	-	*1.15*	-	-	-	
Average EUR/COP exchange rate	-	-	-	-	-	
Average EUR/MXN exchange rate	-	-	-	-	-	
Average HKD/EUR exchange rate	-	-	-	*8.72*	-	
Average JPY/EUR exchange rate	-	-	-	*132.01*	*125.88*	-
Average MXN/EUR exchange rate	-	-	-	*14.70*		-
Average NOK/EUR exchange rate	-	-	-	-	*9.61*	-
Average USD/BRL exchange rate	-	-	*0.27*	-	-	-
Average USD/COP exchange rate	-	-	-	-	-	-
Credit rate risk						
Credit risk instruments						
Nominal	-	-	-	49	5	54
Cash flow hedges	**1,942**	-	-	**6,130**	**20**	**8,092**
Interest rate risk						
Interest rate instruments						
Nominal	1,942	-	-	6,130	20	8,092
Average fixed interest rate (%) EUR	-	-	-	0.51	0.55	
Hedges of net investments in foreign operations	**373**	**497**	**10,587**	**9,289**	-	**20,746**
Exchange rate risk						
Exchange rate instruments						
Nominal	373	497	10,587	9,289	-	20,746
Average BRL/EUR exchange rate	*4.46*	-	*4.46*	*4.73*	-	
Average CLP/EUR exchange rate	-	*766.01*	*768.25*	*795.10*	-	
Average CNY/EUR exchange rate	-	-	*8.14*	-	-	
Average COP/EUR exchange rate	-	*3,728.01*	*3,685.80*	-	-	
Average GBP/EUR exchange rate	-	*0.91*	*0.89*	-	-	
Average MXN/EUR exchange rate	*22.98*	-	*24.51*	*24.50*	-	
Average PLN/EUR exchange rate	-	-	*4.38*	*4.26*	-	
Total	**2,856**	**3,448**	**11,903**	**30,540**	**23,006**	**71,753**

The following table contains details of the hedged exposures covered by Banco Santander, S.A. hedging strategies of 31 December 2019 and 2018:

	31 de diciembre de 2019							
	Millions of euros							
	Amount in books of the item covered		Cumulative amount of fair value adjustments on the covered line		Balance line	Change in the fair value of the item covered for inefficiency assessment	Cash flow hedge reserve / foreign currency conversion	
	Assets	Liabilities	Assets	Liabilities			Coverage continues	Discontinuous coverage
Fair value hedges	**13,342**	**(22,474)**	**502**	**(1,216)**		**198**	-	-
Interest rate risk	4,304	(19,753)	461	(1,169)		184	-	-
Deposits	*1,300*	-	*281*	-	*Deposits*	*28*	-	-
Bonds	*1,043*	*(19,753)*	*149*	*(1,169)*	*Bonds*	*152*	-	-
Repo	*1,936*	-	*29*	-	*Repo*	*4*	-	-
Fixed income securities loans	25	-	2	-	*Fixed income securities loans*	-	-	-
Exchange rate risk	7,612		40	-		35	-	-
Deposits	*1,912*	-	*22*	-	*Deposits*	*14*	-	-
Bonds	*5,643*	-	*15*	-	*Bonds*	*18*	-	-
Liquidity lines	*57*	-	*3*	-	*Liquidity lines*	*3*	-	-
Interest rate and exchange rate risk	1,173	(2,721)	(5)	(47)		(26)	-	-
Deposits	*363*	-	-	-	*Deposits*	*1*	-	-
Bonds	-	*(2,621)*	-	*(49)*	*Bonds*	*(23)*	-	-
Repo	*810*	*(100)*	*(5)*	*2*	*Repo*	*(4)*	-	-
Credit risk	253	-	6	-		5	-	-
Bonds	*253*	-	*6*	-	*Bonds*	*5*	-	-
							-	-
Cash flow hedges	-	-	-	-		**17**	**(23)**	**(42)**
Interest rate risk	-	-	-	-		16	(16)	(42)
Deposits	-	-	-	-	*Deposits*	-	-	*14*
Bonds	-	-	-	-	*Bonds*	*16*	*(16)*	*(56)*
Interest rate and exchange rate risk	-	-	-	-		1	(7)	-
Deposits	-	-	-	-	*Deposits*	*2*	*(7)*	-
Bonds	-	-	-	-	*Bonds*	*(1)*	-	-
	13,342	**(22,474)**	**502**	**(1,216)**		**215**	**(23)**	**(42)**

	31 December 2018 Million euros							
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged item		Balance sheet line item	Change in fair value of hedged ítem for ineffectiveness assessment	Cash flow hedge/currency translation reserve	
	Assets	Liabilities	Assets	Liabilities		Assets	Liabilities	Assets
Fair value hedges	**8,285**	**(20,789)**	**768**	**(820)**		**(250)**	-	-
Interest rate risk	**4,236**	**(18,154)**	**762**	**(798)**		**(215)**	-	-
Deposits	*1,411*	-	*277*	-	*Deposits*	*(52)*	-	-
Bond	*1,197*	*(18,154)*	*459*	*(798)*	*Bond*	*(172)*	-	-
Repo	*1,627*	-	*25*	-	*Repo*	*8*	-	-
Loans of securities	*1*	-	*1*	-	*Loan of securities*	*1*	-	-
Exchange rate risk	**3,378**	-	**5**	-		**(3)**	-	-
Deposits	*1,614*	-	*9*	-	*Deposits*	*8*	-	-
Bonds	*1,764*	-	*(4)*	-	*Bond*	*(11)*	-	-
Interest and Exchange rate risk	**617**	**(2,635)**	**1**	**(22)**		**(32)**	-	-
Borrowed deposits	183	-	-	-	*Deposits*	*(2)*	-	-
Bonds	-	(2,536)	-	(22)	*Bond*	*(31)*	-	-
Repos	434	(99)	1	-	*Repo*	*1*	-	-
Credit risk	**54**	-	-	-		-	-	-
Bonds	54	-	-	-	Bond	-	-	-
Net foreign investments hedges	-	-	-	-		**(55)**	**55**	**(2)**
Interest rate risk	-	-	-	-		**(55)**	**55**	**(2)**
Deposits	-	-	-	-	*Deposits*	*(27)*	*27*	-
Bond	-	-	-	-	*Bond*	*(28)*	*28*	*(2)*
Exchange rate risk	-	-	-	-		-	-	-
	8,285	**(20,789)**	**768**	**(820)**		**(350)**	**55**	**(2)**

The cumulative amount of adjustments of the fair value hedging instruments that remain in the balance for covered items that are no longer adjusted by profit and loss of coverage as of 31 December 2019 is EUR 204 million euros (EUR 6 million euros).

The following table contains information regarding the effectiveness of the hedging relationships designated by Banco Santander, S.A, as well as the impacts on profit or loss and other comprehensive income as of 31 December 2019 and 2018:

	31 de diciembre de 2019 Million euros					
				Reclassified amount of reserves to PyG because		
	Earnings / (losses) recognized in Other accumulated global income	Coverage inefficiency recognized in the income statement	Line of the income statement that includes ineffective coverage	Covered transaction that will not occur	Covered transaction that affects the income statement	Line of the income statement that includes reclassified amounts
Fair value hedges	-	**(50)**				
Interest rate risk	-	(48)				
Deposits	-	*(15)*	*ROF*			
Financial bonds	-	*(32)*	*ROF*			
Loans of fixed income securities	-	(1)	ROF			
Exchange rate risk	-	(1)				
Deposits	-	*1*	*ROF*			
Bonds	-	*(2)*	*ROF*			
Interest rate and exchange rate risk	-	(1)				
Deposits	-	*1*	*ROF*			
Bonds	-	*(2)*	*ROF*			
Cash flow hedges	**(117)**	-			**(88)**	
Interest rate risk	(112)	-			(68)	
Deposits	*(13)*	-	*ROF*		*(11)*	MARGEN
Bonds	*(99)*	-	*ROF*		*79*	MARGEN
Interest rate and exchange rate risk	(5)	-			20	
Deposits	*(5)*	-	ROF		*20*	MARGEN
	(117)	**(50)**			**88**	

	31 December 2018				
	Million euros				
	Gains/loss recognised in Other comprehensive income	Gains/loss recognised in Other comprehensive income	Gains/loss recognised in Other comprehensive income	Gains/loss recognised in Other comprehensive income	Gains/loss recognised in Other comprehensive income
Fair value hedges	-	**(28)**		-	
Interest rate risk	-	(37)		-	
Deposits	-	(22)	*Gains or losses of financial assets/liabilities*	-	
Bond	-	(15)	*Gains or losses of financial assets/liabilities*	-	
Interest and Exchange rate risk	-	**9**		-	
Deposits	-	2	*Gains or losses of financial assets/liabilities*	-	
Bond	-	7	*Gains or losses of financial assets/liabilities*	-	
Cash flow hedges	**109**	-		**16**	
Interest rate risk	109	-		16	Interest margin
Deposits	*27*	-	*Gains or losses of financial assets/liabilities*	*17*	Interest margin
Bond	*26*	-	*Gains or losses of financial assets/liabilities*	*(1)*	
Credit facilities	*56*	-	*Gains or losses of financial assets/liabilities*	-	
	109	**(28)**		**16**	

The following table shows a reconciliation of each component of equity and an analysis of othercomprehensive income in relation to hedge accounting for Banco Santander, S.A.:

	Million euros
	2019
Balance at the end of the previous year	37
Amount recognized in Other accumulated global income	
Cash flow hedges	(117)
Interest rate risk	(117)
Changes in equity by discharge at P&L	*88*
Remains of equity movements	*(205)*
Taxes	35
Balance at year end	**(45)**

33. Off-balance-sheet funds under management

At 31 December 2019, the Bank held off-balance-sheet funds under management, namely investment funds and assets under management, amounting to EUR 76,477 million (31 December 2018: EUR 64,288 million), Also, at 31 December 2019, the funds marketed but not held under management amounted to EUR 26,248 million (31 December 2018: EUR 27,394 million).

34. Interest income

Interest and similar income in the accompanying income statements comprises the interest accruing in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value, and the rectifications of income as a result of hedge accounting, Interest is recognised gross, without deducting any tax withheld at source.

The detail of the main items of interest and similar income earned in 2019 and 2018 is as follows:

	Millions of euros	
	2019	2018
Debt instruments		
Central Banks	6	11
Public sector	430	739
Credit entities	328	425
Other financial companies	284	263
Non-financial companies	121	92
	1,169	**1,530**
Loans and advances		
Central Banks	130	80
Public sector	225	241
Credit entities	461	341
Other financial companies	705	302
Non-financial companies	2,704	2,399
Households	1,630	1,801
	5,855	**5,164**
Other assets		
Of which: Insurance contracts linked to pensions (Note 23,c)	*24*	*35*
	178	**151**
Deposits		
Central Banks	177	360
Public sector	3	-
Credit entities	71	138
Other financial companies	18	18
Non-financial companies	5	3
Households	0	0
	274	**519**
Hedging derivatives - Interest rate risk	**80**	**(3)**
Other financial liabilities	**7**	**7**
Debt securities issued	**3**	**13**
	7,566	**7,381**

Most of the interest and similar income was generated by the Bank's financial assets that are measured either at amortised cost or at fair value through Other comprehensive income.

35. Interest expense

Interest expense and similar charges in the accompanying income statements includes the interest accruing in the year on all financial liabilities with an implicit or explicit return, including remuneration in kind, calculated by applying the effective interest method, irrespective of measurement at fair value; the rectifications of cost as a result of hedge accounting; and the interest cost attributable to provisions recorded for pensions.

The detail of the main items of interest expense and similar charges accrued in 2019 and 2018 is as follows:

	Millions of euros	
	2019	2018
Debt securities Issued	**1,559**	**1,363**
Debt securities		
Central Banks	-	-
Public sector	38	23
Credit entities	41	4
Other financial companies	18	8
Non-financial companies	1	-
	98	**35**
Loans and advances		
Central Banks	94	139
Public sector	10	8
Credit entities	145	121
Other financial companies	23	45
Non-financial companies	6	5
Households	0	-
	278	**318**
Deposits		
Central Banks	216	224
Public sector	153	118
Credit entities	513	625
Other financial companies	590	336
Non-financial companies	250	142
Households	184	490
	1,906	**1,935**
Other financial liabilities	**205**	**153**
Hedging derivatives - Interest rate risk	**(14)**	**(63)**
Pensions and other obligations of defined post-employment benefits (Note 23)	**66**	**91**
Others	**9**	**28**
	4,107	**3,860**

Most of the interest expense and similar charges was generated by the Bank's financial liabilities that are measured at amortised cost.

36. Dividend income

Dividend income includes the dividends and payments on equity instruments out of profits generated by investees after the acquisition of the equity interest.

The detail of income from equity instruments is as follows:

	Millions of euros	
	2019	2018
Financial assets held for trading	**381**	**232**
Of which:		
Spain	*140*	*120*
Rest of Europe	*238*	*109*
America	*1*	*3*
Rest of the world	*2*	*-*
Non-trading financial assets mandatorily at fair value through profit or loss	**9**	**5**
Financial assets at fair value through other comprehensive income	**53**	**42**
Investments in subsidiaries, jointly controlled entities and associates	**5,979**	**3,872**
Group entities	*5,679*	*3,611*
Associates	*280*	*261*
	6,402	**4,151**

Investments in subsidiaries, jointly controlled entities and associates

The detail of the dividends from subsidiaries, jointly controlled entities and associates recognised in 2019 and 2018 is as follows:

	Million euros	
	2019	**2018**
Grupo Financiero Santander	357	298
Sterrebeeck BV	1,000	350
Santander Consumer Finance, S.A.	926	0
Santander UK Group Holdings Limited	233	977
Santander Totta SGPGS, S.A.	61	61
Santander Factoring y Confirming	201	350
Banco Santander Brasil	335	211
Bank Zachodni WBK S.A.	317	49
Santander Holding Internacional, S.A.	1,100	101
Santander Investment Services	0	63
Zurich Santander Insurance América, S.L.	158	175
SAM UK Investment Holding Limited	149	517
Santander Holding USA	358	352
Santander Chile Holding	37	45
Santander Global Technology, S.L.	73	0
Teatinos Siglo XXI Inversiones, S.A.	63	0
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	200	0
Santander Lease, S.A., E.F.C.	42	0
Banco Santander México, S.A.	42	0
Banco Santander Uruguay	49	36
Allianz Popular	52	52
Wizink Bank, S.A.	0	40
Ingeniería de Software Bancario	0	26
Socur	15	24
Otras sociedades	191	145
	5,959	**3,872**

37. Commission income

Fee and commission income comprise the amount of all fees and commissions accruing in favour of the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of fee and commission income in the accompanying income statements for 2019 and 2018 is as follows:

	Millions of euros	
	2019	2018
Collection and payment services:		
Bills	40	53
Demand accounts	250	287
Cards	307	280
Cheques	17	16
Direct debit and payroll orders	33	37
Transfers, drafts and other payment orders	89	88
	736	**761**
Marketing of non-banking financial products:		
Collective Investment	456	399
Insurance	262	227
Other	-	-
	718	**626**
Securities services:		
Securities underwriting and placement	129	114
Transfer orders	-	2
Other	10	4
	139	**120**
Clearing and settlement	**60**	**68**
Asset management	**58**	**59**
Custody	**67**	**63**
Structured finance	**206**	**226**
Loan granted commitments granted	**164**	**162**
Financial granted guarantees granted	**238**	**234**
Other:		
Foreign currency exchange	83	81
Documentary credits	25	25
Other concepts	286	428
	394	**534**
	2,780	**2,853**

38. Commission expense

Fee and commission expense show the amount of all fees and commissions paid or payable by the Bank in the year, except those that form an integral part of the effective interest rate on financial instruments.

The detail of Fee and commission expense in the accompanying income statements for 2019 and 2018 is as follows:

	Millions of euros	
	2019	2018
Clearing and settlement	83	85
Loan commitments received	25	21
Financial guarantees received	138	90
Custody	2	3
Other (*)	268	240
	516	**439**

(*) Other includes mainly commissions paid for financial and mediation services, as well as credit cards.

39. Gains or losses on financial assets an0064 liabilities

Gains/losses on financial assets and liabilities includes the amount of the Other comprehensive income of financial instruments, except those attributable to interest accrued as a result of application of the effective interest method and to allowances, and the gains or losses obtained from the sale and purchase thereof.

a) Breakdown

The detail, by classification of the related instrument, of Gains/losses on financial assets and liabilities in the accompanying income statements for 2019 and 2018 is as follows:

	2019	2018
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	**891**	**516**
Financial assets at amortized cost	296	12
Other financial assets and liabilities	595	504
Of which: debt instruments	*592*	*499*
Of which: equity instruments	-	-
Gains or losses on financial assets and liabilities held for trading, net (*)	(12)	74
Gains or losses on non-trading financial assets and liabilities mandatory at fair value through profit or loss	35	(61)
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net (*)	(54)	2
Gains or losses from hedge accounting, net	(50)	(28)
	810	**503**

(*) Includes the net result obtained by operations with debt securities, equity instruments, derivatives and short positions included in this portfolio when the Group jointly manages its risk in these instruments.

b) Financial assets and liabilities at fair value through profit or loss

The detail of the amount of the asset balances is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
Loans and receivables	51,246	42,896
Central Banks	138	103
Credit institutions	18,543	17,538
Customers	32,565	25,255
Debt instruments (*)	20,193	12,501
Equity instruments	11,928	8,868
Derivatives	55,694	51,637
	139,061	**115,902**

(*) Include EUR 14,741 million related to Spanish and foreign government debt securities at 31 December 2019 (31 December 2018 EUR 7,622 million).

The foregoing table shows the maximum credit risk exposure of these assets at 31 December 2019 and 2018, respectively, The Bank mitigates and reduces this exposure as follows.

With respect to derivatives, the Bank has entered into framework agreements with a large number of credit institutions and customers for the netting-off of asset positions and the provision of collateral for non-payment, The Bank also applies a risk premium accrual policy for derivatives arranged with customers.

Loans and receivable to credit institutions and loans and receivable to customers included reverse repos amounting to EUR 45,807 million at 31 December 2019.

In addition, assets amounting to EUR 1,853 million have a mortgage guarantee at 31 December 2019 (EUR 1,337 million at 31 December 2018).

At 31 December 2019 the amount of the change in the year in the fair value of financial assets at fair value through profit or loss attributable to variations in their credit risk (spread) was not material.

The detail of the amount of the liability balances is as follows:

	Millions of euros	
	31/12/2019	31/12/2018
Deposits	24,264	35,079
Central Banks	7,596	12,377
Credit Institutions	6,152	8,772
Customers	10,516	13,930
Short positions	8,288	6,323
Derivatives	56,068	51,698
	88,620	**93,100**

At 31 December 2019, the amount of the change in the fair value of financial liabilities at fair value through profit or loss attributable to changes in their credit risk during the year is not material.

40. Exchange differences, net

This chapter basically includes the results obtained in the purchase and sale of currencies, the differences that arise when converting monetary items in foreign currency to functional currency and those from non-monetary assets in foreign currency at the time of disposal.

The detail of Exchange differences (net) in the accompanying income statements for 2019 and 2018 is as follows:

Net gains/losses on:	Millions of euros	
	2019	2018
Foreign currency purchases and sales	33	135
Translation of monetary items to the functional currency	(488)	(184)
	(455)	**(49)**

The Bank manages the currencies to which it is exposed together with the arrangement of derivative instruments and, accordingly, the changes in this line item should be analysed together with those recognised under Gains/losses on financial assets and liabilities (see Note 39).

41. Other operating income and other operating expenses

The detail of Other operating income in the accompanying income statements for 2019 and 2018 is as follows:

	Millions of euros	
	2019	2018
Exploitation of real estate investments and operating leases	199	171
Others	175	287
	374	**458**

(*) The "Other" line mainly includes fees charged for expenses passed on to Group entities.

The detail of Other operating expenses in the income statements is as follows:

	Millions of euros	
	2019	2018
Contribution to Deposit Guarantee Fund (Note 1.h)	(234)	(224)
Contribution to Resolution Fund (*) (Note 1.h)	(187)	(237)
Other operating expenses	(195)	(180)
	(616)	**(641)**

(*) Includes the expense incurred by contribution to the National Resolution Fund and to the Single Resolution Fund.

42. Staff costs

a) Breakdown

The detail of Staff costs in 2019 and 2018 is as follows:

	Million euros					
	2019			**2018**		
	Of which in Spain	**Of which foreign branches**	**TOTAL**	**Of which in Spain**	**Of which foreign branches**	**TOTAL**
Wages and salaries	1,856	218	2,074	1,896	149	2,045
Social security costs	424	25	449	412	18	430
Additions to provisions for defined benefit pension plans (Note 23)	12	1	13	18	-	18
Contributions to defined contribution pension funds (Note 23)	74	8	82	77	5	82
Equity-instrument-based remuneration	-	-	-	5	1	6
Other staff costs	243	13	256	227	9	236
	2,609	**265**	**2,874**	**2,635**	**182**	**2,817**

b) Headcount

The average number of employees at the Bank, by professional category, is as follows:

	Average number of employees	
	31/12/2019	31/12/2018
Executive and Senior management	20	22
Other line personnel	29,147	30,399
Staff at branches abroad	*842*	615
	30,009	**31,036**

The number of employees, as of December 31, 2019 and December 31, 2018 was 27,697 and 27,697 respectively.

The functional breakdown, by gender, at 31 December 2019 is as follows:

	Breakdown by gender			
	Executives		Other line personnel	
	Men	Women	Men	Women
Breakdown by gender	75%	25%	53%	47%

The labour relations between employees and the various Group companies are governed by the related collective agreements or similar regulations.

The number of employees with disabilities greater than or equal to 33%, distributed by professional categories at December 31, 2019 and 2018, is as follows:

	31/12/2019	31/12/2018
Senior management (**)	-	-
Other management	28	22
Other staff	267	282
	295	**304**

The average number of Bank employees with disabilities greater than or equal to 33%, at the end of 2019 was of 318 (31 December 2018 was of 241).

c) *Share-based payments*

The main share-based payments granted by the Group in force at 31 December, 2019, 2018 and 2017 are described below.

i. Bank

The variable remuneration policy for the Bank's executive directors and certain executive personnel of the Bank and of other Group companies includes Bank share-based payments, the implementation of which requires, in conformity with the law and the Bank's Bylaws, specific resolutions to be adopted by the general meeting.

Were it necessary or advisable for legal, regulatory or other similar reasons, the delivery mechanisms described below may be adapted in specific cases without altering the maximum number of shares linked to the plan or the essential conditions to which the delivery thereof is subject.

These adaptations may involve replacing the delivery of shares with the delivery of cash amounts of an equal value.

The plans that include share-based payments are as follows: (i) Deferred and Conditional Variable Remuneration Plan; (ii) Performance Shares Plan (iii) Deferred Multiyear Objectives Variable Remuneration Plan; (iv) Digital Transformation Award. The characteristics of the plans are set forth below:

Deferred variable remuneration systems	Description and plan beneficiaries	Conditions	Calculation Base
(i) Deferred conditional variable remuneration plan (2014, 2015, 2016, 2017, 2018 and 2019)	The purpose of these cycles is to defer a portion of the variable remuneration of the beneficiaries over a period of three years for the fourth and the sixth cycles, and over three or five years for the fifth, seventh, eighth and ninth cycles, for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the variable remuneration is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below. Beneficiaries: • Executive directors and certain executives (including senior management) and employees who assume risk, who perform control functions or receive an overall remuneration which puts them on the same remuneration level as senior executives and employees who assume risks (third, fourth and fifth cycle). • In the case of the sixth, seventh, eighth and ninth cycle, the beneficiaries are Material Risk Takers (Identified staff) that are not beneficiaries of the Deferred Multiyear Objectives Variable Remuneration Plan.	For the fourth, fifth and sixth cycles (2014 to 2016), the accrual of deferred compensation is conditioned, in addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations upon none of the following circumstances existing during the period prior to each of the deliveries, pursuant to the provisions set forth in each case in the plan regulations: i. Poor financial performance of the Group; ii. Breach by the beneficiary of internal regulations, including, in particular, those relating to risks; iii. Material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards; or iv. Significant changes in the Group's economic capital or risk profile. In the case of the seventh, eight and ninth cycles (2017 to 2019), the accrual of deferred compensation is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations, to no assumptions in which there is a poor performance of the entity as a whole or of a specific division or area of the entity or of the exposures generated by the personnel, and at least the following factors must be considered: i. significant failures in risk management committed by the entity , or by a business unit or risk control unit; ii. the increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures; iii. Regulatory sanctions or judicial sentences for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity; and iv. Irregular behaviours, whether individual or collective, considering in particular the negative effects derived from the marketing of inappropriate products and the responsibilities of the persons or bodies that made those decisions.	Fourth and fifth cycles (2014 and 2015, respectively): • Executive directors and members of the Identified Staff with total variable remuneration higher than 2.6 million euros: 40% paid immediately and 60% deferred over 3 years (fourth cycle) or 5 years (fifth cycle). • Division managers, country heads, other executives of the Group with a similar profile and members of the Identified Staff with total variable remuneration between 1.7 million euros (1.8 million in fourth cycle) and 2.6 million euros: 50% paid immediately and 50% deferred over 3 years (fourth cycle) or 5 years (fifth cycle) • Other beneficiaries: 60% paid immediately and 40% deferred over 3 years. Sixth cycle (2016): • 60% of bonus will be paid immediately and 40% deferred over a three year period. Seventh, eight and ninth cycle (2017, 2018 and 2019): • Beneficiaries of these plans with target total variable remuneration higher or equal to 2.7 million euros: 40% paid immediately and 60% deferred over 5 years • Beneficiaries of these plans with target total variable remuneration between 1.7 million euros and 2.7 million euros: 50% paid immediately and 50% paid over 5 years • Other beneficiaries of these plans: 60% paid immediately and 40% deferred over 3 years

Deferred variable remuneration systems	Description and plan beneficiaries	Conditions	Calculation Base
(ii) Performance shares plans (2014 and 2015)	The purpose is to instrument a portion of the variable remuneration of the executive directors and other members of the Identified Staff, consisting of a long-term incentive (ILP) in shares based on the Bank's performance over a multiannual period. In addition, the second cycle also applies to other Bank employees not included in the Identified Staff or Material Risk Takers, in respect of whom it is deemed appropriate that the potential delivery of Bank shares be included in their remuneration package in order to better align the employee's interests with those of the Bank. Beneficiaries i. Executive Directors and senior managers ii. Other Material Risk Takers or Identified Staff iii. Other beneficiaries in the case only of the second cycle (2015)	In addition to the requirement that the beneficiary remains in the Group's employ, with the exceptions included in the plan regulations, the delivery of shares to be paid on the ILP payment date based on compliance with the related multiannual target is conditional upon none of the following circumstances existing, in the opinion of the board of directors, subject to a proposal of the remuneration committee, during the period prior to each delivery: i. Poor financial performance of the Group; ii. Breach by the beneficiary of internal regulations, including, in particular, those relating to risks; iv. Material restatement of the Group's consolidated financial statements, except when it is required pursuant to a change in accounting standards; or v. Significant changes in the Group's economic capital or risk profile For the second cycle (2015), based on the maximum benchmark value (20%), at the proposal of the remuneration committee, the Board of Directors will set the maximum number of shares, the value in euros of which is called the "Agreed-upon Amount of the ILP", taking into account (i) the Group's earnings per share (EPS) and (ii) the Group's return on tangible equity (RoTE) for 2015 with respect to those budgeted for the year.	The first cycle (2014) is subject to compliance of Relative Total Shareholder Return (TSR) metric measured against a group of 15 comparable institutions (the “peer group”) in the periods 2014-2015; 2014-2016; and 2014-2017. At the end of of 2017, the 2014 Performance Share Plan was fully terminated. For the second cycle (2015), the basis of calculation is the fulfilment of the following objectives: • Relative performance of the earning per share growth (EPS) growth of the Santander Group for the 2015-2017 period compared to a peer group of 17 credit institutions. • RoTE of the Santander Group for financial year 2017 • Employee satisfaction, measured by whether or not the corresponding Group company is included in the "Top 3" of the best banks to work for. • Number of principal markets in which Santander is in the Top 3 of the best banks on the customer satisfaction index in 2017 • Retail loyal clients • SME and corporate loyal clients. As a result of the process described above the board of directors approved, further to a proposal from the remuneration committee, a 65.67% achievement for the plan. This plan terminated in 2019.

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Deferred variable remuneration systems	Description and plan beneficiaries	Conditions	Calculation Base
(iii) Deferred Multiyear Objectives Variable Remuneration Plan (2016, 2017, 2018 and 2019)	The aim is simplifying the remuneration structure, improving the ex ante risk adjustment and increasing the impact of the long-term objectives on the Group's most relevant roles. The purpose of these cycles is to defer a portion of the variable remuneration of the beneficiaries over a period of three or five years, for it to be paid, where appropriate, in cash and in Santander shares; the other portion of the variable remuneration is also to be paid in cash and Santander shares, upon commencement of the cycles, in accordance with the rules set forth below. The accrual of the last third of the deferral (in the case of 3 years deferral) of the last three fifths (in the case of 5 years deferral) is also subject to long-term objectives. Beneficiaries Executive directors, senior managers and certain executives of the Group's first lines of responsibility	In 2016 the accrual is conditioned, in addition to the permanence of the beneficiary in the Group, with the exceptions contained in the plan's regulations that none of The following circumstances during the period prior to each of the deliveries in the terms set forth in each case in the plan's regulations: i. Poor performance of the Group; ii. Breach by the beneficiary of the internal regulations, including in particular that relating to risks; iii. Material restatement of the Group's consolidated financial statements, except when appropriate under a change in accounting regulations; Or iv. Significant changes in the Group's economic capital or risk profile. In 2017, 2018 and 2019 the accrual is conditioned, in addition to the beneficiary permanence in the Group, with the exceptions contained in the plan's regulations, to the non-occurrence of instances of poor financial performance from the entity as a whole or of a specific division or area thereof or of the exposures generated by the personnel, at least the following factors must be considered: i. Significant failures in risk management committed by the entity, or by a business unit or risk control unit; ii. The increase suffered by the entity or by a business unit of its capital needs, not foreseen at the time of generation of the exposures; iii. Regulatory sanctions or court rulings for events that could be attributable to the unit or the personnel responsible for those. Also, the breach of internal codes of conduct of the entity; and iv. Irregular behaviours, whether individual or collective, considering in particular negative effects derived from the marketing of inappropriate products and responsibilities of persons or bodies that made those decisions. Paid half in cash and half in shares. The maximum number of shares to be delivered is calculated by taking into account the weighted average daily volume of weighted average prices for the fifteen trading sessions prior to the previous Friday (excluding) on the date on which the board decides the bonus for the Executive directors of the Bank	In First cycle (2016): • Executive directors and members of the Identified Staff with total variable remuneration higher than or equal to 2.7 million euros: 40% paid immediately and 60% deferred over a 5 year period. • Senior managers, country heads of countries representing at least 1% of the Group´s capital and other members of the identified staff whose total variable remuneration is between 1.7 million and 2.7 million euros: 50% paid immediately and 50% deferred over a5 year period. • Other beneficiaries: 60% paid immediately and 40% deferred over a 3 year period. The second, third and fourth cycles (2017, 2018 and 2019, respectively) are under the aforementioned deferral rules, except that the variable remuneration considered is the target for each executive and not the actual award. In 2016 the metrics for the deferred portion subject to long-term objectives (last third or last three fifths, respectively, for the cases of three year and five year deferrals) are: • Earnings per share (EPS) growth in 2018 over 2015. • Relative Total Shareholder Return (TSR) in the 2016-2018 period measured against a group of credit institutions. • Compliance with the fully-loaded common equity tier 1 ("CET1") ratio target for financial year 2018. • Compliance with Santander Group's underlying return on risk-weighted assets ("RoRWA") growth target for financial year 2018 compared to financial year 2015. In the second, third and fourth cycle (2017, 2018 and 2019) the metrics for the deferred portion subject to long-term objectives (last third or last three fifths, respectively, for the cases of three year and five year deferrals) are: • EPS growth in 2019, 2020 and 2021 (over 2016, 2017 and 2018, for each respective cycle) • Relative Total Shareholder Return (TSR) measured against a group of 17 credit institutions (second and third cycles) in the periods 2017-2019 and 2018.-2019, respectively, and against a group of 9 entities (fourth cycle) for the 2019-2021 period. • Compliance with the fully-loaded common equity tier 1 ("CET1") ratio target for financial years 2019, 2020 and 2021, respectively.

Deferred variable remuneration systems	Description and plan beneficiaries	Conditions	Calculation Base
(iv) Digital Transformation Award (2019)	The 2019 Digital Transformation Incentive (the "Digital Incentive") is a variable remuneration system that includes the delivery of Santander shares and share options. The aim of the Digital Incentive is to attract and retain the critical skill sets to support and accelerate the digital transformation of the Group. By means of this program, the Group offers a remuneration element which is competitive with the remuneration systems offered by other market operators who also compete for digital talent. The number of beneficiaries is limited to a maximum of 250 employees and the total amount of the incentive is limited to 30 million euros	The funding of this incentive is subject to meeting important milestones that are aligned with the Group´s digital roadmap and have been approved by the board of directors, taking into account the digitalization strategy of the Group, with the aim of becoming the best open, responsible global financial services platform. Performance of incentive shall be measured based on achievement of the following milestones: 1. Launch of a Global Trade Services (GTS) platform. 2. Launch of a Global Merchant Services (GMS) platform 3. Migration of our fully digital bank, OpenBank, to a "next generation" platform and launch in 3 markets 4. Extension of SuperDigital in Brazil to at least one other country 5. Launch of our international payments app based on blockchain Pago FX to non-Santander customers. Any delivery of shares, either directly or via exercise of options overs shares, will be subject generally to the Group's general malus & clawback provisions as described in the Group's remuneration policy and to the continuity of the beneficiary within the Santander Group. In this regard, the board may define specific rules for nonIdentified Staff	After a review at the beginning of 2020 of the achievement levels of the approved objectives and underlying progress against them, the board of directors approved 83% funding of the 2019 award. The Digital Incentive is structured 50% in Santander shares and 50% in options over Santander shares, taking into account the fair value of the option at the moment in which they are granted. For Material Risk Takers subject to five year deferrals, the Digital Incentive (shares and options over shares) shall be delivered in thirds, on the third, fourth and fifth anniversary from their granting. For Material Risk Takers subject to three year deferrals and employees not subject to deferrals, delivery shall be done on the third anniversary from their granting. Vested share options can be exercised until maturity, with all options lapsing after ten years from granting

ii. Santander UK plc (pendiente de actualizar)

The long-term incentive plans on shares of the Bank granted by management of Santander UK plc to its employees are as follows:

	Number of shares (in thousands)	Exercise price in pounds sterling (*)	Year granted	Employee group	Number of persons (**)	Date of commencement of exercise period	Date of expiry of exercise period
Plans outstanding at 1 January 17	**24,762**						
Options granted (Sharesave)	17,296	4.91	2016	Employments	7,024	01/11/2016 01/11/2016	01/11/2019 01/11/2021
Options exercised	(338)	3.67					
Options cancelled (net) or not exercised	(12,804)	3.51					
Plans outstanding at 31 December 2017	**28,916**						
Options granted (Sharesave)	3,916	4.02	2017	Employments	4,260	01/11/2017 01/11/2017	01/11/2020 01/11/2022
Options exercised	(1,918)	3.77					
Options cancelled (net) or not exercised	(3,713)	3.4					
Plans outstanding at 31 December 2018	**27,201**						
Options granted (Sharesave)	6,210	3.46	2018	Employments	4,880	01/11/2018 01/11/2018	01/11/2021 01/11/2023
Options exercised	(3,340)	3.16					
Options cancelled (net) or not exercised	(3,233)	3.76					
Plans outstanding at 31 December 2019	**26,838**						

(*) At 31 December, 2019, 2018, 2017 and 2016, the euro/pound sterling exchange rate was EUR 1.1754 GBP 1; EUR 1.1179 GBP 1, EUR 1.1271 GBP 1 and EUR 1.1680 GBP 1, respectively

(**) Number of accounts/contracts. A single employee may have more than one account/contract.

In 2008 the Group launched a voluntary savings scheme for Santander UK employees (Sharesave Scheme) whereby employees who join the scheme in 2017, 2018 and 2019 see deducted between GBP 5 and GBP 500 from their net monthly pay over a period of three or five years. When this period has ended, the employees may use the amount saved to exercise options on shares of the Bank at an exercise price calculated by reducing by up to 20% the average purchase and sale prices of the Bank shares in the three trading sessions prior to the approval of the scheme by the UK tax authorities (HMRC). This approval must be received within 21 to 41 days following the publication of the Group's results for the first half of the year. This scheme was approved by the Board of Directors, at the proposal of the appointments and remuneration committee, and, since it involved the delivery of Bank shares, its application was authorized by the Annual General Meeting held on June 21, 2008. Also, the scheme was authorized by the UK tax authorities (HMRC) and commenced in September 2008. In subsequent years, at the Annual General Meetings held on June 19, 2009, June 11, 2010, June 17, 2011, March 30, 2012, March 22, 2013, March 28, 2014, March 27, 2015, March 18, 2016, April 7, 2017, March 23, 2018, and April 12, 2019, respectively, the shareholders approved the application of schemes previously approved by the board and with similar features to the scheme approved in 2008.

iii. Fair value

The fair value of the performance share plans was calculated as follows:

a) Deferred variable compensation plan linked to multi-year objectives 2017, 2018 and 2019:

The Group calculates at the grant date the fair value of the plan based on the valuation report of an independent expert, Willis Towers Watson. According to the design of the plan for 2017, 2018 and 2019 and the levels of achievement of similar plans in comparable entities, the expert concludes that the reasonable range for estimating the initial achievement ratio is around 60% - 80%. It has been considered that the fair value is 70% of the maximum.

b) Santander UK *Sharesave* plans:

The fair value of each option at the date of grant is estimated using a partial differentiation equation model. This model uses assumptions on the share price, the EUR/ GBP FX rate, the risk free interest rate, dividend yields, the expected volatility of the underlying shares and the expected lives of options granted. The weighted average grant-date fair value of options granted during the year was £0.49 (2018: £0.53, 2017: £1.02).

43. Other general administrative expenses

a) Breakdown

The detail of Other general administrative expenses in the accompanying income statements for 2019 and 2018 is as follows:

	Millions of euros	
	2019	2018
Technology and systems	652	601
Fixtures and supplies	310	688
Other administrative expenses	608	722
Technical reports	204	179
Advertising	107	108
Per diems and travel expenses	60	59
Surveillance and cash courier services	58	61
Communications	25	45
Taxes other than income tax	106	176
Insurance premiums	19	16
	2,149	**2,655**

b) Technical reports and other

Technical reports include the fees paid by the various Group companies (detailed in the accompanying Appendices) for the services provided by their respective auditors, the detail being as follows:

	Millions of euros	
	2019	2018
Audit fees	*98.2*	*92.1*
Audit-related fees	*7.4*	*6.8*
Tax fees	*0.7*	*0.9*
All other fees	*2.3*	*3.4*
Total	**108.6**	**103.2**

The Audit fees heading includes mainly, audit fees for the Banco Santander, S.A. individual and consolidated financial statements, as the case may be, of the companies forming part of the Group, the integrated audits prepared for the annual report filling in the Form 20-F required by the U.S. Securities and Exchange Commission (SEC) for those entities currently required to do so, the internal control audit (SOx) for those required entities, the audit of the consolidated financial statements as of 30 June and, the regulatory reports required by the auditor corresponding to the different locations of the Santander Group.

The main concepts included in Audit-related fees correspond to aspects such as the issuance of Comfort letters, or other reviews required by different regulations in relation to aspects such as, for example, Securitization.

The services commissioned from the Group's auditors meet the independence requirements stipulated by the Audit Law, the US SEC rules and the Public Company Accounting Oversight Board (PCAOB), applicable to the Group, and they did not involve in any case the performance of any work that is incompatible with the audit function.

Lastly, the Group commissioned services from audit firms other than PwC amounting to EUR 227.6 million in 2019 (2018: EUR 173.9 million).

The "Audit Fees" caption includes the fees corresponding to the audit for the year, regardless of the date on which the audit was completed. In the event of subsequent adjustments, which will not be significant in any case, and for purposes of comparison, they are presented in this note in the year to which the audit relates. The rest of the services are presented according to the date of their approval by the Audit Committee.

d) Number of branches

The number of offices at December 2019 and 2018, is as follow:

Number of offices	Group	
	2019	2018
Spain	3,286	4,427
International	8,666	8,790
	11,952	**13,217**

44. Impairment or (-) reversal of the impairment of investments in joint ventures and associates and of non-financial assets, net

The detail of Impairment losses on other assets (net) in the accompanying income statements for 2019 and 2018 is as follows:

	Millions of euros	
	2019	2018
Investments in subsidiaries, joint ventures and associates (Note 13)	434	(79)
	434	**(79)**

45. Gains or losses on non-financial assets and investments, net

The detail of Gains/(losses) on disposal of assets not classified as non-current assets held for sale in the accompanying income statements for 2019 and 2018 is as follows:

	Millions of euros	
	2019	2018
On disposal of tangible assets	2	6
On disposal of investments in subsidiaries, jointly controlled entities and associates	50	62
Of which (Note 13):		
Wizink Bank, S.A.	*-*	*38*
Grupo Financiero Ve por Mas	*12*	
Capital reductions and refunds of share premium by subsidiaries	*-*	*-*
	52	**68**

46. Gains or losses on non-current assets held for sale classified as discontinued operations

The detail of Gains/(losses) on non-current assets held for sale not classified as discontinued operations in the accompanying income statements for 2019 and 2018 is as follows:

	Millions of euros	
	2019	2018
Impairment of non-current assets held for sale (Note 12)	(70)	(39)
Gain / (loss) on disposal (*)	(109)	21
	(179)	**(18)**

(*) Includes the result of extraordinary sales of real estate portfolios.

47. Related parties

The parties related to the Group are deemed to include, in addition to its subsidiaries, associates and jointly controlled entities, the Bank's key management personnel (the members of its board of directors and the executive vice presidents, together with their close family members) and the entities over which the key management personnel may exercise significant influence or control.

Following is a detail of the transactions performed by the Group with its related parties at 31 December 2019, distinguishing between subsidiaries, associates and jointly controlled entities, members of the Bank's board of directors, the Bank's executive vice presidents, and other related parties, Related party transactions were made on terms equivalent to those that prevail in arm's-length transactions or, when this was not the case, the related compensation in kind was recognised.

	Millions of euros			
	Subsidiaries, associates and jointly controlled entities	Members of the board of directors	Executive vice presidents	Other related parties
Assets	**142,524**	**-**	**26**	**104**
Equity instruments	87,352	-	-	-
Debt instruments	13,138	-	-	-
Loans and advances	42,034	-	26	104
From which: impaired financial assets	*6*	-	-	-
Liabilities	**15,918**	**41**	**12**	**56**
Deposits credit institution and clients	15,918	41	12	56
Marketable debt securities	-	-	-	-
Income statement	**7,844**	**-**	**-**	**1**
Interest and similar income	929	-	-	1
Interest expense and similar charges	206	-	-	-
Interest from equity instruments	5,957	-	-	-
Gains / (Losses) on financial instruments and other	12	-	-	-
Fee and commission income	643	-	-	-
Fee and commission expense	97	-	-	-
Other	**398,375**	**7**	**3**	**49**
Contingent liabilities	4,566	5	2	38
Contingent commitments	8,868	1	1	6
Financial instruments - derivatives	384,941	1	-	5

Additionally, the above-mentioned breakdown shows pension insurance contracts with Group insurance companies amounting to 319 million euros on December 31 of 2019.

48. Other disclosures

a) Residual maturity periods and average interest rates

The detail, by maturity, of the balances of certain items in the balance sheets as at 31 December 2019 and 2018 is as follows:

	31 de diciembre de 2019							
	Million euros							Avverage iterest rate
	On demand	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total	
Assets								
Cash, cash balances at central banks and other demand deposits	32,471						32,471	(0.29%)
Financial assets at fair value with changes in other comprehensive income								
Representative values of debt	-	1,229	786	590	3,055	20,646	26,306	1.85%
Financial assets at amortized cost								
Representative values of debt	-	98	206	209	1,335	12,680	14,528	3.27%
Loans and advances								
Central banks	-	20	-	2	-	-	22	0.00%
Credit institutions	13,097	4,734	2,343	8,100	5,875	598	34,747	0.22%
Customer	21,332	14,529	26,931	21,125	49,199	106,882	239,998	2.09%
	66,900	**20,610**	**30,266**	**30,026**	**59,464**	**140,806**	**348,072**	
Liabilities								
Financial liabilities at amortized cost								
Deposits								
Central banks	95	454	64	19,277	17,006	0	36,896	(0.40%)
Credit institutions	27,285	12,196	1,977	2,495	5,867	1,360	51,180	1.12%
Customer	217,441	5,415	4,687	13,393	6,435	3,150	250,521	0.20%
Debt securities issued	-	3,478	8,045	9,338	28,086	38,620	87,567	2.16%
Other financial liabilities	5,616	1,655	241	43	1,491	1,808	10,854	N/A
	250,437	**23,198**	**15,014**	**44,546**	**58,885**	**44,938**	**437,018**	
Difference (assets less liabilities)	**(183,537)**	**(2,588)**	**15,252**	**(14,520)**	**579**	**95,868**	**(88,946)**	

	31 December 2018							
	EUR million							Average interest rate
	On demand	Within 1 month	1 to 3 months	3 to 12 months	1 to5 years	More than 5 years	Total	
Assets:								
Cash, cash balances at Central Banks and other deposits on demand	51,931	-	-	-	-	-	51,931	(0.21%)
Financial assets at fair value through other comprehensive income	-	758	755	5,280	1,970	23,978	32,741	1.53%
Debt instruments								
Financial assets at amortised cost	-	106	135	182	1,145	22,804	24,372	2.53%
Debt instruments								
Loans and advances	-	20	-	14	12	-	46	0.00%
Central banks and credit institutions	11,930	2,667	4,885	8,025	8,195	154	35,856	0.06%
Customers deposits	15,324	15,330	14,510	39,402	53,783	98,320	236,669	2.13%
	79,185	**18,881**	**20,285**	**52,903**	**65,105**	**145,256**	**381,615**	
Liabilities:								
Financial liabilities at amortised cost:								
Deposits								
Central banks	226	2,042	1,440	-	44,811	-	48,519	(0.40%)
Credit institutions	24,823	12,893	6,988	6,195	3,709	1,275	55,883	0.63%
Customer deposits	190,204	8,655	7,330	21,042	12,690	772	240,693	0.17%
Marketable debt securities	-	3,689	5,824	5,735	26,174	35,673	77,095	1.99%
Other financial liabilities	2,163	-	3,018	2,029	483	777	8,470	N/A
	217,416	**27,279**	**24,600**	**35,001**	**87,867**	**38,496**	**430,659**	
Difference (assets less liabilities)	**(138,231)**	**(8,398)**	**(4,315)**	**17,902**	**(22,762)**	**106,760**	**(49,044)**	

b) **Equivalent euro value of assets and liabilities**

The detail of the main foreign currency balances in the balance sheets as at 31 December 2019 and 2018, based on the nature of the related items, is as follows:

	Equivalent value in EUR million	
	2019	2018
Assets		
Cash and balances at central banks and other deposits on demand	7,534	7,554
Financial assets held for trading	35,271	27,969
Non-trading financial assets mandatorily at fair value through profit or loss	15,062	1,779
Financial assets designated at fair value through profit or loss	14,529	16,511
Financial assets at fair value through other comprehensive income	5,494	4,477
Financial assets at amortised cost	62,272	50,781
Hedging derivatives	750	410
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
Investments	44,011	41,520
Tangible assets	34	2
Intangible assets	4	3
Tax assets	5	6
Other assets	994	389
Non-current assets held-for-sale	-	-
	185,960	**151,401**
Liabilities		
Financial liabilities held for trading	27,801	23,683
Financial liabilities designated at fair value through profit or loss	12,773	20,978
Financial liabilities at amortised cost	67,989	54,740
Hedging derivatives	325	216
Changes in the fair value of hedged items in portfolio hedges of interest risk rate	-	-
Provisions	68	50
Tax liabilities	-	-
Refundable equity on demand	-	-
Other liabilities	587	203
	109,543	**99,870**

c) ***Fair value of financial assets and liabilities not measured at fair value***

Financial assets are measured at fair value in the accompanying balance sheets, except for loans and receivables under a business model whose objective is to collect the flows of principal and interest , equity instruments whose market value cannot be estimated reliably and derivatives that have these instruments as their underlying and are settled by delivery thereof.

Similarly, financial liabilities -except for financial liabilities held for trading, those measured at fair value and derivatives having equity instruments whose market value cannot be estimated reliably as their underlying- are measured at amortised cost in the accompanying balance sheets.

The following is a comparison between the value of the Group's financial instruments valued using other criteria rather than fair value and their corresponding fair value at year-end:

Financial assets and liabilities measured at other than fair value

The fair value of financial instruments measured at amortised cost at 31 December 2019 was as follows:

a. The fair value of debt securities is 4,37% higher than the carrying amount.

b. The fair value of the loans and advances is 1,71% lower than the carrying amount.

c. The fair value of Deposits is 0.12% less than the carrying amount.

d. The fair value of Marketable debt securities is 4.32% greater than the carrying amount.

Set forth below are the main valuation methods and inputs used in the estimates made at 31 December 2019 to determine the fair values of the financial assets and liabilities recognised at cost detailed above:

- Loans and receivables: The fair value has been estimated using the present cost method, the estimation has considered factors such as the expected maturity of the portfolio, market interest rates, spreads of new concession of operations, or market spreads – If these were available.

- Held to maturity portfolio: The fair value has been determined based on market prices for those instruments.

- Financial liabilities at amortised cost:

    i. The fair value of deposits at Central Banks has been assimilated to their carrying amount because they are mainly short-term balances.

    ii. Credit Institutions: Fair value has been obtained using the present value technique by applying interest rates and market spreads.

    iii. Customer deposits: Fair value has been estimated using the present value technique. The estimation has considered factors such as the expected maturity of the operations and the current financing cost of the Group in similar operations.

    iv. Marketable debt securities: Fair value has been determined based on market prices for these instruments, when available, or using the present value technique, by applying interest rates and market spreads.

  Additionally, the fair value of Cash, Cash Balances at central banks and other deposits on demand has been assimilated to its carrying amount, mainly because of short-term balances.

49. Risk management

a) Cornerstones of the risk function

Our risk principles are mandatory and must be followed at all times. They take into account regulatory requirements and market best practices. They are the following:

1. **A strong risk culture (Risk Pro)**, as part of '*The Santander Way*', which is followed by all employees, covers all risks and promotes socially responsible management that contributes to Santander's long-term sustainability.

2. **All employees are responsible for managing risk**. They must be aware of, and understand, the risks generated in their day-to-day activities, avoiding risks where the impacts are unknown or exceed the Group's risk appetite limits.

3. **Engagement of senior management,** ensuring consistent management and control of risk through their conduct, actions and communication. They also promote our risk culture and assess its degree of implementation, overseeing that the risk profile is kept within the levels defined by the our risk appetite.

4. **Independence of the risk management and control functions**, consistent with the three lines of defence model.

5. **A forward-looking and comprehensive approach to risk management and control** across all businesses and risk types.

6. **Complete and timely information management**, enabling risks to be appropriately identified, assessed, managed and reported to the corresponding level.

These principles, combined with a series of tools and processes that are embedded in the Group's strategic planning, such as our risk appetite statement, risk profile assessment, scenario analysis, and our risk reporting structure, annual planning and budget process, provide a holistic control structure for the entire Group.

1. Main risks of the group´s financial instruments

The main risk categories in which the Group has its most significant current and/or potential exposures, thus facilitating the identification thereof, includes the following:

- Credit risk: risk of financial loss arising from the default or credit quality deterioration of a customer or other third party, to which the Santander Group has either directly provided credit or for which it has assumed a contractual obligation.

- Market risk: risk incurred as a result of changes in market factors that affect the value of positions in the trading book.

- Liquidity risk: is the risk that Santander does not have the liquid financial resources to meet its obligations when they fall due, or can only obtain them at high cost.

- Structural Risk: is the risk arising from the management of different balance sheet items, not only in the banking book but also in relation to insurance and pension activities. It includes the risk of Santander not having an adequate amount or quality of capital to meet its internal business objectives, regulatory requirements or market expectations.

- Operational risk: is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including conduct risk.

- Regulatory Compliance Risk: risk of non-compliance with legal and regulatory requirements as well as supervisors expectations, which may result in legal or regulatory sanctions, including fines or other financial implications.

- Model Risk: is the risk of loss arising from inaccurate predictions, causing a sub-optimal decision, or from a model being implemented or used inappropriately.

- Reputational Risk: the risk of current or potential negative economic impact to the Bank due to damage to its perception on the part of employees, customers, shareholders/investors and the wider community.

- Strategic Risk: is the risk of loss or damage arising from strategic decisions or their poor implementation that impact the medium and long term interests of our key stakeholders, or from an inability to adapt to external developments.

In addition, climate-change related risk drivers - whether physical or transition-led - have been identified as factors that could aggravate the existing risks in the medium and long term.

The classification of risks is critical to ensure an effective risk management and control. All identified risks should be therefore referenced to the aforementioned risk categories in order to organise their management, control and related information.

2. Risk governance

The Group has a robust risk governance structure, aimed at ensuring the effective control of its risk profile in accordance with the risk appetite defined by the board of directors.

The board of directors is responsible for approving the general framework for risk management and control, including tax risks.

This governance structure is underpinned by the distribution of roles among the three lines of defence, a robust structure of committees and a strong relationship between the Group and its subsidiaries. All supported by our Group-wide risk culture, *Risk Pro*.

2.1 Lines of defence

At Santander, we follow a three lines of defence model to ensure effective risk management and control:

- First line: Businesses and all other functions that originate risks make up the first line of defence. These functions must ensure that these risks are aligned with the approved risk appetite and associated limits. Any unit that originates risk has primary responsibility for the management of that risk.
- Second line: Risk and Compliance & Conduct functions. Their role is to provide independent oversight and challenge to the risk management activities performed by the first line of defence. These functions ensure that risks are managed in accordance with the risk appetite defined by the board and promote a strong risk culture throughout the organisation
- Third line: The Internal Audit function, which regularly assesses policies, methodologies and procedures to ensure they are appropriate and effectively implemented for the management and control of all risks.

The Risk, Compliance and Conduct and Internal Audit functions are separate and independent and have direct access to the board of directors and its committees.

2.2 Risk committee structure

The **board of directors** is responsible for risk management and control and, in particular, for approving and periodically reviewing the risk appetite and the risk framework, as well as for promoting a strong risk culture across the whole organisation. In order to conduct these tasks, the board has the support of different committees, this is the case of the **risk supervision, regulation and compliance committee** and the **Group's executive committee**, which have specific risk related responsibilities.

The **Group Chief Risk Officer (Group CRO)** is responsible for the oversight of all risks and for challenging and advising the business lines on how they manage risks, with direct access and reporting to the board risk committee as well as to the board of directors.

Other bodies that make up the highest level of risk governance, with authority delegated by the board of directors, are the executive risk committee and the risk control committee, details of which are provided below:

- **Executive risk committee (ERC)**

This committee is responsible for risk management, within the authorities delegated by the board. The committee makes risk taking decisions at the highest level, ensuring that they are within the established risk appetite limits for the Group.

Chair: CEO.

Composition: nominated executive directors and other Group senior management. Risk, Finance and Compliance & Conduct functions, among others, are represented. The Group CRO has the power of veto over the committee's decisions.

- **Risk control committee (RCC)**

This committee is responsible for risk control, determining whether the risks originated by the business lines are managed within our risk appetite limits and providing a holistic view of all risks. This includes the identification and monitoring of both current and emerging risks, and evaluating their impact on the Group's risk profile.

Chair: Group CRO.

Composition: senior management members from the Risk, Compliance & Conduct, Finance, Accounting and Management Control functions are represented among others. Senior members of the Risk function (CROs) from the Group's subsidiaries regularly take part to report their own risk profiles.

Additionally, each risk factor has its own fora and/or regular meetings to manage and control the risks under their scope. Among others, they have the following responsibilities:

  - Advise the Group CRO and the risk control committee that risks are being managed in accordance with the Group's risk appetite.
  - Carry out regular monitoring of each risk factor.
  - Oversee the measures adopted to comply with the expectations of the supervisors and internal and external auditors.

For certain matters, the Group may establish specific additional governance. For example:

- Following the UK's decision to leave the EU, the Group and Santander UK set up steering committees and separate working groups to: i) monitor the Brexit process; ii) develop contingency plans; and iii) escalate and take decisions to minimise potential impacts on our business and customers.
- In order to steer and supervise the review process of the interest rate benchmarks (which include among others EONIA, LIBOR and EURIBOR, with specific solutions for each of them: EONIA will be discontinued on January 2022, LIBOR is likely to cease in December 2021, while EURIBOR will remain as a compliant benchmark), the Group established the IBOR steering group. This group is responsible for driving the project's strategic direction and take the required decisions to ensure a correct transition across all Santander businesses and entities. The IBOR steering group operates in accordance with the methodology defined by the Group's Execution Project Office and is chaired by the project's global sponsor, the global head of SCIB, with the additional support of eight senior executives.

2.3 The Group's relationship with subsidiaries regarding risk management

In all our subsidiaries, the risk management and control model is aligned with the frameworks established by the Group's board of directors. The local units adhere to them through their respective boards and adapt them to their own market conditions and regulation.

In order to conduct the review of the aggregated oversight of all risks, the Group exercises a validation and challenge role with regard to the management policies of the subsidiaries and transactions.

This creates a common risk management and control model across the Group.

The 'Group-subsidiary governance model and good governance practices for subsidiaries' sets up regular interaction and functional reporting by each local CRO to the Group CRO, as well as the latter's participation in the appointments process, target setting and local CRO's evaluation and remuneration, in order to ensure that risks are effectively controlled.

To strengthen the relationship between the Group and its subsidiaries, various initiatives have been implemented in order to develop an advanced risk management model across the Group:

- Promoting collaboration to accelerate the sharing of best practices, strengthen existing processes and accelerate innovation.
- Talent identification in the risk teams, developing international mobility through the global risk talent programme.
- Risk Subject Matter Experts: leveraging on our "best in class" experts across the Group.
- Peer review: constructive review of specific matters within the risk function, performed by experts from different subsidiaries.

3. Management processes and tools

To ensure that an effective risk management and control is carried out, the Group has defined several key processes that rely on a series of tools, which are described as follows:

3.1 Risk appetite and structure of limits

The Group defines the risk appetite as the amount and type of risks that are considered prudent to assume for implementing our business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances. When establishing the risk appetite, adverse scenarios that could have a negative impact on capital and liquidity levels, profitability and/or the share price are taken into account.

The risk appetite statement (RAS) is annually set by the board for the entire Group. Additionally, the boards of our subsidiaries also set their own risk appetite on an annual basis, aligned and embedded within the Group's consolidated statement. Each subsidiary's statement is then further cascaded down in the form of management limits and policies by risk type, portfolio and activity segment.

Santander risk appetite principles

The following principles govern the Group's risk appetite in all its subsidiaries:

- **Responsibility of the board and of senior management.** The board is responsible for setting the risk appetite and for monitoring compliance with its requirements.
- **Holistic risk view (enterprise wide risk), risk profile backtesting and challenge**. The risk appetite must consider all significant risks and facilitate an aggregate view of the risk profile through the use of quantitative metrics and qualitative indicators.

- **Forward-looking view.** The risk appetite must consider the desirable risk profile for the short and medium term, taking into account both the most plausible circumstances and adverse/stress scenarios.
- **Embedding and alignment with strategic and business plans**. The risk appetite is an integral part of the strategic and business planning, which is embedded in the daily management through the transfer of the aggregated limits to those set at portfolio level, unit or business line, as well as through the key risk appetite processes.
- **Coherence across the various subsidiaries and a common risk language throughout the Group.** Each subsidiary's risk appetite must be coherent with that of the Group.
- **Periodic review, backtesting and adoption of best practices and regulatory requirements.** Monitoring and control mechanisms are established to ensure the risk profile is maintained, and the necessary corrective and mitigating actions are taken in the event of non-compliance.

Limits structures, monitoring and control

Risk appetite is expressed through qualitative statements and quantitative limits structured around 5 main axes:

- Results volatility:
    - Maximum loss that the Group is willing to accept under a scenario of acute stress.
- Solvency
    - Minimum capital position that the Group is willing to accept under a scenario of acute stress.
    - Maximum leverage the Group is willing to accept under a scenario of acute stress.
- Liquidity
    - Minimum structural liquidity position.
    - Minimum liquidity horizon position that the Group is willing to accept under a scenario of acute stress.
    - Minimum liquidity coverage position.
- Concentration:
    - Concentration in single names, sectors and portfolios.
    - Concentration in non-investment grade counterparties.
    - Concentration in large exposures.
- Non-financial risks
    - Qualitative non-financial risk indicators:
        - Fraud
        - Technological
        - Security and cyber-risk
        - Reputational
        - Others
    - Maximum operational risk losses.
    - Maximum risk profile.

Compliance with risk appetite limits is regularly monitored. Specialised control functions report the appropriateness of the risk profile to the board and its committees on a monthly basis.

Linkage between the risk appetite limits and those of the business units and portfolios is a key element for making the risk appetite an effective risk management tool. The management policies and structure of limits used to manage the different categories and types of risk are directly related to the principles and limits defined in the the risk appetite statement.

3.2. Risk profile assessment (RPA)

The Group carries out the identification and assessment of the different risks that is exposed to, involving the different lines of defence, establishing management standards that not only meet regulatory requirements but also reflect best practices in the market, and reinforce our risk culture.

The results of these risk identification and assessment (RIA) exercises are integrated to evaluate the Group risk profile through the risk profile assessment (RPA). This exercise analyses the development of risks and identifies areas for improvement:

- **Risk performance**, enabling the understanding of residual risk by risk type through a set of metrics and indicators calibrated using international standards.

- **Control environment assessment**, measuring the degree of implementation of the target operating model, as part of our advanced risk management.

- **Forward-looking analysis**, based on stress metrics and identification and/or assessment of the main threats to the strategic plan (Top risks), enabling specific action plans to be put in place to mitigate potential impacts and their monitoring.

Based on the periodic identification and assessment exercises for the different risks, as of December 2019 the Group maintains a solid medium-low risk profile.

In 2019, improvements were centred on three main areas: i) reviewing the control environment standards ii) risk performance indicators and their alignment with risk appetite metrics, and iii) enhancing the perimeter by integrating reputational risk as a cross layer in the risk profile assessment and strengthening the business performance area by enriching capital metrics.

3.3. Scenario analysis

Another fundamental tool that is used by the Group to ensure an effective risk management and control is the analysis of potential impacts triggered by different scenarios related to the environment in which the Group operates. These scenarios are expressed both in terms of macroeconomic variables, as well as other variables that may affect our risk profile.

This is usually known as “scenario analysis”, which is a robust and useful tool for risk management at all levels. It enables the Group to assess its resilience under stressed conditions and the identification of possible mitigating actions to be implemented in case the projected scenarios start to materialise. Its ultimate objective is to reinforce the stability of income, capital and liquidity.

In this respect, the role of our Research and Public Policy team in terms of the generation of the different scenarios as well as the strict governance and control processes that these exercises are subject to, including their analysis and review by the senior management as well as the different divisions involved, including Internal Audit, are fundamental to ensure their quality.

The robustness and consistency of the scenario analysis exercises are based on the following pillars:

- Development and integration of models that estimate the future performance of metrics, such as credit losses, based on historic information that can be internal to the Group and/or external from the market, as well as on simulation techniques.

- Challenge and backtesting of model results to ensure their quality.

- Inclusion of expert judgement and deep knowledge of our different portfolios
- Robust governance of the whole process, covering models, scenarios, assumptions and results rationale, as well as their impact in terms of management actions to be taken.

The application of these pillars in the European Banking Authority (EBA) stress test exercise that is executed and reported biennially, has enabled Santander to satisfactorily meet the defined quantitative and qualitative requirements, contributing to the excellent results obtained by the Group.

Applications of scenario analysis

The EBA guidelines establish that scenario analysis should be integrated in the Group's risk management framework and management processes. This requires a forward looking view in terms of risk management and capital and liquidity strategic planning.

Scenario analysis is included in the Group's risk framework, ensuring that any impact affecting its solvency or liquidity can be rapidly identified and addressed. With this objective in mind, a systematic review of the exposure to different types of risks is included, not only under the baseline scenario but also under various simulated adverse scenarios.

The Group has a map of uses in place to strengthen their alignment across the different risk types, and to facilitate the continuous improvement of such uses. An additional fundamental goal is to reinforce the integration and synergies between the different regulatory and internal exercises.

Scenario analysis forms an integral part of several key Group processes:

- **Regulatory uses**: exercises conducted under the European regulatory guidelines or those of each local supervisor in those geographies where the Group operates.
- **Internal capital adequacy assessment** (ICAAP) and **liquidity assessment** (ILAAP) in which, while the regulators define certain requirements, the Group develops its own methodology to assess its capital and liquidity levels under different stress scenarios to support planning and the effective management of these two critical aspects.
- **Risk appetite**. This includes stressed metrics for which the Group defines maximum levels of losses (or minimum liquidity levels) that should not be exceeded. These exercises are related to those conducted for capital and liquidity, although they have different frequencies and present different granularity levels.
- **Climate change scenario analysis**: the objective is to provide a scenario-based assessment of those risks and opportunities related to climate change. It is currently focused on the wholesale portfolio as a pilot.
- **Recurrent risk management** in different processes/ exercises:
    - **Budget and strategic planning process**, in the development of commercial risk approval policies, in the global risk assessment for senior management or in specific analysis regarding activity profiles or portfolios.
    - Identification of **Top risks** on the basis of a systematic process to identify and assess all the risks which the Group is exposed to. The Top risks are selected and a macroeconomic or idiosyncratic scenario is associated with each one, to assess their impact on the Group.
    - **Recovery plan** which drown upannually to establish the available tools the Group will have, to survive in the event of an extremely severe financial crisis. The plan sets out a series of financial and macroeconomic stress scenarios, with differing degrees of severity that include idiosyncratic and/or systemic events.
    - **IFRS9** since 1 January 2018, the processes, models and scenario analysis methodology are included in the new regulatory provision requirements.

3.4 Risk Reporting Structure (RRS)

The reporting model of the Group continues to be enhanced after the simplification and optimisation of processes, the quality controls implemented and the strengthening of our effective communication to senior management. Furthermore, the overall view of all risks has been consolidated, based on complete, precise and recurring information allowing the Group's senior management to assess the risk profile and decide accordingly.

The risk reporting of the Group taxonomy contains three types of reports that are released on a monthly basis: the Group risk report (which is distributed to senior management), the subsidiaries risk reports, and the reports on each of the risk factors identified in the Group's risk framework.

This taxonomy is characterised by the following:

- All risk factors included in the Group's risk framework are covered.
- Balance between data, analysis and qualitative comments is maintained throughout the reports, including forward-looking measures, risk appetite information, limits and emerging risks.
- The holistic view is combined with a deeper analysis of each risk factor and geographic area and region.
- A homogenous structure and criteria, as each subsidiary may define its own reports following local standards. Therefore, a consolidated view is provided to enable the analysis of all risks based on common definitions
- All the metrics reported follow RDA criteria, ensuring the quality and consistency of the data included in all risk reports.

b) Credit risk

1. Introduction to the credit risk treatment

In Santander, credit risk is defined as the risk that a financial loss will be incurred arising from the default or credit quality deterioration of a customer or other third party, with whom the Group has assumed a contractual obligation, including providing credit, that may therefore not be fulfilled.

2. Main aggregates and variations

Following are the main aggregates relating to credit risk arising on customer business:

Main credit risk aggregates arising on customer business

(Management information data)

	Credit risk with customers * (Million euros)			Non- performing loans (million euros)			NPL ratio (%)		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Europe	**722,661**	**688,810**	**671,776**	**23,519**	**25,287**	**27,964**	**3.25**	**3.67**	**4.16**
Spain	213,668	227,401	237,327	14,824	16,651	18,27	6.94	7.32	7.70
UK	275,941	252,919	242,993	2,786	2,739	3,210	1.01	1.08	1.32
S. Consumer Finance	105,048	97,922	92,589	2,416	2,244	2,319	2.30	2.29	2.50
Portugal	37,978	38,340	39,394	1,834	2,279	2,959	4.83	5.94	7.51
Poland	33,566	30,783	24,391	1,447	1,317	1,114	4.31	4.28	4.57
North America	**143,839**	**125,916**	**106,129**	**3,165**	**3,51**	**2,935**	**2.20**	**2.79**	**2.77**
US	105,792	92,152	77,19	2,331	2,688	2,156	2.20	2.92	2.79
SBNA	56,640	51,049	44,237	389	450	536	0.69	0.88	1.21
SC USA	29,021	26,424	24,079	1,787	2,043	1,410	6.16	7.73	5.86
Mexico	38,047	33,764	28,939	834	822	779	2.19	2.43	2.69
South America	**143,428**	**138,134**	**138,577**	**6,972**	**6,639**	**6,685**	**4.86**	**4.81**	**4.82**
Brazil	88,893	84,212	83,076	4,727	4,418	4,391	5.32	5.25	5.29
Chile	420	41,268	40,406	1,947	1,925	2,004	4.64	4.66	4.96
Argentina	5,044	5,631	8,085	171	179	202	3.39	3.17	2.50
Santander Global Platform	**706**	**340**	**96**	**4**	**4**	**4**	**0.63**	**1.21**	**4.56**
Corporte Centre	**5,872**	**4,953**	**5,369**	**138**	**252**	**8**	**2.34**	**5.09**	**0.15**
Total Group	**1,016,507**	**958,153**	**920,968**	**33,799**	**35,692**	**37,596**	**3.32**	**3.73**	**4.08**

(*) Includes gross lending to customers, guarantees and documentary credits.

Key figures by geographic region are described below:

- **Europe**: NPL ratio decreases to 3.25% (-42 bp compared to 2018), due to the significant decrease of non- performing loans in Spain and Portugal; and the slight increase in the UK and SCF, offset by a proportionally higher increase in total loans.

- **North America**: NPL ratio down to 2.20% (-59 bp vs 2018) due to the good performance of the region, especially in the US which fell by 72 bp, compared to 2018.

- **South America**: NPL ratio stands at 4.86%, increasing in Brazil and Argentina (+7 bp and +22 bp compared to 2018, respectively); and decreasing in Chile (-2 bp vs to 2018).

Information on the estimation of impairment losses

The Group estimates the impairment losses by calculating the expected loss at 12 months or for the entire life of the transaction, based on the stage in which each financial asset is classified in accordance with IFRS9.

Then, considering the most relevant units of the group (United Kingdom, Spain, United States, Brazil, as well as Chile, Mexico, Portugal, Poland, Argentina and the Group Santander Consumer Finance) representing about 97% of the total of the Group's provisions, the detail of the exhibition and the impairment losses associated with each of the stages as of 31 December 2019 and 2018.

In addition, depending on the current credit quality of the transactions, the exposure is divided into three grades (investment, speculation and default)

Exposure and impairment losses by stage				
2019				
(Million euros)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	555,763	5,532	-	558,295
Speculation grade	306,880	47,365	-	354,245
Default	-	-	31,363	31,363
Total Risk (**)	859,643	52,897	31,363	943,903
Impairment losses (***)	3,980	4,311	13,276	21,567

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted (including ATAs).
(***) Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses by stage				
2018				
(Million euros)				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	685,507	7,176	-	692,683
Speculation grade	222,495	47,439	-	269,935
Default	-	-	30,795	30,795
Total Risk (**)	908,002	54,616	30,795	993,412
Impairment losses	3,823	4,644	12,504	20,970

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.

The remaining units that form the totality of the Group exposure, contributed EUR 38,174 million in stage 1, EUR 442 million in stage 2, and EUR 1,743 million in stage 3 (In 2018 EUR 151,906 million in stage 1, EUR 700 million in stage 2, and EUR 1,743 million in stage 3), and impairment losses of EUR 264 million in stage 1, EUR 306 million for stage 2, and EUR 91 million in stage 3 (In 2018 EUR 152 million, EUR 163 million and EUR 1,145 million in stage 1, stage 2 and stage 3, respectively).

The rest of the exposure, including all financial instruments not included before, amounts to EUR 507.479 million, as this includes all undrawn authorized lines (loan commitments). In 2018, the rest of the exposure amounted to EUR 242.867 million, due to the fact that the undrawn authorized lines were included in the "Total Risk" reported in the previous tables. The reporting criterion has been updated in 2019 with regards to the undrawn lines in order to align the exposure figures reported in this section to the rest of the report.

In addition, at 31 December 2019, the Group had EUR 706 million (31 December, 2018: EUR 757 million) of purchased credit-impaired assets, which relate mainly to the business combinations carried out by the Group.

Regarding the evolution of credit risk provisions, the Group, in collaboration with the main geographical areas, monitors them by carrying out sensitivity analyses considering changes in macroeconomic scenarios and main variables that have an impact on the financial assets distribution in the different stages and calculating credit risk provisions.

Additionally, based on similar macroeconomic scenarios, the Group also performs stress tests and sensitivity analysis in a current basis, such as ICAAP, strategic plans, budgets and recovery and resolution plans. In this sense, a prospective view of the sensitivity of each of the Group's loan portfolio is created in relation to the possible deviation from base scenario, considering both the macroeconomic developments in different scenarios and the three year evolution of the business. These tests include potentially adverse and favourable scenarios.

The transactions classification into the different stages of IFRS9 is carried out in accordance with the regulation through the risk management policies of our subsidiaries, which are consistent with the risk management policies defined by Group. In order to determine the classification in stage 2, the Group assesses whether there has been a significant increase in credit risk (SICR) since the initial recognition of transactions, considering a series of common principles throughout the Group that guarantee that all financial instruments are subject to this assessment, which considers the particularities of each portfolio and type of product on the basis of various quantitative and qualitative indicators. Furthermore, transactions are subject to the expert judgment of the analysts, who set the thresholds under an effective integration in management. All is implemented according to the approved governance.

The establishment of judgements and criteria thresholds used by the Group are based on a series of principles, and develop a set of techniques. The principles are as follows:

• Universality: all financial instruments subject to a credit rating for the estimation of provisions must be subject to the assessment of Significant Increment Credit Risk (SICR).

• Proportionality: The definition of the SICR must take into account the particularities of each portfolio (i.e. type of product, amount of exposure, etc.).

• Materiality: its implementation must be also consistent with the relevance of each portfolio so as not to inclur in unnecessary costs or efforts.

• Holistic vision: the approach selected for the definition of the ICRS should be a combination of several indicators (i.e. quantitative and qualitative)

• Application of IFRS 9: the approach must take into consideration IFRS 9 characteristics, focusing on a comparison with credit risk at initial recognition, as well as considering forward-looking information.

• Risk management integration: the criteria must be consistent with those metrics considered in the day-today risk management.

• Documentation: Appropriate documentation must be prepared.

The techniques are summarised below:

• Stability of stage 2: in the absence of significant changes in the portfolios credit quality, the volume of assets in stage 2 should maintain a certain stability as a whole.

• Economic reasonableness: at transaction level, stage 2 is expected to be a transitional rating for exposures that could eventually move to a deteriorating credit status at some point or stage 3, as well as for exposures that have suffered credit deterioration and whose credit quality is improving.

• Predictive power: it is expected that the SICR definition avoids, as fas as possible, direct migrations from stage 1 to stage 3 without having been previously classified in stage 2.

• Time in stage 2: it is expected that the exposures do not remain categorized as stage 2 for an excessive time.

The application of the aforementionrf techniques, previously mentioned, conclude in the setting of one or several thresholds for each portfolio in each geography. Likewise, these thresholds are subject to a regular review by means of calibration tests, which may entail updating the thresholds types or their values.

3. Detail of the main geographical areas

Following is the risk information related to the most relevant geographies in exposure and credit risk allowances.

This information includes sensitivity analysis, consisting on simulations of +/-100 bp in the main macroeconomic variables. A set of specific and complete scenarios is used in each geography, where different shocks that affect both the reference variable as well as the rest of the parameters is simulated. These shocks may be originated by productivity, tax, wages or exchange and interest rates factors. Sensitivity is measured as the average variation on expected loss corresponding to the aforementioned scenarios. Following a conservative approach, the negative movements take into account one additional standard deviation in order to reflect the potential higher variability of losses.

3.1. United Kingdom

Credit risk with customers in the UK, including Santander Consumer UK, amounted to EUR 275,941 million as of 31 December 2019, an increase of 9.1% compared to year end 2018 (and 3.8% in local currency), and representing 27% of the Group's total loan portfolio.

The NPL ratio decreased to 1.01% as of December 2019 (-7 b.p. vs. year-end 2018), despite macroeconomic uncertainty and thanks to the application of prudent policies, within the risk appetite framework. The amount of non-performing loans increased by 1.7%, below the credit risk growth, supported by the continued strong performance of the mortgage portfolio.

Mortgage portfolio

Due to its size, not only for Santander UK, but also for Group, the UK mortgage portfolio is closely monitored.

This portfolio, as at December 2019, amounted to 194,354 million euros growing, in local currency, by 4.7% in local currency in the year. It consists of residential mortgages granted to new and existing customers, all of which are first lien mortgages. No transactions entail second or successive liens on mortgaged properties.

The real estate market has shown strong resilience with over 4.0% price growth in the year and a stable number of transactions.

All properties are valued independently before each new transaction approval, in accordance with the Group´s risk management principles.

The value of the property used as collateral for mortgages that have been granted is updated quarterly by an independent agency, using an automatic valuation system in accordance with market practices and applicable legislation.

Geographically, credit exposures are predominantly situated in the southeast of the UK ans the London metropolitan area.

Information on the estimation of impairment losses

The detail of the Santander UK exposure and impairment losses associated with each of the stages at 31 December 2019 and 2018:

In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (investment, speculation and default):

Exposure and impairment losses by stage 2019 *(Million euros)*				
Credit Quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	238,985	2,032	-	241,017
Speculation grade	40,281	12,543	-	52,824
Default	-	-	2,821	2,821
Total Exposure (**)	279,266	14,575	2,821	296,662
Impairment losses (***)	117	470	588	1,175

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.
(***) Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses by stage 2019 *(Million euros)*				
Credit Quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	225,929	1,900	-	227,829
Speculation grade	34,655	11,514	-	46,169
Default	-	-	2,795	2,795
Total Exposure (**)	260,584	13,415	2,795	276,793
Impairment losses (***)	224	335	335	894

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.

For the estimation of expected losses, prospective information is taken into account. Specifically, Santander UK considers five prospective macroeconomic scenarios, which are updated periodically over a 5-year time horizon. The evolution forecasted for the next five years of the main macroeconomic indicators used by Santander UK to estimate expected losses is presented below:

Magnitudes	2020-2024				
	Pessimistic scenario 2	Pessimistic scenario 1	Base scenario	Optimistic scenario 1	Optimistic scenario 2
Interest rate	2,3%	1,8%	0,9%	1,8%	1,9%
Unemployment rate	7,3%	5,1%	4,0%	3,1%	2,6%
Housing price change	(0,01)%	(0.01)%	0.02%	0.04%	0.06%
GDP growth	0,01%	0,01%	0,02%	0,02%	0,03%

Each of the macroeconomic scenarios is associated with a given probability of occurrence. In terms of allocation, Santander UK associates the highest weighting to the base scenario, while it associates the lowest weightings to the most extreme or severe scenarios. In addition, at 31 December 2019, the weights used by Santander UK reflect the future prospects of the British economy in relation to its current political and economic position so that higher weights are assigned for negative scenarios:

Pessimistic scenario 2	15%
Pessimistic scenario 1	30%
Base scenario	40%
Optimistic scenario 1	10%
Optimistic scenario 2	5%

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 b.p. for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision Mortgages
GDP Growth	
-100 b.p.	13.11%
100 b.p.	(5.01) %
Housing price change	
-100 b.p.	7.16%
100 b.p.	(2.95) %
Unemployment rate	
-100 b.p.	(8.01) %
100 b.p.	16.86%

With regards to the determination of classification in stage 2, the quantitative criteria applied by Santander UK are based on identifying whether any increase in PD for the expected life of the transaction is greater than both an absolute and a relative threshold (the PDs used in that assessment are adjusted to the transaction´s remaining term and also annualised in order to facilitate that the thresholds defined cover the whole range of the transactions maturity dates). The relative threshold established is common to all portfolios and a transaction is considered to exceed this threshold when the PD for the entire life of the transaction increases to 100% with respect to the PD at the time of initial recognition. The absolute threshold, on the other hand, is different for each portfolio depending on the characteristics of the transactions, ranging between 400 b.p. and 30 p.b.

In addition, for each portfolio, a series of specific qualitative criteria is defined to indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. Santander UK, among other criteria, considers that an operation presents a significant increase in risk when it presents irregular positions for more than 30 days. These criteria depend on the risk management practices of each portfolio.

3.2. Spain

Portfolio overview
Total credit risk at Santander Spain, including the real estate unit, amounted to EUR 213,668 million, 21% of the Group total, with an appropriate level of diversification by both product and customer segment.

In a context of lower economic and credit growth, new business continues to increase in the segments of consumer loans, SMEs and Corporates. Total credit risk decreased by 6.0% compared to December 2018, mainly due to lower financing extended to public administrations, wholesale banking which also amortises faster than the growth of new business in the individuals segment.

The NPL ratio for the total portfolio was 6.94% (6.58% excluding the real estate unit), -38 bp less than in 2018. This is the result of lower NPLs, which reduced the ratio by -80 bp due to overall better performance, the cure of several restructured positions and portfolio sales. However, this positive effect was partially offset by the decrease observed in the loan portfolio, which had an increasing effect on the ratio of +47 b.p.

This credit quality improvement, together with proactive portfolio management, has resulted in a slight decrease in the coverage ratio, standing at 41% at year-end 2019 (-3 pp vs. 2018) as the NPL reduction is focused on those loans with higher expected loss.

The evolution of cost of credit follows the reduction in total loans and a slight increase in provisions.

Information on the estimation of impairment losses

Following is the detail of the Santander Spain exposure and impairment losses associated with each of the stages at 31 December 2019. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment losses per stage				
2019				
(Million euros)				
Credit Quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	139,673	1,315	-	140,988
Speculation grade	42,603	9,115	-	51,718
Default	-	-	14,587	14,587
Total Exposure (**)	182,276	10,430	14,587	207,293
Impairment losses (***)	296	503	5,195	5,994

(*)Detail of credit quality ratings calculated for Group management purposes.
(**) Credit to Customers (Amortized Cost and FV through OCI) + Off Balance Sheet with Customers (Financial Guarantees, Technical Guarantees and Letters of Credit), (including temporary asset acquisitions).
(***) Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses per stage				
2018				
(Million euros)				
Credit Quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	171,266	289	-	171,555
Speculation grade	25,108	12,603	-	37,711
Default	-	-	14,941	14,941
Total Exposure (**)	196,374	12,892	14,941	224,207
Impairment losses	366	768	5,565	6,699

(*)Detail of credit quality calculated for the purposes of Grupo Santander's management
(**) Amortised cost assets + Loans and advances + loan commitments granted.

The remaining legal entities to reach the entire portfolio in Spain contribute another EUR 5.693 million, EUR 445 million and EUR 237 million of exposure (in 2018, EUR 125,544, EUR 66 and EUR 1,657 million) in stage 1, stage 2 and stage 3 respectively, and impairment losses in the amount of EUR 55 million, EUR 41 million and EUR 8 million (EUR 132, EUR 48 and EUR 957 million in 2018) , in stage 1, stage 2 and stage 3, respectively.

From the information detailed above, Banco Santander, S.A. reaches a total gross exposure of 281,015 million euros in the heading of financial assets at amortized cost (see Note 6 and 10) and 85,840 million euros in loan commitments granted for off-balance sheet exposures (see Note 31) Impairment losses amount to 6,248 and 180 million euros, respectively. (The amount of losses due to impairment of off-balance sheet exposures includes the coverage of financial guarantees and other commitments granted in addition to the aforementioned loan commitments)

For the estimation of the expected losses, the prospective information is taken into account. Specifically, Santander Spain considers three macroeconomic scenarios, which are updated periodically, over a time horizon of 5 years. The projected evolution for the next five years of the main macroeconomic indicators used by Santander Spain for estimating expected losses is presented below:

Magnitudes	2020-2024		
	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	0.0%	0.0%	0.8%
Unemployment rate	13.7%	11.7%	9.6%
Housing price change	(0.3%)	1.6%	3.2%
GDP growth	0.8%	1.6%	2.3%

Magnitudes	2019-2023		
	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	0.3%	0.7%	1.2%
Unemployment rate	15.3%	12.3%	10.8%
Housing price change	0.5%	2.2%	3.8%
GDP growth	1.1%	1.8%	2.6%

Each one of the macroeconomic scenarios is associated with a given probability of occurrence. As for its allocation, Santander Spain associates the Base scenario with the highest weight, while associating the lower weights to the most extreme scenarios:

	2019	**2018**
Pessimistic scenario	30%	30%
Base scenario	40%	40%
Optimistic scenario	30%	30%

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 b.p. for the macroeconomic variables used in the construction of the scenarios is as follows:

		Change in provision
	Mortgages	Corporate
GDP Growth		
-100 b.p.	13.57%	4.23 %
100 b.p.	(2.55)%	(0.23) %
Housing price change		
-100 b.p.	2.62%	2.19 %
100 b.p.	(1.02) %	(0.76) %

With regards to the stage 2 classification determination, the quantitative criteria applied in Santander Spain are based on identifying whether any increase in the PD for the expected lifetime of the transaction is greater than an absolute threshold. The threshold established is different for each portfolio based on the transactions characteristics, considering that a transaction is above this threshold when the PD for the life of the transaction increases by a certain quantity over the initial recognized PD. The values of these thresholds depend on their calibration, carried out periodically as indicated in the preceding paragraphs, which currently ranges from 25% to 1%, depending on the type of product and estimated sensitivity.

In the case of non-retail portfolios, Santander Spain uses the transaction's rating as a reference for its PD, taking into account its rating at the time of origination and its current rating, setting absolute thresholds for the different rating bands that depend on each portfolio characteristics. A SICR implies changes in the rating value between 4 and 0.4, depending on the portfolio and the estimated sensitivity (from lower to higher credit quality, the rating range goes from 1 to 9.3).

In addition, for each portfolio, a series of specific qualitative criteria are defined indicating that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the time of initial recognition. Santander Spain, among other criteria, considers that an operation presents a significant increase in risk when positions have been past due for more than 30 days. These criteria depend on the risk management practices of each portfolio.

Residential mortage portfolio

Residential mortgages in Spain, including Santander Consumer Finance business, amounted to EUR 62,236 million million (EUR 63,290 million in 2018), 99.51%of which have a mortgage guarantee (99.14% in 2018).

Million euros	2019			
	Santander Group Spain		*Of Which: Banco Santander, S.A.*	
	Gross amount	Of which: Non-performing	Gross amount	Of which: Non-performing
Home purchase loans to families	62,636	2,649	60,557	2,581
Without mortgage guarantee	*306*	*14*	*306*	*14*
With mortgage guarantee	*61,930*	*2,635*	*60,251*	*2,567*

Million euros	2018			
	Santander Group Spain		*Of Which: Banco Santander, S.A.*	
	Gross amount	*Of which: Non-performing*	Gross amount	*Of which: Non-performing*
Home purchase loans to families	63,290	2,493	61,453	2,425
Without mortgage guarantee	*545*	*54*	*545*	*54*
With mortgage guarantee	*62,745*	*2,439*	*60,908*	*2,371*

The mortgage portfolio for the acquisition of homes in Spain is characterised by its medium-low risk profile, which limits expectations of any potential additional impairment:

- Principal is repaid on all mortgages from the start.
- Early repayment is common so the average life of the transaction is well below that of the contract.
- High quality of collateral, concentrated almost exclusively in financing for first homes.
- The average affordability rate stood at 26% (28% in 2018).
- The 85% of the portfolio has a LTV below 80%, calculated as total risk/latest available house appraisal.

Breakdown of the credit with mortgage guarantee to households for house acquisition, according to the percentage that the total risk represents on the amount of the latest available valuation (loan to value).

	2019					
	Loan to value ratio					
Million euros	Less than or equal to 40%	More than 40% and less than 60%	More than 60% and less than 80%	More than 80% and less than or equal to 100%	More than 100%	Total
Santander Group						
Gross amount	16,211	18,652	17,947	5,398	3,722	61,930
Of which: Watchlist/ Non-performing	228	*297*	*422*	*435*	*1,253*	*2,635*
Of which Banco Santander, S.A.:						
Gross amount	15,871	18,225	17,610	5,190	3,355	60,251
Of which: Watchlist/ Non-performing	*223*	*290*	*410*	*427*	*1,218*	*2,568*

Businesses portfolio

Credit risk assumed directly with SMEs and Corporates amounts to EUR 134,508 million euros, representing the main lending segment at Santander Spain with 63% of the total. Most of the portfolio corresponds to customers who have been assigned a credit analyst to monitor them continuously throughout the risk cycle.

The portfolio is highly diversified without no significant concentrations by sector of activity.

The NPL ratio for this portfolio stood at 7.31% in December 2019. Despite the reduction in total risk, the NPL ratio fell by 21 bp compared to December 2018, due to a better performance, the normalisation of several restructured positions in corporates and portfolio sales

Real estate activity

The real estate unit in Spain has been consolidated within Santander Spain. We should differentiate between the part of the portfolio resulting from the past financial crisis and the new business that is identified as viable. In both cases, Santander has specialized teams that are not only part of the Risk function but that supplement the management of this exposure and cover the whole life-cycle of these transactions: commercial management, legal treatment and eventually, collections and recoveries.

In recent years the Group's strategy has been geared towards reducing these assets. The changes in gross property development loans to customers were as follows:

	Million euros		
	2019	2018	2017
Balance at beginning of year	4.812	6,472	5,515
Foreclosed assets	(29)	(100)	(27)
Banco Popular S.A.U. (perimeter)	-	-	2,934
Reductions (*)	(1.685)	(1,267)	(1,620)
Written-off assets	(159)	(293)	(330)
Balance at end of year	2.939	4,812	6,472

(*)Includes portfolio sales, cash recoveries and third-party subrogations and new production.

The NPL ratio of this portfolio ended the year at 9.73% (compared with 27.58% at December 2018) due to the decrease of non-performing assets in the troubled loan portfolio and, in particular, to the sharp reduction in lending in this segment. The table below shows the distribution of the portfolio. The coverage ratio of the real estate doubtful exposure in Spain stands at 35.31% (35.27% in 2018).

Millions euros	2019					
	Santander Group			*Of wich: Banco Santander, S.A.*		
	Gross amount	Excess of gross exposure over maximum recoverable amount	Specific allowance	Gross amount	Excess of gross exposure over maximum recoverable amount	Specific allowance
Financing for construction and property development recognised by the Group's credit institutions (including land) (business in Spain)	2,939	435	115	2,970	438	115
Of which:Watchlist/ Non-performing	*286*	*87*	*101*	*286*	*87*	*101*
Memorandum items: Written-off assets	963			963		

Memorandum items: Data from the public consolidated balance sheet	2019	
Millions euros	Carrying amount	
	Santander Group	*Of wich: Banco Santander, S.A.*
Total loans and advances to customers excluding the public sector (business in Spain) (Book value)	232,027	*218,747*
Total consolidated assets (Total business) (Book value)	1,522,695	*609,916*
Impairment losses and credit risk allowances, Coverage for unimpaired assets (business in Spain)	1,349	*941*

At year-end, the concentration of this portfolio was as follows:

Million euros	2019	
	Loans: Gross amount	
	Santander Group	*Of wich: Banco Santander, S.A.*
1. Without mortgage guarantee	146	*146*
2. With mortgage guarantee	2,793	*2,824*
2.1 Completed buildings	1,552	*1,566*
2.1.1 Residential	914	*919*
2.1.2 Other	638	*647*
2.2 Buildings and other constructions under construction	1,081	*1,098*
2.2.1 Residential	1,036	*1,053*
2.2.2 Other	45	*45*
2.3 Land	160	*160*
2.3.1 Developed consolidated land	109	*109*
2.3.2 Other land	51	*51*
Total	**2,939**	***2,970***

Policies and strategies in place for the management of these risks

The policies in force for the management of this portfolio, which are reviewed and approved on a regular basis by senior management.

As has already been disclosed in this section, the Group's anticipatory management of these risks enabled it to significantly reduce its exposure, and it has a granular, geographically diversified portfolio in which the financing of second residences accounts for a very small proportion of the total.

Mortgage lending on non-urban land represents a low percentage of mortgage exposure to land, while the remainder relates to land already classified as urban or approved for development.

The significant reduction of exposure in the case of residential financing projects in which the construction work has already been completed was based on various actions. As well as the specialised marketing channels already in existence, campaigns were carried out with the support of specific teams of managers for this function who, in the case of the Santander network, were directly supervised by the recoveries business area. These campaigns, which involved the direct management of the projects with property developers and purchasers, reducing sale prices and adapting the lending conditions to the buyers' needs, enabled loans already in force to be subrogated. These subrogations enable the Group to diversify its risk in a business segment that displays a clearly lower non-performing loans ratio.

In the case of construction-phase projects that are experiencing difficulties of any kind, the policy adopted is to ensure completion of the construction work so as to obtain completed buildings that can be sold in the market. To achieve this aim, the projects are analysed on a case-by- case basis in order to adopt the most effective series of measures for each case (structured payments to suppliers to ensure completion of the work, specific schedules for drawing down amounts, etc.).

For the new post-crisis real estate business production, the admission processes are managed by specialized teams that work in direct coordination with the commercial teams, with clearly defined policies and criteria:

The loan approval processes are managed by specialist teams which, working in direct coordination with the sales teams, have a set of clearly defined policies and criteria:

- Property developers with a robust solvency profile and a proven track record in the market.
- Medium-high level projects, conducting to contracted demand and significant cities.
- Strict criteria regarding the specific parameters of the transactions: exclusive financing for the construction cost, high percentages of accredited sales, principal residence financing, etc.
- Support of financing of government-subsidised housing, with accredited sales percentages.
- Restricted financing of land purchases dealt with exceptional nature.

In addition to the permanent control performed by its risk monitoring teams, the Group has a specialist technical unit that monitors and controls this portfolio with regard to the stage of completion of construction work, planning compliance and sales control, and validates and controls progress billing payments. The Group has created a set of specific tools for this function. All mortgage distributions, amounts drawn down of any kind, changes made to the grace periods, etc. are authorised on a centralised basis.

Foreclosed properties

At 31 December, 2019, the net balance of these assets amounted to EUR 4,190 million (gross amount: EUR 8,227 million; recognised allowance: EUR 4,037 million, of which EUR 2,812 million related to impairment after the foreclosure date).

The following table shows the detail of the assets foreclosed by the businesses in Spain at the end of 2019:

Million euros	2019			
	Gross carrying amount	Valuation adjustments	*Of which: impairment losses on assets since time of foreclosure*	Carrying amount
Property assets arising from financing provided to construction and property development companies *Of which:*	7,044	3,645	2,570	3,399
Completed buildings	*2,306*	*873*	*616*	*1,433*
Residential	*575*	*166*	*108*	*409*
Other	*1,731*	*707*	*508*	*1,024*
Buildings under construction	*219*	*90*	*47*	*129*
Residential	*219*	*90*	*47*	*129*
Other	-	-	-	-
Land	*4,519*	*2,682*	*1,907*	*1,837*
Developed land	*1,991*	*1,222*	*934*	*769*
Other land	*2,528*	*1,460*	*973*	*1,068*
Property assets from home purchase mortgage loans to households	933	306	191	627
Other foreclosed property assets	250	86	51	164
Total property assets	**8,227**	**4,037**	**2,812**	**4,190**

In addition, the Group has shareholdings in entities holding foreclosed assets amounting to EUR 1,415 million (mainly Project Quasar Investment 2017, S.L.), and equity instruments foreclosed or received in payment of debts amounting to EUR 69 million.

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

Million euros	2019			
	Gross carrying amount	*Deterioro de valor acumulado*	Gross carrying amount	Valor neto contable
Property assets arising from financing provided to construction and property development companies *Of which:*	1,054	388	272	666
Completed buildings	959	375	*264*	*584*
Residential	*168*	*53*	*37*	*115*
Other	*791*	*322*	*227*	*469*
Buildings under construction	-	-	-	-
Residential	-	-	-	-
Other	-	-	-	-
Land	*95*	*13*	*8*	*82*
Developed land	*70*	*9*	*6*	*61*
Other land	*25*	*4*	*2*	*21*
Property assets from home purchase mortgage loans to households	732	231	148	501
Other foreclosed property assets	188	61	39	127
Total property assets	**1,974**	**680**	**459**	**1,294**

In recent years, the Group has considered foreclosure to be a more efficient method for resolving cases of default than legal proceedings. The Group initially recognises foreclosed assets at the lower of the carrying amount of the debt (net of provisions) and the fair value of the foreclosed asset (less estimated costs to sell).Subsequent to initial recognition, the assets are measured at the lower of fair value (less costs to sell) and the amount initially recognised.

The fair value of this type of assets is determined by the Group's directors based on evidence obtained from qualified valuers or evidence of recent transactions.

The management of real estate assets on the balance sheet is carried out through companies specializing in the sale of real estate that is complemented by the structure of the commercial network. The sale is realised with levels of price reduction in line with the market situation.

The gross movement in foreclosed properties were as follows (in thousand of million of euros):

	2019	2018
Gross additions	0.7	0.8
Disposals	(2.7)	(1.8)
Difference	(2.0)	(1.0)

(*) Without considering the Blackstone transaction (See Note 3).

3.3. United States

Credit risk at Santander US increased to EUR 105,792 million at the end of December representing 10% of the Group total. It comprises the following business units:

Santander Bank N.A.

Santander Bank N.A. business is focused on retail and commercial banking, representing 82% of total Santander US), of which 41% is with individuals and approximately 59% with corporates. One of the main strategic goals is to continue to encourage the further development of the wholesale banking business, which represents 17% of the business.

The NPL ratio continues to decline, standing at 0.69% (-20 bp in the year) in December. This reduction can be explained by the proactive management of certain exposures and the favourable macro trends reflected in the improvement of customer credit risk profiles in the Corporates and Individuals portfolios. The cost of credit increased to 0.35% due to the normalisation of provisions in the Corporates segment and the increase in auto loans.

Information on the estimation of impairment losses

The detail of Santander Bank, National Association exposure and impairment losses associated with each of the stages at 31 December 2019 and 2018. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment loss by stage *(Million euros)*				
2019				
Credit quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	27,078	763	-	27,841
Speculation grade	32,273	3,964	-	36,237
Default	-	-	419	419
Total Exposure (**)	59,351	4,727	419	64,497
Impairment losses(***)	265	208	71	544

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.
(***) Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment loss by stage *(Million euros)*				
2019				
Credit quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	5,149	-	-	5,149
Speculation grade	60,391	3,784	-	64,175
Default	-	-	448	448
Total Exposure (**)	65,540	3,784	448	64,497
Impairment losses	233	204	105	544

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.

For the estimation of expected losses, prospective information is taken into account. Specifically,

Santander Bank, N.A. considers three macroeconomic scenarios, which are updated periodically over a 5-year time horizon. The evolution projected for the next five years of the main macroeconomic indicators used Santander Bank, National Association to estimate expected losses is presented below:

Magnitudes	2020-2024			
	Unfavorable scenario 2	Unfavourable scenario 1	Base scenario	Favorable scenario
Interest rate (year averaged)	(1.1%)	2.2%	2.3%	2.7 %
Unemployment rate	7.7%	2.7%	(0.9%)	(2.1) %
House price change	2.6%	3.7%	4.5%	4.7 %
GDP growth	1.6%	2.1%	2.1%	2.8 %

	2019-2023		
Magnitudes	Unfavorable scenario	Base scenario	Favorable scenario
Interest rate (year averaged)	1.3%	2.8%	3.6%
Unemployment rate	6.9%	4.2%	3.8%
House price change	2.2%	3.9%	3.9%
GDP growth	1.5%	2.1%	2.8%

Each of the macroeconomic scenarios is associated with a given probability of occurrence. As for its allocation, Santander Bank, N.A. associates the highest weighting to the Base scenario, while associates the lowest weightings to the most extreme scenarios:

	2019	2018
Pessimistic scenario 2	17.5%	20%
Pessimistic scenario 1 (*)	20%	n.a.
Base scenario	32.5%	60%
Optimistic scenario	30%	20%

* The exercise carried out in 2019 includes two adverse scenarios compared to one in 2018, due to the evolution of the local methodology.

In relation to the Stage 2 classification determination, the quantitative criteria applied at Santander Bank N.A. for retail portfolios uses the FICO (Fair Isaac Corporation) score at the time of origination and its current value, establishing different absolute threshold for each portfolio according to their characteristics. A SICR implies changes in that score ranging from 120 b.p. to 20 b.p. In the case of some portfolios, the behaviour score supplements this criterion.

Also, for some retail portfolios a threshold based on the probability of default (PD) is used. A transaction is considered to exceed this threshold when the PD increases by 100% with respect to the PD that it had at the time of origination.

In the case of non-retail portfolios, Santander Bank N.A. uses the transaction's rating as a reference for its PD, taking into account its rating at the time of origination and its current rating, setting absolute thresholds for the different rating bands that depend on each portfolio characteristics. A SICR implies changes in the rating value between 2 and 0.1, depending on the portfolio and the estimated sensitivity (from lower to higher credit quality, the rating range goes from 1 to 9.3).

Additionally, for each portfolio, a series of specific qualitative criteria are defined, which indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the initial recognition. Santander Bank, N.A., among other criteria, considers that a transaction presents a significant increase in risk when it has arrears positions for more than 30 days. These criteria depend on the risk management practices of each portfolio

Santander Consumer USA

Risk indicators for Santander Consumer USA (SC USA) are higher than those of the other United States units and of the Group, due to the nature of its business, which focuses on auto financing through loans and leases (97%), seeking to optimise the returns associated with the risk assumed. SC USA´s lending also has a smaller personal lending portfolio (3%).

The NPL ratio dropped to 6.16% (-158 b.p. in the year), mainly due to the positive performance of the business and higher used vehicle prices. Cost of credit, at the end of December, stood at 9.42% (-59 bp in the year). An increase that was partially mitigated by efficiency in recoveries and the aforementioned positive performance in vehicle prices.

The coverage ratio surged to 175% (+20 pp in the year) on the back of the reduction in NPLs.

Information on the estimation of impairment losses

The detail of the Santander Consumer USA. exposure and impairment losses associated with each of the stages at 31 December 2019 and 2018. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment losses by stage (Million euros)				
2019				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	1,029	14	-	1,043
Speculation grade	20,083	6,277	-	26,360
Default	-	-	1,600	1,600
Total Exposure (**)	**21,112**	**6,291**	**1,600**	**29,003**
Impairment losses (***)	**859**	**1,503**	**731**	**3,093**

(*) Detail of credit quality ratings calculated for Group management purposes
(**) Amortised cost assets + Loans and advances + loan commitments granted.
**** Includes provisions for undrawn authorized lines (loan commitments).*

Exposure and impairment losses by stage (Million euros)				
2018				
Credit Quality (*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	224	-	-	224
Speculation grade	20,313	6,600	-	26,913
Default	-	-	2,218	2,218
Total Exposure (**)	**20,537**	**6,600**	**2,218**	**29,355**
Impairment losses	**824**	**1,720**	**667**	**3,211**

(*) Detail of credit quality ratings calculated for Group management purposes
(**) Amortised cost assets + Loans and advances + loan commitments granted.

In relation to the methodology used to calculate impairment losses, SC USA uses a method for calculating expected losses based on the use of risk parameters: EAD (Exposure at Default), PD (Probability of Default) and LGD (Loss Given Default). The expected loss is calculated by adding the estimated monthly expected losses for the entire life of the operation, unless the operation is classified in Stage 1 (on those used for the Santander Corporate Investment Banking portfolios see section 3.5) which will correspond to the sum of the estimated monthly expected losses during the following 12 months.

In general, there is an inverse relationship between the transactions credit quality and the impairment losses projections so that transactions with better credit quality require a lower expected loss. Transactions credit quality, which is reflected in the internal rating associated to each transaction or client, is shown in the probability of default odf the transactions.

For the expected losses estimation, prospective information should be taken into account. Specifically, Santander Consumer USA Holdings Inc. considers three macroeconomic scenarios, periodically updated over a 5- year time horizon. The evolution forecasted for the next five years of the main macroeconomic indicators used by in Santander Consumer USA Holdings Inc in the estimation of expected losses is shown below:

Magnitudes	2020-2024			
	Unfavourable scenario 2	Unfavourable scenario 1	Base scenario	Favourable scenario
Interest rate	1.1%	2.2%	2.3%	2.7%
Unemployment rate	7.7%	2.7%	(0.9%)	(2.1%)
Housing price growth	2.6%	3.7%	4.5%	4.7%
GDP Growth	1.6%	2.1%	2.1%	2.8%
Manheim Index[A]				

(*) US used vehicle price car Index.

	2019-2023		
Magnitudes	Unfavorable scenario	Base scenario	Favorable scenario
Interest rate (year averaged)	1.3%	2.8%	3.6%
Unemployment rate	6.9%	4.2%	3.8%
House price change	2.2%	3.9%	3.9%
GDP growth	1.5%	2.1%	2.8%

Each of the macroeconomic scenarios is associated with a given probability of occurrence. Santander Consumer USA Inc. associates the highest weighting to the Base scenario, whereas it associates the lowest weightings to the most extreme or acid scenarios:

	2019	2018
Pessimistic scenario 2	17.5%	20%
Pessimistic scenario 1 (*)	20%	n.a.
Base scenario	32.5%	60%
Optimistic scenario	30%	20%

(*) The exercise carried out in 2019 includes two adverse scenarios compared to one in 2018, due to the evolution of the local methodology

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 b.p. for the macroeconomic variables used in the construction of the scenarios is as follows:

	Change in provision SC Auto
GDP Growth	
-100 b.p.	5.73%
100 b.p.	(0.74) %
Maheim index	
-100 b.p.	1.02%
100 b.p.	(1.88) %
Unemployment rate	
-100 b.p.	(0.55) %
100 b.p.	0.15%

In relation to Stage 2 classification determination, the quantitative criteria applied at SC USA uses the FICO (Fair Isaac Corporation) score at the time of origination and its current value, establishing different absolute threshold for each portfolio according to thie characteristics. A SICR implies changes in that score ranging from 100 b.p. to 60 b.p.

Additionally, for each portfolio, a series of specific qualitative criteria are defined, which indicate that the exposure has had a significant increase in credit risk, regardless of the evolution of its PD since the initial recognition. Santander Consumer USA Holdings Inc. among other criteria, considers that a transaction presents a significant increase in risk when it has irregular positions for more than 30 days. These criteria depend on the risk management practices of each portfolio

3.4. Brazil

Credit risk in Brazil amounts to EUR 88,893 million, representing an increase of 5.6% compared to 2018.Excluding the exchange rate effect, growth was 7%. Santander Brazil accounts for 9% of the Group's lending.

Its loan portfolio is properly diversified and has an increasingly marked retail profile, with 75% of loans extended to individuals, consumer financing and companies.

Information on the estimation of impairment losses

The detail of Santander Brazil exposure and impairment losses associated with each of the stages at 31 December, 2019 and 2018, is shown below. In addition, depending on the current credit quality of the operations, the exposure is divided into three grades (Investment, speculation and default):

Exposure and impairment losses 31 December 2019 *(Million euros)*				
Credit Quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	45,764	308	-	46,072
Speculation grade	32,699	5,393	-	38,092
Default	-	-	4,727	4,727
Total Exposure (**)	78,463	5,701	4,727	88,891
Impairment losses (***)	1,054	732	2,931	4,717

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.
(***) Includes provisions for undrawn authorized lines (loan commitments).

Exposure and impairment losses				
31 December 2018				
(Million euros)				
Credit Quality(*)	Stage 1	Stage 2	Stage 3	Total
Investment grade	51,150	472	-	51,622
Speculation grade	56,884	5,334	-	62,218
Default	-	-	4,223	4,223
Total Exposure (**)	108,034	5,806	4,223	108,063
Impairment losses	997	768	2,889	4,654

(*) Detail of credit quality ratings calculated for Group management purposes.
(**) Amortised cost assets + Loans and advances + loan commitments granted.

For expected losses estimation, prospective information is taken into account. Particularly, Santander Brazil considers three macroeconomic scenarios, periodically updated, over a time horizon of 5 years. The evolution projected for the next five years of the main macroeconomic indicators used to estimate the expected losses in Santander Brazil is as follows:

Magnitudes	2020-2024		
	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	8.7%	5.6%	4.5%
Unemployment rate	16.5%	9.6%	8.0%
Housing price change	(1.2%)	2.7%	6.4%
GDP Growth	(1.4%)	2.4%	4.4%
Burden income	21.7 %	20.4 %	19.0 %

Magnitudes	2020-2024		
	Pessimistic scenario	Base scenario	Optimistic scenario
Interest rate	11%	7.7%	6%
Unemployment rate	16.2%	9.9%	8.6%
Housing price change	(1.4%)	4.3%	5.9%
GDP Growth	(1.2%)	2.4%	3.5%

Each macroeconomic scenario is associated with a determined likehood of occurrence. Regarding its assignation, Brazil links the highest weight to the base scenario whilst links the lowest weights to the most extreme scenarios:

	2019	2018
Pessimistic scenario	10%	10%
Base scenario	80%	80%
Optimistic scenario	10%	10%

The sensitivity analysis of the main portfolios expected loss to variations of +/-100 b.p. for the macroeconomic variables used in the construction of the scenarios is as follows:

	Consumer	Change in provision Corporate
GDP Growth		
-100 b.p.	0.73%	0.54%
100 b.p.	(0.2)%	(0.23) %
Burden income		
-100 b.p.	(1)%	0.07 %
100 b.p.	2.17%	0.45%

Santander

Regarding the Stage 2 classification determination, Santander Brazil uses the transaction's rating as reference for its PD, taking into account its rating at the time of origination and its current rating, setting different thresholds that depend on each portfolio characteristics. SICR is determined by observing the rating's evolution, considering that a significant reduction has occurred when this decrease reaches values between 3.1 and 1 depending on rating´s value at the time of origination.

In addition, for every portfolio, a set of specific qualitative criteria are defined to indicate that the exposure to credit risk has significantly risen, regardless of the evolution of its PD since the initial recognition. Santander Brazil, among other criteria, considers that an operations involves a significant increase in risk when it presents irregular positions for more than 30 days, but in Real State, Consigned and Financial portfolios, where, due to their particular attributes, they use a 60 days threshold. Such criteria depend upon each portfolio’s risk management practices.

3.5 Santander Corporate & Investment Banking

The exposure detail and impairment losses presented for the main geographies includes the Santander Corporate & Investment Banking portfolios. In this sense, due to the type of customers managed in these portfolios, large multinational companies, the Group uses its own credit risk models. These models are common to different geographies using their own macroeconomic scenarios.

The average projected evolution for the next years of the GDP projected for the next few years is presented, which has been used for the estimation of the expected losses, together with the weighting of each scenario:

Magnitudes	2020-2024		
	Pessimistic scenario	Base scenario	Optimistic scenario
Global GDP Growth	3.0%	3.6%	3.8%

Magnitudes	2019-2023		
	Pessimistic scenario	Base scenario	Optimistic scenario
Global GDP Growth	2.7%	3.6%	4.2%

Each macroeconomic scenarios is associated with a determined likehood of occurrence. As for its allocation, Santander Corporate & Investment Banking associates the highest weight with the Base Scenario, while associating the lower weights with the more extreme scenarios.

	2019	**2018**
Pessimistic scenario	30%	20%
Base scenario	40%	60%
Optimistic scenario	30%	20%

With regards to the Stage 2 classification determination, SCIB uses the customer's rating as a reference for its PD, taking into account its rating at the time of origination and its current rating for each transaction, setting absolute thresholds for the different rating bands. A SICR implies changes in the rating value between 3.6 and 0.1, depending on the estimated sensitivity of each rating band (from lower to higher credit quality, the rating range goes from 1 to 9.3).

4. Other credit risk aspects

4.1. Credit risk by activity in the financial markets

This section covers credit risk generated in treasury activities with customers, mainly with credit institutions. Transactions are undertaken through money market financial products with different financial institutions and through counterparty risk products which serve the Group's customer's needs.

According to regulation (EU) 575/2013, counterparty credit risk is the risk that a client in a transaction could default before the definitive settlement of the cash flows of the transaction. It includes the following types of transactions: derivative instruments, transactions with repurchase commitment, stock and commodities lending, transactions with deferred settlement and financing of guarantees.

There are two methodologies for measuring this exposure: (i) mark-to-market (MtM) methodology (replacement value of derivatives) plus potential future exposure (add-on) and (ii) the calculation of exposure using Monte Carlo simulation for some countries and products. The capital at risk or unexpected loss is also calculated, i.e. the loss which, once the expected loss has been subtracted, constitutes the economic capital, net of guarantees and recoveries.

After markets close, exposures are re-calculated by adjusting all transactions to their new time frame, adapting the potential future exposure and applying mitigation measures (netting, collateral, etc.), so that the exposures can be controlled directly against the limits approved by senior management. Risk control is performed through an integrated system and in real time, enabling the exposure limit available with any counterparty, product and maturity and in any of Santander's subsidiaries to be known at any time.

4.2. Concentration risk

Concentration risk control is a vital part of management. The Group continuously monitors the degree of concentration of its credit risk portfolios using various criteria: geographic areas and countries, economic sectors and groups of customers.

The board, via the risk appetite framework, determines the maximum levels of concentration.

In line with these maximum levels and limits, the executive risk committee establishes the risk policies and reviews the appropriate exposure levels for the effective management of the degree of concentration in Santander's credit risk portfolios.

The Group must adhere to the regulation on large risks contained in the CRR, according to which the exposure contracted by an entity with a customer or group of associated customers will be considered a large exposure when its value is equal to or greater than 10% of eligible capital. In addition, in order to limit large exposures, no entity may assume exposures exceeding 25% of its eligible capital with a single customer or group of associated customers, having factored in the credit risk reduction effect contained in the regulation.

At the end of December, after applying risk mitigation techniques, no group reaches the above-mentioned thresholds.

Regulatory credit exposure with the 20 largest groups within the scope of large risks represented 4.65% of the outstanding credit risk with customers (lending to customers plus off-balance sheet risks) as of December 2019.

The detail, by activity and geographical area of the Group's risk concentration at 31 December, 2019 is as follows:

Million euros					
	31-12-19 (*)				
	Total	Spain	Other EU countries	America	Resto of the world
Central banks and Credit institutions	238,849	36,163	109,303	82,754	10,629
Public sector	173,706	52,635	40,285	76,061	4,725
Of which:					
Central government	*153,830*	*42,752*	*36,409*	*69,980*	*4,689*
Other central government	*19,876*	*9,883*	*3,876*	*6,081*	*36*
Other financial institutions (financial business activity)	120,962	17,073	69,336	32,558	1,995
Non-financial companies and individual entrepreneurs (non-financial business activity) (broken down by purpose)	400,371	117,943	127,494	139,236	15,698
Of which:					
Construction and property development	*21,050*	*4,028*	*9,893*	*7,062*	*67*
Civil engineering construction	*6,270*	*3,195*	*1,979*	*959*	*137*
Large companies	*237,994*	*59,223*	*74,743*	*90,022*	*14,006*
SMEs and individual entrepreneurs	*135,057*	*51,497*	*40,879*	*41,193*	*1,488*
Households – other (broken down by purpose)	523,072	88,980	300,261	125,268	8,563
Of which:					
Residential	*333,043*	*62,349*	*228,677*	*41,099*	*918*
Consumer loans	*169,464*	*18,551*	*69,358*	*76,757*	*4,798*
Other purposes	*20,565*	*8,080*	*2,226*	*7,412*	*2,847*
Total	**1,456,960**	**312,794**	**646,679**	**455,877**	**41,610**

(*) For the purposes of this table, the definition of risk includes the following items in the public balance sheet: Loans and advances to credit institutions, Loans and advances to Central Banks, Loans and advances to Customers, Debt Instruments, Equity Instruments, trading Derivatives, Hedging derivatives, Investments and financial guarantees given.

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

Millions of euros	31/12/19				
	Total	Spain	Other EU countries	America	Rest of the world
Central banks and Credit institutions	157,492	55,072	66,552	28,881	6,987
Public sector	50,401	38,343	7,420	2,910	1,728
Of which:					
Central government	*40,542*	*28,585*	*7,420*	*2,809*	*1,728*
Other central government	*9,859*	*9,758*	*0*	*101*	*0*
Other financial institutions (financial business activity)	144,327	42,135	64,619	33,950	3,623
Non-financial companies and individual entrepreneurs (Non-financial business activity) (broken down by purpose)	189,458	120,195	35,605	20,121	13,537
Of which:					
Construction and property development	*2,666*	*2,645*	*20*	*1*	*0*
Civil engineering construction	*4,206*	*2,827*	*575*	*674*	*130*
Large companies	*131,505*	*65,311*	*34,028*	*19,040*	*13,126*
SMEs and individual entrepreneurs	*51,081*	*49,412*	*982*	*406*	*281*
Households – other (broken down by purpose)	77,257	75,813	702	381	361
Of which:					
Residential	*61,446*	*60,280*	*636*	*216*	*314*
Consumer loans	*7,757*	*7,723*	*11*	*16*	*7*
Other purposes	*8,054*	*7,810*	*55*	*149*	*40*
Total	**618,935**	**331,558**	**174,898**	**86,243**	**26,236**

4.3. Sovereign risk and exposure to other public sector entities

Sovereign risk is the risk contracted in transactions with a central bank, including the regulatory cash reserve requirement, issuer risk with the Treasury (public debt portfolio) and the risk arising from transactions with public institutions with the following features: their funds only come from the state's budget income and activities are of a non-commercial nature.

These historic Group criteria, differ in some respects from those applied by the European Banking Authority (EBA) in its regular stress test exercises. The main differences are that the EBA's criterion does not include deposits with central banks, exposures with insurance companies, indirect exposures via guarantees and other instruments. On the other hand, the EBA does include public administrations in general, including regional and local bodies, not only the central state sector.

According to the management Group's criteria, local sovereign exposure in currencies other than the official currency of the country of issuance is not significant (12,187 million euros, 5.3% of total sovereign risk), and exposure to non-local sovereign issuers involving cross-border risk[1] is even less significant (4,269 million euros, 1.8% of total sovereign risk)

Sovereign exposure in Latin America is mostly in local currency, and is recognised in the local accounts and concentrated in short- term maturities.

Over the past few years, total exposure to sovereign risk has remained aligned with the regulatory requirements and strategic reasons that support the management of this portfolio.

[1] Countries that are not considered low risk by Banco de España.

The movements observed in the different countries exposure is therefore explained by the Group's liquidity management strategy and the hedging of interest and exchange rates risks. Santander has a diversified international exposure among different countries with diverse macroeconomic perspectives and thus, dissimilar growth, interest and exchange rates scenarios.

Regarding the deterioration measurement of these exposures, the Group has evaluated methodologies and criteria in accordance with the IFRS 9 general criteria, integrating common processes, systems, tools and data that are used both for accounting purposes and for capital adequacy.

When estimating the expected losses, the Group applies its own credit risk models for the valuation of financial instruments belonging to Santander Corporate & Investment Banking portfolios.

Regarding the methodology and parameters development for this segment, it should be noted that the PD model incorporates forward-looking information as well as the current credit quality indicator (rating). As for the LGD, two approaches are given depending on the existence of guarantees. The LGD secured approach (severity based on guarantees) is based on the estimate made by analysts and aligned with the general framework proposed for individualised analysis by discounting cash flows. In the case of unsecured LGD (estimated severity without guarantee base), due to the low number of observations collected in recent decades, it is not possible to reflect a forward-looking vision or PiT (Point in Time) and therefore a prudent value is estimated in line with industry practices.

In case of sovereign risk issued in the official currency of the issuing country or in which the issuer has the 100% guarantee of the issuing country of the currency, the few default cases existing over the last decades only reflect the possibility if a potential unexpected loss that is still not modelable due to its scarcity. Consequently, for this type of sovereign risk, the expected loss is considered irrelevant in consistency with unexpected loss.

The exposure in the table below is disclosed following the latest amendments of the regulatory reporting

Million euros						
	2019					
	Portfolio					2018
Country	Financial assets held for trading and Financial assets designated as FV with changes in results	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Non-trading financial assets mandatorily at fair value through profit or loss	Total net direct exposure	Total net direct exposure
Spain	5,204	19,961	10,201	-	35,366	49,640
Portugal	(746)	5,450	3,985	-	8,689	8,753
Italy	643	1,631	461	-	2,735	261
Greece	-	-	-	-	-	-
Irland	-	-	-	-	-	-
Rest eurozone	(313)	1,679	443	-	1,809	2,778
UK	740	1,402	8,221	-	10,363	10,869
Poland	22	8,313	31	-	8,366	11,229
Rest of Europe	(2)	120	659	-	777	329
US	794	10,463	5,042	-	16,299	8,682
Brazil	3,483	21,250	4,265	-	28,998	27,054
Mexico	4,366	8,350	957	-	13,673	10,415
Chile	320	2,759	381	-	3,460	1,776
Rest of America	9	249	771	-	1,029	893
Resto of the word	-	3,832	981	-	4,813	6,222
Total	**14,520**	**85,459**	**36,398**	**-**	**136,377**	**138,901**

5. Credit risk management

Our credit risk management process consists of identifying, analysing, controlling and deciding on the credit risk incurred by the Group. It considers a holistic view of the credit risk cycle including the transaction, customer and portfolio views. Both business and risk areas, together with the senior management participate in the management and control process.

Credit risk identification is a key component for the active management and effective control of the Group. The identification and classification of external and internal risks in each business allows corrective and mitigating measures to be adopted in the event they are needed. This is achieved through the following processes.

5.1 Planning

Planning allows business targets to be set and specific action plans defined, within the risk appetite framework established by the Group.

Strategic commercial plans (SCPs) are one of our management and control tools for the Group's credit portfolios. SCPs are prepared jointly by the business and risk areas, and define the commercial strategies, risk policies, measures and infrastructure required. These factors are considered as a whole, ensuring a holistic view of the portfolios.

The integration of SCPs at management level provides an updated view of the credit portfolio quality, enabling credit risk to be measured, and internal controls executed alongside the periodic monitoring of strategy, the early detection of deviations and significant changes in the risk and potential impact, as well as defining corrective actions where necessary.

SCPs are approved and monitored by senior management in each entity before review and validation at Group level.

The SCPs are aligned with the Group´s risk appetite as well as the capital objectives of the subsidiaries.

5.2 Risk assessment and credit rating process

In order to analyse a customer's capacity to meet their contractual commitments with the Bank, the Group uses valuation and parameter estimation models in each of the segments where it operates.

The credit quality valuation models applied are based on credit rating drivers, which are monitored and controlled to calibrate and adjust the decisions and ratings they assign. Depending on the segment, drivers may be:

- Rating: resulting from the application of mathematical algorithms incorporating a quantitative model based on balance sheet ratios or macroeconomic variables, and a qualitative module supplemented by the credit analyst's expert judgement. Used for the SCIB, commercial banking, institutions and SMEs (those who are treated on an individual basis) segments.

- Scoring: an automatic assessment system for credit applications. It automatically assigns an individual score to the customer for subsequent decision-making, generally in the retail and smaller SMEs segments.

Parameter estimation models are obtained through internal econometric models based on the portfolios' historical defaults and losses for which they are developed. They are also used to calculate economic and regulatory capital and the portfolio's IFRS 9 provision.

Periodic model monitoring and evaluation is carried out, assessing among other factors, the appropriateness of usage, predictive capacity, performance and granularity. In addition, policy compliance is also monitored.

The resulting ratings are regularly reviewed, incorporating the latest available financial information as well as other relevant data. The depth and frequency of the reviews are increased in the case of customers who require a more detailed monitoring or have automatic warnings in the risk management systems.

5.3. Credit risk mitigation techniques

Generally, from a risk acceptance standpoint, the criteria are linked to the borrower's payment capacity for the financial obligations - although this does not inhibit imply an impediment to requiring collateral or personal guarantees in addition.

Payment capacity is assessed based on the funds or net cash flows from the customer´s businesses or income, excluding guarantors or assets pledged as collateral. These guarantors or assets are always to be considered, when evaluating the approval of the transaction, as a secondary method of recovery in the event the first channel fails.

In general, a guarantee is defined as a reinforcement measure added to a credit transaction with the purpose of mitigating the loss due to a breach of the payment obligation.

At Santander, we apply several credit risk mitigation techniques on the basis, among other factors, of the type of customer and product. Some are inherent to specific transactions (e.g. real estate guarantees) while others apply to a series of transactions (e.g. derivatives netting and collateral). The different mitigation techniques can be grouped into personal guarantees, guarantees in the form of credit derivatives or collateral.

5.4. Definition of limits, pre-classifications and preapprovals

The connection between the Group's credit risk appetite and credit portfolios management and control is implemented through the SCPs, which define the portfolio and origination limits to predict the portfolio's risk profile. The cascading down of the Group's risk appetite, strengthens the controls over our credit portfolios.

We have processes that determine the risk that the Group is able to assume with each customer. These limits are jointly set by the business and risk areas and have to be approved by the executive risk committee (or delegated committees) and reflect the expected results of the business in terms of risk-return.

There are different limit models depending on the segment:

• Large corporate groups: we use a pre-classification model based on a system for measuring and monitoring economic capital. The result is the level of risk that the Group is willing to assume with a customer/group, in terms of capital at risk, nominal CAP, and maximum tenors according to the type of transaction, in the case of financial entities, limits are managed through credit equivalent risk (CER). It includes the actual and expected risk with a customer based on its usual transactions, always within the limits defined in the risk appetite statement and established credit policies.

• Corporates and institutions that meet certain requirements (deep knowledge, rating, etc.): a more simplified pre-classification model is used, with an internal limit that establishes a reference point in the level of risk to be assumed with the customer. The criteria will include, among others, repayment capacity, overall indebtedness, and the distribution of the banking pool.

In both cases, transactions over certain thresholds or with specific characteristics might require the approval of a senior credit analyst or committee.

For individual customers and SMEs with low turnover, large volumes of credit transactions are managed with the use of automatic decision models to classify the customer/transaction.

5.5. Scenario analysis

Scenario analysis is used in credit portfolio management as an evolution of the portfolio analysis. It enriches the understanding of the portfolio performance under different macroeconomic conditions, and allows management strategies to be anticipated and defined in order to avoid future deviations from the established plans and targets.

The approach taken with regard to scenario analysis consists of simulating the impact of alternative scenarios in the portfolio credit parameters (PD, LGD) and the associated expected credit losses. The results of this analysis are compared with the portfolio's credit profile indicators to identify the most appropriate measures that could be developed to guide the required management actions.

Scenario analysis is integrated into credit management portfolio activities and in the SCPs.

5.6 Monitoring

Business performance is monitored on a regular basis by comparing performance with established plans. This is a key risk management activity.

All customers are monitored on an ongoing, holistic manner that enables the early detection of events that may have an impact on the customer's credit rating. Monitoring is carried out through an ongoing review of all customers, assigning a monitoring classification, establishing pre-defined actions associated to each classification and executing specific measures (pre-defined or ad-hoc) to correct any deviations that could have a negative effect for the Group.

This monitoring process takes into consideration the transaction forecasts and characteristics throughout its entire life. It also takes into consideration any variations that may have occurred in the classification and suitability since the time of the review.

Monitoring is carried out by local and global Risk teams, backed up by Internal audit. It is based on customer segmentation:

- In the the SCIB segment, monitoring, in the first instance, is a direct function of both the business manager and the risk analyst, who maintain direct relationship with the customer and manage the portfolio. This guarantees an up-to- date view of the customer's credit quality is always available and allows us to anticipate situations of concern and take the necessary actions.

- For commercial banking, institutions and SMEs with a credit analyst assigned, the function consists of identifying and tracking customers that require closer monitoring, reviewing ratings and continuously analysing relevant indicators.

- For individual customers, businesses and smaller SMEs monitoring is carried out through automatic alerts, in order to detect shifts in the performance of the portfolio.

The Group performs the monitoring process through the Santander Customer Assessment Note (SCAN), which was implemented in the Group's subsidiaries in 2019.

The Group's SCAN system aims to establish the level of monitoring, policies and specific actions for all individual customers, based on their credit quality and particular circumstances. Each customer is assigned a level of monitoring, and specific risk management actions, on a dynamic basis, with a specific manager appointed and agreed monitoring frequency.

In addition to customer credit quality monitoring, Santander establishes the control procedures needed to analyse portfolios and performance, as well as any possible deviations regarding planning or approved alert levels.

Portfolio analysis systematically controls the evolution of credit risk with regard to budgets, limits and benchmarks, assessing the impacts of future situations, both exogenous and resulting from strategic decisions, to establish actions to keep the risk portfolio profile and volumes within the parameters set by the Group within its risk appetite.

5.7 Recovery and collections management

Recovery activity is a significant component in the Group's risk management and control. This function is carried out by the Recoveries area, which defines a global strategy and an enterprise-wide focus for recovery management.

The Group has a recovery management operating model that sets the guidelines and general policies of action to be applied, taking into account the local environment.

The Recoveries area directly manages customers, where value creation is based on effective and efficient collection management. New digital channels are becoming increasingly important in recovery management.

The diverse features of Santander´s customers make segmentation necessary in order to manage recoveries effectively. Mass management of large groups of customers with similar profiles and products is conducted through processes with a high technological and digital component, while personalised management focuses on customers who, because of their profile, require a specific manager and more customised management.

Recovery management is divided into four phases: in arrears, non-performing loans recoveries, write-offs recoveries and management of foreclosed assets.

The management scope for the Recovery function includes non-productive assets (NPAs), corresponding to the forborne portfolios, NPLs, written-off loans and foreclosed assets, where the Group may use mechanisms to rapidly reduce the volume of these assets, such as the sale of portfolios or foreclosed assets.

In the written-off loans category, debt instruments are included (past due or otherwise) the recovery of which, after an individualised analysis, is considered remote, due to the severe and unrecoverable impairment of the solvency of the transaction or the customer. Classification in this category involves the full or partial cancellation of the gross carrying amount of the loan and its derecognition. This does not mean that the Group will suspend negotiations or legal proceedings to recover the amounts.

In those geographies with a significant exposure to real estate risk, the Group has efficient sales management instruments to maximise recovery and optimise the existing stock in the balance sheet.

5.8 Forborne loan portfolio

The Group has an internal forbearance policy, which acts as a reference for the different transpositions in all local subsidiaries and shares the principles established by the regulation and the applicable supervisory expectations. This year, the policy was updated to include the EBA Guidelines on the management of non-performing and forborne exposures.

This policy defines forbearance as the modification of the payment conditions of a transaction to allow a customer who is experiencing financial difficulties (current or foreseeable), to fulfil their payment obligations.

In addition, this policy sets rigorous criteria for the evaluation, classification and monitoring of such transactions, ensuring the strictest possible care and diligence in their approval and monitoring. Therefore, the forborne transaction must be focused on recovery of the amounts due and the payment obligations adapted to the customer's current position and, in addition, losses must be recognised as soon as possible if any amounts are deemed irrecoverable.

Forbearance may never be used to delay the immediate recognition of losses or to hinder the appropriate recognition of risk of default.

Further, the policy defines the classification criteria for forborne transactions in order to ensure that any risks are suitably recognised, bearing in mind that they must remain classified as non-performing or watchlist for an appropriate period to ensure reasonable certainty that repayment capacity can be recovered.

The forborne portfolio stood at EUR 32,475 million at the end of December 2019. In terms of credit quality, 53% of the loans are classified as non-performing loans, with average coverage of 52% (28% of the total portfolio).

The Group's forborne portfolio decreased by 21% in 2019, in line with the trend observed in previous years.

The following terms are used in Bank of Spain Circular 4/2017 of Bank of Spain with the meanings specified:

- Refinancing transaction: transaction that is granted or used, for reasons relating to current or foreseeable financial difficulties of the borrower, to repay one or more of the transactions granted to it, or through which the payments on such transactions are brought fully or partially up to date, in order to enable the borrowers of the cancelled or refinanced transactions to repay their debt (principal and interest) because they are unable, or might foreseeably become unable, to comply with the conditions thereof in due time and form.

- Restructured transaction: transaction with respect to which, for economic or legal reasons relating to current or foreseeable financial difficulties of the borrower, the financial terms and conditions are modified in order to facilitate the payment of the debt (principal and interest) because the borrower is unable, or might foreseeably become unable, to comply with the aforementioned terms and conditions in due time and form, even if such modification is envisaged in the agreement.

CURRENT REFINANCING AND RESTRUCTURING BALANCES

Amounts in million euros, except number of transactions that are in units.	31/12/2018													
	Total							Of which: Non-performing/Doubtful						
	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk.	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk
	Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.			Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered.		
					Real estate guarantee	Rest of real guarantees						Real estate guarantee	Rest of real guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	43	31	15	10	7	-	2	13	3	9	4	3	-	1
Other financial institutions and: individual shareholder	630	200	350	90	13	19	35	315	179	240	43	9	3	33
Non-financial institutions and individual shareholder	161,353	5,413	45,474	11,438	6,339	2,271	5,029	93,803	3,406	32,199	7,189	3,586	867	4,590
Of which: financing for constructions and property development	6,427	190	1,293	847	554	21	392	4,077	144	938	629	350	9	378
Other warehouses	1,791,788	3,542	680,475	11,753	6,354	1,958	3,980	1,062,900	1,823	155,288	4,630	2,643	357	2,558
Total	1,953,814	9,185	726,314	23,290	12,714	4,248	9,045	1,157,031	5,411	187,736	11,865	6,241	1,227	7,181
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The same information in the previous table referring to Banco Santander, S.A. it is presented below:

Amounts in millions of euros, except number of operations that are in units,	31/12/2018													
	Total							Of which: Non-performing/Doubtful						
	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk	Without real guarantee		With real guarantee				Impairment of accumulated value or accumulated losses in fair value due to credit risk
	Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered			Number of transactions	Gross amount	Number of transactions	Gross amount	Maximum amount of the actual collateral that can be considered,		
					Real estate guarantee	Rest of real guarantees						Real estate guarantee	Rest of real guarantees	
Credit entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector	33	31	14	9	6	-	2	7	3	9	4	3	-	1
Other financial institutions and: individual shareholder	205	8	142	24	12	-	13	92	4	96	20	9	-	12
Non-financial institutions and individual shareholder	27,143	1,969	29,913	8,608	5,089	428	2,609	14,546	1,328	22,611	5,313	2,862	138	2,407
Of which: Financing for constructions and property development	27	2	574	383	285	0	92	25	1	375	236	140	-	87
Other warehouses	22,848	312	39,410	4,157	3,022	13	1026	8,988	143	26,388	2,808	1,708	5	939
Total	**50,229**	**2,320**	**69,479**	**12,798**	**8,129**	**441**	**3,650**	**23,633**	**1,478**	**49,104**	**8,145**	**4,582**	**143**	**3,359**
Financing classified as non-current assets and disposable groups of items that have been classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-

In 2019, the amortised cost of financial assets whose contractual cash flows were modified during the year when the corresponding loss adjustment was valued at an amount equal to the expected credit losses over the life of the asset amounted to EUR 1,566 million, without these modifications having a material impact on the income statement. Also, during 2019, the total of financial assets that have been modified since the initial recognition, and whose correction for expected loss has gone from being valued during the entire life of the asset to the following twelve months, amounts to 1,601 million euros.

The transactions presented in the foregoing tables were classified at 31 December 2019 by nature, as follows:

- Non-performing: Operations that rest on an inadequate payment scheme will be classified within the non-performing category, regardless they include contract clauses that delay the repayment of the operation throughout regular payments or present amounts written off the balance sheet for being considered irrecoverable.

- Performing: Operations not classifiable as non-performing will be classified within this category. Operations will also will be classified as normal if they have been reclassified from the non-performing category for complying with the specific criteria detailed below:

  a) A period of a year must have expired from the refinancing or restructuring date.

  b) The owner must have paid for the accrued amounts of the capital and interests, thus reducing the rearranged capital amount, from the date when the restructuring of refinancing operation was formalised.

  c) The owner must not have any other operation with amounts past due by more than 90 days on the date of the reclassification to the normal risk category.

47% of the forborne loan transactions are classified as other than non-performing. Particularly noteworthy are the level of existing guarantees (52% of transactions are secured by collateral) and the coverage provided by specific allowances (representing 28% of the total forborne loan portfolio and 42% of the non-performing portfolio).

The table below shows the changes in 2019 in the forborne loan portfolio:

Millions of euros	31/12/2019	
	Loans: Book value	
	Santander Group Spain	*Of wich: Banco Santander, S,A,*
Beginning balance	**30,527**	**13,792**
Refinancing and restructuring of the period	6,174	1,117
Memorandum item: Impact recorded in the income statement for the period	*2,684*	*328*
Debt repayment	(6,032)	(1,234)
Foreclosure	(564)	(416)
Derecognised from the consolidated balance sheet	(1,403)	(346)
Others variations	(5,272)	(1,444)
Balance at end of year	**23,430**	**11,469**

5.9. Credit management evolution

The Group has launched in 2019 a strategic initiative to enhance credit risk management with a mid-term approach within Risk Strategy program:

ATOMiC - Advanced Target Operating Models in Collaboration-. ATOMiC sets credit risk ambition with a 3-year view in a collaborative way by identifying existing best practices in the group and across the industry. Existing best practices set a realistic target aspiration and serve as a reference and driver for other units, enabling better understanding and rationale.

Specific key performance indicators (KPI) are also identified for better assessment and monitoring. Planning and implementation are also leveraged on existing expertise in the units (local experts), with the support of the corporation.

The prioritization is focused on strategic initiatives that require special attention, particularly encouraging undertaking initiatives oriented to processes automation and digitalisation. The workstreams are fully customized and landed to each segment and unit and approved at local internal bodies.

c) Trading market risk, structural and liquidity risk

1. Activities subject to market risk and types of market risk

The perimeter of activities subject to market risk involves transactions where patrimonial risk is assumed as a consequence of variations in market factors. Thus they include trading risks and also structural risks, which are also affected by market shifts. This risk arises from changes in risk factors - interest rates, inflation rates, exchange rates, stock prices, credit spreads, commodity prices and the volatility of each of these elements - as well as liquidity risk of the various products and markets in which the Group operates, and balance sheet liquidity risk:

- **Interest rate risk** is the possibility that changes in interest rates could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects loans, deposits, debt securities, most assets and liabilities in the trading books and derivatives, among others.

- **Inflation rate risk** originates from potential changes in inflation rates that could adversely affect the value of a financial instrument, a portfolio or the Group as a whole. It affects instruments such as loans, debt securities and derivatives, where the return is linked to future inflation values or to a change in the current rate.

- **Exchange rate risk** is defined as the sensitivity to potential movements in exchange rates of a position's value that is denominated in a different currency than the base currency. Hence, a long or open position in a foreign currency may produce a loss if that currency depreciates against the base currency. Among the exposures affected by this risk are the Group's investments in subsidiaries in non-euro currencies, as well as any transactions in foreign currency.

- **Equity risk** is the sensitivity of the value of positions in equities to adverse movements in market prices or expectations of future dividends. Among other instruments, this affects positions in shares, stock market indices, convertible bonds and derivatives using shares as the underlying asset (put, call, equity swaps, etc.).

- **Credit spread risk** is the risk or sensitivity of the value of positions in fixed income securities or in credit derivatives to movements in credit spread curves or in recovery rates associated with issuers and specific types of debt. The spread is the difference between financial instruments listed with a margin over other benchmark instruments, mainly the interest rate risk of Government bonds and interbank interest rates.

- **Commodities price risk** is the risk derived from the effect of potential changes in commodities prices. The Group's exposure to this risk is not significant and mainly comes from our customers' derivative transactions on commodities.

- **Volatility risk** is the risk or sensitivity of the value of a portfolio to changes in the volatility of risk factors: interest rates, exchange rates, shares, credit spreads and commodities. This risk is incurred by all financial instruments where volatility is a variable in the valuation model. The most significant case is the financial options portfolio.

All these market risks can be partly or fully mitigated by using options, futures, forwards and swaps.

- **Correlation risk**. Sensitivity of the portfolio to changes in the relationship between risk factors (correlation), either of the same type (for example, two exchange rates) or different types (for example, an interest rate and the price of a commodity).

- **Market liquidity risk.** This risk arises when a Group subsidiary or the Group as a whole cannot reverse or close a position in time without having an impact on the market price or the transaction cost. Market liquidity risk can be caused by a reduction in the number of market makers or institutional investors, the execution of a large volume of transactions, or market instability. Additionally, this risk could increase depending on how the different exposures are distributed among certain products and currencies.

- **Pre-payment or cancellation risk.** Some on-balancesheet instruments (such as mortgages or deposits) may have associated options that allow the holder to buy, sell it or otherwise alter its future cash flows. This may result in mismatches arising in the balance sheet, which maypose a risk since cash flows may have to be reinvested at an interest rate that is potentially lower (assets) or higher (liabilities).

- **Underwriting risk**. This is the consequence of an entity's involvement in the underwriting or placement of securities or other types of debt, when the entity assumes the risk of having to partially acquire the issued securities when the placement has not been taken up in full by potential buyers.

In addition to the above market risks, balance sheet liquidity risk must also be considered. Unlike market liquidity risk, balance sheet liquidity risk is defined as the possibility of not meeting payment obligations on time, or doing so at an excessive cost. Among the losses caused by this risk are losses due to forced sales of assets or margin impacts due to the mismatch between expected cash inflows and outflows.

Pension and actuarial risks also depend on potential shifts in market factors. Further details are provided at the end of this section

1. Trading market risk management

The Group's trading risk profile remained moderately low in 2018, in line with previous years, due to the fact that the Group's activity has traditionally focused on providing services to its customers, with only limited exposure to complex structured assets, as well as geographic diversification and risk factors.

The standard methodology Santander Group applies to trading activities is Value at Risk (VaR), which measures the maximum expected loss with a certain confidence level and time frame.

The standard for historic simulation is a confidence level of 99% and a time frame of one day. Statistical adjustments are applied enabling the most recent developments affecting the levels of risk assumed to be incorporated efficiently and on a timely manner. A time frame of two years or at least 520 days from the reference date of the VaR calculation is used. Two figures are calculated every day: one applying an exponential decay factor that accords less weight to the observations furthest away in time and another with the same weight for all observations. The higher of the two is reported as the VaR.

The balance sheet items in the Group's consolidated position that are subject to market risk are shown below, distinguishing those positions for which the main risk metric is VaR from those for which risk monitoring is carried out using other metrics:

Million euros	Balance sheet amount	Main market risk metric		Main risk factor for "Other" balance
		VaR	**Other**	
Assets subject to market risk				
Cash, cash balances at central banks and other deposits on demand	101,067		101,067	Interest rate
Financial assets held for trading	108,230	107,522	708	Interest rate, spread
Non-trading financial assets mandatorily at fair value through profit or loss	4,911	3,310	1,601	Interest rate, Equity market
Financial assets designated at fair value through profit or loss	62,069	61,405	664	Interest rate
Financial assets designated at fair value through other comprehensive income	125,708		125,708	Interest rate, spread
Financial assets at amortised cost	995,482		995,482	Interest rate
Hedging derivatives	7,216	7,216	-	Interest rate, exchange rate
Changes in the fair value of hedged items in portfolio hedges of interest risk	1,702		1,702	Interest rate
Other assets	116,310			
Total Assets	**1,522,695**			
Liabilities subject to market risk				
Financial liabilities held for trading	77,139	76,849	290	Interest rate, spread
Financial liabilities designated at fair value through profit or loss	60,995	60,211	784	Interest rate
Financial liabilities at amortised cost	1,230,745		1,230,745	Interest rate, spread
Hedging derivatives	6,048	6,048	0	Interest rate, exchange
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	269		269	Interest rate
Other liabilities	36,840			
Total liabilities	**1,412,036**			
Equity	**110,659**			

The following table displays the latest and average VaR values at 99% by risk factor over the last three years, the lowest and highest values in 2019 and the ES at 97.5% as of the end of December 2019:

Total VaR trading (Derivatives: VaR risk per factor of risk)

Million euros. Structural VaR 99% and ES at 97.5% with one day time horizon

Million euros	2019					2018		2017	
	Var (99%)				ES (97.5%)	VaR		VaR	
	Min	**Average**	**Max**	**Latest**	**Lastest**	**Average**	**Latest**	**Average**	**Latest**
Total Trading	**7.1**	**12.1**	**21.6**	**10.3**	**9.5**	**9.7**	**11.3**	**21.5**	**10.2**
Diversification effect	(4.3)	(8.2)	(24.6)	(9.9)	(8.8)	(9.3)	(11.5)	(8.0)	(7.6)
Interest rate	6.6	10.0	17.6	9.2	7.6	9.4	9.7	16.2	7.9
Equities	1.0	2.9	15.3	4.8	4.6	2.4	2.8	3.0	1.9
Exchange rate	1.8	3.9	8.4	2.6	2.8	3.9	6.2	6.6	3.3
Credit spread	2.1	3.4	4.8	3.5	3.2	3.4	4.1	3.6	4.6
Commodities	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total Europe	**4.2**	**6.3**	**11.6**	**10.1**	**6.8**	**5.0**	**5.5**	**6.8**	**6.3**
Diversification effect	(2.9)	(6.9)	(15.2)	(8.3)	(8.8)	(6.7)	(8.2)	(6.1)	(6.1)
Interest rate	3.6	6.0	12.8	8.2	6.5	5.0	5.8	6.1	5.7
Equities	0.4	1.9	5.1	4.9	4.4	1.1	1.2	1.1	0.5
Exchange rate	1.0	1.9	3.8	1.9	1.4	1.7	2.1	2.0	1.4
Credit spread	2.1	3.4	5.1	3.5	3.2	3.9	4.6	3.7	4.7
Commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total North America	**1.5**	**3.5**	**5.1**	**3.8**	**4.0**	**7.2**	**8.3**	**7.6**	**4.3**
Diversification effect	(0.4)	(1.3)	(3.6)	(2.1)	(1.2)	(4.8)	(2.7)	(4.7)	(3.5)
Interest rate	1.5	2.6	4.0	3.4	2.6	6.4	7.7	7.6	4.6
Equities	0.1	0.2	0.6	0.1	0.1	0.1	0.0	0.4	0.0
Exchange rate	0.4	2.0	4.1	2.4	2.4	5.5	3.3	4.2	3.3
Total South America	**5.5**	**9.5**	**20.7**	**6.0**	**6.1**	**7.2**	**10.0**	**18.7**	**7.8**
Diversification effect	(0.4)	(2.9)	(13.4)	(3.8)	(2.6)	(3.5)	(2.3)	(2.9)	(3.4)
Interest rate	4.9	7.8	19.6	5.9	5.4	6.4	6.6	14.8	7.4
Equities	0.4	2.0	7.0	1.7	1.6	2.5	2.9	3.2	1.9
Exchange rate	0.6	2.6	7.6	2.1	1.7	1.9	2.9	3.5	2.0

In 2019, VaR fluctuated between 21.6 million euros and 7.1 million euros. The most significant changes were related to variations in exchange and interest rate exposures and also market volatility.

The average VaR in 2019 was 12.1 million euros, slightly above 2018 but lower than in 2017 (9.7 million euros in 2018 and 21.5 million euros in 2017).

The Group continues to have very limited exposure to complex structured instruments or assets. This is a reflection of our risk culture with prudence in risk management as one of its hallmarks.

At the end of December 2019, the Group had the following exposures in this area:

- Hedge funds: exposure was EUR 90 million, all indirect, acting as counterparty in derivatives transactions. The risk related to this type of counterparty is analysed on a case by case basis, establishing percentages of collateralisation on the basis of the features and assets of each fund.

- Monolines: no exposure at the end of December 2019.

The Group's policy for approving new transactions related to these products is still extremely prudent and conservative. It is subject to strict supervision by the Group's senior management.

Backtesting

Actual losses can differ from those forecast by VaR for various reasons related to the limitations of this metric. The Group regularly analyses and contrasts the accuracy of the VaR calculation model in order to confirm its reliability. The most important tests consist of backtesting exercises:

For hypothetical P&L backtesting and for the total portfolio, there were two overshootings in VaR at 99%, on August 5th and on September 2nd, due to the increase in market volatility caused by US/China trade disputes and political uncertainty in Argentina.

There were no overshootings in Value at Earnings (VaE) at 99% in 2019. The number of observed overshootings in 2019 is consistent with the assumptions specified in the VaR calculation model.

2. Structural balance sheet risks

2.1. Main aggregates and variations

The market risk profile inherent in Grupo Santander's balance sheet, in relation to its asset volumes and shareholders' funds, as well as the budgeted financial margin, remained moderate in 2019, in line with previous years.

Structural VaR

A standardised metric such as VaR can be used for monitoring total market risk for the banking book, excluding the trading activity of SCIB, (considering both interest rates and credit spreads on ALCO portfolios), exchange rates and equities.

In general, the structural VaR is not significant according to the assets amounts or capital of the Group:

Structural VaR

Million euros. Structural VaR 99% with a temporary horizon one day.

Million euros	2019				2018		2017	
	Min	**Average**	**Max**	**Latest**	**Average**	**Latest**	**Average**	**Latest**
Structural VaR	**438,2**	**511,4**	**729,1**	**729,1**	**568.5**	**556.0**	**878**	**815,7**
Diversification effect	(255,5)	(304,2)	(404,3)	(402,0)	(325.0)	(267.7)	(337.3)	(376.8)
VaR interest rate (*)	224,7	345,6	629,7	629,7	337.1	319.5	373.9	459.6
VaR exchange rate	283,5	308,1	332,1	331,7	338.9	324.9	546.9	471.2
VaR equities	155,5	161,9	171,7	169,8	217.6	180.1	294.5	261.6

(*) Includes credit spread VaR on ALCO portfolios.

Structural interest rate risk

- **Europe**

The main balance sheets, those of the Parent and Santander UK, in mature markets and in a low interest rate environment, usually show positive sensitivities to interest rates in economic value of equity and net interest income.

Exposure levels in all countries were moderate in relation to the annual budget and capital levels in 2019.

At the end of December 2019, risk on net interest income over a one year horizon, measured as the sensitivity to parallel changes in the worst-case scenario of ±100 basis points, was concentrated in the Euro, at 479 million euros, the British pound yield curve at EUR 69 million, the Polish zloty, at 60 million euros, and the US dollar, at 13 million euros, all related to risks of rate cuts.

- **North America**

North American balance sheets usually show positive sensitivities to interest rates in economic value of equity and net interest income, except for economic value of equity in Mexico.

Exposure levels in all countries were moderate in relation to the annual budget and capital levels in 2019.

As of the end of December, risk on net interest income over a one year horizon, measured as the sensitivity to parallel changes in the worst case scenario of ±100 basis points, was mainly located in the USA (65 million euros).

- **South America**

South American balance sheets are usually positioned for interest rate cuts in terms of both economic value and net interest income.

In 2019, exposure levels in all countries were moderate in relation to the annual budget and capital levels.

As of the end of December, risk on net interest income over a one year horizon, measured as the sensitivity to parallel changes in the worst case scenario of ±100 basis points, was mainly found in Brazil (74 million euros).

Structural foreign currency risk/hedges of results

Structural exchange rate risk arises from Group transactions in foreign currencies, mainly related to permanent financial investments, results and the hedging of both.

This management is dynamic and seeks to limit the impact on the core capital ratio from exchange rates movements. In 2019, hedging levels of the core capital ratio for foreign exchange rate risk were maintained near 100%.

At the end of 2019, the largest exposures of permanent investments (with their potential impact on equity) were, in the following order, in Brazilian real, US dollars, UK pounds sterling, Chilean pesos, Mexican pesos and Polish zlotys. The Group hedges some of these positions of a permanent nature with foreign exchange-rate derivatives.

In addition, the financial area is responsible for managing foreign exchange rate risk for the Group's expected results and dividends in units where the base currency is not the euro.

Structural equity risk

The Group maintains equity positions in its banking book in addition to those of the trading portfolio. These positions are maintained as equity instruments or as investments, depending on the percentage or control.

The equity portfolio available for the banking book at the end of December 2019 was diversified in securities in various countries, mainly Spain, China, Morocco, Netherlands and Poland. Most of the portfolio is invested in financial activities and insurance sectors. Among other sectors, to a lesser extent, are for e.g real estate activities or public administration.

Structural equity positions are exposed to market risk. VaR is calculated for these positions using market price data series or proxies. As of the end of December 2019, the VaR at 99% with a one day time frame was EUR 170 million (EUR 180.1 and EUR 261.6 million at the end of 2018 and 2017, respectively).

2.2. Methodologies

Structural interest rate risk

The Group analyses the sensitivity of its equity value and net interest income to changes in interest rates as well as its different sources and sub-types of risk. These sensitivities measure the impact of changes in interest rates on the value of a financial instrument, a portfolio or the Group as a whole, as well as the impact on the profitability structure over the given time horizon for which NII is calculated.

Taking into consideration the balance-sheet interest rate position and the market situation and outlook, the necessary financial actions are adopted to align this position with that defined by the Group. These measures can range from opening positions in markets to the definition of the interest rate characteristics of our commercialized products.

The metrics used by the Group to control interest rate risk in these activities are the repricing gap, sensitivity of net interest margin and market value of equity to changes in interest rates, the duration of capital and value at risk (VaR) for economic capital calculation purposes.

Structural exchange-rate risk/hedging of results

These activities are monitored via position measurements, VaR and results, on a daily basis.

Structural equity risk

These activities are monitored via position measurements, VaR and results, on a monthly basis.

3. Liquidity risk

Structural **liquidity management** aims to fund the Group's recurring activity optimizing maturities and costs, while avoiding taking on undesired liquidity risks.

Santander's liquidity management is based on the following principles:

- Decentralized liquidity model.
- Medium- and long-term (M/LT) funding needs must be covered by medium- and long-term instruments.
- High contribution from customer deposits due to the retail nature of the balance sheet.
- Diversification of wholesale funding sources by instruments/investors, markets/currencies and maturities.
- Limited recourse to short-term funding.

- Availability of sufficient liquidity reserves, including standing facilities/discount windows at central banks to be used in adverse situations.

- Compliance with regulatory liquidity requirements both at Group and subsidiary level, as a new factor conditioning management.

The effective application of these principles by all institutions comprising the Group required the development of a unique management framework built upon three essential pillars:

- A **solid organisational and governance model** that ensures the involvement of the subsidiaries' senior management in decision-taking and its integration into the Group's global strategy. The decision-making process for all structural risks, including liquidity and funding risk, is carried out by Local Asset and Liability Committees (ALCO) in coordination with the Global ALCO, which is the body empowered by Banco Santander's board in accordance with the corporate Asset and Liability Management (ALM) framework.

This governance model has been reinforced as it has been included within the Santander Risk Appetite Framework. This framework meets the demands of regulators and market players emanating from the financial crisis to strengthen banks' risk management and control systems.

- In-depth **balance sheet analysis and measurement of liquidity risk**, supporting decision-taking and its control. The objective is to ensure the Group maintains adequate liquidity levels necessary to cover its short- and long-term needs with stable funding sources, optimising the impact of their costs on the income statement.

The Group's liquidity risk management processes are contained within a conservative risk appetite framework established in each geographic area in accordance with its commercial strategy. This risk appetite establishes the limits within which the subsidiaries can operate in order to achieve their strategic objectives.

- **Management adapted** in practice to **the liquidity needs of each business**. Every year, based on business needs, a liquidity plan is developed which seeks to achieve:

- a solid balance sheet structure, with a diversified presence in the wholesale markets;

- the use of liquidity buffers and limited encumbrance of assets;

- compliance with both regulatory metrics and other metrics included in each entity's risk appetite statement.

Over the course of the year, all dimensions of the plan are monitored.

The Group continues developing the **ILAAP** (Internal Liquidity Adequacy Assessment Process), an internal self-assessment of liquidity adequacy which must be integrated into the Group's other risk management and strategic processes. It focuses on both quantitative and qualitative matters and is used as an input to the SREP (Supervisory Review and Evaluation Process). The ILAAP evaluates the liquidity position both in ordinary and stressed scenarios.

iii. Asset encumbrance

In accordance with the guidelines established by the European Banking Authority (EBA) in 2014 on committed and uncommitted assets, the concept of assets committed in financing transactions (asset encumbrance) includes both on-balance sheet assets provided as collateral in transactions to obtain liquidity and off-balance sheet assets that have been received and reused for similar purposes, as well as other assets associated with liabilities for reasons other than financing.

The residual maturities of the liabilities associated with the assets and guarantees received and committed are presented below, as of 31 of December of 2019 (thousand of million euros):

Residual maturities of the liabilities	**unmatured**	**<=1month**	**>1month <=3months**	**>3months <=12months**	**>1year <=2years**	**>2years <=3years**	**3years <=5years**	**5years <=10years**	**>10years**	**TOTAL**
Commited assets	31,9	43,0	7,8	80,3	65,2	28,8	24,1	20,2	20,2	321,5
Guarantees received	27,1	23,9	3,9	19,9	1,1	0,2	0,9	0,0	0,0	76,9

The reported Group information as required by the EBA at 2019 year-end is as follows:

On-balance-sheet encumbered assets

Thousand of million euros	Carrying amount of encumbered assets	Fair Value of encumbered assets	Fair Value of non-encumbered assets	Carrying amount of non-encumbered assets
Loans and advances	215.9		906.2	
Equity instruments	6.5	6.5	12.1	12.1
Debt securities	64.7	64.8	119.9	119.6
Other assets	34.4		163.0	
Total assets	**321.5**		**1,201.2**	

Encumbrance of collateral received

Thousand of million euros	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received	**77.0**	**55.8**
Loans and advances	0.8	-
Equity instruments	5.6	8.2
Debt securities	70.6	47.6
Other collateral received	-	-
Own debt securities issued other than own covered bonds or ABSs	**-**	**1.2**

Encumbered assets and collateral received and matching liabilities

Thousand of million euros	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Total sources of encumbrance (carrying amount)	**302,5**	**398,6**

On-balance-sheet encumbered assets amounted to EUR 321,500 million, of which 67% are loans (mortgage loans, corporate loans, etc.). Off-balance-sheet encumbered assets amounted to EUR 77,000 million, relating mostly to debt securities received as security in asset purchase transactions and re-used. Taken together, these two categories represent a total of EUR 398,600 million of encumbered assets, which give rise to EUR 302,500 million matching liabilities.

As of December 2019, total asset encumbrance in funding operations represented 24.1% of the Group's extended balance sheet under EBA criteria (total assets plus guarantees received: EUR 1,655,600 as of December 2019). This percentage has been decreased from 24.8% that presented the Group as of December 2018. This reduction is due, among other reasons, to the fact that the Group has begun to repay part of the financing received from the European Central Bank under the TLTRO-II programme.

d) Capital risk

Capital risk, the second line of defence, independently challenges the business or first line activities mainly through the following processes:

- Supervision of capital planning and adequacy exercises through a review of the main components affecting the capital ratios.

- Ongoing supervision of measurement of the Group's regulatory capital by identifying the key metrics for the calculation, setting tolerance levels for identified metrics and reviewing their consumption and the consistency of the calculations, including single transactions with an impact on capital.

- Review and challenge of the execution of those capital actions proposed in line with capital planning and risk appetite.

  The Group commands a sound solvency position, above the levels required by regulators and by the European Central bank.

  At 1 January 2020, at a consolidated level, the Group must maintain a minimum capital ratio of 9.69% of CET1 fully loaded (4.5% being the requirement for Pillar I, 1.5% being the requirement for Pillar 2R (requirement), 2.5% being the requirement for capital conservation “buffer”, 1% being the requirement for G-SIB and a 0.19% being the requirement for anti-cyclical capital “buffer”). Santander Group must also maintain a minimum capital ratio of 1.5% of Tier 1 fully loaded and a minimum total ratio of 13.19% fully loaded.

Regulatory capital

In 2019, the solvency target set was achieved. Santander's CET1 fully loaded ratio stood at 11,65% at the close of the year, demonstrating its organic capacity to generate capital. The key regulatory capital figures are indicated below:

Reconciliation of accounting capital with regulatory capital (Million euros)

	2019	2018
Subscribed capital	8,309	8,118
Share premium account	52,446	50,993
Reserves	56,526	53,988
Treasury shares	(31)	(59)
Attributable profit	6,515	7,810
Approved dividend	(1,662)	(2,237)
Shareholders' equity on public balance sheet	**122,103**	**118,613**
Valuation adjustments	(22,032)	(22,141)
Non- controlling interests	10,588	10,889
Total Equity on public balance sheet	**110,659**	**107,361**
Goodwill and intangible assets	(28,478)	(28,644)
Eligible preference shares and participating securities	9,039	9,754
Accrued dividend	(1,761)	(1,055)
Other adjustments (*)	(9,923)	(9,700)
Tier I (Phase-in)	**79,536**	**77,716**

(*)Fundamentally for non-computable non-controlling interests and deductions and reasonable filters in compliance with CRR.

The following table shows the Phase-in capital coefficients and a detail of the eligible internal resources of the Group:

	2019	2018
Capital coefficients		
Level 1 ordinary eligible capital (million euros)	70,497	67,962
Level 1 additional eligible capital (million euros)	9,039	9,754
Level 2 eligible capital (million euros)	11,531	11,009
Risk-weighted assets (million euros)	605,244	592,319
Level 1 ordinary capital coefficient (CET 1)	11.65%	11.47%
Level 1 additional capital coefficient (AT1)	1.49%	1.65%
Level 1 capital coefficient (TIER1)	13.14%	13.12%
Level 2 capital coefficient (TIER 2)	1.91%	1.86%
Total capital coefficient	**15.05%**	**14.98%**

Eligible capital (Million euros)

	2019	2018
Eligible capital		
Common Equity Tier I	**70,497**	**67,962**
Capital	8,309	8,118
(-) Treasure shares and own shares financed	(63)	(64)
Share Premium	52,446	50,993
Reserves	57,368	55,036
Other retained earnings	(22,933)	(23,022)
Minority interests	6,441	6,981
Profit net of dividends	3,092	4,518
Deductions	(34,163)	(34,598)
Goodwill and intangible assets	*(28,478)*	*(28,644)*
Others	*(5,685)*	*(5,954)*
Additional Tier I	**9,039**	**9,754**
Eligible instruments AT1	9,209	9,666
T1- excesses-subsidiaries	(170)	88
Tier II	**11,531**	**11,009**
Eligible instruments T2	12,360	11,306
T2-excesses- subsidiaries	(829)	(297)
Total eligible capital	**91,067**	**88,725**

Note: Santander Bank and its affiliates had not taken part in any State aid programmes.

Leverage ratio

The leverage ratio has been defined within the regulatory framework of Basel III as a measure of the capital required by financial institutions not sensitive to risk. The Group performs the calculation as stipulated in CRD IV and its subsequent amendment in EU Regulation no. 573/2013 of 17 January 2015, which was aimed at harmonising calculation criteria with those specified in the BCBS “Basel III leverage ratio framework” and “Disclosure requirements” documents.

This ratio is calculated as Tier 1 capital divided by leverage exposure. Exposure is calculated as the sum of the following items:

- Accounting assets, excluding derivatives and items treated as deductions from Tier 1 capital (for example, the balance of loans is included, but not that of goodwill).

- Off-balance-sheet items (mainly guarantees, unused credit limits granted and documentary credits) weighted using credit conversion factors.

- Inclusion of net value of derivatives (gains and losses are netted with the same counterparty, minus collaterals if they comply with certain criteria) plus a charge for the future potential exposure.

- A charge for the potential risk of security funding transactions.

- Lastly, it includes a charge for the risk of credit derivative swaps (CDS).

The European Commission's proposals to modify CRR and CRD IV on 23 November 2016, foresee a mandatory requirement of a 3% leverage ratio for Tier 1 capital, which would be added to the own funds requirements in the article 92 of the CRR. The proposals for the Commission's modification also point to the possibility of introducing a buffer of leverage ratio for global systemic entities in the future.

With the publication of Regulation (EU) 2019/876 of 20 May, 2019, amending Regulation (EU) No. 575/2013 as regards the leverage ratio, the final calibration of the ratio is set at 3% for all entities and, for systemic entities G-SIBs, an additional surcharge is also established which will be 50% of the cushion ratio applicable to the EISM. In addition, modifications are included in its calculation, including the exclusion of certain exposures from the total exposure measure: public loans, transfer loans and officially guaranteed export credits.

Banks will have to implement the final definition of the leverage ratio by June 2021 and comply with the new calibration of the ratio (the surcharge for G-SIBs) from January 2022.

Million euros	2019	2018
Leverage		
Level 1 Capital	79,536	77,716
Exposure	1,544,614	1,489,094
Leverage Ratio	**5.15%**	**5.22%**

Global systemically important banks

The Group is one of 30 banks designated as global systemically important banks (G-SIBs).

The designation as a systemically important entity is based on the measurement set by regulators (the FSB and BCBS), based on 5 criteria (size, cross-jurisdictional activity, interconnectedness with other financial institutions, substitutability and complexity).

This definition means it has to fulfil certain additional requirements, which consist mainly of a capital buffer (1%), in TLAC requirements (total loss absorbing capacity), that we have to publish relevant information more frequently than other banks, greater regulatory requirements for internal control bodies, special supervision and drawing up of special reports to be submitted to supervisors.

The fact that Grupo Santander has to comply with these requirements makes it a more solid bank than its domestic rivals.

Santander

Appendix I

Subsidiaries of Banco Santander, S.A. (1)

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
2 & 3 Triton Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Real estate	63	7	12
A & L CF (Guernsey) Limited (n)	Guernsey	0,00%	100,00%	100,00%	100,00%	Leasing	-	1	-
A & L CF June (2) Limited (e)	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	-	-	-
A & L CF June (3) Limited (e)	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	8	(1)	-
A & L CF March (5) Limited (d)	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	-	-	-
A & L CF September (4) Limited (f)	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	23	-	-
Abbey Business Services (India) Private Limited (d)	India	0,00%	100,00%	100,00%	100,00%	Holding company	-	-	-
Abbey Covered Bonds (Holdings) Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-
Abbey Covered Bonds (LM) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	-	-	-
Abbey Covered Bonds LLP	United Kingdom	-	(b)	-	-	Securitisation	(269)	277	-
Abbey National Beta Investments Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Abbey National Business Office Equipment Leasing Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	-	-	-
Abbey National International Limited	Jersey	0,00%	100,00%	100,00%	100,00%	Banking	5	-	7
Abbey National Nominees Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securities company	-	-	-
Abbey National PLP (UK) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Abbey National Property Investments	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	554	6	163
Abbey National Treasury Services Investments Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Abbey National Treasury Services Overseas Holdings	United Kingdom	0,00%	100,00%	100,00%	100,00%	Holding company	1	-	-
Abbey National UK Investments	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Abbey Stockbrokers (Nominees) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securities company	-	-	-
Abbey Stockbrokers Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securities company	-	-	-
Ablasa Participaciones, S.L.	Spain	18,94%	81.06%	100,00%	100,00%	Holding company	445	(109)	697
Administración de Bancos Latinoamericanos Santander, S.L.	Spain	24,11%	75.89%	100,00%	100,00%	Holding company	2.532	(11)	1.863
Aevis Europa, S.L.	Spain	96,34%	0,00%	96.34%	96.34%	Cards	1	-	1
AFB SAM Holdings, S.L.	Spain	1,00%	99,00%	100,00%	100,00%	Holding company	-	-	-

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Afisa S.A.	Chile	0,00%	100,00%	100,00%	100,00%	Fund management company	4	-	4
ALIL Services Limited	Isle of man	0,00%	100,00%	100,00%	100,00%	Services	4	-	4
Aliseda Real Estate, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Real estate	30	(48)	4
Aljardi SGPS, Lda.	Portugal	0,00%	100,00%	100,00%	100,00%	Holding company	1.204	(2)	1.148
Alliance & Leicester Cash Solutions Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Alliance & Leicester Commercial Bank Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Alliance & Leicester Investments (Derivatives) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Alliance & Leicester Investments (No.2) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Alliance & Leicester Investments Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Alliance & Leicester Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Alliance & Leicester Personal Finance Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	(239)	-	-
Altamira Santander Real Estate, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Real estate	(61)	-55	-
Amazonia Trade Limited	United Kingdom	100,00%	0,00%	100,00%	100,00%	Holding company	-	-	-
AN (123) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Holding company	-	-	-
Andaluza de Inversiones, S.A.	Spain	0,00%	100,00%	100,00%	100,00%	Holding company	92	-	27
ANITCO Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Holding company	-	-	-
Aquanima Brazil Ltda.	Brazil	0,00%	100,00%	100,00%	100,00%	E-Commerce	3	-	-
Aquanima Chile S.A.	Chile	0,00%	100,00%	100,00%	100,00%	Services	3	-	-
Aquanima México S. de R.L. de C.V.	Mexico	0,00%	100,00%	100,00%	100,00%	E-Commerce	2	0	2
Aquanima S.A.	Argentina	0,00%	100,00%	100,00%	100,00%	Services	0	-	-
Arcaz - Sociedade Imobiliária Portuguesa, Lda. (r)	Portugal	0,00%	99.91%	100,00%	100,00%	Inactive	3	-	-
Argenline S.A. (j) (p)	Uruguay	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Asto Digital Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	45	(16)	30
Athena Corporation Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Financial services	(1)	(2)	1
Atlantes Azor No. 1	Portugal	-	(b)	-	-	Securitisation	-	-	-
Atlantes Azor No. 2	Portugal	-	(b)	-	-	Securitisation	-	-	-
Atlantes Mortgage No. 2	Portugal	-	(b)	-	-	Securitisation	-	-	-
Atlantes Mortgage No. 3	Portugal	-	(b)	-	-	Securitisation	-	-	-

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Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Atlantes Mortgage No. 4	Portugal	-	(b)	-	-	Securitisation	-	-	-
Atlantes Mortgage No. 5	Portugal	-	(b)	-	-	Securitisation	-	-	-
Atlantes Mortgage No. 7	Portugal	-	(b)	-	-	Securitisation	-	-	-
Atual Serviços de Recuperação de Créditos e Meios Digitais S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Financial services	291	6	263
Auto ABS Belgium Loans 2019, SA/NV	Belgium	-	(b)	-	-	Securitisation	4	-	-
Auto ABS DFP Master Compartment France 2013	France	-	(b)	-	-	Securitisation	-	-	-
Auto ABS French Lease Master Compartiment 2016	France	-	(b)	-	-	Securitisation	-	-	-
Auto ABS French Leases 2018	France	-	(b)	-	-	Securitisation	-	-	-
Auto ABS French Loans Master	France	-	(b)	-	-	Securitisation	-	-	-
Auto ABS French LT Leases Master	France	-	(b)	-	-	Securitisation	-	-	-
Auto ABS Italian Balloon 2019-1 S.R.L.	Italy	-	(b)	-	-	Securitisation	-	-	-
Auto ABS Italian Loans 2018-1 S.R.L.	Italy	-	(b)	-	-	Securitisation	-	-	-
Auto ABS Spanish Loans 2016, Fondo de Titulización	Spain	-	(b)	-	-	Securitisation	-	-	-
Auto ABS Spanish Loans 2018-1, Fondo de Titulización	Spain	-	(b)	-	-	Securitisation	-	-	-
Auto ABS Swiss Leases 2013 Gmbh	Switzerland	-	(b)	-	-	Securitisation	-	-	-
Auto ABS UK Loans 2017 Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-
Auto ABS UK Loans 2017 Plc	United Kingdom	-	(b)	-	-	Securitisation	-	(1)	-
Auto ABS UK Loans 2019 Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-
Auto ABS UK Loans 2019 Plc	United Kingdom	-	(b)	-	-	Securitisation	-	(1)	-
Auto ABS UK Loans Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-
Auto ABS UK Loans PLC	United Kingdom	-	(b)	-	-	Securitisation	(5)	(7)	-
Autodescuento, S.L.	Spain	0,00%	93.89%	93.89%	-	Vehicle purchase and sale	1	-	18
Auttar HUT Processamento de Dados Ltda.	Brazil	0,00%	89.93%	100,00%	100,00%	Technology services	4	1	4
Aviación Antares, A.I.E.	Spain	99,99%	0.01%	100,00%	100,00%	Renting	49	6	28
Aviación Británica, A.I.E.	Spain	99,99%	0.01%	100,00%	100,00%	Renting	15	4	6
Aviación Centaurus, A.I.E.	Spain	99,99%	0.01%	100,00%	100,00%	Renting	39	3	25
Aviación Comillas, S.L. Unipersonal	Spain	100,00%	0,00%	100,00%	100,00%	Renting	8	-	8
Aviación Intercontinental, A.I.E.	Spain	99,97%	0.03%	100,00%	100,00%	Renting	82	(1)	63

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Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Aviación Laredo, S.L.	Spain	99,00%	1,00%	100,00%	100,00%	Air transport	4	-	3
Aviación Oyambre, S.L. Unipersonal	Spain	100,00%	0,00%	100,00%	100,00%	Renting	1	-	1
Aviación Real, A.I.E.	Spain	99,99%	0.01%	100,00%	100,00%	Renting	11	2	11
Aviación Santillana, S.L.	Spain	99,00%	1,00%	100,00%	100,00%	Renting	3	-	2
Aviación Suances, S.L.	Spain	99,00%	1,00%	100,00%	100,00%	Air transport	5	-	3
Aviación Tritón, A.I.E.	Spain	99,99%	0.01%	100,00%	100,00%	Renting	29	3	19
Aymoré Crédito, Financiamento e Investimento S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Finance company	72	135	42
Banca PSA Italia S.p.A.	Italy	0,00%	50,00%	50,00%	50,00%	Banking	387	55	153
Banco Bandepe S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Banking	1,115	54	1.051
Banco de Albacete, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Banking	14	-	9
Banco de Asunción, S.A. en liquidación voluntaria (j)	Paraguay	0,00%	99.33%	99.33%	99.33%	Banking	-	-	-
Banco Hyundai Capital Brazil S.A.	Brazil	0,00%	44.97%	50,00%	50,00%	Banking	67	(1)	30
Banco Madesant - Sociedade Unipessoal, S.A.	Portugal	0,00%	100,00%	100,00%	100,00%	Banking	1.085	(2)	1.083
Banco Olé Bonsucesso Consignado S.A.	Brazil	0,00%	53.96%	60,00%	60,00%	Banking	229	113	197
Banco PSA Finance Brazil S.A.	Brazil	0,00%	44.97%	50,00%	50,00%	Banking	51	7	26
Banco Santander - Chile	Chile	0,00%	67.12%	67.18%	67.18%	Banking	3.553	653	3.168
Banco Santander (Brasil) S.A.	Brazil	13,95%	75.99%	90.52%	90.44%	Banking	12.313	3.120	10.170
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 100740	Mexico	0,00%	91.76%	100,00%	100,00%	Finance company	101	17	109
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso 2002114	Mexico	0,00%	92.65%	100,00%	100,00%	Holding company	8	-	8
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander México como Fiduciaria del Fideicomiso GFSSLPT	Mexico	0,00%	92.66%	100,00%	100,00%	Finance company	11	1	11
Banco Santander Consumer Portugal, S.A.	Portugal	0,00%	100,00%	100,00%	100,00%	Banking	172	13	128
Banco Santander de Negocios Colombia S.A.	Colombia	0,00%	100,00%	100,00%	100,00%	Banking	120	2	117
Banco Santander International	United States	0,00%	100,00%	100,00%	100,00%	Banking	969	109	1.078
Banco Santander International SA	Switzerland	0,00%	100,00%	100,00%	100,00%	Banking	1.034	26	791
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico	16,69%	75.08%	91.77%	75.17%	Banking	5.519	1.002	6.586
Banco Santander Perú S.A.	Peru	99,00%	1,00%	100,00%	100,00%	Banking	189	29	121
Banco Santander Puerto Rico	Puerto Rico	0,00%	100,00%	100,00%	100,00%	Banking	864	59	923
Banco Santander Río S.A.	Argentina	0,00%	99.3%	99.25%	99.25%	Banking	619	337	418

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Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Banco Santander S.A.	Uruguay	97,75%	2.25%	100,00%	100,00%	Banking	339	98	191
Banco Santander Totta, S.A.	Portugal	0,00%	99.86%	99.96%	99.96%	Banking	2.998	500	3.415
Bansa Santander S.A.	Chile	0,00%	100,00%	100,00%	100,00%	Real estate	24	(1)	23
BEN Benefícios e Serviços S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Payment services	20	(4)	14
Bilkreditt 4 Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitisation	-	-	-
Bilkreditt 5 Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitisation	-	-	-
Bilkreditt 6 Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitisation	-	-	-
Bilkreditt 7 Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	-	-	-
BPE Financiaciones, S.A.	Spain	90,00%	10,00%	100,00%	100,00%	Finance company	1	-	1
BRS Investments S.A.	Argentina	0,00%	100,00%	100,00%	100,00%	Finance company	25	2	41
Caja de Emisiones con Garantía de Anualidades Debidas por el Estado, S.A.	Spain	62,87%	0,00%	62.87%	62.87%	Finance company	-	-	-
Cántabra de Inversiones, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Holding company	42	15	31
Cántabro Catalana de Inversiones, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Holding company	315	-	267
Canyon Multifamily Impact Fund IV LLC (o)	United States	0,00%	98,00%	98,00%	-	Real estate	-	-	-
Capital Street Delaware LP	United States	0,00%	100,00%	100,00%	100,00%	Holding company	-	-	-
Capital Street Holdings, LLC	United States	0,00%	100,00%	100,00%	100,00%	Holding company	14	-	14
Capital Street REIT Holdings, LLC	United States	0,00%	100,00%	100,00%	100,00%	Holding company	1.194	25	1.219
Capital Street S.A.	Luxembourg	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Carfax (Guernsey) Limited (n)	Guernsey	0,00%	100,00%	100,00%	100,00%	Insurance brokerage	-	-	-
Carfinco Financial Group Inc.	Canada	96,42%	0,00%	96.42%	96.42%	Holding company	62	-	68
Carfinco Inc.	Canada	0,00%	96.42%	100,00%	100,00%	Finance company	51	5	45
Casa de Bolsa Santander, S.A. de C.V., Grupo Financiero Santander México	Mexico	0,00%	99.97%	99.97%	99.97%	Securities company	56	3	59
Cater Allen Holdings Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Holding company	-	-	-
Cater Allen International Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securities company	-	-	-
Cater Allen Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Banking	581	61	262
Cater Allen Lloyd's Holdings Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Holding company	-	-	-
Cater Allen Syndicate Management Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Advisory services	-	-	-
CCAP Auto Lease Ltd.	United States	0,00%	72.4%	100,00%	100,00%	Leasing	1	(59)	-

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Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Centro de Capacitación Santander, A.C.	Mexico	0,00%	91.76%	100,00%	100,00%	Non profit institute	1	0	1
Certidesa, S.L.	Spain	0,00%	100,00%	100,00%	100,00%	Aircraft rental	(60)	(7)	-
Chrysler Capital Auto Funding I LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	15	7	-
Chrysler Capital Auto Funding II LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	7	(2)	-
Chrysler Capital Auto Receivables LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	-	-	-
Chrysler Capital Auto Receivables Trust 2016-A	United States	-	(b)	-	-	Securitisation	(25)	14	-
Chrysler Capital Master Auto Receivables Funding 2 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	(66)	(106)	-
Chrysler Capital Master Auto Receivables Funding 4 LLC	United States	0,00%	72.4%	100,00%	-	Finance company	-	35	-
Chrysler Capital Master Auto Receivables Funding LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	(44)	-	-
Cobranza Amigable, S.A.P.I. de C.V.	Mexico	0,00%	85,00%	100,00%	39.74%	Collection services	4	-	4
Compagnie Generale de Credit Aux Particuliers - Credipar S.A.	France	0,00%	50,00%	100,00%	100,00%	Banking	363	87	428
Compagnie Pour la Location de Vehicules - CLV	France	0,00%	50,00%	100,00%	100,00%	Finance company	20	5	26
Comunidad Laboral Trabajando Argentina S.A.	Argentina	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Comunidad Laboral Trabajando Iberica, S.L. Unipersonal	Spain	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Consulteam Consultores de Gestão, Lda.	Portugal	86,28%	13.72%	100,00%	100,00%	Real estate	-	-	-
Consumer Lending Receivables LLC	United States	0,00%	72.4%	100,00%	100,00%	Securitisation	-	-	-
Crawfall S.A. (g) (j)	Uruguay	100,00%	0,00%	100,00%	100,00%	Services	-	-	-
Crediperto Promotora de Vendas e Cobrança Ltda.	Brazil	0,00%	53.96%	100,00%	100,00%	Finance company	2	-	1
Darep Designated Activity Company	Ireland	100,00%	0,00%	100,00%	100,00%	Reinsurance	9	-	7
Decarome, S.A.P.I. de C.V.	Mexico	0,00%	100,00%	100,00%	-	Finance company	-	-	-
Deva Capital Advisory Company, S.L.	Spain	0,00%	100,00%	100,00%	-	Advisory services	1	-	1
Deva Capital Holding Company, S.L.	Spain	100,00%	0,00%	100,00%	-	Holding company	55	-	55
Deva Capital Investment Company, S.L.	Spain	0,00%	100,00%	100,00%	-	Holding company	-	-	-
Deva Capital Management Company, S.L.	Spain	0,00%	100,00%	100,00%	-	Advisory services	9	(1)	9
Deva Capital Servicer Company, S.L.	Spain	0,00%	100,00%	100,00%	-	Holding company	46	5	46
Digital Procurement Holdings N.V.	Netherlands	0,00%	100,00%	100,00%	100,00%	Holding company	5	-	1
Diners Club Spain, S.A.	Spain	75,00%	0,00%	75,00%	75,00%	Cards	10	2	9
Dirección Estratega, S.C.	Mexico	0,00%	100,00%	100,00%	100,00%	Services	-	-	-

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Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Dirgenfin, S.L., en liquidación (j)	Spain	0,00%	100,00%	100,00%	100,00%	Real estate development	(10)	-	-
Drive Auto Receivables Trust 2015-D	United States	-	(b)	-	-	Securitisation	(5)	11	-
Drive Auto Receivables Trust 2016-A	United States	-	(b)	-	-	Securitisation	(16)	9	-
Drive Auto Receivables Trust 2016-B	United States	-	(b)	-	-	Securitisation	(23)	19	-
Drive Auto Receivables Trust 2016-C	United States	-	(b)	-	-	Securitisation	(14)	28	-
Drive Auto Receivables Trust 2017-1	United States	-	(b)	-	-	Securitisation	(28)	34	-
Drive Auto Receivables Trust 2017-2	United States	-	(b)	-	-	Securitisation	(19)	32	-
Drive Auto Receivables Trust 2017-3	United States	-	(b)	-	-	Securitisation	(32)	52	-
Drive Auto Receivables Trust 2017-A	United States	-	(b)	-	-	Securitisation	(25)	26	-
Drive Auto Receivables Trust 2017-B	United States	-	(b)	-	-	Securitisation	(18)	29	-
Drive Auto Receivables Trust 2018-1	United States	-	(b)	-	-	Securitisation	(35)	48	-
Drive Auto Receivables Trust 2018-2	United States	-	(b)	-	-	Securitisation	(83)	66	-
Drive Auto Receivables Trust 2018-3	United States	-	(b)	-	-	Securitisation	(98)	59	-
Drive Auto Receivables Trust 2018-4	United States	-	(b)	-	-	Securitisation	(118)	74	-
Drive Auto Receivables Trust 2018-5	United States	-	(b)	-	-	Securitisation	(108)	(59)	-
Drive Auto Receivables Trust 2019-1	United States	-	(b)	-	-	Securitisation	-	(31)	-
Drive Auto Receivables Trust 2019-2	United States	-	(b)	-	-	Securitisation	-	(45)	-
Drive Auto Receivables Trust 2019-3	United States	-	(b)	-	-	Securitisation	-	(67)	-
Drive Auto Receivables Trust 2019-4	United States	-	(b)	-	-	Securitisation	-	(87)	-
Drive Auto Receivables Trust 2020-1	United States	-	(b)	-	-	Inactive	-	-	-
EDT FTPYME Pastor 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	-	-	-
Electrolyser, S.A. de C.V.	Mexico	0,00%	91.76%	100,00%	100,00%	Services	-	-	-
Entidad de Desarrollo a la Pequeña y Micro Empresa Santander Consumo Perú S.A.	Peru	100,00%	0,00%	100,00%	55,00%	Finance company	24	4	27
Erestone S.A.S.	France	0,00%	90,00%	90,00%	90,00%	Real estate	1	-	1
Esfera Fidelidade S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Services	2	21	21
Evidence Previdência S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Insurance	153	27	162
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal	0,00%	51,00%	100,00%	100,00%	Finance company	9	1	4
Financiera El Corte Inglés, E.F.C., S.A.	Spain	0,00%	51,00%	51,00%	51,00%	Finance company	214	76	140

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Finsantusa, S.L. Unipersonal	Spain	0,00%	100,00%	100,00%	100,00%	Holding company	3.776	(7)	1.020
First National Motor Business Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	-	-	-
First National Motor Contracts Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	-	-	-
First National Motor Facilities Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	-	-	-
First National Motor Finance Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Advisory services	-	-	-
First National Motor Leasing Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	-	-	-
First National Motor plc	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	-	-	-
First National Tricity Finance Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	6	-	6
Fondation Holding Auto ABS Belgium Loans	Belgium	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos RMBS Santander 1	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos RMBS Santander 2	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos RMBS Santander 3	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Consumer Spain Auto 2014-1	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Hipotecario 7	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Hipotecario 8	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización de Activos Santander Hipotecario 9	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización PYMES Santander 13	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización PYMES Santander 14	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización PYMES Santander 15	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización RMBS Santander 4	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización RMBS Santander 5	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización Santander Consumer Spain Auto 2016-1	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización Santander Consumer Spain Auto 2016-2	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización Santander Consumo 2	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondo de Titulización Santander Financiación 1	Spain	-	(b)	-	-	Securitisation	-	-	-
Fondos Santander, S.A. Administradora de Fondos de Inversión (en liquidación) (j)	Uruguay	0,00%	100,00%	100,00%	100,00%	Fund management company	-	-	-
Fortensky Trading, Ltd.	Ireland	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Fosse (Master Issuer) Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Fosse Funding (No.1) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	(6)	(125)	-
Fosse Master Issuer PLC	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	2	3	-
Fosse PECOH Limited	United Kingdom	-	(b)	-	-	Securitisation	0	0	-
Fosse Trustee (UK) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	-	-	-
FTPYME Banesto 2, Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	-	-	-
Fundo de Investimento em Direitos Creditórios Atacado- Não Padronizado	Brazil	-	(b)	-	-	Investment fund	204	(5)	-
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema V – Não padronizado (s)	Brazil	-	(b)	-	-	Investment fund	0	0	-
Fundo de Investimentos em Direitos Creditórios Multisegmentos NPL Ipanema VI – Não padronizado (s)	Brazil	-	(b)	-	-	Investment fund	45	1	-
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal	0,00%	99.86%	100,00%	100,00%	Securitisation	7	-	8
GC FTPYME Pastor 4 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	-	-	-
Gesban México Servicios Administrativos Globales, S.A. de C.V.	Mexico	0,00%	100,00%	100,00%	100,00%	Services	1	-	-
Gesban Santander Servicios Profesionales Contables Limitada	Chile	0,00%	100,00%	100,00%	100,00%	Accounting services	1	-	-
Gesban Servicios Administrativos Globales, S.L.	Spain	99,99%	0.01%	100,00%	100,00%	Services	4	-	1
Gesban UK Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Payments and collections services	1	-	-
Gestión de Instalaciones Fotovoltaicas, S.L. Unipersonal	Spain	0,00%	100,00%	100,00%	100,00%	Electricity production	1	-	-
Gestión de Inversiones JILT, S.A.	Spain	35,00%	65,00%	100,00%	100,00%	Real estate	4	-	5
Gestora de Procesos S.A. en liquidación (j)	Peru	0,00%	100,00%	100,00%	100,00%	Holding company	-	-	-
Getnet Adquirência e Serviços para Meios de Pagamento S.A.	Brazil	0,00%	89.93%	100,00%	88.5%	Payment services	449	130	520
Global Diomedes, S.L. Sociedad Unipersonal	Spain	0,00%	100,00%	100,00%	-	Holding company	-	-	-
Golden Bar (Securitisation) S.r.l.	Italy	-	(b)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2015-1	Italy	-	(b)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2016-1	Italy	-	(b)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2018-1	Italy	-	(b)	-	-	Securitisation	-	-	-
Golden Bar Stand Alone 2019-1	Italy	-	(b)	-	-	Securitisation	-	-	-
Grupo Empresarial Santander, S.L.	Spain	99,11%	0.89%	100,00%	100,00%	Holding company	2.938	546	2.934
Grupo Financiero Santander México, S.A. de C.V.	Mexico	100,00%	0,00%	100,00%	100,00%	Holding company	4.387	561	4.363
GTS El Centro Equity Holdings, LLC (c)	United States	0,00%	57.4%	57.4%	56.88%	Holding company	31	(1)	29
GTS El Centro Project Holdings, LLC (c)	United States	0,00%	57.4%	100,00%	100,00%	Holding company	31	(1)	29

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Guaranty Car, S.A. Unipersonal	Spain	0,00%	100,00%	100,00%	100,00%	Automotive	2	1	2
Hipototta No. 4 FTC	Portugal	-	(b)	-	-	Securitisation	-50	(1)	-
Hipototta No. 4 plc	Ireland	-	(b)	-	-	Securitisation	(4)	(1)	-
Hipototta No. 5 FTC	Portugal	-	(b)	-	-	Securitisation	(42)	(1)	-
Hipototta No. 5 plc	Ireland	-	(b)	-	-	Securitisation	(7)	4	-
Hipototta No.13	Portugal	-	(b)	-	-	Securitisation	-	-	-
Hispamer Renting, S.A. Unipersonal	Spain	0,00%	100,00%	100,00%	100,00%	Renting	1	-	1
Holbah II Limited	Bahamas	0,00%	100,00%	100,00%	100,00%	Holding company	102	302	530
Holbah Santander, S.L. Unipersonal	Spain	0,00%	100,00%	100,00%	100,00%	Holding company	60	12	747
Holmes Funding Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	-39	28	-
Holmes Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-
Holmes Master Issuer plc	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	(5)	(2)	-
Holmes Trustees Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	0	0	-
Holneth B.V.	Netherlands	0,00%	100,00%	100,00%	100,00%	Holding company	9	1.841	9
HQ Mobile Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Internet technology	1	-	10
Hyundai Capital Bank Europe GmbH	Germany	0,00%	51,00%	51,00%	-	Banking	219	(17)	134
Ibérica de Compras Corporativas, S.L.	Spain	97,17%	2.83%	100,00%	100,00%	E-Commerce	6	-	6
Independence Community Bank Corp.	United States	0,00%	100,00%	100,00%	100,00%	Holding company	3.853	41	3.894
Inmo Francia 2, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Holding company	53	-	53
Inmobiliaria Viagracia, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Real estate	92	2	93
Insurance Funding Solutions Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-
Interfinance Holanda B.V.	Netherlands	100,00%	0,00%	100,00%	100,00%	Holding company	-	-	-
Intermediacion y Servicios Tecnológicos, S.A.	Spain	99,50%	0.5%	100,00%	100,00%	Services	2	-	2
Inversiones Capital Global, S.A. Unipersonal	Spain	100,00%	0,00%	100,00%	100,00%	Holding company	147	(1)	159
Inversiones Marítimas del Mediterráneo, S.A.	Spain	0,00%	100,00%	100,00%	100,00%	Inactive	29	(26)	-
Investigaciones Pedreña, A.I.E. (i)	Spain	0,00%	0,00%	0,00%	100,00%	Research and development	-	-	-
Isla de los Buques, S.A.	Spain	99,98%	0.02%	100,00%	100,00%	Finance company	1	-	1
Klare Corredora de Seguros S.A.	Chile	0,00%	33.63%	50.1%	-	Insurance brokerage	10	(1)	3

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Landmark Iberia, S.L.	Spain	16,20%	83.8%	100,00%	-	Real estate management	1.677	(12)	1.664
Langton Funding (No.1) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	(66)	39	-
Langton Mortgages Trustee (UK) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	-	-	-
Langton PECOH Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-
Langton Securities (2008-1) plc	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	1	-	-
Langton Securities (2010-1) PLC	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	1	-	-
Langton Securities (2010-2) PLC	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	-	-	-
Langton Securities Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-
Laparanza, S.A.	Spain	61,59%	0,00%	61.59%	61.59%	Agricultural holding	28	-	16
Liquidity Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Factoring	-	-	-
Luri 1, S.A. (m)	Spain	46,00%	0,00%	46,00%	36,00%	Real estate	(2)	2	-
Luri 6, S.A. Unipersonal	Spain	100,00%	0,00%	100,00%	100,00%	Real estate investment	1.305	77	1.418
MAC No. 1 Limited	United Kingdom	-	(b)	-	-	Mortage credit company	-	-	-
Master Red Europa, S.L.	Spain	96,34%	0,00%	96.34%	96.34%	Cards	1	-	1
Mata Alta, S.L.	Spain	0,00%	61.59%	100,00%	100,00%	Real estate	-	-	-
Merciver, S.L.	Spain	99,90%	0.1%	100,00%	100,00%	Financial advisory	1	-	1
Merlion Aviation One Designated Activity Company	Ireland	-	(b)	-	-	Renting	19	4	-
Moneybit, S.L.	Spain	100,00%	0,00%	100,00%	100,00%	Services	2	-	2
Mortgage Engine Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Financial services	(1)	(2)	-
Motor 2015-1 Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-
Motor 2015-1 PLC (j)	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	-	-	-
Motor 2016-1 Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-
Motor 2016-1 PLC	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	-	-	-
Motor 2017-1 Holdings Limited	United Kingdom	-	(b)	-	-	Securitisation	-	-	-
Motor 2017-1 PLC	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	(2)	(4)	-
Motor Securities 2018-1 Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	-	-	-
Multiplica SpA	Chile	0,00%	100,00%	100,00%	-	Payment services	5	-	5
Naviera Mirambel, S.L.	Spain	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	-

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Naviera Trans Gas, A.I.E.	Spain	99,99%	0.01%	100,00%	100,00%	Renting	17	4	52
Naviera Trans Iron, S.L.	Spain	100,00%	0,00%	100,00%	100,00%	Leasing	23	1	21
Naviera Trans Ore, A.I.E.	Spain	99,99%	0.01%	100,00%	100,00%	Renting	22	2	17
Naviera Trans Wind, S.L.	Spain	99,99%	0.01%	100,00%	100,00%	Renting	3	-	3
Naviera Transcantábrica, S.L.	Spain	100,00%	0,00%	100,00%	100,00%	Leasing	4	1	4
Naviera Transchem, S.L. Unipersonal	Spain	100,00%	0,00%	100,00%	100,00%	Leasing	1	-	1
Newcomar, S.L., en liquidación (j)	Spain	40,00%	40,00%	80,00%	80,00%	Real estate	1	-	-
Norbest AS	Norway	7,94%	92.06%	100,00%	100,00%	Securities investment	93	(1)	93
Novimovest – Fundo de Investimento Imobiliário	Portugal	0,00%	78.63%	78.74%	79.76%	Investment fund	298	6	238
NW Services CO.	United States	0,00%	100,00%	100,00%	100,00%	E-Commerce	5	1	2
Olé Tecnologia Ltda.	Brazil	0,00%	53.96%	100,00%	100,00%	IT services	1	-	1
Open Bank, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Banking	216	1	221
Open Digital Market, S.L.	Spain	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Open Digital Services, S.L.	Spain	99,97%	0.03%	100,00%	100,00%	Services	122	(98)	34
Operadora de Carteras Gamma, S.A.P.I. de C.V.	Mexico	100,00%	0,00%	100,00%	100,00%	Holding company	7	1	-
Optimal Investment Services SA	Switzerland	100,00%	0,00%	100,00%	100,00%	Fund management company	24	1	25
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland Euro Fund (c)	Ireland	0,00%	57.2%	54.1%	51.25%	Fund management company	4	-	-
Optimal Multiadvisors Ireland Plc / Optimal Strategic US Equity Ireland US Dollar Fund (c)	Ireland	0,00%	44.08%	51.57%	51.57%	Fund management company	5	-	-
Optimal Multiadvisors Ltd / Optimal Strategic US Equity Series (consolidado) (c)	Bahamas	0,00%	56.18%	56.78%	56.34%	Fund management company	46	-	-
PagoFX Europe S.A.	Belgium	0,00%	100,00%	100,00%	-	Payment services	1	-	1
PagoFX HoldCo, S.L.	Spain	100,00%	0,00%	100,00%	-	Payment services	16	(4)	16
PagoFX UK Ltd	United Kingdom	0,00%	100,00%	100,00%	-	Payment services	2	-	2
Parasant SA	Switzerland	100,00%	0,00%	100,00%	100,00%	Holding company	1.047	(1)	917
PBD Germany Auto 2018 UG (Haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
PBD Germany Auto Lease Master 2019	Luxembourg	-	(b)	-	-	Securitisation	-	5	-
PBE Companies, LLC	United States	0,00%	100,00%	100,00%	100,00%	Real estate	112	(1)	111
PECOH Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Securitisation	0	0	0
Pereda Gestión, S.A.	Spain	99,99%	0.01%	100,00%	100,00%	Holding company	42	2	4

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Phoenix C1 Aviation Designated Activity Company	Ireland	-	(b)	-	-	Renting	5	3	-
PI Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Leasing	80	(8)	65
Pingham International, S.A.	Uruguay	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Popular Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A.	Portugal	100,00%	0,00%	100,00%	100,00%	Management of funds and portfolios	1	-	2
Popular Seguros - Companhia de Seguros S.A.	Portugal	0,00%	99.91%	100,00%	100,00%	Insurance	9	1	7
Portal Universia Argentina S.A.	Argentina	0,00%	75.75%	75.75%	75.75%	Internet	-	-	-
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal	0,00%	100,00%	100,00%	100,00%	Internet	-	-	-
Prime 16 – Fundo de Investimentos Imobiliário	Brazil	0,00%	89.93%	100,00%	100,00%	Investment fund	72	(13)	50
PSA Bank Deutschland GmbH	Germany	0,00%	50,00%	50,00%	50,00%	Banking	471	46	229
PSA Banque France	France	0,00%	50,00%	50,00%	50,00%	Banking	1.093	140	463
PSA Consumer Finance Polska Sp. z o.o.	Poland	0,00%	40.24%	100,00%	100,00%	Finance company	1	1	-
PSA Finance Belux S.A.	Belgium	0,00%	50,00%	50,00%	50,00%	Finance company	109	15	42
PSA Finance Polska Sp. z o.o.	Poland	0,00%	40.24%	50,00%	50,00%	Finance company	34	4	11
PSA Finance Suisse, S.A.	Switzerland	0,00%	50,00%	100,00%	100,00%	Leasing	38	20	15
PSA Finance UK Limited	United Kingdom	0,00%	50,00%	50,00%	50,00%	Finance company	338	55	129
PSA Financial Services Nederland B.V.	Netherlands	0,00%	50,00%	50,00%	50,00%	Finance company	73	15	20
PSA Financial Services Spain, E.F.C., S.A.	Spain	0,00%	50,00%	50,00%	50,00%	Finance company	416	72	174
PSA Renting Italia S.p.A.	Italy	0,00%	50,00%	100,00%	100,00%	Renting	6	4	3
PSRT 2018-A	United States	-	(b)	-	-	Securitisation	59	24	-
PSRT 2019-A	United States	-	(b)	-	-	Securitisation	-	43	-
Punta Lima Wind Farm, LLC	United States	0,00%	100,00%	100,00%	-	Electricity production	-	-	-
Punta Lima, LLC	United States	0,00%	100,00%	100,00%	100%	Leasing	60	(11)	49
Recovery Team, S.L. Unipersonal	Spain	100,00%	0,00%	100,00%	100%	Finance company	14	(1)	16
Retop S.A. (f)	Uruguay	100,00%	0,00%	100,00%	100%	Finance company	10	19	63
Return Capital Serviços de Recuperação de Créditos S.A.	Brazil	0,00%	89.93%	100,00%	70%	Collection services	(2)	2	-
Return Gestão de Recursos S.A.	Brazil	0,00%	89.93%	100,00%	100%	Fund management company	0	0	-
Riobank International (Uruguay) SAIFE (j)	Uruguay	0,00%	100%	100,00%	100%	Banking	0	0	-
Roc Aviation One Designated Activity Company	Ireland	-	(b)	-	-	Renting	(2)	0	-

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Roc Shipping One Designated Activity Company	Ireland	-	(b)	-	-	Renting	(3)	(1)	-
Rojo Entretenimento S.A.	Brazil	0,00%	85.08%	94.6%	94.6%	Services	29	1	25
RV Partners S.A.	Panama	0,00%	100,00%	100,00%	100%	Financial services	0	0	0
SAM Asset Management, S.A. de C.V., Sociedad Operadora de Fondos de Inversión	Mexico	0,00%	100,00%	100,00%	100%	Fund management company	4	20	161
SAM Brazil Participações S.A.	Brazil	1,00%	99,00%	100,00%	100,00%	Holding company	35	2	37
SAM Investment Holdings Limited (l)	Jersey	92,37%	7.62%	100,00%	100,00%	Holding company	1.087	224	1.306
SAM UK Investment Holdings Limited	United Kingdom	92,37%	7.63%	100,00%	100,00%	Holding company	-114	121	6
Sancap Investimentos e Participações S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Holding company	200	60	207
Santander (CF Trustee Property Nominee) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Santander (CF Trustee) Limited (d)	United Kingdom	-	(b)	-	100,00%	Asset management	-	-	-
Santander (UK) Group Pension Schemes Trustees Limited (d)	United Kingdom	0,00%	100,00%	100,00%	100,00%	Asset management	-	-	-
Santander Ahorro Inmobiliario 1, S.A.	Spain	98,53%	0,00%	98.53%	98.53%	Real estate rental	1	0	1
Santander Ahorro Inmobiliario 2, S.A.	Spain	99,91%	0,00%	99.91%	99.91%	Real estate rental	1	0	1
Santander Asesorías Financieras Limitada	Chile	0,00%	67.44%	100,00%	100,00%	Securities company	60	1	41
Santander Asset Finance (December) Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	66	2	-
Santander Asset Finance plc	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	247	24	171
Santander Asset Management - Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.	Portugal	100,00%	0,00%	100,00%	100,00%	Fund management company	2	1	3
Santander Asset Management Chile S.A.	Chile	0,01%	99.94%	100,00%	100,00%	Securities investment	(6)	-	-
Santander Asset Management Luxembourg, S.A.	Luxembourg	0,00%	100,00%	100,00%	100,00%	Fund management company	5	1	-
Santander Asset Management S.A. Administradora General de Fondos	Chile	0,00%	100,00%	100,00%	100,00%	Fund management company	14	11	132
Santander Asset Management UK Holdings Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Holding company	193	18	186
Santander Asset Management UK Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Management of funds and portfolios	39	16	201
Santander Asset Management, LLC	Puerto Rico	0,00%	100,00%	100,00%	100,00%	Management	5	3	9
Santander Asset Management, S.A., S.G.I.I.C.	Spain	0,00%	100,00%	100,00%	100,00%	Fund management company	32	61	167
Santander Back-Offices Globales Mayoristas, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Services	4	2	1
Santander Banca de Inversión Colombia, S.A.S.	Colombia	0,00%	100,00%	100,00%	100,00%	Financial services	1	1	1
Santander BanCorp	Puerto Rico	0,00%	100,00%	100,00%	100,00%	Holding company	1.014	66	1.078
Santander Bank & Trust Ltd.	Bahamas	0,00%	100,00%	100,00%	100,00%	Banking	109	2	22

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Santander Bank Polska S.A.	Poland	67,47%	0,00%	67.47%	67.47%	Banking	5.183	497	4.386
Santander Bank, National Association	United States	0,00%	100,00%	100,00%	100,00%	Banking	11.960	218	12.176
Santander Brazil Administradora de Consórcio Ltda.	Brazil	0,00%	89.93%	100,00%	100,00%	Services	49	45	85
Santander Brazil Asset Management Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0,00%	100,00%	100,00%	100,00%	Securities investment	34	2	36
Santander Brazil Gestão de Recursos Ltda.	Brazil	0,00%	100,00%	100,00%	100,00%	Real estate investment	455	80	576
Santander Brazil Tecnologia S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	IT services	28	3	27
Santander Brazil, EFC, S.A.	Spain	0,00%	89.93%	100,00%	100,00%	Finance company	775	7	706
Santander Capital Desarrollo, SGEIC, S.A. Unipersonal	Spain	100,00%	0,00%	100,00%	100,00%	Venture capital	10	(1)	8
Santander Capital Structuring, S.A. de C.V.	Mexico	0,00%	100,00%	100,00%	100,00%	Trade	11	1	-
Santander Capitalização S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Insurance	42	34	68
Santander Cards Ireland Limited	Ireland	0,00%	100,00%	100,00%	100,00%	Cards	-8	-	-
Santander Cards Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Cards	98	1	99
Santander Cards UK Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	155	4	113
Santander Chile Holding S.A.	Chile	22,11%	77.72%	99.84%	99.84%	Holding company	1.399	232	1.366
Santander Consulting (Beijing) Co., Ltd.	China	0,00%	100,00%	100,00%	100,00%	Advisory	8	-	4
Santander Consumer (UK) plc	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	620	100	306
Santander Consumer Auto Receivables Funding 2013- B2 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	37	(177)	-
Santander Consumer Auto Receivables Funding 2013- B3 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	-13	54	-
Santander Consumer Auto Receivables Funding 2015- L4 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	81	18	-
Santander Consumer Auto Receivables Funding 2016- B4 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	(5)	8	-
Santander Consumer Auto Receivables Funding 2018- L1 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	72	27	-
Santander Consumer Auto Receivables Funding 2018- L2 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	20	10	-
Santander Consumer Auto Receivables Funding 2018- L3 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	29	11	-
Santander Consumer Auto Receivables Funding 2018- L4 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	24	12	-
Santander Consumer Auto Receivables Funding 2018- L5 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	19	9	-
Santander Consumer Auto Receivables Funding 2019- B1 LLC	United States	0,00%	72.4%	100,00%	-	Finance company	-	(103)	-
Santander Consumer Auto Receivables Funding 2019- L2 LLC	United States	0,00%	72.4%	100,00%	-	Finance company	-	38	-
Santander Consumer Auto Receivables Funding 2019- L3 LLC	United States	0,00%	72.4%	100,00%	-	Finance company	-	28	-

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Santander Consumer Bank AG	Germany	0,00%	100,00%	100,00%	100,00%	Banking	3.063	454	4.820
Santander Consumer Bank AS	Norway	0,00%	100,00%	100,00%	100,00%	Banking	2.077	300	2.021
Santander Consumer Bank GmbH	Austria	0,00%	100,00%	100,00%	100,00%	Banking	355	51	363
Santander Consumer Bank S.A.	Poland	0,00%	80.48%	100,00%	100,00%	Banking	641	120	509
Santander Consumer Bank S.A.	Belgium	0,00%	100,00%	100,00%	100,00%	Banking	1.167	16	1.170
Santander Consumer Bank S.p.A.	Italy	0,00%	100,00%	100,00%	100,00%	Banking	816	81	603
Santander Consumer Banque S.A.	France	0,00%	100,00%	100,00%	100,00%	Banking	495	37	492
Santander Consumer Chile S.A.	Chile	49,00%	34.23%	100,00%	51,00%	Finance company	47	15	33
Santander Consumer Credit Services Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	(37)	(1)	-
Santander Consumer Finance Benelux B.V.	Netherlands	0,00%	100,00%	100,00%	100,00%	Finance company	132	14	190
Santander Consumer Finance Global Services, S.L.	Spain	0,00%	100,00%	100,00%	100,00%	IT services	5	1	5
Santander Consumer Finance Oy	Finland	0,00%	100,00%	100,00%	100,00%	Finance company	211	42	130
Santander Consumer Finance S.A.S.	Colombia	0,00%	100,00%	100,00%	100,00%	Financial advisory	1	-	1
Santander Consumer Finance, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Banking	9.869	508	8.825
Santander Consumer Finanse Sp. z o.o.	Poland	0,00%	80.48%	100,00%	100,00%	Services	15	-	12
Santander Consumer Holding Austria GmbH	Austria	0,00%	100,00%	100,00%	100,00%	Holding company	364	25	518
Santander Consumer Holding GmbH	Germany	0,00%	100,00%	100,00%	100,00%	Holding company	4.926	278	5.827
Santander Consumer International Puerto Rico LLC	Puerto Rico	0,00%	72.4%	100,00%	100,00%	Services	8	1	6
Santander Consumer Leasing GmbH	Germany	0,00%	100,00%	100,00%	100,00%	Leasing	20	54	101
Santander Consumer Mediación Operador de Banca-Seguros Vinculado, S.L.	Spain	0,00%	94.61%	100,00%	100,00%	Insurance intermediary	1	-	-
Santander Consumer Multirent Sp. z o.o.	Poland	0,00%	80.48%	100,00%	100,00%	Leasing	25	1	5
Santander Consumer Operations Services GmbH	Germany	0,00%	100,00%	100,00%	100,00%	Services	9	1	18
Santander Consumer Receivables 10 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	753	8	0
Santander Consumer Receivables 11 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	236	108	-
Santander Consumer Receivables 3 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	279	(22)	-
Santander Consumer Receivables 7 LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	375	64	-
Santander Consumer Receivables Funding LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	-	-	-
Santander Consumer Renting, S.L.	Spain	0,00%	100,00%	100,00%	100,00%	Leasing	37	1	39

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Santander Consumer Services GmbH	Austria	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Santander Consumer Services, S.A.	Portugal	0,00%	100,00%	100,00%	100,00%	Finance company	8	2	5
Santander Consumer Spain Auto 2019-1, Fondo de Titulación	Spain	-	(b)	-	-	Securitisation	-	-	-
Santander Consumer Technology Services GmbH	Germany	0,00%	100,00%	100,00%	100,00%	IT services	14	1	22
Santander Consumer USA Holdings Inc.	United States	0,00%	72.4%	72.4%	69.71%	Holding company	5.630	885	5.318
Santander Consumer USA Inc.	United States	0,00%	72.4%	100,00%	100,00%	Finance company	4.861	198	3.663
Santander Consumer, EFC, S.A.	Spain	0,00%	100,00%	100,00%	100,00%	Finance company	522	102	505
Santander Consumo, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0,00%	91.76%	100,00%	100,00%	Cards	798	205	921
Santander Corredora de Seguros Limitada	Chile	0,00%	67.2%	100,00%	100,00%	Insurance brokerage	81	3	56
Santander Corredores de Bolsa Limitada	Chile	0,00%	83.23%	100,00%	100,00%	Securities company	52	1	45
Santander Corretora de Câmbio e Valores Mobiliários S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Securities company	121	22	129
Santander Corretora de Seguros, Investimentos e Serviços S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Holding company	570	100	599
Santander de Titulización S.G.F.T., S.A.	Spain	81,00%	19,00%	100,00%	100,00%	Fund management company	5	2	2
Santander Digital Assets, S.L.	Spain	0,00%	100,00%	100,00%	-	IT services	21	(6)	14
Santander Digital Businesses, S.L.	Spain	99,97%	0.03%	100,00%	100,00%	Holding company	96	(15)	96
Santander Drive Auto Receivables LLC	United States	0,00%	72.4%	100,00%	100,00%	Finance company	-	-	-
Santander Drive Auto Receivables Trust 2015-4	United States	-	(b)	-	-	Securitisation	53	17	-
Santander Drive Auto Receivables Trust 2015-5	United States	-	(b)	-	-	Securitisation	52	15	-
Santander Drive Auto Receivables Trust 2016-1	United States	-	(b)	-	-	Securitisation	30	18	-
Santander Drive Auto Receivables Trust 2016-2	United States	-	(b)	-	-	Securitisation	35	24	-
Santander Drive Auto Receivables Trust 2016-3	United States	-	(b)	-	-	Securitisation	32	35	-
Santander Drive Auto Receivables Trust 2017-1	United States	-	(b)	-	-	Securitisation	5	32	-
Santander Drive Auto Receivables Trust 2017-2	United States	-	(b)	-	-	Securitisation	(4)	42	-
Santander Drive Auto Receivables Trust 2017-3	United States	-	(b)	-	-	Securitisation	(14)	42	-
Santander Drive Auto Receivables Trust 2018-1	United States	-	(b)	-	-	Securitisation	(41)	55	-
Santander Drive Auto Receivables Trust 2018-2	United States	-	(b)	-	-	Securitisation	(59)	52	-
Santander Drive Auto Receivables Trust 2018-3	United States	-	(b)	-	-	Securitisation	(71)	50	-
Santander Drive Auto Receivables Trust 2018-4	United States	-	(b)	-	-	Securitisation	(67)	54	-

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Santander Drive Auto Receivables Trust 2018-5	United States	-	(b)	-	-	Securitisation	(90)	69	-
Santander Drive Auto Receivables Trust 2019-1	United States	-	(b)	-	-	Securitisation	-	-33	-
Santander Drive Auto Receivables Trust 2019-2	United States	-	(b)	-	-	Securitisation	-	(45)	-
Santander Drive Auto Receivables Trust 2019-3	United States	-	(b)	-	-	Securitisation	-	(73)	-
Santander Drive Auto Receivables Trust 2019-4	United States	-	(b)	-	-	Inactive	-	-	-
Santander Energías Renovables I, S.C.R., S.A.	Spain	59,66%	0,00%	59.66%	59.66%	Venture capital	16	-	9
Santander Equity Investments Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	54	(3)	47
Santander España Merchant Services, Entidad de Pago, S.L. Unipersonal	Spain	100,00%	0,00%	100,00%	100,00%	Payment services	213	5	185
Santander España Servicios Legales y de Cumplimiento, S.L.	Spain	99,97%	0.03%	100,00%	-	Services	8	-	8
Santander Estates Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Real estate	4	(1)	-
Santander F24 S.A.	Poland	0,00%	67.47%	100,00%	100,00%	Finance company	-	-	-
Santander Facility Management España, S.L.	Spain	94,33%	5.67%	100,00%	100,00%	Real estate	414	-	393
Santander Factoring S.A.	Chile	0,00%	99.84%	100,00%	100,00%	Factoring	41	1	42
Santander Factoring Sp. z o.o.	Poland	0,00%	67.47%	100,00%	100,00%	Financial services	18	5	1
Santander Factoring y Confirming, S.A., E.F.C.	Spain	100,00%	0,00%	100,00%	100,00%	Factoring	155	59	126
Santander FI Hedge Strategies	Ireland	0,00%	89.93%	100,00%	100,00%	Investment company	216	(106)	99
Santander Finance 2012-1 LLC	United States	0,00%	100,00%	100,00%	100,00%	Financial services	2	-	3
Santander Financial Exchanges Limited	United Kingdom	100,00%	0,00%	100,00%	100,00%	Finance company	-	-	-
Santander Financial Services plc	United Kingdom	0,00%	100,00%	100,00%	100,00%	Banking	383	(8)	396
Santander Financial Services, Inc.	Puerto Rico	0,00%	100,00%	100,00%	100,00%	Finance company	259	(3)	256
Santander Finanse Sp. z o.o.	Poland	0,00%	67.47%	100,00%	100,00%	Financial services	53	6	21
Santander Fintech Limited	United Kingdom	100,00%	0,00%	100,00%	100,00%	Finance company	187	14	117
Santander Fundo de Investimento SBAC Referenciado di Crédito Privado (h)	Brazil	0,00%	87.83%	100,00%	100,00%	Investment fund	1.094	59	1.051
Santander Gestión de Recaudación y Cobranzas Ltda.	Chile	0,00%	99.84%	100,00%	100,00%	Financial services	5	1	6
Santander Global Consumer Finance Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Finance company	7	-	7
Santander Global Facilities, S.A. de C.V.	Mexico	100,00%	0,00%	100,00%	100,00%	Real estate management	103	22	124
Santander Global Facilities, S.L.	Spain	100,00%	0,00%	100,00%	100,00%	Real estate	244	(8)	250
Santander Global Operations, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Services	34	18	24

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Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Santander Global Property, S.L.	Spain	97,34%	2.66%	100,00%	100,00%	Securities investment	253	-	253
Santander Global Services S.A. (j)	Uruguay	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Santander Global Sport, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Sports activity	29	(6)	23
Santander Global Technology Brazil Ltda.	Brazil	0,00%	100,00%	100,00%	100,00%	Technology services	3	-	1
Santander Global Technology Chile Limitada	Chile	0,00%	100,00%	100,00%	100,00%	Services	25	1	20
Santander Global Technology, S.L.	Spain	100,00%	0,00%	100,00%	100,00%	IT services	399	38	346
Santander Global Trade Platform Solutions, S.L.	Spain	0,00%	100,00%	100,00%	-	Technology services	26	(2)	24
Santander Guarantee Company	United Kingdom	0,00%	100,00%	100,00%	100,00%	Leasing	5	-	3
Santander Hipotecario 1 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	-	-	-
Santander Hipotecario 2 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	-	-	-
Santander Hipotecario 3 Fondo de Titulización de Activos	Spain	-	(b)	-	-	Securitisation	-	-	-
Santander Holding Imobiliária S.A.	Brazil	0,00%	89.93%	100,00%	100%	Real estate	62	-	56
Santander Holding Internacional, S.A.	Spain	99,95%	0.05%	100,00%	100%	Holding company	2.551	2.075	2.399
Santander Holdings USA, Inc.	United States	100,00%	0,00%	100,00%	100%	Holding company	18.806	670	12.532
Santander Inclusión Financiera, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0,00%	91.76%	100,00%	100%	Finance company	18	(9)	9
Santander Insurance Agency, Inc.	Puerto Rico	0,00%	100,00%	100,00%	100%	Insurance brokerage	8	1	8
Santander Insurance Agency, U.S., LLC	United States	0,00%	100,00%	100,00%	100%	Insurance	1	-	1
Santander Insurance Services UK Limited	United Kingdom	100,00%	0,00%	100,00%	100%	Asset management	42	1	43
Santander Intermediación Correduría de Seguros, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Insurance brokerage	21	1	18
Santander International Products, Plc. (l)	Ireland	99,99%	0.01%	100,00%	100,00%	Finance company	1	-	-
Santander Inversiones S.A.	Chile	0,00%	100,00%	100,00%	100,00%	Holding company	1.546	184	1.032
Santander Investment Bank Limited	Bahamas	0,00%	100,00%	100,00%	100,00%	Banking	579	(3)	529
Santander Investment Chile Limitada	Chile	0,00%	100,00%	100,00%	100,00%	Finance company	522	14	321
Santander Investment I, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Holding company	219	(1)	27
Santander Investment Securities Inc.	United States	0,00%	100,00%	100,00%	100,00%	Securities company	424	25	449
Santander Investment, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Banking	251	1.184	256
Santander Inwestycje Sp. z o.o.	Poland	0,00%	67.47%	100,00%	100,00%	Securities company	10	-	7
Santander ISA Managers Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Management of funds and portfolios	23	7	6

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Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Santander Lease, S.A., E.F.C.	Spain	100,00%	0,00%	100,00%	100,00%	Leasing	43	12	51
Santander Leasing Poland Securitization 01 Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	-	-	-
Santander Leasing S.A.	Poland	0,00%	67.47%	100,00%	100,00%	Leasing	135	5	30
Santander Leasing S.A. Arrendamento Mercantil	Brazil	0,00%	89.93%	99.99%	99.99	Leasing	1.266	10	1.148
Santander Leasing, LLC	United States	0,00%	100,00%	100,00%	100,00%	Leasing	7	(6)	-
Santander Lending Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Mortage credit company	238	5	242
Santander Mediación Operador de Banca-Seguros Vinculado, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Insurance intermediary	4	-	3
Santander Merchant Platform Solutions Brazil Ltda.	Brazil	0,00%	100,00%	100,00%	100,00%	Technology services	1	-	1
Santander Merchant Platform Solutions, S.L.	Spain	100,00%	0,00%	100,00%	100,00%	Holding company	25	(7)	25
Santander Merchant S.A.	Argentina	0,00%	100,00%	100,00%	100,00%	Finance company	-	-	2
Santander Mortgage Holdings Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Financial services	-	-	-
Santander Operaciones España, S.L.	Spain	100,00%	0,00%	100,00%	100,00%	Services	32	(17)	11
Santander Paraty Qif PLC	Ireland	0,00%	89.93%	100,00%	100,00%	Investment fund	216	(106)	99
Santander Pensiones, S.A., E.G.F.P.	Spain	0,00%	100,00%	100,00%	100,00%	Pension fund management company	19	20	118
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal	100,00%	0,00%	100,00%	100,00%	Pension fund management company	3	-	3
Santander Prime Auto Issuance Notes 2018-A Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(29)	7	-
Santander Prime Auto Issuance Notes 2018-B Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(17)	5	-
Santander Prime Auto Issuance Notes 2018-C Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(4)	2	-
Santander Prime Auto Issuance Notes 2018-D Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(7)	(10)	-
Santander Prime Auto Issuance Notes 2018-E Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(2)	-	-
Santander Private Banking Gestión, S.A., S.G.I.I.C.	Spain	100,00%	0,00%	100,00%	100,00%	Fund management company	31	11	35
Santander Private Banking s.p.a. in Liquidazione (j)	Italy	100,00%	0,00%	100,00%	100,00%	Finance company	33	(1)	32
Santander Private Banking UK Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Real estate	300	-	409
Santander Private Real Estate Advisory & Management, S.A.	Spain	99,99%	0.01%	100,00%	100,00%	Real estate	5	-	4
Santander Private Real Estate Advisory, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Real estate	12	1	13
Santander Real Estate, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Real estate	1	-	1
Santander Retail Auto Lease Funding LLC	United States	0,00%	72.4%	100,00%	100,00%	Securitisation	-	-	-

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Santander Retail Auto Lease Trust 2017-A	United States	-	(b)	-	-	Securitisation	73	45	-
Santander Retail Auto Lease Trust 2018-A	United States	-	(b)	-	-	Securitisation	60	29	-
Santander Retail Auto Lease Trust 2019-A	United States	-	(b)	-	-	Securitisation	-	41	-
Santander Retail Auto Lease Trust 2019-B	United States	-	(b)	-	-	Securitisation	-	28	-
Santander Retail Auto Lease Trust 2019-C	United States	-	(b)	-	-	Securitisation	-	30	-
Santander Revolving Auto Loan Trust 2019-A	United States	-	(b)	-	-	Securitisation	-	(87)	-
Santander Río Asset Management Gerente de Fondos Comunes de Inversión S.A.	Argentina	0,00%	100,00%	100,00%	100,00%	Fund management company	3	3	3
Santander Río Servicios S.A.	Argentina	0,00%	99.97%	100,00%	100,00%	Advisory services	-	-	-
Santander Río Trust S.A.	Argentina	0,00%	99.97%	100,00%	100,00%	Services	-	-	-
Santander Río Valores S.A.	Argentina	0,00%	99.34%	100,00%	100,00%	Securities company	3	-	3
Santander S.A. Sociedad Securitizadora	Chile	0,00%	67.24%	100,00%	100,00%	Fund management company	1	-	-
Santander Secretariat Services Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Holding company	-	-	-
Santander Securities LLC	United States	0,00%	100,00%	100,00%	100,00%	Securities company	125	(77)	48
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Insurance	1.139	146	1.188
Santander Servicios Corporativos, S.A. de C.V.	Mexico	0,00%	91.77%	100,00%	100,00%	Services	6	1	6
Santander Servicios Especializados, S.A. de C.V.	Mexico	0,00%	91.77%	100,00%	100,00%	Financial services	2	-	2
Santander Technology USA, LLC	United States	0,00%	100,00%	100,00%	100,00%	IT services	111	(18)	93
Santander Tecnología Argentina S.A.	Argentina	0,00%	99.34%	100,00%	100,00%	IT services	2	2	2
Santander Tecnología España, S.L.	Spain	100,00%	0,00%	100,00%	100,00%	IT services	35	(2)	35
Santander Tecnología México, S.A. de C.V.	Mexico	0,00%	91.76%	100,00%	100,00%	IT services	41	3	40
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal	0,00%	99.91%	100,00%	100,00%	Insurance	115	26	47
Santander Totta, SGPS, S.A.	Portugal	0,00%	99.91%	99.91%	99.90%	Holding company	3.430	436	3.923
Santander Towarzystwo Funduszy Inwestycyjnych S.A.	Poland	50,00%	33.74%	100,00%	100,00%	Fund management company	4	41	39
Santander Trade ServicesLimited	Hong-Kong	0,00%	100,00%	100,00%	100,00%	Inactive	18	-	16
Santander UK Foundation Limited	United Kingdom	-	(b)	-	-	Charitable services	-	-	-
Santander UK GroupHoldings plc	United Kingdom	77,67%	22.33%	100,00%	100,00%	Finance company	15.413	528	19.948
Santander UK Investments	United Kingdom	100,00%	0,00%	100,00%	100,00%	Finance company	52	-	47
Santander UK Operations Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Services	21	3	17

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Santander UK plc	United Kingdom	0,00%	100,00%	100,00%	100,00%	Banking	16.821	395	15.542
Santander UK Technology Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	IT services	17	11	7
Santander Vivienda, S.A. de C.V., S.O.F.O.M., E.R., Grupo Financiero Santander México	Mexico	0,00%	91.76%	100,00%	100,00%	Finance company	373	31	371
Santander Vivienda, S.A. de México C.V., S.O.F.O.M., E.R., Grupo Financiero Santander como Fiduciaria del Fideicomiso Bursa	Mexico	-	(b)	-	-	Securitisation	10	(2)	-
Santander Wealth Management International SA	Switzerland	0,00%	100,00%	100,00%	-	Asset management	-	-	-
Santusa Holding, S.L.	Spain	69,76%	30.24%	100,00%	100,00%	Holding company	7.650	(118)	6.503
SC Austria Finance 2013-1 S.A.	Luxembourg	-	(b)	-	-	Securitisation	-	-	-
SC Germany Auto 2014-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Auto 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Auto 2016-2 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Auto 2017-1UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Auto 2018-1UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Auto 2019-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Consumer 2014-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Consumer 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Consumer Alemania 2016-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Consumer Alemania 2017-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Consumer 2018-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Mobility 2019-1 UG(haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Vehicles 2013-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Germany Vehicles 2015-1 UG (haftungsbeschränkt)	Germany	-	(b)	-	-	Securitisation	-	-	-
SC Poland Consumer 15-1 Sp. z.o.o.	Poland	-	(b)	-	-	Securitisation	-	-	-
SC Poland Consumer 16-1 Sp. z o.o.	Poland	-	(b)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto I Limited (j)	Ireland	-	(b)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto II Limited	Ireland	-	(b)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto KIMI VI Limited	Ireland	-	(b)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto VII Limited	Ireland	-	(b)	-	-	Securitisation	-	-	-
SCF Ajoneuvohallinto VIII Limited	Ireland	-	(b)	-	-	Securitisation	-	-	-

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
SCF Eastside Locks GP Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Real estate management	-	-	-
SCF Rahoituspalvelut I Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut II Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut KIMI VI Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	-	-	-
SCF Rahoituspalvelut VII Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	(1)	-	-
SCF Rahoituspalvelut VIII Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	2	-	-
SCFI Ajoneuvohallinto Limited (j)	Ireland	-	(b)	-	-	Securitisation	-	-	-
SCFI Rahoituspalvelut Designated Activity Company (j)	Ireland	-	(b)	-	-	Securitisation	-	-	-
Secucor Finance 2013-IDesignated Activity Company (q)	Ireland	-	(b)	-	-	Securitisation	-	-	-
Services and Promotions Delaware Corp.	United States	0,00%	100,00%	100,00%	100,00%	Holding company	63	2	66
Services and Promotions Miami LLC	United States	0,00%	100,00%	100,00%	100,00%	Real estate	54	3	58
Servicio de Alarmas Controladas por Ordenador, S.A.	Spain	99,99%	0.01%	100,00%	100,00%	Security	1	-	1
Servicios Corporativos Seguros Serfin, S.A. de C.V. (j)	Mexico	0,00%	85.3%	100,00%	100,00%	Services	-	-	-
Servicios de Cobranza, Recuperación y Seguimiento, S.A. de C.V.	Mexico	0,00%	85,00%	85,00%	85,00%	Finance company	33	3	7
Sheppards Moneybrokers Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Advisory services	-	-	-
Shiloh III Wind Project, LLC	United States	0,00%	100,00%	100,00%	100,00%	Electricity production	313	8	321
Silk Finance No. 4	Portugal	-	(b)	-	-	Securitisation	(6)	1	-
Sociedad Integral deValoraciones Automatizadas, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Appraisals	1	1	1
Socur S.A. (f)	Uruguay	100,00%	0,00%	100,00%	100,00%	Finance company	34	23	59
Sol Orchard Imperial 1 LLC ©	United States	0,00%	57.4%	100,00%	100,00%	Electricity production	31	(1)	58
Solarlaser Limited Reino Unido	United Kingdom	0,00%	100,00%	100,00%	100,00%	Real estate	-	-	-
Sovereign Community Development Company	United States	0,00%	100,00%	100,00%	100,00%	Holding company	38	1	39
Sovereign Delaware Investment Corporation	United States	0,00%	100,00%	100,00%	100,00%	Holding company	130	3	133
Sovereign Lease Holdings, LLC	United States	0,00%	100,00%	100,00%	100,00%	Financial services	210	7	217
Sovereign REIT Holdings, Inc.	United States	0,00%	100,00%	100,00%	100,00%	Holding company	7.298	167	7.465
Sovereign Spirit Limited (n)	Bermudas	0,00%	100,00%	100,00%	100,00%	Leasing	-	-	-
Sterrebeeck B.V.	Netherlands	100,00%	0,00%	100,00%	100,00%	Holding company	4.124	1.090	11.291
Suleyado 2003, S.L. Unipersonal	Spain	0,00%	100,00%	100,00%	100,00%	Securities investment	23	6	28

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Super Pagamentos e Administração de Meios Eletrônicos S.A.	Brazil	0,00%	89.93%	100,00%	100,00%	Payment services	8	1	11
Superdigital Holding España Company, S.L.	Spain	0,00%	100,00%	100,00%	100,00%	Holding company	14	(2)	12
Suzuki Servicios Financieros, España S.L.	Spain	0,00%	51,00%	51,00%	51,00%	Intermediation	6	1	-
Svensk Autofinans WH 1Designated Activity Company	Ireland	-	(b)	-	-	Securitisation	-	-	-
Swesant SA	Switzerland	0,00%	100,00%	100,00%	100,00%	Holding company	2	8	-
Taxagest Sociedade Gestora de Participações Sociais, S.A.	Portugal	0,00%	99.86	100,00%	100,00%	Holding company	56	-	-
Teatinos Siglo XXI Inversiones S.A.	Chile	50,00%	50,00%	100,00%	100,00%	Holding company	3.026	258	2.484
The Alliance & Leicester Corporation Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Real estate	14	0	-14
The Best Specialty Coffee, S.L. Unipersonal	Spain	100,00%	0,00%	100,00%	100,00%	restaurant services	1	-	-
Tikgi Aviation One Designated Activity Company	Ireland	-	(b)	-	-	Renting	(1)	(1)	-
Time Retail Finance Limited (j)	United Kingdom	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Tonopah Solar I, LLC	United States	0,00%	100,00%	100,00%	100,00%	Holding company	5	-	5
TOPSAM, S.A de C.V.	Mexico	0,00%	100,00%	100,00%	100,00%	Fund management company	2	-	1
Toque Fale Serviços de Telemarketing Ltda.	Brazil	0,00%	89.93%	100,00%	100,00%	Telemarketing	1	(1)	-
Tornquist Asesores de Seguros S.A. (j)	Argentina	0,00%	99.99%	99.99%	99.99%	Advisory services	-	-	-
Totta (Ireland), PLC (h)	Ireland	0,00%	99.86%	100,00%	100,00%	Finance company	455	11	450
Totta Urbe - Empresa de Administração e Construções, S.A.	Portugal	0,00%	99.86%	100,00%	100,00%	Real estate	125	6	100
Trabajando.com Colombia Consultoría S.A.S.	Colombia	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Trabajando.com México, S.A. de C.V.	Mexico	0,00%	99.87%	99.87%	100,00%	Services	-	-	-
Trabajando.com Perú S.A.C.	Peru	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Trabalhando.com Brazil Consultoria Ltda.	Brazil	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Trabalhandopontocom Portugal, Sociedade Unipessoal, Lda - Em Liquidação (j)	Portugal	0,00%	100,00%	100,00%	100,00%	Services	-	-	-
Trade Maps 3 Hong Kong Limited	Hong-Kong	-	(b)	-	-	Securitisation	-	-	-
Trade Maps 3 Ireland Limited (j)	Ireland	-	(b)	-	-	Securitisation	-	-	-
Trans Rotor Limited (j)	United Kingdom	100,00%	0,00%	100,00%	100,00%	Renting	8	(1)	5
Transolver Finance EFC, S.A.	Spain	0,00%	51,00%	51,00%	51,00%	Leasing	53	7	17
Tuttle and Son Limited	United Kingdom	0,00%	100,00%	100,00%	100,00%	Payments and collections services	-	-	-
Universia Brazil S.A.	Brazil	0,00%	100,00%	100,00%	100,00%	Internet	-	-	-

Santander

		% of ownership held by the Bank		% of voting power (k)			Million euros (a)		
Compañny	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Capital + Reserves	Net results	Carrying amount
Universia Chile S.A.	Chile	0,00%	86.84%	86.84%	86.84%	Internet	-	-	1
Universia Colombia S.A.S.	Colombia	0,00%	100,00%	100,00%	100,00%	Internet	-	-	-
Universia España Red de Universidades, S.A.	Spain	0,00%	89.45%	89.45%	89.45%	Internet	2	-	2
Universia Holding, S.L.	Spain	100,00%	0,00%	100,00%	100,00%	Holding company	19	(5)	18
Universia México, S.A. de C.V.	Mexico	0,00%	100,00%	100,00%	100,00%	Internet	-	-	-
Universia Perú, S.A.	Peru	0,00%	99.73%	99.73%	96.51%	Internet	-	-	-
Universia Uruguay, S.A.	Uruguay	0,00%	100,00%	100,00%	100,00%	Internet	-	-	-
W.N.P.H. Gestão e Investimentos Sociedade Unipessoal, S.A.	Portugal	0,00%	100,00%	100,00%	100,00%	Portfolio management	-	-	-
Wallcesa, S.A.	Spain	100,00%	0,00%	100,00%	100,00%	Financial services	(941)	6	-
Wave Holdco, S.L.	Spain	0,00%	100,00%	100,00%	100,00%	Holding company	45	(14)	31
Waypoint Insurance Group, Inc.	United States	0,00%	100,00%	100,00%	100,00%	Holding company	9	-	9
Whitewick Limited (j)	Jersey	0,00%	100,00%	100,00%	100,00%	Inactive	-	-	-
WIM Servicios Corporativos, S.A. de C.V.	Mexico	0,00%	100,00%	100,00%	100,00%	Advisory	-	-	-
WTW Shipping Designated Activity Company	Ireland	100,00%	0,00%	100,00%	100,00%	Leasing	12	1	9

(a) Amount per provisional books of each company as of the date of publication of these annexes, generally referred to 31 December 2019 without considering, where appropriate, the interest dividends that has been made in the year. In the carrying amount (net cost of provision), the Group´s ownership percentage has been applied to the number of each of the holders, without considering the impairment of goodwill incurred in the consolidation process. The Data from foreign companies are converted in to euros at the exchange rate at the end of the period.
(b) Companies over which effective control is exercised.
(c) Data from the latest available financial statement as at 31 December 2018.
(d) Data from the latest available financial statement as at 31 March 2019.
(e) Data from the latest available statement as at 30 June 2019.
(f) Data from the latest available financial statement as at 30 September 2019.
(g) Data from the latest available financial statement as at 31 July 2019.
(h) Data from the latest available financial statement as at 30 November 2019.
(i) Company in process of merger or liquidation. Pending of being registered.
(j) Company in liquidation at 31 December 2019.
(k) Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent. For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
(l) Company resident in Spain for tax purposes.
(m) See note 2.b.i
(n) Company resident in the UK for tax purposes.
(o) Company recently incorporated in the Group, without financial statements available.
(p) Data from the latest available financial statement as at 31 May 2019.
(q) Data from the latest available financial statement as at 31 January 2019.
(r) Data from the latest available financial statement as at 31 December 2004.
(s) Data from the latest available financial statement as at 31 October 2019.

(1) Companies issuing shares and preference shares are listed in annex III, together with other relevant information.

Appendix II

Societies of which the Group owns more than 5% (g), entities associated with Grupo Santander and jointly controlled entities

		% of ownership held by the Bank		% of voting power (k)				Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Type of company	Assets	Capital + reserves	Net results
Abra 1 Limited (k)	Cayman Island	-	(h)	-	-	Leasing	Joint venture	-	-	-
Administrador Financiero de Transantiago S.A.	Chile	0.00%	13.42%	20.00%	20.00%	Payments and collections services	Associated	74	21	2
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Joint venture	44	17	5
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal	0.00%	48.95%	49.00%	49.00%	Insurance	Joint venture	115	20	12
Aeroplan - Sociedade Construtora de Aeroportos, Lda. (e)	Portugal	0.00%	19.97%	20.00%	20.00%	Inactive	-	-	-	-
Aguas de Fuensanta, S.A. (e)	Spain	36.78%	0.00%	36.78%	36.78%	Food	Associated	24	-7	-
Alcuter 2, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	-	-	-	-
Allianz Popular, S.L. (consolidado)	Spain	40.00%	0.00%	40.00%	40.00%	Insurance	Associated	2,749	80	76
Altamira Asset Management, S.A. (b)	Spain	0.00%	15.00%	15.00%	-	Real estate	-	580	110	24
Apolo Fundo de Investimento em Direitos Creditórios	Brazil	0.00%	29.98%	33.33%	-	Investment fund	Joint venture	1,778	1,744	34
Arena Communications Network, S.L. (consolidado) (b)	Spain	20.00%	0.00%	20.00%	20.00%	Advertising	Associated	289	96	3
Attijariwafa Bank Société Anonyme (consolidado) (b)	Marrocco	0.00%	5.11%	5.11%	5.11%	Banking	-	47,488	4,073	627
Autopistas del Sol S.A. (b)	Argentina	0.00%	14.17%	14.17%	14.17%	Motorway concession	-	244	19	115
Aviva Powszechne Towarzystwo Emerytalne Aviva Santander S.A. (b)	Poland	0.00%	6.75%	10.00%	10.00%	Pension fund company company	-	118	109	29
Aviva Towarzystwo Ubezpieczeń na Życie S.A. (b)	Poland	0.00%	6.75%	10.00%	10.00%	Insurance	-	3,508	316	138
Banco RCI Brazil S.A.	Brazil	0.00%	35.88%	39.89%	39.89%	Banking	Joint venture	2,988	234	57
Banco S3 México, S.A., Institución de Banca Múltiple	Mexico	0.00%	50.00%	50.00%	100%	Banking	Joint venture	139	62	6
Bank of Beijing Consumer Finance Company	China	0.00%	20.00%	20.00%	20.00%	Finance company	Associated	875	99	4
Bank of Shanghai Co., Ltd. (consolidado) (b)	China	6.54%	0.00%	6.54%	6.50%	Banking	-	259,289	18,375	2,310
CACEIS (consolidado)	France	0.00%	30.50%	30.50%	-	Custody services	Associated	88,015	3,811	159
Câmara Interbancária de Pagamentos - CIP (b)	Brazil	0.00%	15.84%	17.61%	17.61%	Payments and collections services	-	120	53	22
Cantabria Capital, SGEIC, S.A.	Spain	50.00%	0.00%	50.00%	50.00%	Management of venture capital	Associated	-	-	-
CCPT - ComprarCasa, Portugal Rede Serviços Imobiliários, S.A.	Portugal	0.00%	49.98%	49.98%	49.98%	Real estate services	Joint venture	-	-	-
Centro de Chile Compensación Automatizado S.A.	Chile	0.00%	22.37%	33.33%	33.33%	Payments and collections services	Associated	10	7	1

		% of ownership held by the Bank		% of voting power (k)				Million euros (a)		
Company	**Location**	**Direct**	**Indirect**	**Year 2019**	**Year 2018**	**Activity**	**Type of company**	**Assets**	**Capital + reserves**	**Net results**
Centro para el Desarrollo, Investigación y Aplicación de Nuevas Tecnologías, S.A. (b)	Spain	0.00%	49.00%	49.00%	49.00%	Technology	Associated	3	2	-
CNP Santander Insurance Europe Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	Insurance brokerage	Associated	940	132	33
CNP Santander Insurance Life Designated Activity Company	Ireland	49.00%	0.00%	49.00%	49.00%	Insurance brokerage	Associated	1,425	181	50
CNP Santander Insurance Services Ireland Limited	Ireland	49.00%	0.00%	49.00%	49.00%	Services	Associated	29	3	1
Comder Contraparte Central S.A	Chile	0.00%	8.36%	12.45%	11.23%	Financial services	Associated	101	13	1
Companhia Promotora UCI	Brazil	0.00%	25.00%	25.00%	25.00%	Financial services	Joint venture	1	(1)	-
Compañia Española de Financiación de Desarrollo, Cofides, S.A., SME (b)	Spain	20.18%	0.00%	20.18%	20.18%	Finance company	-	137	124	9
Compañía Española de Seguros de Crédito a la Exportación, S.A., Compañía de Seguros y Reaseguros (consolidado) (b)	Spain	23.33%	0.55%	23.88%	23.88%	Credit insurance	-	865	356	35
Compañía Española de Viviendas en Alquiler, S.A.	Spain	24.07%	0.00%	24.07%	24.07%	Real estate	Associated	493	299	28
Compañía para los Desarrollos Inmobiliarios de la Ciudad de Hispalis, S.L., en liquidación (l) €	Spain	21.98%	0.00%	21.98%	21.98%	Real estate development	-	38	(324)	-
Condesa Tubos, S.L. (b)	Spain	36.21%	0.00%	36.21%	36.21%	Services	-	96	26	(1)
Corkfoc Cortiças, S.A. (b)	Portugal	0.00%	27.55%	27.58%	27.58%	Cork industry	-	3	20	0
Corridor Texas Holdings LLC States (consolidado) (b)	United State	0.00%	33.60%	33.60%	29.47%	Holding company	-	207	194	-5
Ebury Partners Limited (consolidado) Kingdom (m)	United Kingdom	6.39%	0.00%	6.39%	-	Payment services	-	294	39	(22)
Eko Energy Sp. z o.o(b) (e)	Poland	0.00%	13.12%	21.99%	22.00%	Electricity production	-	0	21	(21)
Euro Automatic Cash Entidad de Pago, S.L.	Spain	50.00%	0.00%	50.00%	50.00%	Payment services	Associated	72	57	-
FAFER-Empreendimentos Urbanísticos e de Construção, S.A. (c) €	Portugal	0.00%	36.57%	36.62%	36.62%	Real estate	-	-	1	-
Federal Home Loan Bank of Pittsburgh (b)	United States	0.00%	9.38%	9.38%	6.33%	Banking	-	95680	4,477	309
Federal Reserve Bank of Boston (b)	United States	0.00%	23.56%	23.56%	30.09%	Banking	-	94,001	1,581	(80)
FIDC RN Brazil – Financiamento de Veículos	Brazil	-	(h)	-	-	Securitisation	Joint venture	0	(7)	7
Fondo de Titulización de Activos UCI 11	Spain	-	(h)	-	-	Securitisation	Joint venture	164	-	-
Fondo de Titulización de Activos UCI 14	Spain	-	(h)	-	-	Securitisation	Joint venture	439	-	-
Fondo de Titulización de Activos UCI 15	Spain	-	(h)	-	-	Securitisation	Joint venture	526	-	-
Fondo de Titulización de Activos UCI 16	Spain	-	(h)	-	-	Securitisation	Joint venture	744	-	-
Fondo de Titulización de Activos UCI 17	Spain	-	(h)	-	-	Securitisation	Joint venture	629	-	-
Fondo de Titulización de Activos, RMBS Prado I	Spain	-	(h)	-	-	Securitisation	Joint venture	343	-	-
Fondo de Titulización Hipotecaria UCI 10	Spain	-	(h)	-	-	Securitisation	Joint venture	95	-	-

		% of ownership held by the Bank		% of voting power (k)				Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Type of company	Assets	Capital + reserves	Net results
Fondo de Titulización Hipotecaria UCI 12	Spain	-	(h)	-	-	Securitisation	Joint venture	236	-	-
Fondo de Titulización Structured Covered Bonds UCI	Spain	-	(h)	-	-	Securitisation	Joint venture	501	-	-
Fondo de Titulización, RMBS Prado II	Spain	-	(h)	-	-	Securitisation	Joint venture	419	-	-
Fondo de Titulización, RMBS Prado III	Spain	-	(h)	-	-	Securitisation	Joint venture	347	-	-
Fondo de Titulización, RMBS Prado IV	Spain	-	(h)	-	-	Securitisation	Joint venture	344	-	-
Fondo de Titulización, RMBS Prado V	Spain	-	(h)	-	-	Securitisation	Joint venture	370	-	-
Fondo de Titulización, RMBS Prado VI	Spain	-	(h)	-	-	Securitisation	Joint venture	401	-	-
Fortune Auto Finance Co., Ltd	China	0.00%	50.00%	50.00%	50.00%	Finance company	Joint venture	2,441	270	41
Friedrichstrasse, S.L.	Spain	35.00%	0.00%	35.00%	35.00%	Real estate	Associated	-	-	-
Gestora de Inteligência de Crédito S.A.	Brazil	0.00%	17.99%	20.00%	20.00%	Collection services	Joint venture	117	69	-16
Gire S.A.	Argentina	0.00%	57.92%	58.33%	58.33%	Payments and collections services	Associated	126	24	16
HCUK Auto Funding 2017-1 Ltd	United Kingdom	-	(h)	-	-	Securitisation	Joint venture	-	-	-
HCUK Auto Funding 2017-2 Ltd	United Kingdom	-	(h)	-	-	Securitisation	Joint venture	823	-	-
Healthy Neighborhoods Equity Fund I LP (b)	United States	0.00%	22.37%	22.37%	22.37%	Real estate	-	16	17	(1)
Hyundai Capital UK United Limited Kingdom	United Kingdom	0.00%	50.01%	50.01%	50.01%	Finance company	Joint venture	3920	201	70
Hyundai Corretora de Brazil Seguros Ltda.	Brazil	0.00%	44.97%	50.00%	-	Insurance brokerage	Joint venture	-	-	-
Imperial Holding Luxemburg S.C.A. (e) (i)	Luxemburgo	0.00%	36.36%	36.36%	36.36%	Securities investment	-	-	(112)	-
Imperial Management Luxemburg S.à r.l. (b) (e)	Luxemburgo	0.00%	40.20%	40.20%	40.20%	Holding company	-	-	-	-
Indice Iberoamericano Spain de Investigación y Conocimiento, A.I.E.	Spain	0.00%	51.00%	51.00%	51.00%	Information system	Joint venture	2	(4)	(1)
Inmoalemania Spain Gestión de Activos Inmobiliarios, S.A.	Spain	0.00%	20.00%	20.00%	20.00%	Holding company	-	1	2	-
Innohub S.A.P.I. de Mexico C.V.	Mexico	0.00%	20.00%	20.00%	-	IT services	Associated	5	5	-
Inverlur Aguilas I, S.L. Spain	Spain	0.00%	50.00%	50.00%	50.00%	Real estate	Joint venture	-	-	-
Inverlur Aguilas II, S.L. Spain	Spain	0.00%	50.00%	50.00%	50.00%	Real estate	Joint venture	1	1	(1)
Inversiones en Spain Resorts Mediterráneos, S.L. €	Spain	0.00%	43.28%	43.28%	43.28%	Real estate	Associated	-	(3)	-
Inversiones Spain Ibersuizas, S.A. (b)	Spain	25.42%	0.00%	25.42%	25.42%	Venture capital	-	23	21	2
Inversiones ZS Chile América Dos Ltda	Chile	0.00%	49.00%	49.00%	49.00%	Securities and real estate investment	Associated	306	306	51
Inversiones ZS Chile América SpA	Chile	0.00%	49.00%	49.00%	49.00%	Securities and real estate Investment	Associated	390	383	48

Company	Location	% of ownership held by the Bank: Direct	Indirect	% of voting power (k): Year 2019	Year 2018	Activity	Type of company	Million euros (a): Assets	Capital + reserves	Net results
J.C. Flowers I L.P. (b)	United States	0.00%	10.60%	0.00%	4.99%	Holding company	-	2	3	(1)
J.C. Flowers II-A L.P. (b)	Canada	0.00%	69.40%	4.43%	4.43%	Holding company	-	31	41	(10)
JCF AIV P L.P. (b)	Canada	0.00%	7.67%	4.99%	4.99%	Holding company	-	83	69	14
JCF BIN II-A (d)	Mauritania	0.00%	69.52%	4.43%	4.43%	Holding company	-	-	1	(1)
Jupiter III L.P. (b)	Canada	0.00%	96.45%	4.99%	4.99%	Holding company	-	89	133	(43)
Loop Gestão de Pátios S.A.	Brazil	0.00%	32.11%	35.70%	35.70%	Business services	Joint venture	9	5	(1)
Luri 3, S.A.	Spain	10.00%	0.00%	10.00%	10.00%	Real estate	Joint venture	-	0	-
Lusimovest Fundo de Investimento Imobiliário	Portugal	0.00%	25.73%	25.77%	25.77%	Investment fund	Associated	106	100	-
Massachusetts Business Development Corp. (consolidado) (b)	United States	0.00%	21.60%	21.60%	21.60%	Finance company	-	67	8	1
MB Capital Fund IV, LLC (b)	United States	0.00%	21.51%	21.51%	23.94%	Finance company	-	18	17	1
Merlin Properties,SOCIMI, S.A. (consolidado) (b)	Spain	16.99%	5.80%	22.78%	22.48%	Real estate	Associated	12,573	5,547	855
Metrovacesa, S.A.(consolidado) (b)	Spain	31.94%	17.52%	49.46%	49.40%	Real estate development	Associated	2,594	2,393	(9)
New PEL S.à r.l. (b) (e)	Luxemburg	0.00%	7.67%	0.00%	0.00%	Holding company	-	68	45	-
NIB Special Investors IV-A LP (b)	Canada	0.00%	99.49%	4.99%	4.99%	Holding company	-	23	28	(6)
NIB Special Investors IV-B LP (b)	Canada	0.00%	91.89%	4.99%	4.99%	Holding company	-	6	8	(2)
Niuco 15, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	-	-	-	-
Norchem Holdings e Negócios S.A.	Brazil	0.00%	19.56%	29.00%	29.00%	Holding company	Associated	28	21	1
Norchem Participações e Consultoria S.A.	Brazil	0.00%	44.97%	50.00%	50.00%	Securities company	Joint venture	15	9	0
Nowotna Farma Wiatrowa Sp. z o.o (b)	Poland	0.00%	12.96%	21.73%	21.73%	Electricity production	-	99	11	5
Odc Ambievo Tecnologia e Inovacao Ambiental, Industria e Comercio de Insumos Naturais S.A. (b)	Brazil	0.00%	18.16%	20.19%	20.19%	Technology	-	4	4	0
Operadora de Activos Beta, S.A. de C.V.	Mexico	0.00%	49.99%	49.99%	49.99%	Finance company	Associated	-	-	-
Parque Eólico Tico, S.L. (b)	Spain	33.33%	0.00%	33.33%	-	Electricity production	Joint venture	-	-	-
Parque Solar Páramo, S.L.	Spain	92.00%	0.00%	25.00%	25.00%	Electricity production	Joint venture	26	1	-
Payever GmbH	Germany	0.00%	10.00%	10.00%	10.00%	Software	Associated	2	1	-
POLFUND - Fundusz Poręczeń Kredytowych S.A.	Poland	0.00%	33.74%	50.00%	50.00%	Management	Associated	27	21	-
Procapital - Investimentos Imobiliários, S.A. (c) (e)	Portugal	0.00%	39.96%	40.00%	40.00%	Real estate	-	4	13	-
Project Quasar Investments 2017, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	Finance company	Associated	9,928	3,930	(714)

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Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Type of company	Assets	Capital + reserves	Net results
Promontoria Manzana, S.A.	Spain	20.00%	0.00%	20.00%	-	Holding company	Associated	1,126	353	(34)
PSA Corretora de Seguros e Serviços Ltda.	Brazil	0.00%	44.97%	50.00%	50.00%	Insurance	Joint venture	1	-	-
PSA Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	Insurance	Joint venture	194	71	15
PSA Life Insurance Europe Limited	Malta	0.00%	50.00%	50.00%	50.00%	Insurance	Joint venture	93	10	11
PSA UK Number 1 plc	United Kingdom	0.00%	50.00%	50.00%	50.00%	Leasing	Associated	5	5	-
Redbanc S.A.	Chile	0.00%	22.44%	33.43%	33.43%	Services	Associated	28	10	-
Redsys Servicios de Procesamiento, S.L. (consolidado)	Spain	20.00%	0.08%	20.08%	20.08%	Cards	Associated	124	60	9
Retama Real Estate, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Services	Joint venture	41	(41)	(2)
Rías Redbanc S.A.	Uruguay	0.00%	25.00%	25.00%	25.00%	Services	-	3	1	-
Santander Auto S.A.	Brazil	0.00%	44.97%	50.00%	50.00%	Insurance	Associated	8	6	(1)
Santander Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poland	0.00%	33.06%	49.00%	49.00%	Insurance	Associated	296	15	16
Santander Aviva Towarzystwo Ubezpieczeń S.A.	Poland	0.00%	33.06%	49.00%	49.00%	Insurance	Associated	120	37	16
Santander Generales Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Joint venture	405	63	17
Santander Mapfre Seguros y Reaseguros, S.A.	Spain	0.00%	49.99%	49.99%	100.00%	Inactive	Associated	24	21	-2
Santander Securities Services Brazil Distribuidora de Títulos e Valores Mobiliários S.A.	Brazil	0.00%	50.00%	50.00%	100.00%	Securities investment	Joint venture	222	172	23
Santander Securities Services Brazil Participações S.A.	Brazil	0.00%	50.00%	50.00%	100.00%	Holding company	Joint venture	198	175	22
Santander Securities Services Colombia S.A. Sociedad Fiduciaria	Colombia	0.00%	50.00%	50.00%	100.00%	Finance company	Joint venture	8	9	(1)
Santander Securities Services Latam Holding , S.L.	Spain	0.00%	50.00%	50.00%	-	Holding company	Joint venture	715	706	9
Santander Securities Services Latam Holding 2, S.L.	Spain	0.00%	50.00%	50.00%	-	Holding company	Joint venture	2	2	-
Santander Vida Seguros y Reaseguros, S.A.	Spain	0.00%	49.00%	49.00%	49.00%	Insurance	Joint venture	412	89	48
Saturn Japan II Sub C.V. (b)	Netherlands	0.00%	69.30%	0.00%	0.00%	Holding company	-	25	37	(11)
Saturn Japan III Sub C.V. (b)	Netherlands	0.00%	72.72%	0.00%	0.00%	Holding company	-	119	176	(57)
Sepacon 31, S.L. (k)	Spain	37.23%	0.00%	37.23%	37.23%	Technical services	-	-	-	-
Servicios de Infraestructura de Mercado OTC S.A	Chile	0.00%	8.37%	12.48%	11.25%	Services	Associated	18	14	1
SIBS-SGPS, S.A. (b)	Portugal	0.00%	16.54%	16.56%	16.56%	Portfolio management	-	135	63	13
Siguler Guff SBIC Fund LP (k)	United States	0.00%	20.00%	20.00%	-	Investment fund	-	-	-	-
Sistema de Tarjetas y Medios de Pago, S.A.	Spain	18.11%	0.00%	18.11%	18.11%	Payment services	Associated	352	4	-

		% of ownership held by the Bank		% of voting power (k)				Million euros (a)		
Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Type of company	Assets	Capital + reserves	Net results
Sistemas Técnicos de Encofrados, S.A. (consolidado) (b)	Spain	27.15%	0.00%	27.15%	27.15%	Building materials	-	78	2	6
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago, E.F.C., S.A.	Spain	42.50%	0.00%	42.50%	42.50%	Payment services	Joint venture	117	31	2
Sociedad de Garantía Recíproca de Santander, S.G.R. (b)	Spain	25.50%	0.23%	25.73%	25.73%	Financial services	-	17	11	-
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (b)	Spain	22.21%	0.00%	22.21%	22.21%	Financial services	-	35,324	2,055	(878)
Sociedad Española de Sistemas de Pago, S.A. (b)	Spain	21.32%	0.00%	21.32%	22.24%	Payment services	-	10	7	1
Sociedad Interbancaria de Depósitos de Valores S.A.	Chile	0.00%	19.66%	29.29%	29.29%	Custody	Associated	6	5	1
Solar Maritime Designated Activity Company	Ireland	-	(h)	-	-	Leasing	Joint venture	27	-	-
Stephens Ranch Wind Energy Holdco LLC (consolidado) (b)	United States	0.00%	21.30%	21.30%	28.80%	Electricity production	-	241	241	-6
Syntheo Limited (e)	United Kingdom	0.00%	50.00%	50.00%	50.00%	Payment services	Joint venture	1	-	-
Tbforte Segurança e Transporte de Valores Ltda.	Brazil	0.00%	17.82%	19.81%	19.81%	Security	Associated	110	73	(5)
Tbnet Comércio, Locação e Administração Ltda.	Brazil	0.00%	17.82%	19.81%	19.81%	Telecommunications	Associated	73	76	(5)
Tecnologia Bancária S.A.	Brazil	0.00%	17.82%	19.81%	19.81%	ATM	Associated	458	101	10
Teka Industrial, S.A. (consolidado) (b)	Spain	0.00%	9.42%	9.42%	9.42%	Household appliances	-	579	163	5
Tonopah Solar Energy Holdings I, LLC (consolidado)	United States	0.00%	26.80%	26.80%	26.80%	Holding company	Joint venture	504	153	(71)
Trabajando.com Chile S.A.	Chile	0.00%	33.33%	33.33%	33.33%	Services	Associated	1	-2	1
Transbank S.A.	Chile	0.00%	16.78%	25.00%	25.00%	Cards	Associated	-	83	7
U.C.I., S.A.	Spain	50.00%	0.00%	50.00%	50.00%	Holding company	Joint venture	370	68	(2)
UCI Hellas Credit and Loan Receivables Servicing Company S.A.	Greece	0.00%	50.00%	50.00%	50.00%	Financial services	Joint venture	1	-	-
UCI Holding Brazil Ltda	Brazil	0.00%	50.00%	50.00%	50.00%	Holding company	Joint venture	2	(1)	-
UCI Mediação de Seguros Unipessoal, Lda.	Portugal	0.00%	50.00%	50.00%	50.00%	Insurance brokerage	Joint venture	-	-	-
UCI Servicios para Profesionales Inmobiliarios, S.A.	Spain	0.00%	50.00%	50.00%	50.00%	Real estate services	Joint venture	1	-	-
Unicre-Instituição Financeira de Crédito, S.A.	Portugal	0.00%	21.83%	21.86%	21.86%	Finance company	Associated	398	80	16
Unión de Créditos Inmobiliarios, S.A., EFC	Spain	0.00%	50.00%	50.00%	50.00%	Mortgage credit company	Joint venture	12,742	441	15
Uro Property Holdings SOCIMI, S.A. (b)	Spain	14.95%	7.82%	22.77%	14.95%	Real estate	-	1,572	245	12
VCFS Germany GmbH	Germany	0.00%	50.00%	50.00%	50.00%	Marketing	Joint venture	-	-	-
Venda de Veículos Fundo de Investimento em Direitos Creditórios	Brazil	-	(h)	-	-	Securitisation	Joint venture	140	129	11
Webmotors S.A.	Brazil	0.00%	62.95%	70.00%	70.00%	Services	Joint venture	54	26	14

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Company	Location	Direct	Indirect	Year 2019	Year 2018	Activity	Type of company	Assets	Capital + reserves	Net results
Zurich Santander Brazil Seguros e Previdência S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associated	14,567	680	236
Zurich Santander Brazil Seguros S.A.	Brazil	0.00%	48.79%	48.79%	48.79%	Insurance	Associated	190	(1)	40
Zurich Santander Holding (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associated	940	936	175
Zurich Santander Holding Dos (Spain), S.L.	Spain	0.00%	49.00%	49.00%	49.00%	Holding company	Associated	385	384	108
Zurich Santander Insurance América, S.L.	Spain	49.00%	0.00%	49.00%	49.00%	Holding company	Associated	1,493	1,510	298
Zurich Santander Seguros Argentina S.A. (j)	Argentina	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	27	3	8
Zurich Santander Seguros de Vida Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	253	34	44
Zurich Santander Seguros Generales Chile S.A.	Chile	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	209	35	13
Zurich Santander Seguros México, S.A.	Mexico	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	660	43	121
Zurich Santander Seguros Uruguay S.A.	Uruguay	0.00%	49.00%	49.00%	49.00%	Insurance	Associated	25	10	6

a. Amount per provisional books of each company as of the date of publication of these annexes, generally referred to 31 December 2019, unless stated otherwise because the Annual Accounts are pending to be formulated. The data from foreign companies are converted into euros at the exchange rate at the end of the period.
b. Data from the latest available financial statements as at 31 December 2018.
c. Data from the latest available financial statements as at 31 December 2017.
d. Data from the latest available financial statements as at 30 September 2018.
e. Company in liquidation to 31 December 2019.
f. Pursuant to Article 3 of Royal Decree 1159/2010, of 17 September approving the rules for the preparation of consolidated financial statements, in order to determine voting power, the voting power relating to subsidiaries or to other persons acting in their own name but on behalf of Group companies was added to the voting power directly held by the Parent, For these purposes, the number of votes corresponding to the Parent in relation to companies over which it exercises indirect control is the number corresponding to each subsidiary holding a direct ownership interest in such companies.
g. Excluding the Group companies listed in Appendix I and those of negligible interest with respect to the fair presentation that the consolidated financial statements must express (pursuant to Article 48 of the Spanish Commercial Code and Article 260 of the Spanish Limited Liability Companies Law).
h. Companies over which the non-subsidiary investee of the Group exercises effective control.
i. Data from the latest available financial statements as at 31 October 2019.
j. Data from the latest available financial statements as at 30 June 2019.
k. Company recently incorporated in the Group, without financial statements available.
l. Data from the latest available financial statements as at 30 November 2017.
m. Data from the latest available financial statements as at 30 April 2018.

Appendix III

Issuing subsidiaries of shares and preference shares

		% of ownership held by the Bank			Million euros (a)			
Company	Location	Direct	Indirect	Activity	Capital	Reserves	Capital of preferred	Net results
Emisora Santander España, S.A. Unipersonal	Spain	100.00%	0.00%	Finance company	2	0	0	0
Santander UK (Structured Solutions) Limited	United Kingdom	0.00%	100.00%	Finance company	0	0	0	0
Sovereign Real Estate Investment Trust	United States	0.00%	100.00%	Finance company	5,084	(3,215)	80	31

(a) Amounts per provisional books of each company as at 31 December 2019, converted into euros (in the case of foreign companies) at the year-end exchange rates.

Appendix IV

Notifications of acquisitions and disposals of investments in 2019

(Article 155 of the Spanish Limited Liability Companies Law and Article 125 of the Spanish Securities Market Law)

Below are the notifications of acquisitions and sales of participations for 2019 in accordance with Article 155 of the Securities Market Law.

On 30 April 2019, the communication made by Banco Santander, BANCO BILBAO VIZCAYA ARGENTARIA, S.A., BANKIA, S.A., CAIXABANK, S.A., KUTXABANK, S.A., LIBERBANK, S.A. and BANCO DE SABADELL, S.A. was registered with the CNMV ("the Concerted Action") in which it was reported that the participation of the Concerted Action in GENERAL DE ALQUILER DE MAQUINARIA, S.A.

("GAM") had fallen below the 10% threshold on 24 April 2019, being Banco Santander stake in this company 8.482%.

This announcement was made as a result of the reduction of the Concerted Action's stake in GAM from 10% to 8.482%. All the financial institutions participating in the Concerted Action sold all their shares in GAM, with the exception of Banco Santander, which sold part of its shares but kept 2,823,944 shares of GAM, representing 8.482% of its capital.

On May 10, 2019, the communication made by Banco Santander was registered with the CNMV stating that its stake in ABENGOA, S.A. had fallen from the 3% threshold on February 2, 2019 to 2.836%.

On 19 June 2019, the communication made by Banco Santander as a result of the dissolution of the Concerted Action between the aforementioned shareholders of GAM on 17 June 2019 was registered with the CNMV.

On 19 June 2019, the communication made by Banco Santander as a result of the dissolution of the Concerted Action between the aforementioned shareholders of GAM was registered with the CNMV, informing of the position held by Banco Santander after the said dissolution (8.482%) on 17 June 2019.

On 3 December 2019, the communication made by Banco Santander as a result of the change in the number of voting rights of the issuer GAM on 2 December 2019 was registered with the CNMV.

This notification was made as a result of a change in the issuer's total number of voting rights, which caused Banco Santander's stake in GAM to fall below the 5% threshold to 4.477%.

In accordance with Article 155 of the Spanish Limited Liability Companies Law, no acquisitions of more than 5% of the capital were made in 2019 in companies in which the Group holds more than 10%.

Appendix V

Deduction for reinvestment of extraordinary income corresponding to the companies of the Fiscal Consolidation Group, whose dominant was Banco Popular Español, S.A.U.

Transitional Provision 24 of Law 27/2014, specifically article 42 of the Consolidated Text of the Income Tax Law on deduction for reinvestment of extraordinary income, establishes that such income shall be regulated by the said article 42 and in its section 10, establishing the duty to detail the amount of the income to which the deduction applies, as well as the obligation to detail the year in which the reinvestment occurred, For all of this, the period of maintenance of the investment indicated in section 8 of the aforementioned precept should not have been finished, In relation to all of this, the following information regarding 2014 is presented, with a reinvestment period from 2015 to 2017.

The detailed information refers to both Banco Popular as well as to other companies belonging to the Consolidated until 2017, inclusive, and which have applied the reinvestment deduction to their income and / or to those that have made investments in assets identified in section 3 of article 42,

- Amount of income to which apply the deduction of 12% in 2016: EUR 51,858,693.47
- Amount of income to which apply the deduction of 12% in 2017: EUR 21,333,543.67
- Reinvestments carried out in 2016: EUR 127,917,350.35
- Reinvestments carried out in 2017: EUR 47,546,533.73 Euros

Appendix VI

List of Transactions subject to the Tax Regime of Mergers, Spin-offs, Assets Transmissions and Exchange of Securities in which the company acted as Acquiring Entity or Partner.

In compliance with the obligations on the communication of information established in article 86 of Law 27/2014 of Tax Income of November 27, the following information is provided for transactions under the tax regime of mergers, spin-offs, assets transmissions and exchange of securities, provided in Section VII of Title VII of Law 27/2014 of November 27, in which BANCO SANTANDER, S.A. has intervened during 2019:

I. In compliance with the provisions of article 86, section 1, it is reported that the company BANCO SANTANDER, S.A. has intervened as acquirer in the following operations:

- Merger by absorption of INVERSIONES INMOBILIARIAS GERCEBIO, S.A. (unipersonal society), INVERSIONES INMOBILIARIAS CEDACEROS, S.A. (unipersonal society), MANBEROR, S.A. (unipersonal society), POPULAR CAPITAL, S.A. (unipersonal society), POPULAR BOLSA, SOCIEDAD DE VALORES, S.A. (unipersonal society), by the company BANCO SANTANDER, S.A, which held all the shares of the absorbed entity, This transaction constitutes a merger of those regulated in article 76,1 c) of Law 27/2014 of November 27, The information required in article 86,1 of Law 27/2014 of November 27 is incorporated into the present report.

- Merger by absorption of SORLINDA INVESTMENTS, S.L.,unipersonal society, by the company BANCO SANTANDER, S.A., which held all the shares of the absorbed entity. This transaction constitutes a merger of those regulated in article 76,1 c) of Law 27/2014 of November 27, The information required in article 86,1 of Law 27/2014 of November 27 is incorporated into the present report.

II. In compliance with the provisions of article 86,section 2, it is reported that the company BANCO SANTANDER, S.A has intervened as a partner in the following operations:

- Exchange of securities, regulated under article 76,1,a) of Law 27/2014 of 27 November, by which SANTANDER DIGITAL BUSINESSES, S.L. adquires the majority of voting rights in the entities WAVE HOLDING COMPANY, S.L. and WAVE HOLDING COMPANY, S.L. to attribution to its partners, among which BANCO SANTANDER, S,A, os secutiries representing the acquiring entity. The book value for the WAVE HOLDING COMPANY, S.L. and WAVE HOLDING COMPANY securities delivered by BANCO SANTANDER, S.A, was € 29,802,178.71 and €6,442,143.48, respectively.The value at which BANCO SANTANDER, S,A, accounted for the securities received by SANTANDER DIGITAL BUSINESSES, S.L. was € 36,244,322.19.

- Exchange of securities, regulated under article 76,1,a) of Law 27/2014 of 27 November, by which SANTANDER DIGITAL BUSINESSES S.L. adquires the majority of SANTANDER DIGITAL ASSETS, S.L. voting to attribution to its partners, among which BANCO SANTANDER, S,A, os secutiries representing the acquiring entity. The book value for the SANTANDER DIGITAL ASSETS, S.L. securities delivered by BANCO SANTANDER, S.A, was € 20,599,740.70. The value at which BANCO SANTANDER, S,A, accounted for the securities received by SANTANDER DIGITAL BUSINESSES, S.L.was 20,599,740.70€.

- Non-monetary contribution of all the assets, liabilities, rights, obligations and expectations that make up the branch of activity of the factoring business and confirming by BANCO SANTANDER, S.A. to the entity SANTANDER FACTORING Y CONFIRMING, S.A.U. This operation constitutes a non-monetary contribution of the branch of activity of those regulated in article 76.3 of the LIS. The net value of the assets and liabilities corresponding to the branch of activity contributed amounts to € 0. The value for which BANCO SANTANDER, S.A. has posted the values received from SANTANDER FACTORING Y CONFIRMING, S.A.U. It is € 0.

- Non-monetary contribution of all assets, liabilities, rights, obligations and expectations that make up the branch of real estate business of the land by BANCO SANTANDER, S.A., ALTAMIRA SANTANDER REAL ESTATE, S.A. and ALISEDA REAL ESTATE, S.A. to the entity LANDMARK IBERIA, S.L. (sole proprietorship) This operation constitutes a non-monetary contribution from the branch of activity of those regulated in article 76.3 of the LIS and did not comply with the regime provided for in article 77.1 of said standard. The net value of the assets and liabilities corresponding to the branch of activity contributed amounts to € 266,700,815.92. The value for which BANCO SANTANDER, S.A. has accounted for the securities received from LANDMARK IBERIA, S.L. (sole proprietorship) is € 266,700,815.92.

III. In compliance with the provisions of article 86,3, it is hereby stated that the mentions required by paragraphs 1 and 2 of article 86, relating to transactions subject to the tax regime for mergers, spin-offs, contributions of assets and exchange of securities, provided for in Chapter VII of Title VII of Law 27/2014 of 27 November, in which BANCO SANTANDER, S,A, has intervened as acquirer or partner during previous financial years, appear in the first annual report approved after each of the aforementioned transactions.

Appendix VII

Information to be included in compliance with the provisions of article 12,3 of TRLIS

The information requested in article 12,3 of the Consolidated Text, which approves the Tax Income Law based on the wording established by Law 4/2008 of December 23 of applicable to the tax periods that started from the 1st of January 2008 until its repeal by Law 16/2013 of October 29:

Participants entities	Millions euros				
	2019				
	Amounts deducted in past years	Changes in Equity of attributable years	Deduction or integration of the year	Integration RDL 3/2016	Deduction pending integration
Santander Ahorro Inmobiliario 2, S.I.I. S.A.	(1)	-	-	-	(1)
Santander Private Banking s.p.a.	(18)	(1)	-	9	(9)
TOTAL	**(19)**	**(1)**	-	**10**	**(10)**

Appendix VIII

Información relativa a la fusión de Sorlinda Investments, S.L.U., según el Artículo 86.1 de la Ley 27/2014 del Impuesto sobre Sociedades.

a) Ejercicio en el que la entidad transmitente adquirió los bienes transmitidos que sean susceptibles de amortización.

No existen bienes en la entidad transmitente que sean susceptibles de amortización.

b) **Último balance cerrado por la entidad transmitente.**

El último balance cerrado de Sorlinda Investments, S.L.U. se encuentra en la Nota 1.i.

c) Relación de bienes adquiridos que se hayan incorporado a los libros de contabilidad por un valor diferente a aquél por el que figuraban en los de la entidad transmitente con anterioridad a la realización de la operación, expresando ambos valores así como las correcciones valorativas constituidas en los libros de contabilidad de las dos entidades.

No existen bienes de esta naturaleza.

d) Relación de beneficios fiscales disfrutados por la entidad transmitente, respecto de los cuales la entidad adquirente deba asumir el cumplimiento de determinados requisitos.

No hay beneficios fiscales en la entidad transmitente sobre los que Banco Santander, S.A. deba asumir el cumplimiento de determinados requisitos.

Información relativa a la fusión de Inversiones Inmobiliarias Gercebio, S.A.U., Inversiones Inmobiliarias Cedaceros, S.A.U., Manberor, S.A.U., Popular Capital, S.A.U. y Popular de Bolsa, S.U., según el Artículo 86.1 de la Ley 27/2014 del Impuesto sobre Sociedades.

a) Ejercicio en el que la entidad transmitente adquirió los bienes transmitidos que sean susceptibles de amortización.

No existen bienes en las entidades transmitentes que sean susceptibles de amortización.

b) Último balance cerrado por las entidades transmitentes.

Los últimos balances de las de las entidades transmitentes se encuentran en la Nota 1.i.

c) Relación de bienes adquiridos que se hayan incorporado a los libros de contabilidad por un valor diferente a aquél por el que figuraban en los de la entidad transmitente con anterioridad a la realización de la operación, expresando ambos valores así como las correcciones valorativas constituidas en los libros de contabilidad de las dos entidades.

No existen bienes de esta naturaleza

d) Relación de beneficios fiscales disfrutados por la entidad transmitente, respecto de los cuales la entidad adquirente deba asumir el cumplimiento de determinados requisitos.

No hay beneficios fiscales en la entidad transmitente sobre los que Banco Santander, S.A. deba asumir el cumplimiento de determinados requisitos.

Appendix IX

Agent network - Collaborating agents, Agents empowered as at 31 December 2018

APRIL GOICOECHEA, ANDONI

ACTIFISUR SRL

ADAN CABEZON, OSCAR

AGUADO Y ORTEGA ASESORES S L

AGUDO FRANCIA, AGUSTINA

AGUERRI MARTINEZ, FELIX

AICUA RODRIGUEZ, OIHANE

ALBARRAN FIGAL S,L,

ALBARRAN PELAYO, FRANCISCO

ALBERO FERRIZ, MIGUEL ANGEL

ALBERO TORRES, JOSEFA

ALCAIDE NAVARRO, JUAN ANTONIO

ALCALDE PITARCH, MIGUEL

ALFAGEME MARTIN, OSCAR MANUEL

ALFARO GONZALEZ, JUAN MIGUEL

ALFONSOCRIADO SL

ALLER ALONSO, JOSE ALBERTO

ALMA 812 S,L

ALMENA AMARO BRAULIO

ALONSO ARRIBAS, JORGE

ALVARADO CAMARA JESUS

ALVARADO GARCIA, CECILIO

ALVAREZ ALVAREZ, MONICA

ALVAREZ GONZALEZ, LUCIA

ALVAREZ LARA, FRANCISCO

ALVAREZ LORENZO, MARIA DEL ROSARIO

ALVAREZ RODRIGUEZ, MARIA DEL PILAR

ALVAREZ RODRIGUEZ, YOLANDA

ALVAREZ RUANO, MARIO

AMADOR ROJO CAROLINA

AMEAL MAS, JOSE MANUEL

ANDION ACEBOS, ALBERTO

ANDRES VILLALBA, LUIS FERNANDO

ANTOLIN FERNANDEZ, IGNACIO MARIA

ANTON GARCIA, JOSE MARIA

APARICIO GONZALEZ, JORGE

APARISI GRAU, JOSE JOAQUIN

ARCAS CHECA, CARLOS

ARCE LANDETE, ROSA

AREVALO GOMEZ, FERNANDO

ARMENTEROS CUESTA, ANGEL

ARREAZA SERVICIOS FINANCIEROS, S,L,

ARRIBAS CRISTOBAL, JUAN ANTONIO

ARRIBAS DIAZ, ROSA ELENA

ARROYO RODRIGUEZ, IGNACIO

ARRUFAT RAFALES, GEMMA

ARTEAGA LOPEZ, FRANCISCO JAVIER

ASENJO HERNANDO, MARCOS

ASESORES FINANCIEROS VIANA SL

ASESORIA GESTION GLOBAL S,L,

ASEVAL ASESORES S,L

ASIS DE FEREZ S,L,

ASSESSORIA COFISCO, S,L,

ATIENZA CALDERON, SANTIAGO

AURENSANZ MARCEN, FRANCISCO JAVIER

AUSEJO MARTINEZ, MARIA JOSE

AYALA ARNALDOS, JOSE MANUEL

AYMERICH GAZQUEZ, GLORIA

AYZA ASESORES S,L,

BALAGUER BALAGUER, ARACELI

BAÑOS ALONSO, ALFONSO

BARBA ARRANZ ,RAQUEL

BARREIRA VIA, LORENZO

BARRERA PEREZ, JOSE

BARRERO GORDILLO, RAQUEL

BARRIGA DORADO, MANUEL

BATALLA FARRE, ANNA

BAUTISTA CALEYA, MARIA LUISA

BEATRIZ GARRIDO SANTANDER S,L,

BECARES MARTÍNEZ, MARIA VISITACION

BEJAR ESCALANTE, FRANCISCO

BELLAUBI MIRO, ANTONI

BELLET SANJUAN, ROGER

BELLMUNT BELLMUNT, RAFAEL

BENAVIDES SANCHEZ, MARIA DEL SOCORRO

BENEITEZ SALINERO, ROSA ISABEL

BENEYTO MICO, BLAS

BENITO GOMEZ, MARIA DEL ROSARIO

BENLLOCH GRIMALT, JAIME

BERCAMLU, S,L,

BERLANA DEL POZO, JULIANA

BERMUDEZ GALINDO, LORENA

BERNAL CAMPOS, LUIS MIGUEL

BERNAL MERINO, ANTONIO

BERNALDO DE QUIROS DE DOMPABLO, RUBEN

BERPISTE S,R,L,

BERTRAN CASALS, MARIA ROSA

BES LAGA DIGNA

BIERFINANTEC, S,L,

BLANCO DEL RIO, JAVIER

BLANCO GARCIA, ROBERTO

BLANCO GONZALEZ, PALOMA

BLAY PASCUAL ,ROSA MARIA

BLAZQUEZ FERNANDEZ, JOSE LUIS

BLAZQUEZ FERNANDEZ, LUCIA

BLAZQUEZ FRAILE, MARIA ROSA AMPARO

BOL GARCIA, SANTOS

BOLINCHES IBAÑEZ,MARGARITA LUZ

BOLUFER DEVESA, MARIA DOLORES

BONILLA MARTINEZ, ENCARNACION

BORDALLO MEDINA, JOSE IGNACIO

BORRALLO SANCHEZ, ELVIRA

BORREL MICOLA, MARIA TERESA

BORRELL-ALUJA S,L,

BOZAL HUGUE,T MARIA EUGENIA

BRAVO SAN INOCENTE, MARIA ELENA

BRIEVA DOMINGUEZ MARIA TRINIDAD

BROCH RUBERT, MARIA TERESA

BRUNA CEREZO JOSE MANUEL

BUENAGA PEÑA, MARIA CAMINO

BUERA GILABERT, MANUELA

BUIL GARCIA, SERGIO

CABALLERO DURAN, MARIA DE LOS ANGELES

CABALLERO MARTIN, ROBERTO

CABERO MATA, JOSE MARIA

CABRERA COLONQUES, PAULA GRACIA

CABRERA COSANO, JOSE

CAES ASSESSORS SL

CALBO PELLICER, ISIDRE

CALDERON IZQUIERDO, MARIA NIEVES

CALLEJAS CEBALLOS, JOSE MIGUEL

CAMBEIRO CAAMAñO, MARIA ELISA

CAMINO PEREZ OSCAR

CAMUS SAN EMETERIO, MARIA DEL CARMEN

CANIEGO SANS, MONICA

CANOVAS MARTINEZ, ROSA

CANTERO SANCHEZ, JUAN ANTONIO

CANTO PEREZ, JOSE IGNACIO

CAPON FERNANDEZ, JOSE MANUEL

CARAVANTES CASTILLO, ARACELI

CARCAS SANCHEZ, DIEGO

CARDIEL COLL, MARIA AFRICA

CARMONA HIDALGO, ROSA MARIA

CARMONA REQUENA, NOELIA

CARO CANO, PEDRO

CARPINTERO DELEITO FELIX

CARRO HERNANDO, MIRIAM

CASADO FERNANDEZ, RAUL

CASADO FERRERO, SUSANA

CASAHUGA FUSET, EVA

CASASOLA CASASOLA, MIGUEL ANGEL

CASTAÑEDA PUENTE, MARIA JOSE

CASTELLO APARISI, ANTONIO

CASTILLO CONTRERAS, FRANCISCO

CASTILLO VILA, YOLANDA

CEA PEREZ, SALVADOR

CEBALLOS SORIA, DAMIAN

CELAVEDRA S,L

CEREIJO VARGAS, MARIA CARMEN

CHACON FERNANDEZ ENRIQUE

CHARNECO HERRERO, MARIA JOSE

CHAVARRIA CASTELLANOS, MIGUEL ANGEL

CHILLARON CASTILLO, FELIPE

COBO CASADO, MARIA CASIMIRA

COFIGAL ASESORES SAL

COMAS ENCINAS GESTIO, SL

CONDE DIEZ, PEDRO

CONDE GARCIA BLANCO, PATRICIA

CORREA FOLGAR RICARDO

COUCEIRO DORELLE, JOSE LUIS

CRUZ SANCHEZ, CRISTINA

CULEBRAS RAMOS, MARIA PAZ

DE ANDRES LOPEZ, IGNACIO

DE CASTRO FERNANDEZ, ELVIRA

DE LA CRUZ DE LA ROSA, MARIA EUGENIA

DE LA ROSA DIEZ, MARIA SALOME

DE PABLO DEL OLMO, RAUL

DEL BARRIO SAENZ, SEHILA

DELGADO CASEIRO ALEXANDRE

DELGADO EGIDO, JOSE JOAQUIN

DIAZ FERNANDEZ ELENA

DIAZ SANTANA, ANA MARIA

DIEZ FERNANDEZ, JOSE ANTONIO

DIOS OUTEDA, NATALIA

DOLZ GARAGALLO, Mª ISABEL

DOMINGO PEñA PASCUAL, HIGINIO

DOMINGUEZ ZANON, ISABEL CARMEN

DOMONTE RODRIGUEZ, JOSE RAMON

DONET ALBEROLA, FERNANDO

DOVALE VAZQUEZ, MANUEL ARTURO

DUARTE FIGUEIRAS, ANA BELEN

DURAN AGUNDEZ, JUAN JOSE

DURAN ALVEZ, MARIA VICTORIA

EDO ALEGRE, HECTOR

EMPRESA GESTORA JUAN JOSE MUÑOZ S,L,

ENRIQUE Y SINDE ASOCIADOS SL

EQUITY CONSULTING FINANCIERO, S,L,

ESCUDERO ORTEGA, JOSE ANTONIO

ESPACIO VENTE, S,L,

ESPINAR SANCHEZ, MARTA

ESTEBAN GARRIDO, ALICIA

FABREGAT PITARCH, JOSE MANUEL

FADRIQUE PICO, ALICIA

FARIÑA FERNANDEZ, SUSANA

FARIÑA REBOREDO, BARBARA

FARIÑAS PEREZ, JOSE LUIS

FATAS LAPLANA, ROSA ANA

FAUS BLANES, MARTA

FEIJOO ARIAS, MARTA

FERNANDES DIAS, BARBARA

FERNANDEZ AMURRIO, LYDIA

FERNANDEZ CARRASCO, MARIA PILAR

FERNANDEZ CORRAL, CONCEPCION

FERNANDEZ DE JUBERA SIERRA, PABLO

FERNANDEZ FERNANDEZ, LAURA

FERNANDEZ MENDEZ, MIGUEL ANGEL

FERNANDEZ MURAS, BLANCA

FERNANDEZ ORTIGOSA, ELENA

FERNANDEZ RODRIGUEZ SANTIAGO

FERNANDEZ RUFO, MARIA

FERRANDEZ PARDOS, MARIA ESTHER

FERRE BERTOMEU, ANA CRISTINA

FERRUS AZNAR, INMACULADA

FLORES ROMERO, FRANCISCO

FOLLA-CISNEROS GARCIA, MARIA DOLORES

FONT RONES, PAU

FONT VILASECA, JOSE MARIA

FORNE TENA, GUADALUPE

FORNOS ISERN, ANTONIO

FRIERO BRAGADO, PATRICIA

FRUTOS BERNAL, MARIA TERESA

FUENTE PARGA, JOSE ALFONSO

FUENTE REGO, MIGUEL ANGEL

GABARRI LLOP, JOAN ANDREU

GAGO MORENO ANTONIO LUIS

GAGO Y SOUTO FINANCIAL SERVICES S,L,

GALAN FREJO, SOLEDAD

GALIMANY&MORILLO S,L,

GALLEGO MARTIN, BEATRIZ

GAMERO MUÑIZ, JOSE

GARCES VIRGOS, JOSE DANIEL

GARCIA ABAD, MIGUEL

GARCIA BARATAS, FERNANDO

GARCIA BLANCO, MARIA BELEN

GARCIA DELGADO, RAFAEL

GARCIA DURAN, MERCEDES

GARCIA ESTELLER TORRES, BEATRIZ

GARCIA FERNANDEZ, MANUEL MARIA

GARCIA GONZALEZ, MARIA ISABEL

GARCIA GUERRERO, ALEJANDRO

GARCIA LOPEZ, JESUS

GARCIA MEDIALDEA MARIA JOSEP

GARCIA MOLINA, FANDILA

GARCIA MORA, FRANCISCO JOSE

GARCIA MORENO, JORGE IVAN

GARCIA PEÑA, ANA ESTHER

GARCIA RODRIGUEZ, CARLOS

GARCIA RODRIGUEZ, MIGUEL ANGEL

GARCIA SANTANA, MARIA MERCEDES

GARCIA SOLIS, FRANCISCO

GARCIA TAPIA, MIGUEL

GARCINUÑO CASELLES, MARTA MARIA

GARRIDO FERNANDEZ, MARTA

GARRIDO GALINDO, SEILA

GAVELA SANCHEZ, RAQUEL

GAVIN LORIENTE, CARLOS

GAZQUEZ MARTINEZ, ISABEL MARIA

GELPI ESCANDIL, TANIA

GESESBAN SL

GESFINPRO, S,L

GESTION FINANCIERA PALOMARES S,L,

GESTION INMOBILIARIA RUBAFER, S,L,

GESTION INTEGRAL SANTANDER, S,L,

GESTION MCFR BARBERA SOCIEDAD LIMITADA

GESTION SANTANDER CARBAJOSA, S,L,U,

GESTIONES MORENO E HIJOS S,L,

GIMENO TIRADO, LOURDES

GIRAPROL SL

GISBERT FERRERES, JUAN JOSE

GODINEZ GUERRERO, IVAN

GOMEZ BANGA MARTA

GOMEZ COLADO, JESUS

GOMEZ GARCIA, JUAN CARLOS

GOMEZ LOPEZ, JUAN MIGUEL

GOMEZ LOZANO, AROA

GOMEZ MARTINEZ, MARTINA

GOMEZ TOSTON LOPEZ, MARIA

GOMIS MARSAL, ELENA

GONZALEZ ANDRADE, MARIA MARTINA

GONZALEZ BARRAL, MARIA DEL CARMEN

GONZALEZ BECEIRO, DAVID

GONZALEZ BERMEJO, BELEN

GONZALEZ CABO, VICTOR

GONZALEZ CUESTA, MARIA MANUELA

GONZALEZ GONZALEZ, ARACELI

GONZALEZ MARTIN, EDUARDO

GONZALEZ MARTINEZ, IVAN

GONZALEZ MEJIAS, ARACELI

GONZALEZ PALACIO, SERGIO

GONZALEZ RAMIREZ, BELEN

GONZALEZ SANCHEZ, MARIA EUGENIA

GONZALEZ VILA, VANESA

GONZALVEZ BOTELLA, JAVIER

GRUPO ALMARES 2015 S,L,

GUERRERO RODRIGUEZ, MIGUEL

GUEVARA GONZALEZ, JOSE MANUEL

GUIJO LOZANO, PATRICIA

GUILLAUMES MASSO, DAMIA

GUILLEN RAMIREZ, ANTONIO

GUIU FARRE, IVAN

GURIDI EZQUERRO, JAVIER

GUTIERREZ BERNAL, BENEDICTO

GUTIERREZ GUTIERREZ, JOSE IGNACIO

GUTIERREZ SANZ, MARIA LETICIA

GUZON LIEBANA, MERCEDES

HERNANDEZ ALONSO, MARIA

HERNANDEZ ATIENZA, LORENA

HERNANDEZ NOVOA, CLARA

HERNANDEZ PEREZ, MARTA

HERNANDEZ RANZ, JULIAN

HERNANDEZ-SONSECA MIRANDA, JOSE LUIS

HERRERO ALONSO, PABLO

HERRERO HIDALGO, RAUL IGNACIO

HORNERO HORNERO JOSE MANUEL

IBARRA RECHE, MARIA PAZ

IGLESIAS ALONSO, LOURDES

IGLESIAS GONTAN, CARLOS

IGLESIAS MATEOS, MARIA VICTORIA

IMIA RIVERA, MARIA LUZ

INCHAUSPE PEÑA, DAVID

INTERMEDIACION NASARRE S,L,

ISERN ROIG, ABEL

JAIME GARCES, SILVANA

JIMENEZ AGUAYO, ANNA

JIMENEZ CHICO, ANTONIO JOSE

JIMENEZ OVEJAS, JOSE

JIMENEZ PERALVAREZ, FRANCISCO

JIMENEZ SAUCEDO MARIA CONCEPCION

JIMENEZ VERANO, VICTOR

JOVANI BELTRAN, SUSANA MARIA

JUAREZ GARCIA, JUAN MARINO

JUNCAL RUA, CANDIDO

KÜHNEL AZNAR, LUIS

LAMBERTO GARCIA, SOLEDAD

LAZARO BERDEJO, JUAN CARLOS

LEAL MORALEDA, GREGORIO

LERONES AGUADO, EDUARDO

LLORENTE DA COSTA, OLGA

LOMBARDIA PALOMARES, MANUEL

LOPEZ CACHAZA, ALBERTO

LOPEZ DURA, IVAN

LOPEZ GARCIA, JESUS

LOPEZ GOMEZ, ROSA MARIA

LOPEZ GONZALEZ, ESTHER

LOPEZ LOPEZ, JOSE ANTONIO

LOPEZ LOPEZ, NATALIA

LOPEZ MARTINEZ, ANA MARIA

LOPEZ MONTEJO, BEATRIZ

LOPEZ RUIZ FRANCISCO JOAQUIN

LOPEZ TABOADA, MARIA ROCIO

LOZANO CANO, JOSE CARLOS

LUJAN FERNANDEZ, MARTA

MACIA GONZALEZ, LAURA

MADRIGAL FINANCIERO SL

MAILLO NIETO, JESUS

MALAVE FERNANDEZ, MIGUEL JOSE

MANCHADO CORDON, MARINA MILAGROS

MANSANET RIPOLL SL

MANUEL CERVERA, NURIA

MAQUEDA RUIZ, SAGRARIO

MARI PUERTA, LORENA

MARIN PEREZ, JOSE

MARINA MEDRANO, PEDRO MARIA

MARQUES ASENSIO, ERNESTO DAIMAN

MARQUEZ CONTRERAS, FRANCISCA

MARTI SEGARRA, VICENTE MANUEL

MARTIN DURAN, JUAN MANUEL

MARTIN ESCOBAR, CARLOS

MARTIN FUENTES, EUGENIO

MARTIN GORDILLO, MARIA JOSE

MARTIN ISERTE, MIGUEL ANGEL

MARTIN LANCHAS EMILIO

MARTIN LOBO, ANA MARIA

MARTIN MORENO, REYES

MARTIN MUNIESA, MARIA TERESA

MARTIN MUÑOZ, MARIA MILAGROS

MARTIN RIVERO, ROBERTO

MARTIN RODRIGUEZ, MARIA JESUS

MARTIN SANCHEZ, MARIA

MARTINEZ BOHORQUEZ, CARMEN MARIA

MARTINEZ ESCOBAR MARTA ISABEL

MARTINEZ FERNANDEZ ERNESTO

MARTINEZ FERNANDEZ FRANCISCO JAVIER

MARTINEZ JIMENEZ LUIS ALFONSO

MARTINEZ MARTINEZ, JUANA

MARTINEZ OTERO, CELIA MONICA

MARTINEZ PEREZ, MARIA BELEN

MAS POMES, EDUARD

MASCITTI, QUIRINO

MATA VIDAL, OSCAR MANUEL

MATEOS GARCIA, MARIA VICTORIA

MATEOS PASCUAL ASUNCION

MATEOS SANCHEZ, ANNA LOURDES

MATO CORBACHO, CARMEN

MAYRAL SERRET, MARC

MAZUELA CREGO, JOSE JAVIER

MENDEZ GONZALEZ, MARIA

MERINO LOBATO S,L,

MESA DIEZ, CARLOS

MIRANDA GARCIA CARO, LORENZO

MISTERA BUSINESS SOLUTIONS S,L,

MOLINER ABADIA, ALVARO

MOLLEDA VELEZ, ANGEL

MONGE LOPEZ, JAVIER

MONROY CARNERO, MARIA JESUS

MONSO BONET, ANTONI

MONTANE DELCOR, AGUSTI

MONTEAGUDO MARTINEZ, JUAN JOSE

MONTERO DURAN, PATRICIA

MONTERO GONZALEZ, NURIA

MONTERO RODENAS, JUAN

MONTILLA GONZALEZ, LIDIA

MONTULL CACHO, ANA ISABEL

MORALES NUÑEZ, ANA MARIA

MORAN PEREZ ALBERTO

MORENO ALONSO, MIGUEL

MORENO LOPEZ SOLORZANO, CARLOS

MORENO MENDEZ, ANTONIO

MORERA JORDAN, MARIA ANGELES

MORERA SOLA, MARIA DOLORES

MORIANA RODRIGUEZ, MARIA DOLORES

MOROS CORTES, BEGOÑA

MOSCARDO TORRES, VICENTE

MOTOS RECUENCO, ANTONIO

MULTIALGAIDA, S,L,

MUNUERA SANZ, RAMON DANIEL

MUÑIZ ARROJO, MARIA ANGELA

MUÑOZ GARCIA, FRANCISCO

MUÑOZ RAMIREZ, SERGIO

MUSITU CRUZ, PATRICIA

NADALES MARQUEZ, CARLOS

NAVARRETE GESTION 2018, S,L,

NAVARRO SIMON, LUIS JAVIER

NAVAS ALONSO, DANIEL

NEOBAN SL

NOGUERON MARTINEZ, RUBEN

NOVIO MIDON, JAVIER

NUÑEZ PUGA NIEVES

OFICINA LA POBLA DE SEGUR, S,L,

OLIVA MANDAÑA, MONTSERRAT

OLIVAS GONZALVO, FRANCISCO MIGUEL

OLIVER LABARTA, S,L,

ORDAS CASADO S,L,

PACHECO GALLEGO, MARIA JOSE

PADROS ANGUITA, ROSA MARIA

PALACIO TORRES, BELEN

PALACIOS MARTIN, CARLOS ALBERTO

PALMERO MORENO CID, MARIA DEL CARMEN

PALOMARES RUIZ, MARIA ASUNCION

PALOMERO PALOMERO, JACINTO

PAMPLONA CALAHORRA, ANA BELEN

PARDAL ANIDO, OSCAR

PARRA CARRERA, FELIPE

PARRA TELLEZ, MARIA JESUS

PARRADO PARRADO GEMA

PARRO CORTES, CECILIO

PASTOR MANZANO, JOSE GABRIEL

PASTRANA CASADO, EUSEBIO

PAYA GUILL, CESAR

PEIRO ORTEGA, ESTHER

PERAL DIAZ, MARIA ANTONIA

PEREZ CABEZAS, JESUS

PEREZ CUELLAR, LUCIA

PEREZ FERNANDEZ, EVA

PEREZ FERNANDEZ, JOSE MARIO

PEREZ GARCIA, BEATRIZ

PEREZ GUILLEN, MARIA LUISA

PEREZ IÑIGO, CARLOS

PEREZ MORALES, MARIA PAZ

PEREZ RAMOS Mª DE LA LUZ

PEREZ VAZQUEZ, JESUS

PINTO DIAZ, CARMEN

PIÑOL PASCUAL, MIGUEL ANGEL

PIÑOL PEREZ, ALEJANDRO

PLA PARES, MARIA CARME

PLANES GIMENEZ, FERNANDO

PLANES NOVAU, OSCAR

PLAZA MUÑOZ, MARIA DEL PILAR

PLUMED LUCAS, MAXIMO

POLO MATEOS, FERNANDO

POO GARCIA, CLARA

PORCUNA CASTILLA, JUANA

PRATS SEGURA, ANDREA

PRIETO CORDERO, MIGUEL ANGEL

PUENTE CAMINERO, MARIA JOSE

PUEY MUÑOZ, VERONICA

PUJOL ROVIRA, ENRIC

PUMAR ROSENDE, LORENA

QUILES SANCHEZ, INGRID

QUINTANA FERNANDEZ, MARIA ANTONIA

QUINTANA MAULEON, JESUS

RAMIREZ DIEZ, MARIA DEL PILAR

RAMIREZ PEREA, DOLORES MARIA

RAMIREZ RODRIGUEZ, MARIA ISABEL

RAMIRO GIL S,L,

RAMOS RIDAO, GINES

REMIRO BASANTA, VERONICA

REQUES VAZQUEZ, JUDITH

RIAÑO MOROCHO, ALBERTO

RIBALTA ARIAS, JORDI

RIERA FERRAN, BERTA

RISQUETE REQUENA PEDRO

RIVAS BOTELLA, PILAR

RIVAS GARCIA, FERNANDO

RIVAS PORTILLO, LUCAS

RIVAS VAL, RAUL

RIVERO HERNANDEZ, SONSOLES

RIVERO JIMENEZ, ANDRES

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ROCA BLANCH, MARIA DOLORES

RODRIGO GUTIERREZ MARIA DE LOS ANGELES

RODRIGUEZ ALVAREZ, BORJA

RODRIGUEZ CARTON MARIA NIEVES

RODRIGUEZ CASTRO, IGNACIO JAVIER

RODRIGUEZ DIAZ, MARIA ANGELES

RODRIGUEZ ESTEIRO, VANESA

RODRIGUEZ FUENTES, MARIA TERESA

RODRIGUEZ GARCIA, DAVID

RODRIGUEZ MADROÑAL, ALFONSO

RODRIGUEZ MORENO, ANA MARIA

RODRIGUEZ ROMERO, OSCAR

ROIGE VIDAL, SONIA GEMA

ROLDAN FERNANDEZ, ALFREDO

ROMERO JAROSO, ANTONIO

ROMERO LOPEZ, LOURDES

ROMERO RODRIGUEZ RAFAEL

ROVIROSA PIÑOL, MARIA ANTONIA

ROYO DELPOZO ,CARLES

RUBIO PALACIOS, ANA MARIA

RUIZ BURDALO, CARLOS

RUIZ LOPEZ, MIGUEL ANGEL

RUIZ MARCHESE, DAVID

RUZ CARPIO, INMACULADA

S & G SERVICIOS FINANCIEROS Y CONTABLES S L

SAEZ CLEMENTE, ALBERTO

SAEZ SANZ, ARCADIO

SAIZ CANO, FRANCISCO DAVID

SALAS BAENA, MARIA MERCEDES

SALAVERRI MARTINEZ, JOSE JAVIER

SALAZAR RUIZ, MANUEL

SALGADO ALVAREZ, MARIA JOSE

SALGADO HERNANDEZ, JUAN ANTONIO

SALGADO RODRIGUEZ, MARIA TERESA

SALGUERO VARGAS, RAFAEL

SAMPEDRO FEIJOO, JOSE BENITO

SAMPEDRO NEGRITO, JOSE ANTONIO

SAN ROMAN FERNANDEZ, MARIA VICTORIA

SANAGUSTIN GIMENEZ, JORGE LUIS

SANCHEZ BERMUDEZ, ALEJANDRO

SANCHEZ CASTAÑO MARIA, MANUELA

SANCHEZ CASTILLO, MIKEL ANDRES

SANCHEZ CHAPARRO, S,L,

SANCHEZ GRANDE TOVAR, JOAQUIN

SANCHEZ HERNANDEZ, JUSTO

SANCHEZ JUAN, ALEJANDRA

SANCHEZ MARTIN, ANABEL

SANCHEZ PEÑA, CARMEN

SANCHEZ ROMERO FRANCISCO

SANCHEZ SANCHEZ NOELIA

SANCHEZ SECO, JORGE JAVIER

SANCHEZ UZAL MARIA CRISTINA

SANCHO ARASA, OLGA MARIA

SANGUINO GUTIERREZ, MARIA LUISA

SANMAFRAILES S,L,

SANS GARDEÑES, ANNA

SANTAMARIA CABRERA, JOSE

SANTAMARIA GRAU, M BELEN

SANTANA CAMARA S,L

SANTOS SANCHEZ, MARCIAL

SANZ VILLARREAL, NOELIA

SASTRE GONZALEZ MARIA

SAUSOLUCIONS SL

SAZO SALGUERO, MARIA

SECO MARTINEZ, MARIA JOSEFA

SERBAN AGUIÑO S,L,

SERRA BERTRAN, JOAQUIN

SERRANO LOPEZ, JUANA

SERVICIOS FINANCIEROS AHIGAL, S,L,

SERVICIOS FINANCIEROS DEL CONDADO S,L,U,

SERVICIOS FINANCIEROS FORCAREI, S,L,

SERVICIOS INTEGRALES DOÑANA

SIMON YEBENES, JOSEFA

SOBREDO SIGUEIRO, JOSE MANUEL

SOLE RIBERA, MARIA

SOMOZA RECIO, RODRIGO

SORIANO RAMIREZ, MARIA TRINIDAD

SORO GINER, VANESA

SOROLLA LLAQUET, FEDERICO

SOUTO LOPEZ, PATRICIA

SUAREZ GARCIA, JOSE

SUAREZ MENDEZ, ESTEBAN

SUBIRA SOLER, ALEIX

TARI ESCLAPEZ, JOSE ALFONSO

TARRES MALE, MARC

TBL SEGUROS Y SERVICIOS FINANCIEROS SL

TELLA VILLAMARIN, ADRIAN

TELLEZ RUIZ, MARIA CONCEPCION

TOME LLANOS, VICTOR

TORNAVACAS VINAGRE, AMBROSIO

TORREÑO NIETO, BEATRIZ

TORRES BERMUDEZ, INMACULADA

TORRES GARCIA, MARIA AURORA

TORRES LOZANO, ANTONIO

TORRES MIGUEL, JOSE MANUEL

TORRES ROSA, GRATIANA

TORRUBIA ORTIGOSA, RAFAEL

TOVAR ASENSIO, SAUL

TREMPS ALDEA, MARIA ELENA

URGEL CASEDAS, CLARA

URUÑUELA NAJERA, MARIA DANIELA

USERO REYES, PATRICIA

VALCUENDE GARMON, MARIA INES

VALDES BRAVO, JAIME

VALDES MARTIN, JUAN MARIA

VALENZUELA MARTIN ASESORES S,L,

VALIENTE LORENZO, MARIA LUISA

VALIÑO IGLESIAS, MARIA LUISA

VALLECILLO MUÑOZ, BERNABE

VAZQUEZ COTO, GERARDO JOSE

VAZQUEZ YAÑEZ, NURIA

VEGA BLANCO, VANESA

VEGA JANILLO, LUIS MIGUEL

VEGUILLAS Y VEGUILLAS SL

VELASCO MAJADA, VIRGINIA

VJANUARY TANCO, JOSE CARLOS

VICENTE PEREZ, MARCOS

VIDAL JOVER, MIGUEL ANGEL

VIDAL VICENT, MARIA VICENTA

VIEJO GONZALEZ, FRANCISCO JOSE

VILA AYERBE PILAR

VILAS PALOMINO, JUAN JOSE

VILCHEZ FERNANDEZ, ZAIDA

VILLAMAÑAN MARTINEZ, ANA

VILLANUEVA DOMINGUEZ, JULIAN

VILLASANTE COTO, SUSANA

VILLEGAS MARTINEZ, PATROCINIO

VIÑAS RODRIGUEZ, LUIS EDUARDO

YEBEGEST S,L,

ZABALA USTARIZ, CRISTINA

ZAMBRANO PEREZ, MARTA

ZAYAS GOMEZ, ESTIBALITZ

ZURITA MARTINEZ, ANGELA

0880 SANTANDER SANTIBAÑEZ, S,L,

1321 SANTANDER LA ALBERCA S,L,

6155 SANTANDER LEDESMA, S,L,

6395 POYALES DEL HOYO AGENTE COLABORADOR, S,L

Directors’ report

Banco Santander, S.A.

1. Introduction:

Banco Santander, S.A. (the “Bank”) is a Spanish bank, incorporated as a *sociedad anónima* in Spain and is the parent company of Grupo Santander or Santander. Banco Santander, S.A. operates under the commercial name Santander.

The Bank operates through a branch network distributed in Spain and abroad.

On 7 June 2017, Santander acquired the entire share capital of Banco Popular Español, S.A.U. (“Banco Popular”) in an auction in connection with a resolution plan adopted by the European Single Resolution Board (the European banking resolution authority) and executed by the FROB (the Spanish banking resolution authority) following a determination by the European Central Bank that Banco Popular was failing or likely to fail, in accordance with Regulation (EU) 806/2014 establishing a framework for the recovery and resolution of credit institutions and investment firms. On 24 April 2018, the Bank announced that the boards of directors of Banco Santander, S.A. and Banco Popular Español, S.A.U. had agreed to an absorption of Banco Popular by Banco Santander. The legal absorption was effective on 28 September 2018.

The directors’ report has been prepared based on the accounting and Management records of Banco Santander, S.A.

The financial information included in this directors’ report has been prepared in conformity with the Bank of Spain Circular 4/2017 of 27 November on Public and Reserved Financial Information Regulations and Financial Statements Forms, and subsequent modifications.

2. Situation of the Bank:

Santander is one of the largest banks in the Eurozone. As at end December 2019, our market capitalisation was EUR 61,986 million, and had approximately four million shareholders. We have a EUR 1,522,695 million of assets on our balance sheet and control EUR 1,050,765 million of total funds.

Our main purpose is to help people and businesses prosper. We do not merely meet our legal and regulatory obligations, but we aspire to exceed people's expectations. As such, we focus on the areas where, as a Group, our activity can have the greatest impact, helping more people and businesses prosper, in an inclusive and sustainable way.

This means that the Group engages in all types of activities, operations and services that are typical of the banking business in general. Our scale, business model and diversification enable us to aim to be the best open digital financial services platform, acting responsibly and earning the lasting loyalty of our stakeholders (customers, shareholders, people and communities).

We have close to 200,000 employees who serve more than 145 million customers worldwide, including individuals, private banking clients, SMEs, businesses and large corporates, whenever, wherever and however the customer needs. To do this, our strategy focuses on continuing to strengthen loyalty and digitalisation.

We interact with our customers through a global network of 11,952 branches, the largest branch network among international banks. The distribution network has both universal offices as well as specialised ones aimed at certain customer segments and new collaborative spaces with increased digital capabilities. Examples of these are the Work Café branches, SmartBank and Ágil branches.

As well as the branch network, we have contact centres which have received various awards for their quality of service.

In addition, our progress in the digitalisation process which combines our commercial network strength with that of our technology, is key to increasing our number of customers and improving their experience.

As a result, our loyal and digital customers continued to grow this year. The number of loyal customers reached 21.6 million (+9% in the year), with an increase in both individuals and corporates. Digital customers rose 15% in the year to close to 37 million.

On average, our customers accessed digital touchpoints five times per week and digital sales increased to 36% of total sales. We also aim to be one of the top three banks for customer satisfaction in our main countries.

In April 2019, we presented our strategic plan for the medium term to drive growth and increase profitability by accelerating digitalisation, improving operational performance and continuing to improve capital allocation. We will invest over EUR 20 billion in digital transformation and technology over the next four years with the aim of improving and personalising customer experience and, as a consequence, increasing trust and loyalty while at the same time reducing costs.

The Group is highly diversified and operates mainly in 10 core units, where it has significant market shares.

3. Financial performance:

3.1 Economic outlook:

Santander carried out its business in 2019 in a slowing economic environment (3% estimated in 2019 vs. 3.6% in 2018) due to trade tensions between the US and China and the uncertainty regarding the manner in which the UK would leave the EU. Uncertainty reduced at year end: the US and China reached a trade agreement and the result of the UK elections confirmed its exit from the European Union on 31 January 2020. This reduction in uncertainty, together with the expansionary monetary policy measures, allowed activity to stabilise.

Eurozone (GDP: +1.2% in 2019 vs. +1.9% in 2018). The negative impact from the external environment weakened GDP, driven by cyclical depletion. Inflation remained stagnant at around 1%. The European Central Bank (ECB) reacted with another set of monetary easing measures, including a cut in interest rates and the resumption of the asset purchase programme.

Spain (GDP: +2.0% in 2019 vs. +2.4% in 2018). Economic expansion continued, although at more moderate rates. The unemployment rate fell to 13.8% in Q4'19. The economy is not showing inflationary pressures due to the fall in energy prices and a compression of business margins which have offset wage rises.

3.2 Balance sheet and results:

Banco Santander, S.A. is the Parent Bank of a financial group that operates in different countries through different businesses therefore its financial statements not only reflect its commercial activity in Spain, but also the activity derived from being the head of the Group. This last aspect makes it difficult to analyse its evolution without distinguishing the results obtained from the commercial activity from those more directly related to its holding nature.

During 2018, Banco Santander carried out the following structural modification operations, all of them among companies that belong to Santander Group: Merger by absorption between Banco Popular Español S.A.U. (absorbing company) and Banco Pastor S.A.U. and Popular Banca Privada S.A.U. (as absorbed companies) and, subsequently, merger by absorption between Banco Santander S.A. (absorbing company) and Banco Popular Español S.A.U. (as an absorbed company), Santander Investment Bolsa Sociedad de Valores S.A.U. and Popular de Renting, S.A.U.

In the process of optimizing the commercial network after the integration of Popular, some 1,150 branches have been closed, and Santander already has unified headquarters and regional services team. The distribution network continues to be modernised, with about 600 Smart Red branches and 6 Work Cafés.

Regarding the main loyalty levers, transactionality has increased, with 4% growth in cards (after 2 years of 22% year-on-year growth) and 8% in POS terminals. On the other hand, consumer credits grow supported by pre-approved and digital transactions.

In 2019 we have worked on personalised offers that favour the recruitment, loyalty and commercial dynamism, such as: Generation 81 for women, Smartbank for young people and Senior project for the elderly.

Santander

Finally, the digital transformation process has allowed the number of digital clients to increase by 10% in the year and to increase the weight of sales made through digital channels to 29%.

Regarding the balance sheet, as of 31 December 2019, the total assets of the Bank stood at 609,916 million euros, with an increase of 0.25% over the previous year.

Loans and advances to customers at the end of the year stood at 276,428 million euros, with an increase of 5.04% over the previous year.

Customer deposits at the end of the year stood at 261,037 million euros, with an increase of 2.5% over the previous year. Demand deposits increased 8.7%, offsetting the fall in time deposits (-17.7%), as a result of the strategy to reduce financing costs.

Net interest income in 2019 stood at 3,459 million euros, 1.8% lower than the previous year due to lower volume of ALCO portfolios, lower volumes in institutions and wholesale business, lower interest rates and the impact of IFRS 16, partially offset by the continuous improvement of spreads.

Income from debt instruments amounted to 6,402 million euros in 2019. This line includes dividends received from the Group subsidiaries.

Net fee income decreased 6.2% as compared to 2,264 million euros in 2018, mainly due to lower activity in the wholesale business (SCIB).

Gains/losses on financial transactions (including exchange differences) reflected gains of 354 million euros as compared to 454 million in the previous year.

General administrative expenses (personnel and other administrative expenses) were 5,023 million euros, decreasing 8.2% due to the efficiencies generated after the integration of Popular and the effort in the optimisation processes.

Impairment losses on financial assets (net) in 2019 accounted for 1,246 million, merely 0.4% of financial assets at fair value with changes in other comprehensive income and financial assets at amortised cost.

Impairment of investments in subsidiaries, joint ventures and associates and of non-financial assets in 2019 amounted to 434 million euros and losses of non-current assets held for sale amounted to 179 million, basically from real estate activity.

Finally, gains on non-financial assets and investments amounted to 52 million euros.

Distribution proposal of the Bank's profit

From this 2019 financial year, the Bank's shareholders will receive the dividend in 2 payments instead of the 4 payments received in previous years.

On 24 September 2019, the Bank´s board of directors approved its first dividend against 2019 earnings of 1,662 million euros (0.10 euros per share), which was entirely paid in cash on 1 November 2019.

The board of directors has resolved to submit to the 2020 AGM that the second payment of remuneration against the results of 2019 amounts to 0.13 euros per share by means of (1) a final dividend in cash of 0.10 euros per share and (2) a scrip dividend (under the 'Santander Dividendo Elección' scheme that will entail the payment in cash, for those shareholders who choose so, of 0.03 euros per share.

The board of directors will propose the distribution of 3,423 million euros against the results for 2019, including cash dividends from the above mentioned scrip dividend and assuming a percentage of cash requests of 20%.

4. Trend information:

The director's report contains certain prospective information reflecting the plans, forecasts or estimates of the directors, based on assumptions that the latter consider reasonable. Users of this report should, however, take into account that such prospective information is not to be considered a guarantee of the future performance of the entity, inasmuch as said plans, forecasts or estimates are subject to numerous risks and uncertainties that mean that the entity's future performance may not match the performance initially expected.

These risks and uncertainties are described in the Risk management chapter of this report and in note49 of the consolidated financial statements.

2019 was a year of ups and downs. The beginning was favourable, but, starting in summer, expectations of a slight global slowdown, towards growth rates in line with medium-term trends, gave way to considerable pessimism. Unlike other more or less recent bouts of instability, the economic fundamentals did not show any major imbalances.

However, uncertainties reduced in the last few weeks of the year, which, together with the boosts from monetary policies in 2019 - especially in the US and in emerging economies - we believe will tend to stabilise global growth at the beginning of 2020. We believe that the improvement in confidence indicators, which is beginning to show in some areas, should tend to favour a certain revitalisation of investment and domestic demand, while international trade has somewhat improved.

In 2020, the US, which is no longer supported by fiscal policies, is expected to grow at a slightly slower pace than last year (1.7% vs. 2.3% in 2019), the Eurozone may also moderate its expansion (to 1%) where Germany's GDP is expected to grow 0.7% (0.6% in 2019 but affected by a series of disturbances) and Spain's economic growth is forecasted to slow to 1.7% (2.0% in 2019). Overall, the GDP of mature economies is expected to slow from 1.9% in 2019 to around 1.5%.

On the other hand, the global economy is expected to sustain growth similar to that of 2019, at around 3%, as emerging economies are expected to pick-up from the 4% estimated for 2019. China's mildly slowing trend will be more than offset by an improved tone in India and the rest of emerging Asia.

Latin America is expected to see a clear improvement overall, although still at a relatively modest pace, if the reform processes undertaken in Brazil and Argentina remain on course and Mexico benefits from the ratification of the new North American Free Trade Agreement and the expected improvement in the US manufacturing sector, as well as from the central bank's expansionary policies. The region's progress, in a complex international environment, now more than ever, depends on its willingness and ability to implement reforms.

The balance of risk balance is on the downside, although less than in recent quarters. The consolidation of the improved confidence and the absence of significant imbalances in most of the relevant economies may provide positive results.

The macroeconomic forecast for 2020 is as follows:

In the Eurozone, GDP growth in 2020 is expected to be close to 1%. Growth will be hampered by external factors, mainly by the fall in global exports and the threat of trade tariffs by the US. These risks have already affected the manufacturing sector, especially the automotive industry.

In Spain growth is expected to moderate to 1.7% in 2020, above the growth forecast for the Eurozone, and inflation will remain low.

After the successful integration of Banco Popular, Santander Spain's 2020 priorities are the following:

- Increase customer loyalty and deepen relationships in order to give customers the best experience, simplifying products and optimising processes, and accelerate the digital transformation to provide a better service and develop new ways of interacting with the customer.
- Boost revenue by promoting value-added products, especially for SMEs and corporates, but also for insurance and mutual funds while reducing the cost of deposits.
- Continue to improve the cost base by seeking additional efficiencies and synergies.
- Continue to reduce doubtful and foreclosed assets, improving the main risk metrics.
- Develop a sustainable profit and profitability model with optimal capital allocation and a special focus on higher profitability segments and products.

See more information in the Consolidated Directors' Report.

5. Non-financial information:

This Statement of Non-Financial Disclosures of Banco Santander, S.A., which is part of the Separate Directors' Report, contains the non-financial disclosures set out in the Consolidated Directors' Report of the Santander Group together with other material useful comparative information for Banco Santander, S.A. that is appropriate for an understanding of the trends, results, status and impact of the activities of Banco Santander, S.A., including information on matters of the environment, society, human rights, the fight against corruption and bribery, and personnel.

When drawing up the non-financial information contained in this Separate Statement Of Non-Financial Disclosures, Banco Santander performed a materiality analysis, in line with the international reporting framework developed by the Global Reporting Initiative (GRI), which enabled it to identify the most important aspects about which to inform its stakeholders in accordance with the GRI standards.

General information

The purpose of Santander Group is to help people and businesses prosper. To achieve this, it has a distinctive business model that seeks to satisfy the needs of all kinds of customer: private individuals with varying income levels; companies of any size and sector; private corporations and public institutions.

Long-term personal relationships with its customers are the basis of the business. Through innovation, Santander is transforming its commercial model to capture a greater number of loyal and digital customers, thereby driving a more profitable and sustainable business.

Santander considers the proper integration of ethical, social and environmental criteria in its financial activity to be critical.

To achieve this, and in compliance with the international best practices regarding corporate social responsibility, Santander has a sound corporate governance structure, with the board of directors as the maximum decision-making body of the Group, with the exclusive power to approve the Group's general policies and strategies, including those regarding sustainability.

It also has a general sustainability policy that defines our general sustainability principles and our voluntary commitments with the aim of generating long-term value for our stakeholders, and sector policies governing the Group's financial activity in such sectors as defence, energy, mining/metals and soft commodities (e.g. palm oil, soya and timber). These policies are reviewed annually. In 2019 the general sustainability policy was updated, we have incorporated our climate change policy into our General Sustainability Policy. More detail on the governance of the policy has been also included. And the protected areas criteria has been aligned with the new Environmental and Social Sector Policy approach. Likewise, the Bank has a Sensitive Sector Policy that sets down guidelines for assessment and decision making about the Group's participation in certain sectors, whose potential impact could lead to reputational risks.

Banco Santander's responsible banking strategy is also underpinned by other internal regulations such as the General Code of Conduct, the Corporate Culture Policy (which includes principles of diversity and inclusion governing the Group), the Human Rights policy, the Consumer Protection Policy, the Cybersecurity Policy, or the Supplier Certification Policy (which includes the principles of responsible conduct for suppliers). Moreover, Banco Santander redesigned and strengthened its corporate governance, both to ensure it is compliant and to help address the challenges that were identified.

The responsible banking, sustainability and culture committee has been created which will help the board of directors to comply with its responsibilities regarding the definition and supervision of the responsible banking, sustainability and culture strategy.

The committee is supported by the culture steering group and the inclusive & sustainable banking steering group. The culture steering, promotes, supports and tracks the implementation of The Santander Way (our corporate culture), to tackle the challenge of adapting the bank to the new business environment, ensuring that the bank has the appropriate competencies, framework and digital and business practices to meet the expectations of its stakeholders. The inclusive & sustainable banking steering reviews and tracks initiatives to tackle social and financial inclusion; extend and improve access to education and training; support by financing in the transition to a low carbon economy; and support investment which benefits society as a whole.

Santander

The corporate Responsible Banking unit coordinates and drives the responsible banking agenda. Supporting this unit, Santander has a Senior Advisor on Responsible Business Practices, who reports directly to the executive chairman.

In addition, in 2019 metrics and targets have been established to drive Santander´s and embed Responsible Banking agenda into the heart of the Group's business strategy. These objectives are carved out throughout the report.

The identification of non-financial risks associated with its activity is a priority for Banco Santander.

The bank has procedures in place for their identification, analysis and assessment in transactions subject to Group policies and to external commitments such as the criteria of the Equator Principles, an initiative the bank joined in 2009.

In this sense, Banco Santander S.A. recognises the right of communities to a clean and healthy environment and undertakes to minimise the environmental impact of its operations, which means:

• Assuming, in line with the bank's commitment to the Equator Principles, the obligation to analyse, identify and correct, during the analysis of the risks of financing activities and consistently with the guidelines approved by the International Finance Corporation, the negative social and environmental impacts, including those affecting local communities.
• During due diligence prior to signing agreements for financing or of any other kind and complying with the Equator Principles and social and environmental risk management policies, Santander undertakes, as part of its analysis, to assess the human rights policies and practices of its counterparties.
• Establish specific policies governing the requirements for offering financing to those sectors, activities or potential customers that present a special risk in respect of social, environmental or human rights issues.

Banco Santander S.A. is part of the main initiatives at international level regarding sustainability (United Nations World Agreement, Banking Environment Initiative, World Business Council for sustainable Development, UNEP FI, Equator Principles, Responsible Banking Principles, CEO Partnership for Financial Inclusion, etc.).

In addition, in 2019, Banco Santander was one of the founding signatories of the United Nations Principles of Responsible Banking. The aim is to contribute to the fight against climate change and the achievement of the United Nations' Sustainable Development Goals.

In Spain, Banco Santander S.A us member of Foretica as well as for the Green Growth Spanish Group.
In addition, it forms part of the main stock market indices that analyse and evaluate companies' actions on sustainability. It has been a member of the Dow Jones Sustainability Index (DJSI) since 2000, and in 2019 it was ranked for first time as the leading bank globally. Recently receiving the Gold class distinction for it.

In 2007 the Group signed the Carbon Disclosure Project (CDP), a benchmark international initiative on companies' reporting of information on climate change, and since 2012 it has completed the CDP Water questionnaire.

Information about environmental issues

Santander has taken diverse international commitments related to the environment such as UNEP FI Collective Commitment to Climate Action, the Equator Principles, the adoption of the Soft Commodities Compact promoted by the Banking Environment Initiative and the signing of the declaration of the European Financial Services Round Table on climate change.

Throughout 2019 the bank, as part of its goal to help achieve the commitments made in the Paris climate agreement of 2015, continued to develop a structured approach for its climate change strategy, with the aim of transversally involving its business lines and other key internal functions such as risk management, continuing to provide distinctive value to its customers and increasing its implication with the conservation of the environment.

In addition, in 2019 the Bank launched a number of Group-wide objectives that demonstrate its commitment to the fight against climate change and to the transition to a low-carbon economy.

- financing or facilitating the mobilisation of EUR 120 billion up to 2025 and EUR 220 billion up to 2030
- To be carbon neutral by 2020.

- That 100% of the electricity we use comes from renewable sources by 2025.
- Eliminate the use of unnecessary single-use plastic in all our offices and buildings.

The bank's actions on environmental matters are focused on the following lines of work:

a) The reduction of consumption and emissions

Since 2009 Santander has measured, calculated and controlled the environmental footprint of all the Group's installations. The environmental footprint includes data on the consumption of electricity, fuel, water and paper, data on waste generation and a breakdown of emissions of greenhouse gases.

In 2019, Banco Santander S.A. has continued reducing its CO_2 emissions by 3.2% compared to 2018. Additionally, 100% of the electricity used by Banco Santander S.A. comes from green energy sources.

Santander continues to hold the ISO 14001 environmental certificate for the Santander Group City in Boadilla, the bank's headquarters, and the building at Gran Vía de Hortaleza. It has also obtained the LEED GOLD certificate for the new headquarters of Santander España (Luca de Tena), the Abelias building and the DPC in Santander.

Additionally, we received "Zero Waste" accreditation (by AENOR) in Santander Group headquarters in Boadilla del Monte. This certification recognises that at least 90% of the waste generated is reintroduced into the value chain.

b) The inclusion of social and environmental risks in loan approval processes

Banco Santander S.A. considers social and environmental aspects to be crucial in risk analysis and decision making within its financing operations in accordance with its general and sector policies in respect of sustainability, as mentioned above.

In this regard, the bank has established procedures for the analysis and assessment of these risks in operations subject to Santander Spain S.A. policies and to external commitments such as the Equator Principles.

In 2019, 15 projects in Spain were analysed within the scope of the Equator Principles, both in the project finance category. All included under category B, which are those classified with potential limited adverse environmental and social risks and/or impacts.

c) Financing

As part of its climate change strategy, Banco Santander S.A. develops and offers financial products and services with added environmental value through which it contributes to the transition towards a low-carbon economy. In this respect, the bank is working on:

• The development of products and services that promote the conservation of the environment, contributing in this way to progress on adapting to and mitigating climate change.
• Identifying business opportunities and the prevention of risks associated with climate change via the Climate Finance Task Force.
• The implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board in the preparation of its climate change strategy.

The main environmental products and services delivered by the bank are:

• Funding renewable energy projects: In 2019 Banco Santander helped to finance new renewable energy projects in Spain with an installed capacity of 1,312 MW. Equivalent to the consumption of one million households in one year[1].

[1] Equivalence calculated using data on final electricity consumption for the residential sector by country published by the International Energy Agency (source updated in 2019 with data from 2017).

• Management of credit lines in relation to energy efficiency in collaboration with multilateral institutions such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). These entities are gradually increasing their investment in this area, which is an important business opportunity for Banco Santander.

In cooperation with the European Investment Bank (EIB) and the European Commission, the bank in Spain offers a line of financing to individuals, at preferential interest rates, for renovations to homes to improve their energy efficiency, such as insulation and windows, LED lighting, etc. The bank also offers these same lines of finance to support projects that improve the energy efficiency of Spanish businesses.

• Financing of low-emission vehicles. The bank offers Ecological Car loans for the purchase of hybrid or electric cars with reduced interest rates.

Information about labour questions and employees

Banco Santander S.A. aims to be one of the best banks to work for, able to attract and retain the best global talent, enabling it to accelerate the transformation and helping people and society prosper.

Human resources strategy is based on having the best team of professionals: a diverse and committed team with a common culture (based on corporate behaviour and a way of making things simple, personal and fair) ready to give customers a distinctive and quality service.

a) Employment

At 31 December 2019, Banco Santander S.A. had a headcount of 26,801 employees, 10.8% less than in 2018, with an average age of 45, of whom 47% were women and 53% men.

Functional distribution by gender

	Men	Women	Total
Senior executives	600	199	799
Other executives	3,815	1,842	5,657
Employees	9,677	10,668	20,345
Total	14,092	12,709	26,801

Distribution of the workforce by age bracket

	No. Employees
<= 25	190
26 - 35	2,964
36 - 45	11,661
46 - 50	4,714
> 50	7,272
Total	26,801

Some 99.9% of labour contracts are permanent full-time.

Annual rate of contracts by gender			
	Men	Women	Total
Permanent / Full time	14,089	12,706	26,795
Permanent / Part time	1	2	3
Temporary / Full time	2	1	3
Temporary / Part time	0	0	0
Total	14,092	12,709	26,801

Annual rate of contracts by age bracket						
	<=25	26-35	36-45	46-50	>50	Total
Permanent / Full time	190	2,963	11,657	4,714	7,271	26,795
Permanent / Part time			2		1	3
Temporary / Full time		1	2			3
Temporary / Part time						0
Total	190	2,964	11,661	4,714	7,272	26,801

Annual rate of contract by category				
	Altos directivos	Directivos	Colaboradores	Total
Permanent / Full time	799	5,655	20,341	26,795
Permanent / Part time			3	3
Temporary / Full time		2	1	3
Temporary / Part time				0
Total	799	5,657	20,345	26,801

In 2019, a total of 1.034 employees dismissed. By dismissal we understand the unilateral termination, decided by the company, of an employment contract not subject to term expiration. The concept includes encouraged redundancies within the context of restructuring processes. These break down as follows:

Dismissals by professional category and gender			
	Men	Women	Total
Senior executives	13	6	19
Other executives	173	38	211
Employees	1,891	1,035	2,926
Total	2,077	1,079	3,156

(*) Includes redundancies associated with restructuring processes

Dismissals by age bracket and gender			
	Men	Women	Total
<= 25		1	1
26 - 35	60	78	138
36 - 45	316	406	722
46 - 50	110	106	216
> 50	1591	488	2,079
Total	**2,077**	**1,079**	**3,156**
(*) Includes redundancies associated with restructuring processes			

In 2019 the average remuneration of Santander employees rose 4.3% (over 2018). By gender, the average remuneration of women rose 6.8% and that of men 3.7%.

	By Gender		Total
	Male	Female	
Total remuneration (average)[1]	75,764	56,190	66,485
Variation 2019 vs. 2018	3.7%	6.8%	4.3%

	By professional Category			Total
	Senior Officers[2]	Other Managers	Other Employees	
Total remuneration (average)[1]	382.023	82.529	49.357	66.485
Variation 2019 vs. 2018	3,1%	-7,7%[3]	-1,9%	4,3%

	By Age Brackets					Total
	<=25	26-35	36-45	46-50	> 50	
Total remuneration (average)[1]	32,441	48,047	59,831	75,809	79,317	66,485
Variation 2019 vs. 2018	5.6%	6.6%	4.6%	1.6%	9.1%	4.3%

1. Data at end of 2019. The total remuneration of employees includes annual base salary, pensions and variable remuneration paid in the year.
2. Includes Group Sr. Executive VP. Executive VP and Vice President.
3. The variation includes the effect of internal reclassification between the category and the rest of employees carried out in different geographies.

The gender pay gap at Banco Santander S.A. is 14.4% (in median) and the difference in compensation for identical positions is 6.9%. The difference in comparison with the Group (2%) is due mainly to the legacy of the mergers carried out in recent years and to changes in functions or the fact that some positions are not equivalent.

Employees with a disability account for 1.1% of the total (vs. 1.0% in 2018). To comply with the General Law of Rights for disability people and their social inclusion, Banco Santander S.A. undertakes alternative measures, including contracts with special employability centres or donations to social entities with the goal of employee programs and training to disability people.

Employees with disability		
	% empl with disabilities	No. Employees
Total	1.10%	295

b) Work organisation

Banco Santander S.A. encourages the transition towards more flexible ways of working that improve the work/life balance thanks to tools that enable continuous communication with teams working remotely.

The corporate flexiworking policy, applicable to Santander S.A. and the entire Group, encompasses a wide range of measures so that employees can benefit according to their personal needs and professional situation. These measures refer mainly to:

• How the working day is organised (flexibility and working hours): time of starting and finishing work, alternative configurations for the working day, organisation of holidays, guidelines and recommendations for the rational use of e-mail and meetings, etc.

• Where employees work from (flexibility as to the workplace): remote working on certain days and at certain times, full-time teleworking.

In addition, the Bank has measures aimed at facilitating the work-life balance of its employees through the different agreements signed with the relevant unions´ representatives. Santander has committed to promoting a rational management of working time and its flexible application, as well as the use of technologies that allow a better organisation of the work of our professionals, specifically addressing the employees´ right to digital disconnection.

It is also redesigning its offices with new office spaces that encourage collaboration and teamwork.

c) Health and safety

Banco Santander has a plan for the prevention of workplace risks that is available to all employees on the corporate intranet.

Banco Santander also promotes a healthy work/life balance through flexible work policies and services to satisfy employees' personal and family needs. The general code of conduct highlights our ethical principles, including the importance of encouraging a working environment that is compatible with employees' personal and family life.

Also, as part of the "Our way of working" initiative, the bank has assessed its new work spaces and equipment, both from an ergonomic and safety perspective.

The health of its employees is a priority for the bank. The BeHealthy initiative aims to make Banco Santander one of the healthiest companies in the world and to offer employees health and wellbeing benefits.

Health and safety at work			
	Men	Women	Total
Absenteeism rate	1.8	3.5	**2.6**
Work-related illnesses rate (days lost due to work-related accident per 100 hours	0.09	0.19	**0.13**
Hours lost due to non work-related illness or accident	410,319	717,940	**1,128,260**
Hours lost due to work-related accident	20,958	40,537	**61,495**

d) Labour relations

Banco Santander has made a formal commitment to foster workforce labour relations in its code of conduct. The code of conduct stablishes the obligation to respect the internationally recognised rights of unionisation, association and collective bargaining, and the activities carried out by the unions that represent employees, in accordance with the functions and areas of responsibility legally attributed to them.

In addition, the human rights policy describes Santander's principles and commitments with respect to relations with the Bank's employees. These commitments are fostered through social dialogue and include:

- Preventing discrimination and practices that are harmful to people's dignity.
- Rejecting forced and child labour.
- Respecting freedom of association and collective bargaining.
- Protecting employees' health.
- Offering decent work

Also, in meetings of the European Works Committee, various declarations have been signed together with legal representatives of employees in the main European countries in which the Group operates (Spain, Portugal, Germany, the UK, Italy, Poland and Nordics).

- 2008: equal treatment in Santander Group companies.
- 2009: basic labour principles and rights that should govern the framework of labour relations in Santander within the scope of the European Union.
- 2011: framework of labour relations for the provision of financial services.
- 2016: joint declaration on the restructuring of workforces in the European area.

In addition, the collective labour agreement for the banking sector, negotiated and signed by the bank, contains various declarations about promoting labour dialogue.

The dialogue with employees' representatives is maintained through numerous bilateral meetings and specific committees, including:

- The Health and Safety Committee
- The Employment Committee
- The Training Committee
- The Pension Plan Oversight Committee
- The Equal Opportunities Committee
- The Committee for the Solidarity and Social Assistance Fund
- Bilateral meetings with Santander Group companies, such as Openbank and Santander Consumer

These specific meetings with the unions are held to inform them about significant bank projects and to obtain their feedback, in the understanding that their support is necessary and is directly related to the satisfactory implementation of these projects.

In Spain, practically 100% of the workforce is covered by a collective labour agreement.

Coverage of the workforce by collective agreement	
	No. Employees
Total	26,781

e) Training

Continuous training is critical to help our employees adapt to a work environment undergoing constant rapid change. With this goal in mind, and to ensure the highest levels of training, Banco Santander S.A. has a global induction, knowledge and development policy that establish several criteria for the design, review, implementation and supervision of training with a view to:

• Supporting business transformation.
• Promoting global talent management, facilitating innovation, encouraging knowledge sharing and identifying key employees in various areas of knowledge.
• Supporting the cultural transformation of the company under the corporate governance regulations established for the Santander Group.

Hours of training by category	
	Hours
Senior executives	42,613
Other executives	353,614
Employees	2,041,977
Total	2,438,204

f) Accessibility

Improving access to our products and services is a key aspect of Santander's commitment to be a bank that is Simple, Personal and Fair.

The corporate works manual includes minimum accessibility criteria based on Design for All (DfA) principles. These criteria, which refer to office architecture, furniture, lighting, signage and the functional allocation of spaces, are applied by default in new offices and in those upgrades in which this is technically possible.

Banco Santander also wants to provide maximum accessibility for all the users of its various websites. In this respect, both in the development and maintenance of its websites, the bank applies the accessibility guidelines established by the Web Accessibility Initiative (WAI) working group of the World Wide Web Consortium (W3C), at level AA.

g) Equality

Banco Santander believes that diversity enriches human capital, resulting in an inclusive and diverse work environment that achieves better solutions and offers added value.

The board of directors of Banco Santander is a clear example of diversity in all its aspects. It has diversity of gender (over a third of board members are women) and nationality (Spanish, British, American and Mexican) and a broad industry representation (finance, retail, technology, infrastructure and academia).

In managing employee talent, Santander considers all existing sources of diversity, including gender, race, age, national origin, disability, culture, education, and professional and life experience.

In 2017, the bank approved principles for promoting diversity that act as a benchmark for all the initiatives that are developed in this area. These principles, which are included in the corporate culture policy, envisage all the aforementioned sources of diversity, and they are applicable to all stages of talent management in the bank (recruitment, training, professional development, compensation, etc.).

At the beginning of 2018, Banco Santander adopted the standard of conduct promoted by the United Nations for protecting the LGBTI community in companies.

To ensure proper management and promotion of diversity and of inclusion at the corporate level, the bank has created two working groups:

- A global network of executives who are experts in diversity and inclusion, with country representatives (an operating team to share practices and transmit ideas at the local level).
- A working group comprised of key executives in countries and divisions to develop and promote the Bank's diversity and inclusion strategy.

In 2019, the bank has established various commitments with the objective of achieving equality between men and women.

- To have between 40% - 60% women members on our Group Board by 2021.
- To have 30% women in senior leadership positions by 2025.

At the beginning of 2020, for the third year running, Banco Santander obtained the highest score among the 230 companies that form part of the Bloomberg Gender-Equality Index, which, among other aspects, acknowledges good management by undertakings in favour of gender equality and diversity among the workforce, customers and society.

Information about Human Rights

In line with its corporate culture, Santander undertakes to respect and promote human rights in its sphere of operations, and to prevent or minimise any violation directly caused by its activity.

Santander has a specific policy that includes Banco Santander S. A's commitment to human rights, in accordance with the strictest international standards, especially the UN's Guiding Principles on Business and Human Rights of 2011.

In 2018 the bank's human rights policy was updated to update the main declarations and codes on which it is based. It also gives further specifics on relevant issues regarding our relationships with customers, suppliers and communities; and more detail on the policy governance.

This policy, driven by the Board of Directors, is applicable to Santander Spain S.A. and the whole Group and is available at www.santander.com

Santander's policy on human rights is in line with the bank's General Code of Conduct and its other policies in respect of sustainability.

Information about the fight against corruption

The Santander Group is staunchly committed to fighting any kind of corruption in the public and private sectors alike. In order to comply with this pledge, the Santander Group has drawn up this Anti-Corruption Policy which lays down all the anti-corruption elements which the Group must comply with.

The Santander Group considers it a strategic objective to have a system for the prevention of money-laundering and terrorist financing that is advanced and effective, permanently adapted to the latest international regulations and able to deal with new techniques employed by criminal organisations.

It also has a corporate framework that lays down principles for acting in this respect and sets minimum standards applicable to local units. The latter are responsible for directing and co-ordinating procedures for the prevention of money-laundering and terrorist financing, and for investigating and issuing alerts about suspicious transactions and responding to requests for information from the supervisors.

The main activity indicators in 2019 for Banco Santander S.A.'s initial scope of consolidation is shown below:

• Investigatory proceedings in Spain: 1,675
• Notices sent to SEPBLAC: 905
• Employee training: 32.140

As a signatory of the ten principles of the UN's Global Compact, Santander undertakes to work against corruption in all its forms, including extortion and bribery.

In addition, Banco Santander S.A. has whistle-blowers' channels for employees, which form part of the general code of conduct, and for suppliers, designed for reporting inappropriate behaviour by bank employees in matters regarding corruption and bribery that are contrary to internal regulations, to the compliance function.

In 2019, some 34 such notices were received, the most common reasons for complaints were related to human resources issues: they represented around three out of every four complaints received. The rest had very wide typology (for example, fraud, conflicts of interest, misselling and others).

Information about society

a) The bank's commitments to sustainable development

Banco Santander contributes to economic and social development through initiatives and programmes that promote education, entrepreneurship, employability and social wellbeing.

Banco Santander S.A. has, as one of its priority lines of action to contribute to sustainable development, the financial empowerment of people. We help people to access financing, to create or develop micro-enterprises, and we provide them with the necessary skills to manage their finances through financial education. Our goal is to include and financially empower 10 million people by 2025. Three main focuses of action:

- We help unbanked, underbanked and vulnerable people to access and use basic financial services.
- We offer specific products and services to low-income people, people with financial problems, and vulnerable groups.
- We promote financial education programs

Through Santander Universities, a unique initiative in the world, we focus our efforts on supporting education, entrepreneurship and employment. The Bank developed the largest scholarship programme ever launched by a private entity.

The Group has over 1,300 agreements with universities and academic institutions in 33 countries. In Spain, the bank has agreements with 110 academic institutions.

During 2019 Banco Santander invested a total of 119 million euros to support higher education. Of this amount, approximately 66 million is earmarked for projects with universities in Spain. Through this initiatives to support education, entrepreneurship and employment, Santander Universities helped around 24,000 students in Spain.

The bank also supports the communities where it operates through numerous local programmes, encouraging the participation of bank employees as a way of promoting solidarity, motivation and pride in belonging, maintaining proximity and ties with their surroundings.

In total, in 2019, Banco Santander invested more than 12 million euros in social programs in Spain, helping more than 500,000 people. Also, through the Banco Santander Foundation, the bank carries out important work in cultural patronage and the protection and recovery of natural spaces.

b) Outsourcing and suppliers

Banco Santander has a supplier management model and policy that establishes a common methodology for all units about the selection, certification and assessment of suppliers. In addition to traditional criteria such as price and service quality, this methodology also considers social and environmental criteria. These include:

- Whether the supplier has obtained official certifications related to quality, environmental management, labour relations, the prevention of workplace risks, corporate social responsibility and similar.
- Whether they have subscribed to the Global Compact or have their own principles in respect of ethical, social and environmental questions and report about these on a regular basis.
- Or whether they have frameworks, policies, procedures, records of indicators and/or initiatives related to environmental and social matters.

The supplier certification policy include the principles of responsible conduct for suppliers. These principles lay down the minimum conditions that the bank expects of its suppliers around ethics (ethics and conduct), labour matters (human rights, health and safety, and diversity and inclusion) and the environment. These principles are consistent with the ten principles of the Global Pact.

Similarly, the bank has a whistle-blowers' channel for suppliers through which suppliers who provide services to Banco Santander, S.A. or any of its subsidiaries in Spain can report inappropriate conduct by Group employees which does not conform to the framework of the contractual relationship between the supplier and Santander and the general principles of conduct of the Bank.

c) Consumers

For Banco Santander S.A., a key characteristic of a responsible bank is that it manages and oversees the marketing and commercialization of products and services and consumer protection appropriately.

By placing our customers at the heart of what we do, we aim to win and keep their loyalty. To achieve that, we use a range of interactive channels to listen to and understand them better. 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.

Our governance structure reflects the importance we attach to protecting customers' interests.

Our Product Governance & Consumer Protection function, within our Compliance and Conduct area, is responsible for ensuring appropriate management and control in relation to products and services and consumer protection.

Within this function, the Product Governance Forum protects the customers by validating products and services and preventing the launch of inappropriate ones.

In addition, the corporate consumer protection policy establishes the criteria for the identification, organisation and implementation of consumer protection principles and the mechanism for the overseeing and supervising compliance.

In 2019 guidelines have been approved to establish a consistent approach throughout the Group regarding vulnerable customers. The goal is to prevent their over-indebtedness, ensure they are always treated fairly, with empathy and sensitivity according to their particular circumstances.

Appropriate management of complaints is another important aspect of a responsible banking strategy.

Banco Santander S.A. has a procedure for complaint management and root cause analysis whose objective is to issue standards to all the units for proper complaint management, ensuring compliance with the local and industry-wide regulations applicable in each case, and offering the best possible service to customers.

In 2019 Banco Santander SA received a total of 91,046 complaints.

The bank also constantly monitors its customers' opinions and their experiences with Santander. This information reveals how the range of services offered can be improved and helps to measure customer loyalty. In addition, customer satisfaction is one of the benchmarks in the variable compensation systems for most employees.

At the end of 2019, customer satisfaction with the bank in Spain was 85.5%, slightly lower than in 2018 (87.1%).

d) Tax information

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. It is published on our website.

Santander contributes economically and socially to the countries in which it operates by paying all taxes borne directly by the Group (taxes paid by the Group[2]) and collecting or withholding taxes from third parties generated through business activity, cooperating as required with the local tax authorities (taxes from third parties[3]).

The total taxes collected and paid by Banco Santander in Spain in 2018 amounted to 3,588 million euros, of which 1,765 million were the bank's own taxes and 1,822 million euros were third-party taxes.

Tax disclosure by jurisdiction

EUR million

	2019				
Jurisdiction	Corporate income tax	Other taxes paid	Total taxes paid by the Group	Third-party taxes	Total contribution
Spain	(271)	1,313	1,042	1,685	**2,727**

6. Research, development and innovation:

Innovation and technological development are strategic pillars of the Group. Our objective is to respond to the new challenges that emanate from digital transformation, focusing on operational excellence and customer experience.

Moreover, the information that we obtain from our new technological platforms will help us to better understand the customer journey of our clients and will allow us to design a more accurate digital profile that will enable us to generate more confidence and increase customer loyalty.

As well as competition from other banks, financial entities must watch out for the new competitors that have entered the financial system, whose differentiating factor, and thus competitive advantage, is their use of new technology.

Consequently, developing an adequate strategic technology plan must allow for:

- Stronger capacity to adapt to customers' needs (customised products and services, full availability and excellent service across all channels).
- Enhanced processes, which ensure that the Group's professionals attain greater reliability and productivity in their functions.

[2] Including net income tax payments, VAT and other non-recoverable indirect taxes, social security payments made as employer and other payroll taxes, and other taxes and levies.
[3] Including net payments for salary withholdings and employee social security contributions, recoverable VAT, tax deducted at source on capital, tax on non-residents and other taxes

- And lastly, proper risk management, supplying teams with the necessary infrastructures to provide support for identifying and assessing all risks, be they business, operational and reputational risks, or regulatory and compliance ones.

Santander, as a global systemically important bank, as well as its individual subsidiaries, are subjected to increasing regulatory demands that impact system models and their underlying technology. This requires additional investments in order to guarantee their compliance and legal security.

As a result, the latest ranking by the European Commission (the 2019 EU Industrial R&D Investment Scoreboard, based on 2018 data) recognises, as did previous rankings, Santander's technological effort, placing it first among Spanish companies (ranking 102nd in the study) and the second global bank on the basis of investment in R&D.

In total EUR 1,374 million was invested in R&D&I in 2019.

The Group has a network of connected, high-quality data centres, interconnected by a redundant communications system. This data centre network is distributed across strategic countries to support and develop the Group's activity. These centres combine traditional IT systems together with the capabilities supplied by an on premise private Cloud, which facilitates integrated management of the technology of the various business areas and accelerates the digital transformation and adoption of new technologies.

Santander views cybersecurity as one of the Group's main priorities and as a crucial element for supporting the Bank's mission of 'helping people and businesses prosper', as well as offering excellent digital services to our customers.

Cybersecurity attacks and defence technologies continue to evolve rapidly. Santander continually develops its defences to address current and emerging cybersecurity threats. In 2019, Santander inaugurated its new Global Cyber Security Centre in Madrid. The centre provides defence services to all entities of the Group, bringing state-of-the-art cyber defence technologies and hosting more than 350 cyber professionals.

See more information in the Consolidated Directors' Report.

7. Customer service and customer defence

Customer Service Annual Report

In accordance with article 17 of order ECO / 734/2004 of March 11 of the Ministry of Economy on the departments and services of Customer Service and the Customer Ombudsman of Financial Institutions, the directors' report summarizes the Annual Report to be presented by the holder of the Service on the Board of Directors in March 2020.

Customer service and customer defence service

In compliance with Law 44/2002 on Measures for the Reform of the Financial System of the 734/2004 Order of the Ministry of Economy on Departments and Services of Customer Service and the Customer Ombudsman of Financial Institutions and in accordance with Article 37 Of the Regulations of the Customer Claims and Attention and Defence Service in the Santander Group, below is a summary of the activity developed by the said Service during 2019, in relation to the management of complaints and claims.

This complaint and customer service department has managed during 2019 the claims of 26 companies of the Group in Spain, two less than in 2018 after the merger of Santander Investment Bolsa, SV, SA with Banco Santander, SA and that of Pastor Vida SA de Seguros y Reaseguros with Santander Seguros y Reaseguros, cía. Aseguradora, S.A.

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Global evolution of complaints and claims received by the Bank in 2019

In 2019, 93,728 claims were accepted in the complaint and customer service department. Of these, 2,289 came through the Customer Ombudsman, 1,097 through the Bank of Spain, 172 through the National Securities Market Commission (CNMV) and 93 through the General Directorate of Insurance and Pension Funds (DGSFP).

We do not include in the list the floor clauses claims from the Banco Popular Group, since they were managed until the migration of the branches to the Santander platform, through the Claims Centre for Floor Clauses (CRS by its initials in Spanish) instead of the Claims and Customer Service Department. The CRS received 1,910 complaints during 2019.

We do include claims of this nature received after the migration, as they are managed through the Claims Unit for Floor Clauses dependent on the Claims and Customer Service.

Analysis of claims by affected products

Complaints and claims

The following is the classification of complaints received in 2019 according to the type of product:

Number of complaints	2019	2018
Assets	25,806	28,620
Liabilities	19,723	14,833
Services	16,944	12,576
Insurances	1,162	994
Funds and Plans	1,199	916
Payment methods	15,870	10,751
Securities / Capital Markets / Treasury	11,301	18,516
Others	1,723	580
	93,728	**87,786**

Resolution of claims and complaints

As of 31 December 2019, 94% of the complaints and claims received had been resolved.

The average resolution time in 2019 was 19 calendar days. 52% of the complaints and claims resolved have required a processing time of more than 15 calendar days.

In 52% of cases, the resolutions have been favourable to customers.

Entities

The following are the companies adhering to the Regulation of the Customer Service of Complaints, Care and Defence of the Santander Group and their corresponding number of complaints and claims received.

Entities	Admitted to processing	Non-admitted to processing
BANCO SANTANDER, S.A.	86,830	7,208
SANTANDER CONSUMER FINANCE, S.A.	2,206	111
OPEN BANK, S.A.	1,775	10
SANTANDER SEGUROS Y REASEGUROS CÍA. ASEGURADORA,SA	765	37
SANTANDER CONSUMER, E.F.C., S.A.	464	19
ALLIANZ POPULAR VIDA	344	18
SANTANDER ASSET MANAGEMENT, S.A., S.G.I.I.C.	316	13
SANTANDER PENSIONES, S.A., E.G.F.P.	281	5
SANTANDER ESPAÑA MERCHANT SERVICES, EP	209	8
ALLIANZ POPULAR PENSIONES	173	5
ALLIANZ POPULAR ASSET MAN	162	3
ALTAMIRA SANTANDER REAL ESTATE, S.A.	96	16
EURO AUTOMATIC CASH	58	-
SANTANDER FACTORING Y CONFIRMING, S.A., E.F.C.	34	-
TRANSOLVER FINANCE, E.F.C., S.A.	11	-
SANTANDER LEASE, S.A., E.F.C.	1	-
SANTANDER INTERMEDIACIÓN CORREDURÍA DE SEGUROS, S.A.	1	-
LURI 6, S.A.U.	1	-
SANTANDER SECURITIES SERVICES	1	-
SANTANDER REAL ESTATE, S.A., S.G.I.I.C.	-	-
POPULAR BOLSA, SV., S.A.	-	-
POPULAR GESTION PRIVADA, S.G.I.I.C., S.A.	-	-
SANTANDER INVESTMENT, S.A.	-	-
SANTANDER BRASIL E.F.C., S.A.	-	-
SANTANDER PRIVATE BANKING GESTIÓN, S.A., S.G.I.I.C	-	-
SANTANDER CAPITAL DESARROLLO, S.G.E.I.C., S.A.U.	-	-
Total	**93,728**	**7,453**

The network of branches and the different channels of relationship solve, in the first instance, the requests, disconformities or incidents that the clients communicate to the Bank, trying to avoid that they become complaints to other instances.

8. Risk management, solvency and capital:

See notes 49 and 1.e) on risk and capital to the Bank Annual Accounts. See more information in the Consolidated Directors' Report.

9. Other relevant information

9.1 Treasury shares:

See note 30 to the Bank Annual Accounts.

Our current treasury share policy was approved by our board on 23 October 2014, following recommendations published by the CNMV in this respect. The policy provides that treasury share transactions shall have the following objectives:

• To provide liquidity or a supply of securities, as applicable, in the market for the Bank's shares, giving depth to such market and minimising possible temporary imbalances in supply and demand.

• To take advantage, for the benefit of shareholders as a whole, of situations of share price weakness in relation to medium-term performance prospects.

The policy further establishes that treasury share transactions may not be carried out for the purpose of intervening in the free formation of prices. Therefore, it requires that:

• Orders to buy should be made at a price not higher than the greater of the following two:

  • The price of the last trade carried out in the market by independent persons; and
  • The highest price contained in a buy order of the order book.

• Orders to sell should be made at a price not lower than the lesser of the following two:

  • The price of the last trade carried out in the market by independent persons; and
  • The lowest price contained in a sell order of the order book.

Transactions with treasury shares are carried out by the investments and holdings department, which is isolated as a separate area from the rest of the Bank's activities and protected by the respective Chinese walls, preventing it from receiving any inside or relevant information.

Trading in treasury shares was last authorised at our 2018 AGM. This authorisation has a validity of five years (i.e. until 23 March 2023) and permits the acquisition of treasury shares provided that the shares held at any point in time do not exceed the legal limit provided for under the Spanish Companies Act (currently, 10% of the Bank's share capital).

It further requires that acquisitions are made at a price that is not lower than the nominal value of the shares and does not exceed the last trading price in the Spanish market for a transaction in which the Bank was not acting for its own account by more than 3%.

At 31 December 2019, Banco Santander, S.A. had no treasury shares.

9.2 Dividend policy:

As required in the Bank's by-laws, each year the shareholder remuneration policy is submitted for approval by the AGM.

The Bank paid its shareholders against the result of 2018 0.23 euros per share in 4 payments: three cash dividends of 0.065 euros per share (first, third and fourth dividends paid in August 2018, February 2019 and May 2019, respectively) and a second dividend of 0.035 euros per share through the *Santander Dividendo Elección* program (with a 76.55% acceptance) in November 2018. This remuneration represents an average return on the market price of 4.75% in 2018. The dividend per share paid increased 4.5% as compared to 2017.

In September 2019 the board of directors approved its first dividend against 2019 results earnings of €0.10 per share, which was entirely paid in cash from 1 November 2019. The amount was equal to the sum of the interim dividends paid in 2018 in August (€0.065) and November (€0.035) and reflected the change in policy from four dividend payments to two. The board of directors has resolved to submit to the 2020 AGM that the second payment of remuneration against the results of 2019 amounts to 0.13 euros per share by means of (1) a final dividend in cash of 0.10 euros per share and (2) a scrip dividend (under the 'Santander Dividendo Elección' scheme) (the 'SDE Scheme') that will entail the payment in cash, for those shareholders who choose so, of 0.03 euros per share. If shareholders approve this proposal, the proportion of cash dividend will be 89.6%, assuming a ratio of cash options in the SDE Scheme of 80%. This proposal entails an annual increase in the cash dividend of c. 3% as compared to the one charged to the 2018 results (0.195 euros per share against 2018 versus 0.20 euros per share against 2019), even without considering the cash paid under such option in the SDE Scheme.

9.3 Stock market information:

The Bank's shares are listed on the Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia, with trading symbol SAN), the New York Stock Exchange (NYSE) (in the form of American Depositary Shares, 'ADS', with trading symbol SAN and where each ADS represents one share of the Bank), the London Stock Exchange (in the form of Crest Depositary Interests, 'CDI', with trading symbol BNC and where each CDI represents one share of the Bank), the Mexican Stock Exchange (with trading symbol SAN) and the Warsaw Stock Exchange (with trading symbol SAN).

The main markets improved during the year. In Spain, the Ibex 35 benchmark index increased by 11.8% and in Europe the DJ Stoxx 50 rose by 23.3%.

In a context of economic slowdown, the European banking sector was initially affected by the monetary policies of the main central banks, namely that of the European Central Bank (ECB), which delayed the increase of interest rates beyond 2020. The optimism arising in connection with a potential trade agreement between China and the USA raised market prices at the end of the year.

The main European banking benchmark index, DJ Stoxx Banks, increased by 8.2% while the MSCI World Banks increased by 16.4%. The Bank's shares closed 2019 at 3.73 euros per share, which represents a 6.1% decrease, also affected by some uncertainties in geographies where Santander operates such as Argentina, Chile, UK and Poland.

As at 31 December 2019, Santander was the second largest bank in the Eurozone in terms of market capitalisation (EUR 61,986 million) and ranked 25th worldwide. During 2019, a total number of 19,334 million Santander shares were traded for a total cash amount of EUR 77,789 million, which is the highest figure of shares belonging to the Eurostoxx, with a liquidity ratio of 118%.

At 31 December 2019 the total number of Santander shareholders was 3,986,093.

9.4 Average period of payment to suppliers:

The average period of payment to suppliers during 2019 is 12 days, term which is below the maximum established in applicable regulations.

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10. Events after the reporting period:

On 9 January 2020 Banco Santander announced that it had completed the placement of preferred securities contingently convertible into newly issued ordinary shares of the Bank, excluding pre-emptive subscription rights and for a nominal value of EUR 1,500,000,000 (the “CoCos”).

The CoCos are issued at par and its remuneration has been set at 4.375% on an annual basis for the first six years. The payment of the remuneration of the CoCos is subject to certain conditions and to the discretion of the Bank. Thereafter it will be reviewed every five years by applying a margin of 453.4 basis points on the 5-year Mid-Swap Rate.

On that same date, the Group communicated its irrevocable decision to proceed with the voluntary early amortisation of the preferred securities contingently convertible made on 12 March 2014 for a nominal amount of 1,500,000,000 euros.

On 29 January 2020, the Group announced that the Bank's board of directors agreed to propose to the next ordinary general meeting of shareholders that the second payment of the remuneration charged to the results of 2019 be for a total of 0.13 euros per share by means of:

• final cash dividend of 0.10 euros per share and

• a "scrip dividend" (in the form of the "Santander Dividendo Elección" program) that will entail a payment in cash, for those shareholders who choose so, of 0.03 euros per share.

11. Annual corporate governance report:

According to article 540 of the Spanish Capital Companies Law, Santander has prepared the 2019 Annual corporate governance report (that is part of the directors’ report of that financial year) with the contents determined by Order ECC/461/2013, of 20 March, and by Circular 5/2013, of 12 June, of the CNMV as defined by Circular 2/2018, of 12 June, of the CNMV. This report includes a section that refers to the compliance of the corporate governance recommendations in Spain. In addition, all the information required by the provisions of article 539 of the Capital Companies Law is available on the Bank's corporate website (www.santander.com).

The annual corporate governance report is included, as a separate section, in the Individual Directors’ Report in accordance with the provisions of article 538 of the Capital Companies Law. The aforementioned report is sent individually, as a material fact, to the National Securities Market Commission (CNMV). It is available on the Bank's corporate website (www.santander.com) and on the CNMV website (www.cnmv.es).